



SENATE OF PAKISTAN

*FIRST  
INTERIM REPORT  
(July 2018 - June 2019)*

**SPECIAL COMMITTEE ON THE PROJECT OF  
CHINA-PAKISTAN ECONOMIC CORRIDOR  
(CPEC)**

Presented by  
**Senator Sherry Rehman**  
Convener of the Special Committee  
On CPEC

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## INTRODUCTION OF THE COMMITTEE

I, Convener of the Senate Special Committee on the Project of China-Pakistan Economic Corridor (CPEC), have the honour of presenting the 1<sup>st</sup> interim report of the Committee for the period 17<sup>th</sup> July, 2018 – 13<sup>th</sup> June, 2019.

2. The Special Committee on the Project of Pak-China Economic Corridor (CPEC) was constituted on 17<sup>th</sup> July, 2018 through a Motion, which was unanimously adopted by the House in its sitting held on 13<sup>th</sup> July, 2018. During this period, the Committee held seven meetings and discussed all major aspects related to CPEC project.

## COMPOSITION OF THE COMMITTEE

3. The composition of the Committee is as under:-

1.	<b>Senator Sherry Rehman</b>	<b>Convener</b>
2.	Senator Atta ur Rehman	Member
3.	Senator Aurangzeb Khan	Member
4.	Senator Dr. Asad Ashraf	Member
5.	Senator Dr. Sikandar Mandhro	Member
6.	Senator Ghous Muhammad Khan Niazi	Member
7.	Senator Kauda Babar	Member
8.	Senator Mian Muhammad Ateeq Shaikh	Member
9.	Senator Mir Kabeer Ahmed Muhammad Shahi	Member
10.	Senator Muhammad Akram	Member
11.	Senator Muhammad Ali Khan Saif	Member
12.	Senator Muhammad Azam Khan Swati	Member
13.	Senator Javed Abbasi	Member
14.	Senator Muhammad Usman Khan Kakar	Member
15.	Senator Nuzhat Sadiq	Member
16.	Senator Samina Saeed	Member
17.	Senator Muhammad Yaqoob Khan Nasar	Member
18.	Senator Sitara Ayaz	Member
19.	Senator Syed Muhammad Ali Shah Jamot	Member

## AGENDA OF THE MEETINGS

4. The agenda of the meetings discussed is as under:
  - i. **17<sup>th</sup> September, 2018 at 1:15 p.m. in Committee Room No.4, Parliament House.**
    - A detailed briefing on the ongoing CPEC Projects.
    - Details of the Security Forces established for the protection of CPEC projects as asked by Senator Samina Saeed in a Starred Question No. 126 on the floor of the House on 31<sup>st</sup> August, 2018 which was subsequently referred to the Committee.
  - ii. **10<sup>th</sup> October, 2018 at 2:00 p.m. in Committee Room No.1, Parliament House.**
    - Adoption of report on Starred Question No.126 asked by Senator Samina Saeed regarding details of the Security Forces established for the protection of CPEC projects on the floor of the House on 31<sup>st</sup> August, 2018.
  - iii. **3<sup>rd</sup> December, 2018 at 02:30 p.m. in Committee Room No.4, Parliament House.**
    - Fresh Strategic issues.
    - Strategic priorities in CPEC and any changes envisaged.
    - Review or revisit of CPEC, change in investment and inclusion of Saudi Arabia in the CPEC.
    - CPEC with particular reference to Gwadar, Balochistan and Western Route.
    - Pressure developed on PSDP.
    - Grant and loans (volume and mode of financing).
    - Consultancies involved in CPEC.
    - Expenditure incurred so far on CPEC.
    - Timeline of CPEC projects.
    - Balance of trade between China and Pakistan.
    - Generation of local employment through CPEC.
    - Functioning, tasks, composition and ToRs of the Cabinet Committee on CPEC.
    - Possibility of meeting with Chinese Ambassador.

iv. **7<sup>th</sup> March, 2019 at 03:15 p.m. in Committee Room No.4, Parliament House.**

- Establishing priorities.

v. **15<sup>th</sup> March, 2019 at 2:30 p.m. in Committee Room No.1, Parliament House.**

- Progress made on the detailed briefing of 8<sup>th</sup> JCC held on Beijing China.
- A comprehensive briefing on SMEs and SEZs.
- Guarantee of uninterrupted power supply to the Industrial Parks, Export Zones and towns by the power plants along the routes.
- Laying of Fiber Optic Cable along the CPEC routes.
- Latest position of investment by Saudi Arab & UAE in the Gwadar Oil City.

vi. **17<sup>th</sup> April, 2019 at 11:00 a.m. in Committee Room No.1, Parliament House.**

- Progress made on the detailed briefing of 8<sup>th</sup> JCC held in Beijing China.
- A comprehensive briefing on SMEs and SEZs.
- Guarantee of uninterrupted power supply to the Industrial Parks, Export Zones and towns by the power plants along the routes.
- Laying of Fiber Optic Cable along the CPEC routes
- Latest position of investment by Saudi Arab & UAE in the Gwadar Oil City.

vii. **13<sup>th</sup> June, 2019 at 10:30 a.m. in Committee Room No. 01, Parliament House.**

- Details on CPEC financing and debt uptake.
- Timely financing components of Gwadar.
- Time line of second phase.
- Labour absorption by project and human capacity training.
- A comprehensive briefing on SMEs and SEZs, uninterrupted power supply by the power plants along the routes.
- Development in Burhan-Havelian-Thakot (Hazara Motorway M-15) impact on the local peoples' lives, creation of different tourist sites, passage for tourism resorts and connectivity of interchanges to densely populated areas.

## **FINDINGS / OBSERVATIONS OF THE COMMITTEE**

### **Early Harvest Projects**

5. The Committee was informed that Early Harvest Projects are within timeline except ML-I, as the ML-I project is a strategic project with a scope of US\$ 8.2 billion. Regarding Energy Projects on Western Route, Gwadar and Balochistan and the use of imported coal instead of domestic coal deposits, the Government has re-prioritized the Energy Sector and tried to drop or put them on backburner all the imported fuel / coal based energy projects and tried to depend upon our indigenous sources of energy i.e. hydel and Thar Coal. At Gwadar, there is a Coal based Energy Project of about 300 MW. The Government has prioritized this project because of Free Trade Zone and other industrial relocation in Gwadar.

### **Need to formulate an Integrated Energy Policy**

6. The Committee showed the dissatisfaction over the briefing from Ministry and directed the Ministry for Planning, Development and Reforms to revisit the issue of Energy Projects on Western Route, Gwadar and Balochistan and consider those 24 demands made by the previous Kyber Pakhtunkhwa Government to the Federal Government which had been thoroughly discussed and debated in the Senate. The Ministry assured the Committee that they will go through those demands after consultation with the Kyber Pakhtunkhwa Government. There is a need to make an integrated energy policy for Pakistan as there is only one energy project of SukiKinari in KPK. The Committee was informed that process of reviewing some small hydel projects in Chitral in consultation with the Ministry of Energy for their viability and also for inclusion in CPEC is under process. The Committee was of this opinion that there must be a concrete and clear answer about the completion of PC-I of Western Route.

### **Job Opportunities and Security Position**

7. The Committee raised observation about the potential of job creation and security to the Baloch people in CPEC and also about the role of Ministry of Planning, Development and Reforms with regard to steering, monitoring the CPEC projects, setting its priorities and commercial decisions.

### **Mode of Financing**

8. The Committee was briefed in detailed about the mode of financing related to CPEC projects. The Energy Projects are all financed through IPPs and Infrastructure Projects are



financed through Government Concessional Loan. There is no involvement of Chinese component in the Western Route except D I Khan-Zhob section.

#### **Security forces established for the protection of CPEC projects**

9. The Committee held discussion and adopted the report regarding security forces established for the protection of CPEC projects as asked by Senator Samina Saeed in a starred question No.126 on the floor of the House on 31<sup>st</sup> August, 2018 was subsequently referred to the concerned Committee. The Committee concluded that matter may be referred to the Standing Committee on Defence as the matter relates to the Security especially the Security through aerial means.

#### **Fresh Strategic Issues**

10. The Committee was informed that Rule Based Trading System must be welcomed as this evolved a new understanding between US and China. Agriculture Framework Agreement by which a value chain of perishable items, marketing and co-branding opportunities which help boost agriculture that comprised 25 percent of Pakistan's GDP. Inclusion of a third party specially, the state of Saudi Arabia was for foreign direct investment and no strategic interests were offered to her. Special Economic Zones and refinery projects at Gwadar are the venues where state of Saudi Arabia could invest. The concept of Gwadar Oil City is being developed in which oil companies from the world could invest. UAE and Korea are interested to invest in this Oil City Project.

#### **Pace of Development on Western Route**

11. The Ministry briefed the Committee on CPEC's projects in Gwadar and Western Route. Regarding the pace of development on Western Route, the committee was informed that Road from D.I. Khan to Zhob (210 kilometers) is being financed by CPEC. The road from Zhob to Quetta (310 km), would be built soon as PC-I of that had been completed and presented to the authorities concerned for approval. It was further revealed that a PSDP allocation of PKR 500 million had been made for the construction of the Khuzdar-Basima Road and PKR 7000 million of D.I. Khan and Zhob.

12. The Committee raised serious observation regarding Basima to Khuzdar road. The Committee was of the view that road is a common route and not a project falling under CPEC. The Committee was informed by Mr Rafi Kakar, CPEC Cell Organizer, (Government of Balochistan), that of the three sections comprising the Western Route, only one was being

financed and funds for it had already been stopped by Chinese side in December, 2017. Sorab to D.I.Khan route was supposed to be upgraded into four lane motorway by 2020 but no construction had begun owing to variety of reasons. Quetta-Zhob and Quetta-Sorab sections had been excluded from the revised Federal PSDP. The Convener viewed that a contradiction was crystal clear between the Federal and Provincial Authorities. She also pointed out an inter-agency conflict.

#### **Setting Committee's priorities / goals related to CPEC project**

13. The Committee also set its priorities / goals related to CPEC project. The Committee decided to hold public hearings on CPEC project. The Committee chose Pakistan Institute for Parliamentary Services (PIPS) as the venue and the Chinese Ambassador to Pakistan as Chief Guest to address the public hearing. In order to promote inclusiveness, the Committee stressed on the need of civil society and other stakeholders to attend public hearings as CPEC had grown in its targets.

#### **Resolution passed by the Committee**

14. The Committee also developed a consensus to not merge the Committee with that of the National Assembly (Lower House) which is soon to be constituted. The Committee strongly resisted this move and vowed to keep resisting in future, as the Committee had been making an all-out effort in providing prudent, sustainable and productive recommendations to the Government for making CPEC project inclusive. A resolution was unanimously passed by the Committee for the said purpose is **annexed as 'A'**.

#### **CPEC financing and debt uptake**

15. The Committee was briefed on entire portfolio of CPEC projects, stating the total cost of CPEC projects at US \$49,661.4 million. The Committee shared concerns regarding irregularities in CPEC financing and debt. The Committee stressed that CPEC should have an autonomous well-resourced Authority and a separate Secretariat. According to the Ministry, there are twenty three projects worth US \$29 billion, and they are in different stages of implementation. Socio-economic projects will be undertaken through Chinese grant namely CIDCA (China International Development Cooperation Agency), and Pakistan would be the first country (recipient) where CIDCA projects were to be implemented.



### **Critical observations of the Committee**

16. Numerous times, the committee expressed its serious concerns / reservations on Government side for ignoring the demands of Committee Members to hold meetings and lethargic attitude of the Minister for Planning, Development and Reforms. The Federal Minister for Planning, Development and Reforms was used to putting off the meetings by claiming to have been busy with projects of CPEC and his continuous visits abroad.

17. In its sixth meeting held on 17<sup>th</sup> April, 2019, the Committee took serious notice of the absence of Mr. Makhdoom Khusro Bakhtiar, Federal Minister for Planning, Development and Reform. The Committee decided and directed the Secretariat to issue a written notice to the Federal Minister for Planning, Development and Reform and that the same may be shared with Hon. Chairman Senate. The Committee strongly criticized the concerned Minister for having left previous meetings without hearing the views of the members of the Committee.

18. The Committee was of this view that if the Ministry of Planning, Development and Reforms at the highest level cannot attend the meetings, then it is obvious that Ministry does not have the capacity to coordinate and manage such a huge project like CPEC. They are unable to even hold a representational role that is crucial and critical to manage a project requiring constant public communication. The Committee also took notice of incomplete brief / working papers provided in the meetings. The Committee unanimously decided and adjourned the meeting due to the non-availability of the Federal Minister for Planning, Development and Reform.

## COMMITTEE RECOMMENDATIONS

1. The Committee directed the Ministry to be prepared and come up in the next meeting with the following information:-
  - i. CPEC with particular reference to Gwader, Balochistan and Western Route.
  - ii. Expenditure incurred so far on CPEC.
  - iii. Volume and mode of financing.
  - iv. Consultancies.
  - v. Timeline of the CPEC Projects in detail.
  - vi. Priorities in CPEC.
  - vii. Pressure developed on PSDP with regard to CPEC
  - viii. Invitation to Ambassador of China in the next meeting
2. The Committee recommended that D.I. Khan to Zhob section of Western Route should be finalized under the umbrella of CPEC in the upcoming JCC meeting tentatively scheduled on 18<sup>th</sup> December 2018. Besides, two out of three sections in the Western Route, Zhob to Quetta and Khuzdar to Basima Road should be included in the coming PSDP and financing be ensured.
3. The Committee recommended that a meeting should be held in Gwadar and after consultations with the Ministry, agreed to keep that in January.
4. The Committee recommended that in the next meeting, a detailed briefing on Small and Medium Enterprises development pertaining to CPEC along with Rashakai Special Economic Zone be held.
5. The Committee decided and recommended of holding Public hearings on CPEC. Pakistan Institute for Parliamentary Services (PIPS) was chosen as the venue and the Chinese Ambassador to Pakistan the guest to address the said public hearings.
6. The Committee decided and recommended no to merge the Senate Special Committee on CPEC with that of the National Assembly (Lower House) which was soon to be constituted. A resolution was unanimously passed by the Committee for the said purpose.
7. The Committee recommended that CPEC should have an autonomous well-resourced Authority and a separate Secretariat.
8. The M/o Planning Development and Reforms to give a detailed presentation on fast track projects with timelines in two weeks.

9. Mr. Hasan Duad, Project Director / Coordinator CPEC, to provide a copy of the letters written to provinces seeking details regarding desegregation of the fast track projects as well as response of the provinces in the next meeting of the Committee.
10. The Chairman Gwadar Port Authority to give briefing on timely financing components of Gwadar projects in the next Committee meeting.
11. The M/o Planning Development and Reforms to earmark the share of Balochistan from US \$ 1billion and spend the money on the construction of small dams in Balochistan province.
12. The Secretary, Planning, Development and Reform to provide a list of people in Pak-China Business forum in the next Committee meeting.
13. The M/o of Planning, Development and Reform to give briefing on labour capacity building / training programs / initiatives under CPEC projects in the next Committee meeting.
14. The M/o of Planning, Development and Reform to give briefing on SMEs and SEZs, uninterrupted power supply by the power plants along with CPEC routes in the next Committee meeting.
15. Mr. Fazal Nawab Khatak, Member Motorways (North), National Highway Authority to give an updatation / progress report on the entry point (interchange) called Hairran in Mansehra and construction progress of Oghi road in the next Committee meeting.

## SITTINGS OF THE COMMITTEE



SENATOR SHERRY REHMAN CONVENER SENATE SPECIAL COMMITTEE ON THE PROJECT OF CHINA-PAK ECONOMIC CORRIDOR PRESIDING OVER A MEETING OF THE COMMITTEE AT PARLIAMENT HOUSE ISLAMABAD ON SEPTEMBER 17, 2018.



SENATOR SHERRY REHMAN CONVENER SPECIAL COMMITTEE ON THE PROJECT OF CHINA-PAK ECONOMIC CORRIDOR PRESIDING OVER A MEETING OF THE COMMITTEE AT PARLIAMENT HOUSE ISLAMABAD ON MARCH 15, 2019.



SENATOR SHERRY REHMAN CONVENER SPECIAL COMMITTEE ON THE PROJECT OF CHINA-PAK ECONOMIC CORRIDOR PRESIDING OVER A MEETING OF THE COMMITTEE AT PARLIAMENT HOUSE ISLAMABAD ON JUNE 13, 2019.

(BUSHRA RAFIQUE)




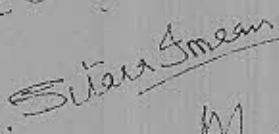
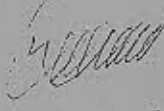
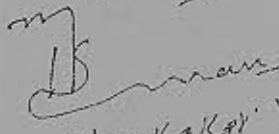
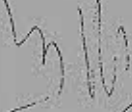
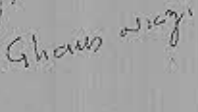
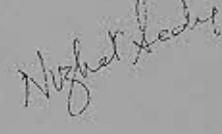

D.D. / Secretary Committee

(SENATOR SHERRY REHMAN)

Convener Senate Special Committee  
on CPEC

RESOLUTION

"Senate Special Committee on CPEC has unanimously developed a consensus for not permitting any moves intended to merge the said Committee with that of National Assembly. The Senate's Special Committee has its own integrity and membership. It was resolved that members from the Upper House cannot be absorbed into another parallel committee originating in the National Assembly. The past practice undermined the role of the Senate Committee on CPEC and we do not wish for it to be replicated in another Joint Committee. It is resolved and advised that the National Assembly create its own Committee on CPEC without Senators, given that the Upper House already has its own CPEC Committee which is already functioning".

  
 Senator Sherry Rehman  
  
 Senator Mirza Asif Ali  
  
 Senator Anwarul Karim  
  
 Senator Ishaq Ahmad  
  
 M. Akram  
  
 Usman Khan  
  
 Amir Raza Khan  
  
 Ghous Waj  
  
 Nighat Lodhi  
  
 Omid Abbasi



## Policy Brief

### CPEC 2.0: Overcoming Challenges

*By Sherry Rehman*

#### Pakistan's Governance Gaps

China's record of pulling 800 million people out of poverty in four decades presents a compelling model for Pakistan. After the onset of CPEC investments, the government insists that Pakistan's growth has already nudged forward by 1-2 percent.<sup>1</sup> Given new budgetary challenges, and a tough series of IMF-induced measures for stabilization, growth seems to have slowed down even more. With the precipitous slide of an overvalued rupee, and public finances straining at crippling deficits, predictions of Chinese-led investment growth is the only balm to a rattled treasury. In future estimates, it is believed that Chinese investment can potentially stimulate an 8-10 per cent increase in Pakistan's GDP by 2030, but that may well be too ambitious a calculation given Islamabad's current rulers' inability to operationalize promised reform.

The economic reforms that CPEC can bring to Pakistan, provides a roadmap to the country that instructs how economic modernization can be operationalized for the 21<sup>st</sup> century. To leapfrog development, Pakistan must ensure that this transfer of knowledge trickles down effectively from Shanghai to Gwadar and branches out to other provinces. Even though there have been no fundamental disagreements over Pakistan's new economic policy focus<sup>i</sup>, the goals that it espouses have remained blurry and unaligned with parliamentary and public reporting. It is precisely this ambivalence that has hampered the transfer of knowledge and caused the failure in connecting nodes at the downstream institutional level.

Understanding that the real challenges to realizing the maximum potential from CPEC are internal is a crucial step towards successfully benefitting from it. One of the foremost roadblocks in effective consensus building on CPEC has been the divergence in processes between a centralised Chinese communist party government and Pakistan's nascent democratic parties and governance structures. Another major

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<sup>1</sup> "CPEC increases Pakistan GDP by 2%: Report". *The Times of Islamabad*, December 19, 2018. <https://timesofislamabad.com/19-Dec-2018/cpec-increases-pakistan-gdp-by-2-report>



challenge to Pakistan has been the government's capacity deficit to absorb concessionary loans and grants which has been only worsened by their inability to plan how these will be absorbed in the future.<sup>2</sup> The government should also make sustained efforts to separate myth from reality and set clear goals for inclusive planning at the federal, provincial and grassroots levels, this can only be achieved by strengthening intra-government coordination and communication. Given the multiplicity of project designs under CPEC, both in the government and the private sector, it is clear that the Planning Commission, in which CPEC is nested, is both under-resourced and under-powered. These are embedded in three "Cs": Capacity, Coordination and Consensus. Pakistan, undeniably, has to scale up its capacity and coordination while building consensus and clarity in identifying policy frameworks for the opportunity this platform offers.

## Consensus

With CPEC envisioned as a cross-Pakistan project that involves all of Pakistan's four provinces, navigating Pakistan's multi-party provincial structures and building bridges with all political parties has been a challenge.<sup>3</sup> However, China has sought to overcome the Pakistani government's own inability to build consensus and manage the political centre-field by engaging directly with several political parties at the provincial and federal level to cultivate a better understanding of CPEC vision and priorities. This process has culminated in the establishment of a CPEC Political Parties Joint Consultation Mechanism, which has seen the Community Party of China engage with a broad spectrum of Pakistan's political parties.<sup>4</sup>

Since CPEC is not a parochial one-party or one province ambition, it requires strategic levels of consensus building to ensure each province's stake in the project is protected and that Pakistan's government moves forward collaboratively. Given the clear multi-party buy-in and commitment to CPEC, building consensus between Pakistan's political parties should not be as arduous of a project as it seems. However, the federal government's attempts for building political consensus between political parties has been poor because of the lack of transparency about CPEC between the different wings of government. The parliament is not brought into the fold by the federal government and has also consistently lacked an appreciation of the need to build consistent stakes in parliamentary leadership at the highest level – a failure that has led to political instability hampering the path to consensus and in ensuring that CPEC is implemented

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<sup>2</sup> Rafiq, Arif. "The China-Pakistan Economic Corridor: The Lure Of Easy Financing And The Perils Of Poor Planning". *Asian Affairs*. 10 May 2019.

<sup>3</sup> Shah, AbdurRehman. "China's Trouble with Pakistan's Turbulent Democracy." *The Diplomat*, 7 January, 2017. <https://thediplomat.com/2017/01/chinas-trouble-with-pakistans-turbulent-democracy/>

<sup>4</sup> Ali, Shafqat. "Pak Political Parties, China Adopt Declaration on BRI, CPEC". *The Nation*, 20 March 2019. <https://nation.com.pk/20-Mar-2019/pak-political-parties-china-adopt-declaration-on-bri-cpec>

at optimum capacity. The federal government is often seen as absent or dismissive of this incredibly crucial process of political-coalition building.

## Capacity

The way to address Pakistan's capacity issue may be less arduous if a one-window autonomous CPEC Authority is set up. This would manage the internal challenges of planning, financing and coordinating between institutions, provinces and agencies to build momentum on speedy outcomes. Tax regimes would have to be rationalized, infrastructure and energy provision need to be ensured, transparency of contracts have to be addressed to avoid controversy, sovereign guarantees to provinces made available along with flexible financing for private joint ventures, and structural reforms need to be planned and undertaken if any of the promised gains are to materialize. Project timelines have to be defined at the planning stage, and Public-Private collaborations like the Thar Coal Project can be made operational as a means of getting past legendary red-tape roadblocks in the public sector.

In terms of doing business reforms, most of the improvements have come at the provincial level from Punjab and Sindh, limiting the development only to Karachi and Lahore. Even though these efforts are commendable they are insufficient for the country in the longer run as they give off the impression that the government is only fixing what can be measured. It is the responsibility of the federal government to effectively disseminate information about the economic impact of CPEC that provides a blue-print to the rest of the provinces to implement business reforms that can equip them with the right tools that can prepare them to benefit from CPEC. Therefore, reforms must be extended to all provinces including Balochistan and KP which can be achieved only through the strengthening of institutions and robust impartial policy-making.

Furthermore, Pakistan's current Special Economic Zone (SEZ) law, instead of decentralizing and curbing bureaucratic controls to create elbow room for private enterprises, adds impediments such as approvals, areas of overlapping jurisdiction and poorly allocated regulatory authority. The Chinese ambassador to Pakistan, Yao Jing, has repeatedly asserted that Pakistan has the potential to attract huge Chinese investments only if they can develop better trade policies, offer tax incentives and foster an investment friendly climate.<sup>5</sup> Currently, investors are required to get multiple No Objection Certificates (NOCs) before investments can begin. Hence, while SEZs in other countries like China, UAE, Thailand and Georgia offer a one-stop-service for all regulatory matters, in Pakistan, the Board of Investment (BOI) serves that purpose,

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<sup>5</sup> (PCI), Pakistan-China, and CPEC: (PCI). 2019. "Tax Incentives And Business-Friendly Environment Can Attract Huge Chinese Investments: Chinese Ambassador - CPEC Latest News". *Cpecinfo.Com*. <http://www.cpecinfo.com/news/tax-incentives-and-business-friendly-environment-can-attract-huge-chinese-investments-chinese-ambassador/NjUyMw==>.

which, due to lack of a tailor-made framework for SEZs, leads to unnecessary bureaucratic red tape. Reforms should be aimed at empowering the provincial governments to process the application of SEZs to save time and money instead of being dependent on Islamabad. Amending the SEZs Act of 2012 to ensure reform is currently being debated in parliament but any reform must ensure that SEZs provide Chinese and other companies at a minimum that same incentives that other Southeast Asian and African SEZs are currently providing. In addition, to deter rent seeking and to guarantee that industries are market driven, SEZs must ensure devolved decision making that takes the private sector on board. With the majority of SEZ companies expected to be from the private sector, ensuring the market dynamics determine SEZ policies will be essential for long term viability of SEZ companies.<sup>6</sup> A clear 'rules of engagement' agreed upon by both China and Pakistan would also prove beneficial in terms of expected outcomes.<sup>7</sup>

Another significant hurdle in Pakistan's ability to generate employability under CPEC initiatives has been a weak human resource skill-base. While Pakistan boasts the ninth largest labour force, lack of investments in technical and vocational training have seriously affected labour skills. As a result, while infrastructure projects under CPEC continue to employ over 90 per cent domestic labour, the percentages shrink dramatically in technical projects such as energy and digital connectivity. Presently, several Chinese companies are undertaking specific on-the-job training programs for semi-skilled workers, both in China and in partnership with dedicated short training courses in collaboration with universities in Pakistan.<sup>8</sup> Pakistan's reorientation in vocational training and higher education, to meet market demand, is essential for CPEC employment uptake. SEZs are also instrumental in achieving structural transformation through skill development and knowledge transfer.<sup>9</sup>

Moreover, estimates suggest that CPEC has the potential to generate anywhere from 800,000 to 1,500,000 jobs till 2030.<sup>10</sup> For Pakistan, investments like CPEC are valuable for their spillover impact on local firms and labour in terms of transferring technology, boosting skills, and improving the quality and quantity of employment. The availability of productive, skilled, and reasonably priced labour is an important determinant of the location decision for foreign investment. For Pakistan's demographic structure, with a burgeoning young labour force, the opportunity to generate high-value jobs from CPEC

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<sup>6</sup> Mehmood, Zafar. "Unlocking Pakistan's Economic Potential," Chapter 8: Special Economic Zones. *CPEC: A Precursor to Regional Economic Growth and Stability*. China Studies and Information Center. Strategic Vision Institute. Islamabad, 2019.

<sup>7</sup> Cheema, Zafar Iqbal. *CPEC: A Precursor to Regional Economic Growth and Stability*, 169

<sup>8</sup> Zia, Muhammad Muzzamil. "Job Creation Under CPEC". 25 April 2019. *CPEC Center of Excellence. Planning Commission of Pakistan*. <https://cpec-centre.pk/job-creation-under-cpec-a-reality/>

<sup>9</sup> Cheema, Zafar Iqbal. *CPEC: A Precursor to Regional Economic Growth and Stability*, 161.

<sup>10</sup> *ibid*



investments is not one that Pakistan can afford to miss. This would be an opportune time to create legal frameworks aimed at protecting and supporting our local workforce. Pakistan, unfortunately, lags behind in this regard. Countries such as Malaysia, Vietnam and Indonesia for instance, have comprehensive laws setting labour quotas for foreign investment projects. A recent study conducted by School of Oriental and African Studies and the London School of Economics, revealed that laborers in African countries with direct Chinese investment, were presented prospects to work under their projects.

CPEC has so far created nearly 68,382 direct jobs.<sup>11</sup> The question of how Pakistan can further seize the CPEC opportunity remains an important one. A more sustainable approach to this predicament of underinvestment in labour is to aide firms that train and use local labour.<sup>12</sup> There are several tools for this such as part-funding the training cost incurred by private businesses. Additionally, tax incentives can be conditioned on training labour and tax breaks can be conditioned on sourcing components from local firms, which also translates, albeit more indirectly, into local employment gains. In a bizarre and rather sharp contrast to this, the current services sales tax regime imposes a tax on business trainings, thereby increasing the costs of private training. However, business friendly measures can directly address the market failure that plagues the labour market: By compensating firms that invest in labour, the government can plug in the gap between private and social benefits.<sup>12</sup> A comprehensive system with data on laborers would also be beneficial. This data, which includes the skills and capabilities of the local workforce, will be available for employers, to aid with matching skilled workers with job openings available or creating employment opportunities.

## Coordination

Coordination and communication is critical to connecting institutional dots. Effective communication is the overarching element of power in the 21st Century, and CPEC's scale and ambition must best be addressed with clarity. Provinces have to be given the confidence that CPEC will be transparent and equitable. Unfortunately, to this day, little is known about the government contracts signed under CPEC.

As a diverse country comprising of multiple languages and ethnicities, where information is disseminated through a variety of mediums such as the radio, television, social media, even minor inconsistencies between the information that is made available

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<sup>11</sup> China-Pakistan Economic Corridor Committee Meeting. *Ministry of Planning, Development and Reform*. 13<sup>th</sup> June 2019.

<sup>12</sup> 2019. "Special Section 1: The Importance of Human Capital in the Context of CPEC." *State Bank of Pakistan*. <https://www.sbp.org.pk/reports/quarterly/fy19/Second/Special-Section-1.pdf>.

about CPEC by different wings of the government can create severe cascades of backlash at all tiers of governance.<sup>iii</sup> An institutionally clear roadmap for project planning is an alternative that can very easily do away with these inconsistencies. Additionally, a higher commitment to transparency, pertaining to coordination and contracts will assist CPEC advocates in Pakistan to identify gaps in both planning and investment roadmaps, whether it be between provinces within Pakistan, or between federal ministries or private sector joint venture projects that need support.

In addition, when it comes to a discussion of provincial stakes, it is fair to start with Balochistan – the home of Gwadar, which is the centerpiece of the CPEC maritime Silk Road linkage. It goes without saying that the province has several deprived regions that need development and connectivity. The people of Balochistan and their public representatives have their hopes pinned on CPEC as much as the rest of Pakistan, if not more. For years the mineral-rich province has provided resources like natural gas. At home it has witnessed scarcity of resources and even gas at multiple levels. Its only consolation has come in the form of the 18th Amendment which ensures them ownership of their own resources through the National Finance Commission award.

It has already been indicated that the Balochistan government has repeatedly displayed confusion about the lack of progress on the Western route. They have also raised questions about the province's share in the multi-billion project remaining at a meagre 2-3 per cent. In the absence of transparency and provincial coordination, several voices suggest that the provinces aligning the Eastern route will be the larger beneficiaries of CPEC investments. In parliamentary committee meetings, members from both Balochistan and Khyber Pakhtunkhwa have protested against the lack of groundwork on CPEC in their respective provinces. Additionally, lack of water infrastructure is a major roadblock to development in Gwadar as well as other parts. These are areas that beg the government's attention but little of substance has been communicated during Senate Special Committee meetings to date.<sup>13</sup>

Nonetheless, the main political parties of Balochistan have been on the record to offer their full support to the central government as have other political and opposition parties from Sindh, KP and Punjab, on all CPEC projects.

Now, as CPEC drives into the next phase, the flow of substantive informational exchanges between various provincial and central departments as well as the private and public sector should not remain ambiguous anymore. There are fault lines in communication as various members of the Senate CPEC Committee, who are also representatives of their provinces, have raised questions about timelines and priorities.

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<sup>13</sup> First Interim Report. Special Committee On The Project Of Pak-China Economic Corridor. *Senate of Pakistan*. 17<sup>th</sup> July, 2018 – 15<sup>th</sup> March, 2019.

The federal government will have to demystify the details and for that, it needs to make use of the parliament.

It is clear that in order to be functional, the most effective means of communicating across the federation would be to use parliamentary committees<sup>iv</sup> to ensure transparency and build a narrative that has a buy-in from all parties and provinces. The fact remains that as representatives of their communities, all parliamentarians and political parties do see the benefits of CPEC and the potential for their own communities once clear timelines and execution of projects is visible.

## Recommendations

In Pakistan, the growth potential from CPEC can be immense, but the federation's ability to transform opportunities into tangible gains has remained hostage to inefficiencies and shortcomings in both governance and capacity. The 'Three C Strategy' outlined above provides some salient recommendations for grappling with the internal challenges that CPEC has presented over the last five years. CPEC is not Beijing's dream alone and the task ahead for Pakistan is enormous and unprecedented.

Firstly, to ensure that there is consensus between the different political parties of Pakistan, the government needs to utilize existing committee structures in parliament to build multi-party consensus and address any grievances by provinces or political parties. Additionally, they need to create frameworks for managing the politics of stakeholder inclusion, including at the grassroots level in provinces, or at big-tent political party level in Islamabad.

The second major internal challenge to CPEC is building enough capacity to fully absorb the potential that it promises. This capacity needs to be built at the federal and provincial level in project planning, management and monitoring. This can be done through including the private sector in SEZ policy planning and management to ensure market driven competitive industrialization. Rationalizing SEZ incentives to match incentive structures being offered by SEZs in South East Asia, Gulf and Africa is another technique that can increase the country's capacity to absorb the projects under CPEC. Furthermore, a comprehensive investment policy must be put in place and built into future Foreign Trade Agreements with China so that these governance policies do not have to be retroactively fitted.

Capacity can also be built through incentivising the private sector towards vocational and skills training to quickly build human resource capacity. This policy recommendation can manifest itself on the ground through reorienting both public sector vocational training and higher education curricula to align with market demand for skilled and semi-skilled labour.



Finally, the third major C of Coordination can help resolve the remaining internal challenges that CPEC has posed for the country. The challenge of Coordination can be resolved through ensuring transparency in communication and coordination between the federation and the provinces on CPEC projects, timelines and investment contracts. This can be done through establishing an autonomous CPEC Authority to ensure coordination between various government ministries, departments and agencies, as well as provincial level coordination.

Given Pakistan's history, governance structure and internal political and economic challenges, taking ownership of CPEC will require painstaking systemic reforms. Pakistan must focus on building cooperation frameworks and opacity of CPEC finances. There is a need to focus on Pakistan's development outcomes as well, without which the country will inevitably see a disproportionately high economic growth in enclaves, while poor human development and crumbling infrastructure slows down investor options in others. CPEC provides a chance to focus sustained and inclusive growth if it is made as a prerequisite as the country moves forward, not an afterthought.

## Endnotes

- i. This new focus includes revamping the following: Trade and Market Access; Industrial Development and Global Value Chains; Socio-Economic Development and Poverty Alleviation; Agricultural Modernization and Marketing; Gwadar Oil City and the Blue Economy; Regional Connectivity and Third-Party Participation.
- ii. Pakistan has been the first recipient country of newly formed Chinese aid agency, Chinese International Development Cooperation Agency (CIDCA) under which China would provide grant of \$1 billion (Rs151 billion) for various projects of socio-economic uplift of Pakistan. This help received from CIDCA can also be crucial in the development of human capital for the country.
- iii. Community level politics is critical to navigating trade union tensions in Gwadar, for instance, where the local fishermen have not been consulted in the building process of terminals and jetties that displace their livelihoods and boats.
- iv. The CPEC Committees are fully functional in the Senate, which is the House of Parliament that guarantees the rights and voice of each province in equal measure.

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