

**INCLUSIVE AND COOPERATIVE
DEVELOPMENT OF CPEC**

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Executive Summary

NUST Institute of Policy Studies (NIPS) organized the high-level webinar on the inclusive and cooperative development of China-Pakistan Economic Corridor (CPEC) on Thursday, April 22, 2021. The webinar brought together a distinguished panel of senior policymakers, diplomats, business leaders, subject matter experts, academics, and scholars to discuss various facets of coordinated, consultative, integrated, multidimensional, and scientific development of CPEC in 2021-2030. The webinar focused on the immense potential of CPEC for domestic, bilateral, and multilateral development leading to domestic progress, regional integration and stability, common prosperity, and harmonious inter-state relations. The experts identified a range of approaches, strategies, proposals, and suggestions for the high-quality development of CPEC, backed by the strong guarantee of China-Pakistan bilateral cooperation, amidst a fluid regional and global geopolitical situation. This report represents a critical analysis of the collective views of the experts put forward during the webinar.

Two appendices have been placed at the end of this report to provide additional relevant material to the readers. Appendix I consists of the complete text of the speech delivered during the webinar by Madam Pang Chunxue, Deputy Chief of Mission, Embassy of the People's Republic of China, Islamabad. Appendix 2 comprises the report of NIPS roundtable on CPEC Phase-II held in November 2019.

The following recommendations were derived from the webinar deliberations:

- i. Development of CPEC Phase-II has to be equally attentive to the domestic, bilateral, and multilateral dimensions of development. This includes the formulation of an integrated domestic, bilateral and regional development plan for guiding the development of CPEC in 2021-2030.
- ii. The development of CPEC should prioritize an integrated city cluster development approach based on the full operationalization and optimization of the functional zones identified in the CPEC Long-Term Plan. This should be based on harmonizing the various comparative advantages of different regions and urban centers. These city clusters should be initially developed around the 11 Pakistani cities identified as the key nodes of CPEC. Chinese integrated urban

development plans like Beijing-Tianjin-Hebei Integration Plan, Yangtze River Economic Belt, Guangdong-Hong Kong-Macau Greater Bay Area, and Yangtze River Delta Integration Plan should be studied by Pakistani stakeholders. Further, own regional integration plans like, for instance, Indus River Economic Belt Development Plan, Sindh Sagar Doab Integration Plan, Rachna Doab Integration Plan, Karachi Integrated Development Plan, etc., may be proposed after due diligence and planning. By 2040, at least 2 Pakistani cities should figure in the top 15 cities of the world by GDP.

- iii. STI-led development should form a major strategic prong of CPEC development in 2021-2030. In this regard, a 5-in-1 model of S&T development consisting of five key elements should be adopted by according central position to S&T in national development planning and governance, promoting independent research and development, orienting S&T to directly support economic and social development, creating a strategic national S&T force consisting of the national academy of sciences, public research entities, and universities, and keeping pace with global S&T developments.¹ In this regard, national large research infrastructures should be built jointly with the Chinese side. For this to happen, among other things, the STI cooperation development package announced by President Xi Jinping during his speech at the opening ceremony of the First Belt and Road Forum for International Cooperation in May 2017 should be properly leveraged.
- iv. Fourth industrial revolution and high-tech manufacturing should form a key component of the industrial cooperation under CPEC. This should be incorporated in the prospective China-Pakistan framework agreement on industrial cooperation. Development of core technologies and high-end innovation capabilities should be one of the major goals of China-Pakistan industrial cooperation. The goal of high-tech industrial cooperation should be to turn Pakistan into a newly industrialized country (NIC) by 2030 and into a major manufacturing power by 2050.
- v. Coincidence in time of China's 14th Five-Year Plan (2021-2025) and the development of CPEC Phase-II should deepen bilateral cooperation. In this regard, China's official proposal for the 14th Five-Year Plan should be closely studied and properly assimilated by Pakistani stakeholders. The dual circulation strategy proposed in the

¹ This approach was proposed by a noted Chinese academic during one of the webinars organized by NIPS in 2020.

- 14th Five-Year Plan should be grasped to lead to greater bilateral trade and a more positive trade balance for Pakistan. Pakistan should attempt to promote independent integration of its development trajectory during 2021-2025 with China's new development pattern.
- vi. Pakistan should focus on benefiting from the extraordinary Chinese experience of poverty alleviation by formalizing China-Pakistan poverty alleviation partnership for eradicating poverty in Pakistan. In this regard, major poverty alleviation demonstration zones should be created across Pakistan. Agricultural modernization and proposed integrated city cluster and functional zone development under CPEC should create positive externalities for poverty alleviation in Pakistan. A four-pronged approach derived from the Chinese experience should be adopted, which should consist of a sustained national poverty alleviation drive, public incentives and resources for city and local governments, poverty tracking mechanism at household level, and the mobilization of non-governmental, especially firm-level, resources.
 - vii. China and Pakistan should establish a bilateral CPEC development monitoring mechanism indexed to the domestic development of CPEC in China and Pakistan as well as the overall development framework of BRI. In this regard, greater policy coordination and closer people-to-people ties should be especially promoted between China and Pakistan in addition to the progress on other prongs of BRI. In this regard, a diverse high-level China-Pakistan committee should be formed under the CPEC Joint Working Group on Planning, and tasked with preparing and presenting recommendations on deepening bilateral policy coordination by August-September 2021. In order that the proposed monitoring mechanism performs its functions optimally, it should be equipped with high-quality human talent and topnotch technological and information sharing resources, especially big data analytics and capabilities.
 - viii. CPEC development in 2021-2030 should promote green development. In this regard, Pakistan's membership of the Belt and Road Initiative International Green Development Coalition (BRIGC) should be appropriately leveraged. Diverse public and private Pakistani institutions and organizations should utilize the benefits to be derived from participation in the 10 thematic partnerships of BRIGC to utilize financing, investment, technological, legal, regulatory, research and

- communication, and capacity building opportunities of such participation.
- ix. Multilateral cooperation for CPEC development should be considered a key priority during 2021-2030. This calls for the development of regional SEZs for stabilizing the precarious regional development situation. In this regard, China's world-class experience in new industrial cluster development should be utilized for the regionalization of CPEC development. The integration of CPEC with Economic Cooperation Organization (ECO) should be promoted and new development realities like the recent China-Iran 25-year partnership deal should be utilized for the regionalization of CPEC.
 - x. Successful development of CPEC necessitates a multi-level cooperation approach. These forms of cooperation should not only be based on facilitating and accelerating the development of projects in different areas of CPEC, but they should also target the development of new areas as proposed and discussed in this report. This multi-level cooperation approach should also be developed as a risk mitigation and management strategy to cope with different kinds of endogenous and exogenous risks that will emerge in the global environment during 2021-2030.
 - xi. Four new Joint Working Groups should be established as part of the institutional framework of CPEC. These Joint Working Groups should be on: Integrated City Cluster and Functional Zone Development; STI-Led Development; Green Development; and Poverty Alleviation.
 - xii. The China-Pakistan Economic Corridor Business Council, mandated to be established as per the CPEC Authority Act 2020, should be set up in a manner so that it can attract the best and the most successful private sector players. The membership of the business council should be offered to leading Chinese state-owned and private enterprises. The said business council should preferably have a proper and functional China office in Beijing, Shenzhen, Shanghai, or any other Chinese city. Utmost efforts should be undertaken that the council is run efficiently and dynamically and is not reduced to a mere ceremonial function. It should enable both Chinese and Pakistani firms and businesses to interact and encourage them to enter into creative, innovative, and mutually advantageous joint ventures. The business council should also play its due part in the operationalization of SEZs.

- xiii. In so far as SEZ development is concerned, the engineering triangle of Gujranwala, Sialkot, and Gujrat-Wazirabad should be linked to one of the SEZs under CPEC. Each SEZ should have its own specialized technical institute. Export-oriented firms should be attracted to SEZs. The possibility of signing a special China-Pakistan FTA should be explored, allowing all SEZ-origin exports to receive a free trade status in China and all SEZ imports of raw materials and intermediate goods from China to receive a free trade status in Pakistan.

Inclusive and Cooperative Development of CPEC: Challenges and Way Forward

1. Introduction

CPEC is both the major program for the comprehensive, multidimensional, long-term, and sustainable development of Pakistan and a strategic, consultative, coordinated, and integrated cooperation platform of China and Pakistan. It serves as a powerful symbol of the indomitable spirit of mutual friendliness of the peoples of China and Pakistan. Prudent engagement and resolution of endogenous and exogenous contradictions has been the hallmark of China-Pakistan strategic management of CPEC implementation. Despite the negative global fallout of the Covid-19 pandemic, work on CPEC has continued to make steady progress, owing to the mutual resolve, enthusiasm and focus of the governments of China and Pakistan. This has led to the timely completion of key infrastructure projects as well as most of the energy projects. CPEC has now squarely entered the crucial Phase-II following the completion on time of early-harvest projects. Phase II enjoys the strategic significance of being the backbone of the whole program of joint development as it comprises the realization of holistic regional growth, comprehensive industrial upgrading, good urbanization, creation of positive externalities for local livelihoods diversification, and coordinated and balanced economic development within the context of the overall development objectives of Pakistan.

Phase-II is particularly aimed at accelerating the realization of the goal of transforming Pakistan's growth model from low growth to not only high growth but also high-quality growth. In this regard, industrial cooperation, agricultural modernization, socioeconomic development, and science and technology cooperation will serve as the key priorities of Phase-II. This calls for rigor, flexibility, and dynamism in development planning and a relentless focus on the areas of infrastructure connectivity, economic and trade cooperation, industrial investment cooperation, energy cooperation, financial cooperation, cultural and people-to-people exchanges, and maritime cooperation. This requires that the development of CPEC should be invariably and unceasingly inclusive and cooperative, enabling the free contribution and willing pooling of multiple resources and capacities by government, institutions, businesses, firms, organizations, communities, peoples, and society.

2. Domestic, Bilateral and Multilateral Development of CPEC (2021-2030)

CPEC development can be essentially divided into bilateral, domestic, and multilateral dimensions. The bilateral dimension provides the major engine for the development of CPEC. The domestic dimension acts as the key guarantee for its development. The multilateral dimension serves as the critical support for its development. The inclusive and cooperative development of CPEC depends upon the successful development of these fundamental dimensions of CPEC. Such a development will allow all stakeholders to reap the dividends of peace, stability, and development, which in turn will contribute massively to the building of the community of shared future for mankind in a harmonious world founded on the timeless principles of mutual respect, peaceful coexistence, mutual noninterference, and win-win cooperation.

2.1. Integrated Development of City Clusters and CPEC Functional Zones

CPEC development requires a development strategy that is derived from the Chinese model of domestic development and based on a regional and urban development approach aimed at identifying, maximizing, and, in time, transforming regional comparative advantages. China specializes in this form of integrated development planning which allows for the organization, concentration, and the circulation of development resources, thereby helping in the pooling of varying factor endowments of different regions and cities. Without this form of development planning, it would not be possible to exploit the full potential of national growth and development. In this regard, there is a need to create clusters of cities based on the hub-and-spoke model, and allow these clusters to develop holistically by creating dynamic exchanges both within and between these city clusters. This urban clustering would further be based on the strategy of promoting growth-based competition within and between these city clusters. This competition should be championed at political and administrative levels with clear rewards and incentives for high-performing cities, clusters, and regions. This approach would serve to mitigate the current non-productive and wasteful political competition and administrative lethargy that has traditionally stunted regional economic and urban development in Pakistan. This clustering should be initiated preliminarily on the basis of the essential “building conditions” of CPEC, defined and formulated in the CPEC Long-Term Plan,

which encompass the “coverage, key nodes, spatial layout, and key functional zones” of CPEC development.² According to these conditions,

“CPEC is divided into the following five functional zones from north to south: Xinjiang foreign economic zone, northern border trade logistics and business corridor and ecological reserve, eastern and central plain economic zone, western logistics corridor business zones, and southern coastal logistics business zone.”³

Of these five functional zones, four are located in Pakistan and one is based in China. These zones allow a seamless two-way transition of development momentum of CPEC from China into Pakistan and vice versa. This zoning approach should not just stay inert as a theoretical construct alone, but should rather come alive in the short-, medium-, and long-term planning and on-ground development of CPEC. It should be foregrounded into the actual bilateral vocabulary, ideas, insights, deliberations, conversations, official and public communication, and documentation related to CPEC development. It is easy to see that this zoning has been inspired by the Chinese model of domestic development and carries a strong imprint of Chinese wisdom. The key now is to learn, popularize, and implement this style of development. The successful development of CPEC depends critically on the adoption, mastery, and real-time innovative application of this scientific approach.

The proposed city clusters can be initially built around the cities of Gilgit, Peshawar, Dera Ismail Khan, Islamabad, Lahore, Multan, Quetta, Sukkur, Hyderabad, Karachi, and Gwadar defined as the “key nodes” of CPEC in Pakistan. Other city clusters should be developed in time to include major cities like Faisalabad, Sialkot and others. This city-based development approach will allow the pent-up national growth potential to be released maximally to provide limitless impetus for the development of CPEC. Further, the development of industrial clusters and special economic zones should be appropriately embedded within this city clustering approach. Transportation infrastructure development should also aim at the construction of transportation corridors that can fully release the growth energies as well as resource movement and circulation potential of the proposed city clusters. Without the systemic rationalization of development

² Government of People’s Republic of China & Government of Islamic Republic of Pakistan, *Long-Term Plan for China-Pakistan Economic Corridor (2017-2030)*, 4.

³ Ibid.

planning as envisaged briefly in the CPEC Long-Term Plan, the contemporary factor endowments, locational advantages, cultural strengths, and industrialization-urbanization levels in each zone will not be leveraged properly, interregional and intraregional growth disparities will not be removed, and socioeconomic coordination between the provinces of Pakistan will fail to improve.

Furthermore, this approach has been hugely successful in China and contains the elements of reliability and replicability. It has been envisioned as the “Metropolis circle” referring to,

“an urban economic region composed of a central city that plays a vital role, and several big cities and neighboring regions that are strongly affected by and firmly connected with the central city. It is the highest level spatial organization when the urban agglomeration develops at the mature stage. It plays a pivotal role in the economic development of all the countries and the world, and has a powerful radiation and field effect. Under the background of new urbanization in China, metropolis circle with its unique features will become the primary carrier for the implementation of the Belt and Road Initiative.”⁴

In this regard, all domestic stakeholders, especially government functionaries involved in CPEC implementation, should closely study four major integrated urban development plans of China, namely, Beijing-Tianjin-Hebei Integration Plan, Yangtze River Economic Belt, Guangdong-Hong Kong-Macau Greater Bay Area, and Yangtze River Delta Integration Plan. In the similar way, this report’s author considers that Pakistan can also devise, for instance, Indus River Economic Belt Integration Plan, Sindh Sagar Doab Integration Plan, Rachna Doab Integration Plan, Karachi Integrated Development Plan, etc. In addition to unlocking the growth potential of different regions, such an approach should aim to ensure that, by 2040, at least 2 Pakistani cities will figure in the top 15 cities of the world by GDP.

In order to promote this approach at the highest level, the Joint Working Group on integrated city cluster development may be formed as part of the institutional framework of CPEC.

⁴ Huping Shang, *The Belt and Road Initiative: Key Concepts* (Beijing & Singapore: Peking University Press & Springer Nature Singapore Pte. Ltd., 2019), 35.

2.2. *Leveraging STI-led Development for CPEC Implementation*

CPEC implementation should fully embrace science, technology and innovation (STI)-led development. The development of new industrial clusters, starting from special economic zones but also including technology and business incubators, research parks, science and technology parks, innovation districts, and high-tech development zones, should form a priority during CPEC Phase-II. In this regard, all S&T universities in the country should be encouraged to establish their technology incubators and science parks, and strive to build strong linkages between university-affiliated science parks and priority SEZs under CPEC. The focus of new industrial cluster development, among other things, should be to promote different kinds of innovation such as product, process, service, organizational, marketing, management, and pro-poor inclusive and social innovation model.

STI can provide strategic support force to the CPEC Phase-II development as well as the overall integrated city-based development approach. With a view specifically to reinforcing the scientific development of CPEC, a 5-in-1 model of S&T development consisting of five key elements should be adopted by according central position to S&T in national development planning and governance, promoting independent research and development, orienting S&T to directly support economic and social development, creating a strategic national S&T force consisting of the national academy of sciences, public research entities, and universities, and keeping pace with global S&T developments.⁵

This model is resilient and flexible and allows the navigation of national development through the time-honored five stages of economic growth as framed in the 1960s by the eminent economic expert W. W. Rostow, namely, traditional society characterized by subsistence agriculture and rudimentary technology, the preconditions for take-off characterized by the agricultural and primary industry development, take-off characterized by industrialization and technological breakthroughs, maturity marked by industrial diversification and extensive physical-social infrastructure

⁵ The model is based on China's experience of S&T development and was put forth in the presentation titled, "China's Experience in Science and Technology Development and Its Policy Implications," delivered by Dr Kang Dacheng, Professor at the Institute of Policy & Management, Chinese Academy of Sciences (CAS), at the NIPS Webinar on the "The Role of Science and Technology for National Progress, Growth, and Competitiveness," in July 2020.

development, and the period of high mass consumption characterized by technological sophistication and general prosperity. These stages of growth have provided a time-tested roadmap for development execution.

Today, it is possible to identify a sixth stage of economic growth driven by the economic domination of high-end services, robotics, Artificial Intelligence, internet of things (IoT), and digital transformation. Uneven global development of S&T in the last 100 years means that developing countries can now cover these stages much faster than old industrial nations did in the past. The 5-in-1 model provides the basis for sustaining speed and quality of growth and development by enabling countries to both leapfrog whole stages altogether and accelerate the transition from the lower to the higher stages of growth. This potential of S&T needs to be harnessed not only for sectoral but also for overall CPEC development.

In this regard, one of the key strengths of Pakistan has been the presence of relatively elaborate elements of national system of innovation. However, one of the key weaknesses of Pakistan's national system of innovation has been linkages between these elements. The focus should be to develop both the elements and their linkages. It should be remembered that strengthening linkages between elements is also a robust way of developing the elements themselves.

Additionally, domestic R&D promotion, pegged to resolving different bottlenecks related to the overall development of CPEC as well as catalysing the development of individual CPEC projects, should become a key priority focus. In this regard, the national R&D agenda should include priority areas like IT-related technologies, mineral processing and natural resources, emerging technologies, industrial biotechnology, nanotechnology, new energy storage systems, supercomputing and quantum computing, new nuclear energy systems, geothermal energy systems, synthetic biology, Artificial Intelligence (AI), robotics, etc.

Also, STI education should be promoted at all educational levels in all the provinces so that intra-provincial and interprovincial educational disparities can be removed, and the youth of Pakistan can become proficient in science and engineering subjects, especially those disciplines with the greatest relevance for CPEC development. It is imperative because STI proficiency combined with the removal of regional educational disparities would precede the removal of regional development disparities.

With a view to contributing to scientific development of CPEC, the existing national S&T infrastructure should be upgraded and new S&T infrastructure should be developed in order to stimulate R&D promotion as mentioned above. This should involve carefully selected public and private partnerships aimed at renewing existing S&T infrastructure as well as building new R&D infrastructure. Pakistan should also focus on the development of large research infrastructures. In this regard, the concept of “national large research infrastructures” as defined by the Chinese Academy of Sciences can help Pakistani policymakers to formulate, develop, and sustain a strategic S&T focus for comprehensive national development. In this definition,

“the national large research infrastructures refer to the large facilities for scientific and technological research built with the investment made by the government and shared in their long operation by the S & T community in order to make important breakthroughs and solve the strategic, basic and forward-looking scientific and technological problems in economic and social development as well as the security of the country.”⁶

CPEC should provide the immediate rationale for the development of this type of S&T infrastructure, so that, in the long run, the development of national large research infrastructures can underpin national sovereignty, national security and country’s defense. In this regard, STI-led development for integrated implementation of CPEC should fully leverage the STI cooperation development package announced by President Xi Jinping during his speech at the opening ceremony of the First Belt and Road Forum for International Cooperation that pledged comprehensive innovation cooperation under BRI by means of the “Belt and Road Science, Technology, and Innovation Cooperation Action Plan, which consists of the Science and Technology People-to-People Exchange Initiative, the Joint Laboratory Initiative, the Science Park Cooperation Initiative, and the Technology Transfer Initiative.”⁷

⁶ Hesheng Chen ed., *Large Research Infrastructures Development in China: A Roadmap to 2050* (Beijing & Heidelberg: Science Press & Springer, 2011), 5.

⁷ President Xi Jinping, “Full Text of President Xi’s Speech at Opening Ceremony of Belt and Road Forum,” *Xinhua*, May 14, 2017, accessed, April 23, 2021, http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm.

The Joint Working Group on STI-led development should be established as part of the institutional framework of CPEC for proper integration of STI in CPEC development.

2.3. *Fourth Industrial Revolution and China-Pakistan Industrial Cooperation*

High-tech industrial cooperation should form the backbone of industrial cooperation under CPEC. In this regard, the priority should be the development of core technologies and the promotion of self-dependent innovation.⁸ Integration with “Made in China 2025”, the high-tech manufacturing plan of China, should be sought by means of CPEC’s industrial cooperation development platform, which should itself be leveraged as the means to develop the fourth industrial revolution in Pakistan. In this regard, it is important to note that China’s high-tech and equipment manufacturing sectors have continued to experience robust growth “in the first quarter of 2021, up 31.2% and 39.9% year on year respectively, both higher than the overall growth of the manufacturing sector.”⁹ This is a very promising development for the promotion of China-Pakistan industrial cooperation.

CPEC development should hopefully enable Pakistan to move from the status of technology taker to that of technology maker. Derived from “Made in China 2025” plan, the development of high-tech manufacturing in Pakistan should be aimed at the: promotion of the development of national innovative capacity; enhancement of resource utilization efficiency; creation of high-quality industrial infrastructure; promotion of a high degree of digitization; creation of high levels of product quality and consumption; development of new types of industrialization; improvement in public services; stimulation of sustainable institutional change; the building of diverse innovation coalitions fully leveraging the collaboration between government, universities, enterprises, different types of associations, professional organizations, international organizations, etc.; development of core technologies; economic and industrial structure optimization; deep

⁸ Yitao Tao & Zhiguo Lu, *Special Economic Zone and China’s Development Path* (Singapore: Social Sciences Academic Press and Springer Nature Singapore Pte Ltd., 2018), xxx-xxxi.

⁹ CISION PR Newswire, “China’s High-Tech, Equipment Manufacturing Sectors See Robust Growth in Q1,” *CISION PR Newswire*, April 22, 2021, accessed, April 26, 2021, <https://www.prnewswire.com/news-releases/chinas-high-tech-equipment-manufacturing-sectors-see-robust-growth-in-q1-301274472.html>.

integration of IT and industry; and development of domestic industrial and innovation design capabilities.

China-Pakistan high-tech industrial cooperation should focus on promoting the industries of future such as Artificial Intelligence, robotics, virtual reality, Internet of Things (IoT), sustainable energy, electric vehicles, etc. It should also help promote climate change mitigation by encouraging clean production, resource recycling, and a high-tech circular economy with positive society-industry exchanges leading in turn to the development of multi-sectoral S&T, R&D, entrepreneurial and organizational talents. High-tech industrial cooperation with China should also focus on increasing the quantity and quality of domestic intellectual property.

In the estimation of this report's author, the overall goal of this cooperation should be to turn Pakistan into a newly industrialized country (NIC) by 2030, with Pakistanis experiencing high standard of living and enjoying the stabilization of socioeconomic and political systems. Similarly, in the consideration of this report's author, by 2030, high-tech achievements of China-Pakistan industrial cooperation should: lead to an increase in charges for the use of intellectual property from the current USD 200 million approximately to at least USD 2 billion; lead to increase in high-tech exports from the current 2 percent to at least 10-15 percent of manufactured exports; lead to increase in the number of technicians per million from less than 50 today to at least 350; lead to increase in the number of R&D personnel per million of population from less than 400 today to at least 1000; and lead to reduction in the current perilously high debt-to-GDP ratio from 87.2 percent to less than 40 percent as a consequence of the positive effect of high-tech industrialization on GDP growth.

One of the key aspirations of China-Pakistan industrial cooperation should be that, by 2035 at least, it should be possible to establish at least 3 to 5 global Pakistani brands, with the coming into being of at least 4 to 5 Pakistani multinational manufacturing firms, contributing at least 30 to 40 percent of the GDP by 2040, and leading, by 2050, to the establishment of Pakistan as a major manufacturing power playing a key role in regional and global production networks.

To help create and promote the drivers of Pakistan's long-term transformation into an innovation-driven industrial and service economy,

high-tech manufacturing must become a part of the proposed Framework Agreement on Industrial Cooperation between China and Pakistan.¹⁰

2.4. *Dual Circulation Strategy and Bilateral Trade*

As part of the formulation of its 14th Five-year Plan (2021-2025) for National Economic and Social Development, China is seeking to promote the “establishment of a new development pattern based on domestic circulation as the mainstay, with mutually reinforcing international and domestic dual circulation” so as to,

“exploit comparative advantages, coordinate promotion of a strong domestic market and the building of China into a trade powerhouse, use the huge domestic market to attract global resource factors, and fully utilize the two kinds of resources of the domestic and international markets; actively promote coordinated development of internal and external demand, imports and exports, and foreign investment attraction and external investment; and promote basic equilibrium in the international balance of payments. We will refine the integrated regulatory system for internal and external trade, promote the interlinking of the laws and regulations, regulatory system, business qualifications, quality standards, inspection and quarantine, certification and accreditation, etc., for internal and external trade, and promote the principle of “same production lines, same standards, same quality.” We will optimize the domestic and international market pattern, product structure, and trade methods, improve export quality, increase imports of high-quality products, implement trade and investment integration projects, and build a modern logistics system.”¹¹

Fortunately, the period of the implementation of the 14th Five-Year Plan and CPEC Phase-II will roughly be the same. What this means in effect is that Pakistan will be presented with a huge opportunity to independently promote the integration of its development trajectory with China’s new development strategy.

¹⁰ Khaleeq Kiani, “Pakistan, China Mull Bilateral Framework under CPEC,” *Dawn*, April 2, 2021, accessed, April 27, 2021, <https://www.dawn.com/news/1615959>.

¹¹ Chinese Communist Party, *Proposal of the Central Committee of the Chinese Communist Party on Drawing up the 14th Five-Year Plan and Long-Range Objectives for 2030*, *Xinhua News Agency*, November 3, 2020, trans. Center for Security and Emerging Technology, Georgetown University.

In this regard, it is considered by this report's author that it would be ideal if the 14th Five-Year Plan also mentioned China-Pakistan Economic Corridor, as did the 13th Five-Year Plan and indicate how dual circulation could enhance the development of BRI and CPEC. Dual circulation strategy, if properly utilized, could lead to increased bilateral trade between China and Pakistan.

Pakistan should, therefore, focus, on exploring different possibilities of restoring balance to its bilateral trade with China. In this regard, China-Pakistan Free Trade Agreement Phase-II should be utilized to help Pakistan increase exports to China. In tandem, Pakistan should also strive to improve product quality and diversify production to be able to supply a range of high-demand goods and services to China.

2.5. *China-Pakistan Cooperation for Poverty Alleviation*

More than 850 million people have been lifted out of extreme poverty in China since the beginning of reform and opening up. As part of the building of a moderately prosperous society in all respects, China lifted the remaining 98.99 million out of poverty between 2012 and 2020, and thus eliminated extreme poverty. On the other hand, poverty continues to be a stubborn problem in Pakistan. Between 2018 and 2020, the number of poor in Pakistan was projected to rise from 69 million to 87 million.¹² UNDP estimated that due to the impact of Covid-19 pandemic, antipoverty gains made in Pakistan during the last two decades, that saw 40-percent decline in poverty rate to 24.3 percent in 2015, could be reversed leading to around 40 percent of people living below the poverty line.¹³ In this context, key lessons on poverty alleviation can be learnt by Pakistan from the Chinese experience of poverty alleviation. A consistent and innovative approach for poverty alleviation can be formulated on the basis of studying the Chinese experience.

In this regard, CPEC development should be aligned with the national goal of poverty alleviation. Targeted provincial anti-poverty demonstration zones

¹² Sadat Tashin, "6 Facts about Poverty in Pakistan," *The Borgen Project*, October 20, 2020, accessed, April 29, 2021, <https://borgenproject.org/poverty-in-pakistan/#:~:text=According%20to%20the%20Business%20Recorder,by%20the%20end%20of%202020.>

¹³ United Nations Development Programme (UNDP), "In Pakistan, Pandemic could Push Millions More into Poverty," *UNDP*, June 18, 2020, accessed, April 29, 2021, https://www.undp.org/content/undp/en/home/news-centre/news/2020/Pakistan_pandemic_could_push_millions_into_poverty.html.

should be set up wherein pooling of different kinds of resources, centered on poverty alleviation, can be launched. Learning from the Chinese approach, a four-pronged poverty alleviation strategy can be formulated that consists of a nation-wide “explicit and focused campaign”, provision of poverty alleviation “incentives and resources for local governments,” development of the mechanism for “tracking poverty at the household level,” and “mobilizing resources from non-government sources” aimed at utilizing the potential of private businesses and community organizations to mobilize financial resources and know-how for poverty alleviation.¹⁴

Pakistani firms playing a key role in promoting or undertaking activities and initiatives aimed at poverty alleviation, especially in remote poor regions, should be offered a range of tax and tariff incentives. Even public sector organizations should be offered incentives for their proven and successful performance in the domain of poverty alleviation.

Agricultural modernization initiatives under CPEC and the proposed integrated city cluster and functional zone development should also be harnessed for poverty alleviation in Pakistan.

A Joint Working Group on poverty alleviation should be set up as part of the institutional framework of CPEC to organize and operationalize joint actions and strategies on poverty alleviation.

2.6. Bilateral CPEC Development Monitoring Mechanism

The qualitatively higher and more complex nature of CPEC development during 2021-2030 will demand a closer development coherence with domestic, bilateral, and multilateral cooperation goals related to China-Pakistan partnership and BRI.

As CPEC Phase-II gathers momentum, there is a need to develop a comprehensive bilateral monitoring mechanism to appraise the progress of CPEC in China and Pakistan with respect to both the development plans and objectives of China and Pakistan and with reference to the overall framework of BRI.

¹⁴ Ruth A. Shapiro & Angel Lin, “How China Achieved Its Poverty Alleviation Goal by Seasoning Its ‘Stone Soup’ Strategy,” *South China Morning Post*, March 15, 2021, accessed, April 29, 2021, <https://www.scmp.com/comment/opinion/article/3125222/how-china-achieved-its-poverty-alleviation-goal-seasoning-its-stone>.

The proposed CPEC development monitoring mechanism should be equipped with excellent human and technological resources, especially big data analytics and capabilities. This monitoring mechanism could be placed under the Joint Cooperation Committee (JCC). It should track if CPEC is making adequate progress on all the five components of the five-pronged approach of BRI, namely, policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people contacts.

However, CPEC Phase-II would have to especially prioritize policy coordination and closer people-to-people ties to promote the progress on other components of BRI. In this regard, this report considers that greater policy coordination during CPEC Phase-II may be aided by the establishment of a diverse high-level China-Pakistan committee under the CPEC Joint Working Group on Planning that consists of leading Chinese and Pakistani multi-domain experts, such as economists, social scientists, policy specialists, academia, government functionaries, futurists, etc.

The committee should be tasked with studying in depth the roadmap and modalities of greater China-Pakistan policy coordination and presenting its findings and recommendations to the co-chairs of the JCC by August-September 2021 or within any other suitable timeframe.

There is also a need to develop an active communication mechanism for promoting greater public awareness regarding the progress of CPEC projects and removing pernicious misperceptions about Chinese investments. This mechanism should focus on dedicated outreach and regular communication of CPEC-related achievements in print, electronic, and social media.

2.7. Green CPEC Development

CPEC development should explore ways to benefit from the Belt and Road Initiative International Green Development Coalition (BRIGC). Established in the wake of the Second Belt and Road Forum for International Cooperation in April 2009, BRIGC aims to,

“promote international consensus understanding, cooperation and concerted actions to achieve green development of BRI, to integrate sustainable development into the BRI through joint efforts, and to facilitate BRI participating countries to implement

strong integration of environment and development elements of the SDGs.”¹⁵

Pakistan’s Ministry of Climate Change is already a part of BRIGC. More Pakistani public and private organizations and institutions should be encouraged to become part of the 10 thematic partnerships of BRIGC, namely, biodiversity and ecosystem management, renewable energy and energy efficiency, green finance and investment, improvement of environment quality and green cities, South-South environmental cooperation and SDGs capacity building, green technology innovation and corporate social responsibility, sustainable transportation, global climate change governance and green transformation, environmental laws, regulation and standards, and environmental information sharing and Big Data.¹⁶

Pakistan should align its own climate change mitigation, environmental and SDGs promotion priorities with the overall vision of BRIGC, and leverage financing, investment, technological, legal, regulatory, research and communication, and capacity building opportunities offered by the coalition. Inclusive and cooperative development of CPEC should mean, among other things, sustainable green development of CPEC.

It should bring together the unity of social, economic, and natural systems, keep in mind the finite nature of the natural system, and leverage technological innovation to align the demands of continuous growth and the finitude of the natural environment. This unity should consist of “the intersection and union of two or all three aspects, i.e., of green growth, green benefits, and green wealth” in a virtuous cycle of “continuous green development.”¹⁷ This requires a major transformation or modification of the current production function.

The Joint Working Group on green development may be formed as part of the institutional framework of CPEC to explore how to manage this modification and other related aspects of green CPEC development.

¹⁵ BRI International Green Development Coalition (BRIGC), “Purpose,” *BRIGC*, accessed, April 30, 2021, <http://eng.greenbr.org.cn/icfgd/aboutus/introduce/>.

¹⁶ BRI International Green Development Coalition (BRIGC), “Thematic Partnerships,” *BRIGC*, accessed, April 30, 2021, <http://eng.greenbr.org.cn/icfgd/special/>.

¹⁷ Angang Hu, *China: Innovative Green Development* (Berlin & Heidelberg: Springer-Verlag, 2014), 38.

2.8. *Multilateralism for CPEC Development*

It has been recognized that Belt and Road construction may be facing risks due to the fluid regional and global geopolitical environment.¹⁸ This is due to the attempts of a few countries to look at the future with the lens of the past, thus mistakenly considering zero-sum power politics of the Westphalian system to be permanent rather than a reversible time-bound feature of interstate relations. Nevertheless, multilateral cooperation continues to exist as a healthy alternative.

As Belt and Road construction progresses, the multilateral tendency will be promoted powerfully. Pakistan should, therefore, explore the possibility of the convergence of regional development aspirations with the benefits of CPEC development. In this regard, the comprehensive 25-year partnership deal between China and Iran may present avenues for the regionalization of CPEC. Similarly, the promotion of a free, peaceful, and conflict-free development in Afghanistan would of necessity require willing cooperation with Pakistan. In this regard, regional SEZs should be proposed during 2021-2030 from the platform of CPEC, especially in order to facilitate post-conflict Afghan reconstruction. In this regard, there will be an urgent need to draw on China's world-class expertise and experience in new industrial cluster development combined with the exploration of the possibility of funding through financing mechanisms provided by the Belt and Road construction.

The integration of CPEC with Economic Cooperation Organization (ECO) will also help promote balanced, coordinated, fair, and free regional development, which will also provide a strong guarantee against forces of regional disorder, instability, and conflict.

2.9. *Multi-Level Cooperation Approach*

Various levels and stages of cooperation need to be envisioned for high-quality development of CPEC. At the domestic level and the bilateral level between China and Pakistan, these levels of cooperation are: state-to-state, business-to-business, people-to-people, university-to-university, think tank-to-think tank, media-to-media, civil society-to-civil society, state-to-business,

¹⁸ Kinling Lo, "China's Belt and Road Initiative Faces Increased Political Risk in Participating Countries, report warns," *South China Morning Post*, April 20, 2021, accessed, April 28, 2021, <https://www.scmp.com/news/china/diplomacy/article/3130174/chinas-belt-and-road-initiative-faces-increased-political-risk>.

state-to-people, state-to-university, state-to-think tank, business-to-people, business-civil society, business-to-university, business-to-think tank, state-to-civil society, business-to-civil society, civil society-to-people, civil society-to-university, civil society-to-think tank, state-to-media, media-to-people, media-to-business, media-academia, media-to-think tank, media-to-civil society, etc.

Considerable progress has been made in government-to-government and state-to-state cooperation and coordination. There is still a lot of room for further expansion of even government-to-government cooperation. It is hoped that this expansion will progressively take place through the second and the third phases of CPEC. Entry of Chinese enterprises in the domestic market is also gradually taking place.

At the same time, satisfactory development of bilateral and domestic cooperation at all the other levels will ensure the multidimensional consolidation and sustainability of CPEC. The key here should be to identify creative and innovative ways of cooperation aimed at achieving mutual development goals. In order to deal with the impact of the Covid-19 pandemic and to minimize any possible negative fallout of the pandemic on the rate of progress of CPEC Phase-II, it is of the essence to develop these levels of cooperation in a manner that allows mutual exchanges of multiple forms of resources and information across these levels.

3. Recommendations

The following recommendations were derived from the webinar deliberations:

- i. Development of CPEC Phase-II has to be equally attentive to the domestic, bilateral, and multilateral dimensions of development. This includes the formulation of an integrated domestic, bilateral and regional development plan for guiding the development of CPEC in 2021-2030.
- ii. The development of CPEC should prioritize an integrated city cluster development approach based on the full operationalization and optimization of the functional zones identified in the CPEC Long-Term Plan. This should be based on harmonizing the various comparative advantages of different regions and urban centers. These city clusters should be initially developed around the 11 Pakistani cities identified as the key nodes of CPEC. Chinese integrated urban development plans like Beijing-Tianjin-Hebei Integration Plan,

Yangtze River Economic Belt, Guangdong-Hong Kong-Macau Greater Bay Area, and Yangtze River Delta Integration Plan should be studied by Pakistani stakeholders. Further, own regional integration plans like, for instance, Indus River Economic Belt Development Plan, Sindh Sagar Doab Integration Plan, Rachna Doab Integration Plan, Karachi Integrated Development Plan, etc., may be proposed after due diligence and planning. By 2040, at least 2 Pakistani cities should figure in the top 15 cities of the world by GDP.

- iii. STI-led development should form a major strategic prong of CPEC development in 2021-2030. In this regard, a 5-in-1 model of S&T development consisting of five key elements should be adopted by according central position to S&T in national development planning and governance, promoting independent research and development, orienting S&T to directly support economic and social development, creating a strategic national S&T force consisting of the national academy of sciences, public research entities, and universities, and keeping pace with global S&T developments.¹⁹ In this regard, national large research infrastructures should be built jointly with the Chinese side. For this to happen, among other things, the STI cooperation development package announced by President Xi Jinping during his speech at the opening ceremony of the First Belt and Road Forum for International Cooperation in May 2017 should be properly leveraged.
- iv. Fourth industrial revolution and high-tech manufacturing should form a key component of the industrial cooperation under CPEC. This should be incorporated in the prospective China-Pakistan framework agreement on industrial cooperation. Development of core technologies and high-end innovation capabilities should be one of the major goals of China-Pakistan industrial cooperation. The goal of high-tech industrial cooperation should be to turn Pakistan into a newly industrialized country (NIC) by 2030 and into a major manufacturing power by 2050.
- v. Coincidence in time of China's 14th Five-Year Plan (2021-2025) and the development of CPEC Phase-II should deepen bilateral cooperation. In this regard, China's official proposal for the 14th Five-Year Plan should be closely studied and properly assimilated by Pakistani stakeholders. The dual circulation strategy proposed in the 14th Five-Year Plan should be grasped to lead to greater bilateral

¹⁹ This approach was proposed by a noted Chinese academic during one of the webinars organized by NIPS in 2020.

- trade and a more positive trade balance for Pakistan. Pakistan should attempt to promote independent integration of its development trajectory during 2021-2025 with China's new development pattern.
- vi. Pakistan should focus on benefiting from the extraordinary Chinese experience of poverty alleviation by formalizing China-Pakistan poverty alleviation partnership for eradicating poverty in Pakistan. In this regard, major poverty alleviation demonstration zones should be created across Pakistan. Agricultural modernization and proposed integrated city cluster and functional zone development under CPEC should create positive externalities for poverty alleviation in Pakistan. A four-pronged approach derived from the Chinese experience should be adopted, which should consist of a sustained national poverty alleviation drive, public incentives and resources for city and local governments, poverty tracking mechanism at household level, and the mobilization of non-governmental, especially firm-level, resources.
 - vii. China and Pakistan should establish a bilateral CPEC development monitoring mechanism indexed to the domestic development of CPEC in China and Pakistan as well as the overall development framework of BRI. In this regard, greater policy coordination and closer people-to-people ties should be especially promoted between China and Pakistan in addition to the progress on other prongs of BRI. In this regard, a diverse high-level China-Pakistan committee should be formed under the CPEC Joint Working Group on Planning, and tasked with preparing and presenting recommendations on deepening bilateral policy coordination by August-September 2021. In order that the proposed monitoring mechanism performs its functions optimally, it should be equipped with high-quality human talent and topnotch technological and information sharing resources, especially big data analytics and capabilities.
 - viii. CPEC development in 2021-2030 should promote green development. In this regard, Pakistan's membership of the Belt and Road Initiative International Green Development Coalition (BRIGC) should be appropriately leveraged. Diverse public and private Pakistani institutions and organizations should utilize the benefits to be derived from participation in the 10 thematic partnerships of BRIGC to utilize financing, investment, technological, legal, regulatory, research and communication, and capacity building opportunities of such participation.

- ix. Multilateral cooperation for CPEC development should be considered a key priority during 2021-2030. This calls for the development of regional SEZs for stabilizing the precarious regional development situation. In this regard, China's world-class experience in new industrial cluster development should be utilized for the regionalization of CPEC development. The integration of CPEC with Economic Cooperation Organization (ECO) should be promoted and new development realities like the recent China-Iran 25-year partnership deal should be utilized for the regionalization of CPEC.
- x. Successful development of CPEC necessitates a multi-level cooperation approach. These forms of cooperation should not only be based on facilitating and accelerating the development of projects in different areas of CPEC, but they should also target the development of new areas as proposed and discussed in this report. This multi-level cooperation approach should also be developed as a risk mitigation and management strategy to cope with different kinds of endogenous and exogenous risks that will emerge in the global environment during 2021-2030.
- xi. Four new Joint Working Groups should be established as part of the institutional framework of CPEC. These Joint Working Groups should be on: Integrated City Cluster and Functional Zone Development; STI-Led Development; Green Development; and Poverty Alleviation.
- xii. The China-Pakistan Economic Corridor Business Council, mandated to be established as per the CPEC Authority Act 2020, should be set up in a manner so that it can attract the best and the most successful private sector players. The membership of the business council should be offered to leading Chinese state-owned and private enterprises. The said business council should preferably have a proper and functional China office in Beijing, Shenzhen, Shanghai, or any other Chinese city. Utmost efforts should be undertaken that the council is run efficiently and dynamically and is not reduced to a mere ceremonial function. It should enable both Chinese and Pakistani firms and businesses to interact and encourage them to enter into creative, innovative, and mutually advantageous joint ventures. The business council should also play its due part in the operationalization of SEZs.
- xiii. In so far as SEZ development is concerned, the engineering triangle of Gujranwala, Sialkot, and Gujrat-Wazirabad should be linked to one of the SEZs under CPEC. Each SEZ should have its own specialized

technical institute. Export-oriented firms should be attracted to SEZs. The possibility of signing a special China-Pakistan FTA should be explored, allowing all SEZ-origin exports to receive a free trade status in China and all SEZ imports of raw materials and intermediate goods from China to receive a free trade status in Pakistan.

**Remarks at the NIPS Webinar¹ on
*Inclusive and Cooperative Development of CPEC: Challenges and Way
Forward***

Respected Engr. Javed Mahmood Bukhari, Rector NUST,

Respected Lt Gen (Retd) Asim Saleem Bajwa, Chairman CPEC-Authority,

Respected Vice Admiral (Retd) Khan Hasham Bin Saddique, Former
Ambassador of Pakistan to Saudi Arabia,

Ladies and Gentlemen, and Dear Friends,

Good morning!

I'm very much honored to be invited to address this webinar hosted by NSUT Institute of Policy Studies. I'll share with you my views on China-Pakistan friendliness and CPEC high quality development. As known to all, NUST is a very famous university in Pakistan, not only strong in natural sciences and engineering, but also influential in social sciences and humanities. NIPS, in particular, has been focusing on the study of global security and stability, regional integration as well as national development, offering to the government many pieces of profound, wise and constructive advice. Today, we gather here to contribute our wisdom to, and build consensus on CPEC development. I sincerely wish a complete success for this webinar.

Dear friends, as brotherly neighbors, China and Pakistan both shoulder the historic mission of achieving national rejuvenation, strengthening the country and enriching the people. More than ever, we need to work together to strengthen the traditional friendship, give full play to our geographic proximity and economic complementarity, so as to share opportunities, meet challenges and pursue common development, adding new connotations to China-Pakistan community of shared future. This will enable us to create greater benefits to our two peoples, contribute to stability and prosperity of

¹ These remarks were presented by Madam Pang Chunxue, Deputy Chief of Mission, Embassy of the People's Republic of China, Islamabad.

our region and take the lead in building a community of shared future for mankind.

It is the common wish of our two peoples to consolidate and enhance China-Pakistan all-weather strategic cooperative partnership. Boosted by our joint celebration of the 70th anniversary of establishing diplomatic ties, China will further implement the important consensus reached between our state leaders and incessantly deepen our iron-clad friendship, so as to enable our bilateral ties to become a model for building a community of shared future for mankind and to promote our unique partnership to new highs.

In 2020, China has achieved the great historic feat in securing a moderately prosperous society in all respects and the decisive victory of poverty alleviation as per schedule. The year 2021 marks the centennial of the founding of CPC and the first year for China's 14th 5-year plan for national development. China has embarked on the new march for socialist modernization and spared no efforts to build a new development pattern in which domestic economic circulation plays a leading role while international economic circulation remains its extension and supplement. China's peaceful and open development will not only make more contribution to regional and global economic growth, but also bring wider development opportunities and unleash more development bonuses to countries worldwide, including Pakistan.

Now, China and Pakistan are at a crucial stage for building a closer China-Pakistan community of shared future and jointly promoting high-quality development of CPEC. Against this backdrop, I'd like to put forward 3 suggestions.

First, we need to enhance the alignment of development strategies. China and Pakistan are all-weather strategic cooperative partners, offering each other development opportunities. From now to 2035, China will work towards basically realizing the long-term goal of socialist modernization. China's overall national strength will increase greatly, and its new advantages in international economic cooperation and competition will be significantly enhanced. We appreciate that the Pakistani government is now striving to build a "Naya Pakistan" and has determined to shift its strategic priority from geo-politics to geo-economics. We are ready to work with Pakistan in deepening exchanges on governance, joining hands for common development, and building a closer China-Pakistan community of shared future in the new era.

Second, we need to promote high quality development of CPEC. President Xi Jinping stated that the two sides should turn CPEC into an exemplary project for high-quality development of BRI. Prime Minister Imran said that Pakistan's future is closely linked to China and CPEC is a great opportunity for Pakistan. As for President Alvi, during his visit to Gwadar Port earlier this year, he pledged to make good use of the port to carry out transit trade with Afghanistan. We should implement the consensus reached by our leaders and, through CPEC cooperation, unleash the potential of the Pakistani market and make a bigger pie.

Ever since its launch in 2013, CPEC has maintained its momentum of positive growth. It has brought to Pakistan \$25.4 billion investment with which 46 projects have been accomplished or are under construction. At its climax period, 75,000 jobs were created. CPEC has revived the Gwadar Port to become a new trade hub for the region. It also increased for Pakistan 5200MW power, 886km national core transmission network and 510km expressway. CPEC has indeed become a vital project to support Pakistani national economic development and welfare enhancement, and an exemplary project for BRI.

In the future, we should work together to ensure the smooth operation of completed projects and steady progress of on-going projects, and divert more resources to the fields of industry, agriculture, science and technology, information and welfare. In this process, it is urgent to promote private sector cooperation.

The Chinese government vigorously supports Pakistan's endeavors in setting up industrial parks, attracting China's leading enterprises for investment and establishing industrial clusters so as to create scale effect, enhancing the capacity of manufacturing and export processing industry, and thus creating more employment and export. China will try its best to help Pakistan to promote industrialization, enhance its internal driving force for economic development and secure a better place in the global industrial division of labor and supply chain at an earlier date.

From the perspective of Chinese enterprises, what they concern most is a safe and stable environment, coherence of government policies, high efficiency of administrative review and approval, and preferential policies for foreign investment. It is the responsibility of both our governments to work together in the same direction and make more efforts to strengthen collaboration

between enterprises of both countries and ensure the sustainable development of CPEC cooperation.

Third, we need to continuously strengthen our economic and trade cooperation. China will unswervingly expand its opening-up in an all-round way, which facilitates Pakistan to increase its export to China. With a population of 1.4 billion and a middle-income community of more than 400 million, China boasts the largest market in the world. As bilateral trade volume keeps around \$20 billion, China is also Pakistan's No. 1 importer and No. 2 exporter. As China-Pakistan Free Trade Agreement Phase Two entering into force last year, the proportion of taxes on zero-tariff goods between the two countries will gradually rise to 75%. We'll impose zero tariff on Pakistan's main export goods such as cotton yarn, leather, apparel and nuts. We'll also actively promote the export to China of Pakistan's quality agro-produce such as cherry, potato and onion.

China aims in the next 5 years to smooth its domestic mega-circulation, promote dual cycles at home and abroad and advance consumption in an all-round way. This will greatly help Pakistan expand its export to China, promote economic recovery and address the trade imbalance in the course of development. China will fully implement China-Pakistan Free Trade Agreement Phase Two and lay a more solid foundation for enhancing bilateral substantial cooperation so as to facilitate more Pakistani exports to China and promote balanced development of bilateral trade.

Dear friends, to consolidate and promote China-Pakistan friendship and advance high-quality development of CPEC, we should not only have our governments to enhance planning and coordination, our enterprises to bring about more mutual benefits, but also have think tanks of our two countries to offer advice and suggestions, our two peoples to enrich exchanges. As long as we are guided by the aspirations of our peoples and strive to meet such aspirations, we can surmount any obstacle on the way, and China-Pakistan all-weather strategic cooperative partnership will be further widened, stratified and enriched.

Thanks for your attention.

Report of the Roundtable on CPEC Phase II: Challenges and Opportunities

NUST Institute of Policy Studies (NIPS)

Friday, November 29, 2019

Introduction

1. The NUST Institute of Policy Studies organized an in-house roundtable discussion on CPEC Phase II on Friday, November 29, 2019. Ambassador Syed Hasan Javed (Retd.), renowned sinologist and Director, Chinese Studies Centre, School of Social Sciences and Humanities (S3H), NUST, made a cogent and persuasive presentation that led to a fruitful exchange of ideas and insights related to the priorities, opportunities, challenges, and strategies for ensuring the fast-paced development of Phase II. The participants of the roundtable consisted of the university's academics, experts, scholars, researchers, and students. This report gives the point-by-point account of the deliberations and recommendations.

Discussion and Recommendations

2. While low in absolute terms, Pakistan's per capita GDP was greater than China's and India's per capita GDP in 1970. But, in 2017, Pakistan's per capita income was trailing behind both China's and India's per capita income. In 2017, China had become an upper-middle income country in terms of its per capita income as the result of record high growth between 1980 and 2011. India, still a lower-middle income country like Pakistan, had also witnessed sustained high growth between 2003 and 2011. Pakistan on the other hand, had failed to stimulate sustained economic growth due to a variety of reasons. Similarly, other countries like Malaysia, Turkey, and South Korea which had levels of per capita income similar to Pakistan's in 1970s had reached upper-middle income level in the case of Malaysia and Turkey and high-income level in that of South Korea. This meant that Pakistan failed to carry out reforms required for enabling fast-paced sustained growth during the last 45 years.
3. Pakistan stands in 2019, where China stood in 1970. This situation bespeaks an unenviable development performance. However, this does

not means that pessimism should prevail over optimism. Pakistan still has the choice to undertake reforms like China did in 1979. In this sense, the situation is not desperate altogether.

4. Since 2015, Pakistan has been presented with a historic opportunity in the form of China-Pakistan Economic Corridor (CPEC) to correct its long-term growth trajectory and promote comprehensive national socio-economic development that logically leads to greater opportunities for shared regional development. CPEC is the flagship project of China's US\$ 1.3 trillion Belt and Road Initiative (BRI). It is estimated that China's BRI strategy will add, by 2030, US\$ 4 trillion to the GDP of the participating countries. Pakistan should prepare to derive maximum benefit from this development bonanza.
5. Carrying a total investment of US\$ 62 billion, to be completed in three phases, CPEC includes projects in the areas of transportation infrastructure (rails, road, ports, and airports), energy, industrial zones including special economic zones (SEZs), agriculture, tourism, higher education, telecommunications, etc.
6. CPEC is special in the sense that out of the total of six BRI corridors, the former is the only bilateral corridor as opposed to other corridors that are multi-country. It has been called the flagship corridor because it embodies the BRI spirit of all-round cooperation with minimum point of friction. This means it has the potential to develop rapidly.
7. The successful completion of Phase I, worth US\$ 20 billion and consisting of early harvest projects, is a major achievement. This phase included mainly transport and energy infrastructure projects. This shows that the will to develop exists in the state and society of Pakistan. It also means that this will would manifest itself even in dire circumstances and extremely difficult conditions. This success is notable because it was achieved in the face of incessant barrage of criticism and skepticism from certain domestic and international quarters. This also shows that there is always some discrepancy, some lag between the situation on the ground and the media reporting of that situation.
8. CPEC Phase II has prioritized industrial cooperation and upgradation, socioeconomic development, agricultural modernization, and technological advancement. Amongst other aspects, joint ventures between the private sectors of China and Pakistan, relocation of Chinese industries to Pakistan, launch of SEZs, agricultural demonstration farms are the focus during Phase II and expected to bring almost 90 percent of

- the investment. The approved project portfolio of the 9th Joint Cooperation Committed (JCC) reflects this sectoral diversity.
9. Phase II has further expanded the historic growth opportunity offered by CPEC in line with the BRI development philosophy of the building of the community with shared future for mankind. A few examples will suffice for understanding the magnitude of this opportunity. Asian Infrastructure Investment Bank (AIIB) has granted US\$ 1 billion in concessional loans to Pakistan after making a first-time investment of US\$ 400 million in infrastructure projects. This means that a new source of financing has been made available for meeting Pakistan's development needs. Discussions on US\$ 9 billion ML-1 upgradation are going on that will further enhance the north-south connectivity in Pakistan with the potential for stimulating improvements in east-west connectivity too. 27 projects of US\$ 1 billion in social sector have been announced. This social sector financing will help improve the quality of life in Pakistan. 20,000 higher education scholarships have been announced by China for Pakistani students. This means that China is seriously interested in building a critical mass of highly qualified Pakistanis that could spearhead the strategic China-Pakistan cooperation in future.
 10. There is a major difference between Phase I and Phase II. While Phase I could be completed without major policy reforms, Phase II, of necessity, requires comprehensive policy reforms in agriculture, taxation, civil service, industry, business, energy and water, higher education, industrial policy, mining, etc. This is important because Phase II will focus on the qualitative transformation of the growth factors as opposed to Phase I wherein quantitative aspect alone sufficed more or less.
 11. These reforms need to be buttressed with leadership and electoral reforms combined with judicial reforms that establish the rule of law and the supremacy of merit. A mindset change is sorely needed as well for the adoption and acceptance of a comprehensive socioeconomic modernization program. It can be called Pakistan's own peaceful cultural revolution but one which roots out bad habits, bad ideas, and bad practices.
 12. Phase II will require a strategic plan for the national human resource development focused on skills and learning required for industry and services in knowledge economy. Some of these skills and learning development areas related to CPEC are supply chain management, logistics, railways engineering, transportation, energy, information and communications technologies, spatial zoning and development.

13. Higher education will also need to develop a greater cultural awareness, appreciation, and language expertise. In so far as the appreciation of the *China World* is concerned, China Studies should be made mandatory in all Pakistani institutions of higher education. Introduction of new professional and technical modules related to CPEC projects can also be introduced in Pakistani universities.
14. Domestic educational system privileges and produces largely English drafting skills but fails to produce creative and innovative thinking aimed at solving real-world problems. Ironically, this situation builds problem-creation skills rather than problem-solving skills. Problem-solving skills can only be cultivated through promoting micro-level research addressing specific problems. Such type of research should be conducted with respect to CPEC in terms of its impact on local industry, domestic trade, environment, and society.
15. At the same time, Pakistan should also focus on vocational and technical skills development so that Pakistan can ensure high-quality labor for domestic utilization and benefit from labor shortages of the Chinese economy, which, according to one estimate, could be as high as 85 million by 2040. Pakistani manpower should, therefore, be trained so that it can meet the standards of the Chinese market and businesses. Reforms on the one hand and skills development on the other will help optimize the return on the investment during the CPEC Phase II.
16. Pakistani people and institutions need to develop a greater knowledge and appreciation of the Chinese society, state, market, cultural norms, systemic organization, legal system, development experience and philosophy, worldview, and history. There is a danger that due to their traditional thought patterns dominated by the occident, Pakistani people may miss out on the *China Wave* because of the lack of immersion at the societal and individual levels into the *China World*. This can be combined with media awareness campaigns regarding the development experience of China together with highlighting massive business and education opportunities of the Chinese market.
17. Phase I witnessed the inability on the part of the Pakistani private sector to take advantage of the huge investment potential of CPEC. There was a tendency during this phase of not engaging the Chinese private sector in a win-win manner. Business skepticism in some cases was based on the lack of knowledge of the Chinese market and the opportunities it carried. Phase II will, therefore, require extensive business-to-business interaction.

18. The mindset of project-led economic growth not reform- or policy-led economic growth dominated in Phase I. Phase II, however, demands reform-led and policy-led growth mindset. This is the only viable way toward sustained and sustainable development of CPEC and beyond. In other words, governance and growth have to go hand in glove with each other. Frequent changes in policy direction should be avoided without good cause as they can pose serious questions of credibility and trust in the eyes of the Chinese friends.
19. Phase II policy approach needs to address the problems of low systemic interoperability between the institutions and organizations of the two countries. There is, therefore, a need for the creation of China-Pakistan ministerial facilitation mechanisms for addressing policy and planning issues beyond the mechanism of the JCC. This should be done for facilitating the Chinese investors, institutions, and entities. Though Pakistan has moved up by some points in the global rankings of the ease of doing business, yet a lot needs to be done for simplifying complicated procedures, reduce red tape, and fix administrative irregularities and arbitrariness.
20. In this regard, inter-ministerial coordination within Pakistan is also required. This means developing the ability and capacity to pool resources on projects that cut across ministerial portfolios. This can only happen if there is the will and the ability to work together without ego issues and personality clashes.
21. CPEC Phase I demonstrated the lack of coordination between provincial and federal governments, the lack of coordination between private and public sectors, and the go-it-alone tendency of the provinces. Greater coordination needs to be promoted in all these areas. Provinces should learn to coordinate better among themselves and promote CPEC holistically.
22. Phase II requires that Pakistani policymakers study the patterns of Chinese overseas investment and the regions and areas attracting it so that lessons and best practices can be learned, adopted, and adapted for implementation in Pakistan.
23. The government of Pakistan should focus on urgent basis on: bringing Pakistani private sector on board to unlock the potential of business generation and job creation under CPEC; mobilizing the overseas Pakistanis to gain maximum leverage from the diasporic brain circulation and full-spectrum utilization of their diverse expertise, resources, and skills for CPEC and beyond; and ensuring community participation in

- CPEC projects to mitigate the risks of social polarization, marginalization, and exclusion.
24. Reindustrialization should be promoted through CPEC. This will require a credible policy which prioritizes a dynamic and emergent master plan for regional development so that traditional industrial clusters and advantages can be scaled up and new advantages can be built up. This policy should make wise locational decision for industrial promotion and growth. New industrial clusters should be advocated in the proposed policy. Reindustrialization and urbanization should form part of a holistic developmental design that is critically appreciates the feedback loops between industrial and urban development.
 25. Scientific planning for SEZs needs to be undertaken which should liberate the SEZ policy thinking in Pakistan from various types of error. Error in thinking translates into error in action. Persistence of error can thwart, derail, and halt development. There is an urgent need to promote small and medium enterprises in the economy. In this regard, township and village enterprises should be promoted to build markets as China did in the early days of reform and opening up.
 26. There is a need in Pakistan to focus on building social capital based on relations of cooperation and reciprocity for each sector and social group as well as the whole of society. This building of cooperative reciprocity needs to be extended to the Chinese peoples. Greater networking, cooperation, and knowledge exchanges between Chinese and Pakistani NGOs, and social and community organizations needs to take place. This can lead to the creation of a comprehensive forum or platform for connecting people, ideas, and organizations. These measures will help Pakistan in increasing its soft power regionally and globally.
 27. In order for Phase II to be successful, Pakistan has to undertake dynamic economic diplomacy for increasing CPEC's regional and global attractiveness. This process will be aided by measures aimed at attracting FDI such as those that make business easy to do in Pakistan and bring about much-needed rule simplification. This process will be assisted by the documentation of the informal economy. Greater information about the informal sector can lead to policies aimed at stimulating its systematic development.
 28. Energy and water resources need to be developed in a comprehensive manner as a background condition for fast-paced development in Phase II and beyond. The massive potential of the Indus River System should be harnessed through building a series of dams of different sizes on the

Indus River. Work started in Phase I on some dams but the full potential of the mighty Indus still remains to be realized. Further, energy production should be environmentally clean and promote sustainable development. For this purpose, alternative energy resources should be built along with hydel resources. Though Pakistan is not a big polluter at all, yet it is one of those countries that are likely to be highly affected by climate change. Therefore, development of clean energy is a major guarantee of Pakistan's safe and sustainable development.

29. Export promotion should drive sectoral reforms in view of Pakistan's negative trade balance. Pakistan should not only increase the quantity but the quality of its exports and increase the share of technology and services exports. Financial and banking sector reforms should also be geared to increased trade. Pakistani banks need to start operating on a long-term basis in China. Financial trading and trade finance both need to be the focus of these reforms in Pakistan. It is encouraging to note that China-Pakistan financial integration led to the opening of Habib Bank office in China to deal in Renminbi trading.
30. Pakistan should seriously focus on becoming a competition state for rapid economic growth and development without at the same time abandoning social development, targeted welfare, and pro-poor interventions for removing different types of disparities and poverty alleviation. Pakistan should deeply study and learn from the Chinese experience of poverty alleviation which is unmatched in human history. As per the World Bank, more than 850 million people have been pulled out of poverty in China since the reform and opening up.
31. There is dire need in Pakistan to keep the geopolitics out of domestic debates on CPEC. There is a need to understand and promote the technical and scientific requirements of CPEC development rather than falling prey to the efforts of certain international players to politicize the project to rob it of its developmental momentum. Qualitative transformation of Pakistan's growth by means of CPEC Phase II requires that we refrain from reproducing this tendency at home.
32. Internal debates, reservations, and expressions of difference on the domestic approach to CPEC should not be voiced recklessly in media as it can send wrong signals to the Chinese counterparts. While such debates will continue in a democratic polity like Pakistan's, they should not be used for domestic and global political mileage. Domestic failure to effect proper implementation and conduct an up-to-date cost-benefit analysis regrading CPEC should be addressed forthwith and should not be

misused for creating skepticism regarding the project itself or even Chinese assistance and goodwill.

33. In terms of attracting FDI, Pakistan's policy planners should prefer efficient foreign firms over inefficient firms that go abroad only for quick unstable momentary gains. The efficient firms should be offered low cost of doing business including cheap high-quality labor as a major incentive for moving into the domestic market. Once these firms move into the domestic market, steps should be taken to build sustained interaction between such foreign firms and local clusters to stimulate the spillover effects with regard to technology, skills, and know-how. This will help in alleviating private-sector fears of the domination of the local industry by the Chinese firms. Building external safeguards alone to protect the local firms will only stunt the process of their growth, discourage good FDI, and attract footloose inefficient foreign firms that will distort the market and will encourage bad habits in local firms.

Conclusion

34. In conclusion, the participants agreed that the Chinese cooperation under CPEC should be viewed as a key development opportunity that also allows us sufficient breathing space to learn and promote self-reliance. The participants agreed that the 21st century has been characterized as the Asian Century. With Pakistan lying so close to the nerve center of this momentous global transformation, the participants recognized that CPEC should be viewed as the means by which Pakistan can reap maximum benefit from the development of the Asian Century. This, they believed, can only happen if Pakistan focuses on policy-led and reform-led economic growth for rebuilding the society, economy, state, and the people.