

***Academic Session: Economic Dimensions of CPEC***

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## **RESEARCH ON EMPLOYMENT OPPORTUNITIES UNDER THE FRAMEWORK OF CHINA PAKISTAN ECONOMIC CORRIDOR**

**Xiaoqing Xie \***  
**Changqian Ma \*\***  
**Jiangfeng Li \*\*\***

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**Abstract:** *The trend of globalization has integrated the world. However, some regions remain less connected, South Asia is one of the few relatively less integrated regions, with two third of world's population. Resultantly, South Asia experiences high rate of unemployment and poverty. In this regard, China Pakistan Economic corridor could prove to be a gamechanger. Under its framework, development of transport infrastructure and energy corridor is proposed. In this paper, we seek to examine CPEC in terms of its prospects for employment generation by utilizing quantitative and qualitative techniques. Through a speculative study, this paper also seeks to offer policy suggestions.*

**Keywords:** China Pakistan Economic Corridor; employment opportunities; investment; economic cooperation

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### **Introduction**

With the onset of 21<sup>st</sup> century, globalization is taking place at very rapid pace. Increased connectivity through real as well as virtual means has shifted the trend in international cooperation from bilateral to multilateral engagements. Resultantly, economic corridors have emerged across the world often paying huge dividends to the participating countries. European Union and NAFTA are among the prime examples of these phenomena. While, there are some regions which lag behind in terms of connectivity, South-Asia is considered among the least integrated regions of the world. China has announced its “One Belt, One Road” Policy (OBOR), which is a two-pronged strategy based upon the idea of opening up and marching Westwards; a) through landlocked countries (New Silk Road) and b) through waters (21<sup>st</sup> Century Maritime Silk Road).<sup>1</sup> The aim is to develop Silk Road Economic Belt (SREB) through development of a vast network of infrastructure. It will connect Eurasian lands with East Asia, South Asia and Central Asia (Map 1). Chinese president Xi Jinping, articulated the “Silk Road Program” and announced an investment of around USD 40 billion to develop “Silk Road” infrastructure and enhance connectivity. In this context, geostrategic location of Pakistan provides it with an edge over other countries.

In 2013, Chinese Premier Li Keqiang, visited Pakistan and proposed China Pakistan Economic Corridor (CPEC). During the visit, both countries agreed to establish a joint working group under National Reforms and Development Commission of China and Ministry of Planning, Reforms and Development of Pakistan.<sup>2</sup> A series of projects was proposed, most significant of which was to connect Kashgar, (Xinjiang Province of China) with southwestern port of Gwadar (Baluchistan Province of Pakistan). In 2015, President Xi Jinping visited Pakistan to approve proposed projects and to sign MoU's worth more than USD 28 Billion.<sup>3</sup> Under the head of revitalization of Silk Route, China is to invest around USD 46 Billion in Pakistan for development of various sectors, mainly, infrastructure and energy development. It will help Pakistan to overcome its economic crisis while it is hoped that macroeconomic indicators will also improve. China, at the same time, will have its own share of benefits as it will be able to speed up its trade through Gwadar, get an access to hot waters and boost up its outreach to global markets.

The prospects of China's One Belt One Road (OBOR) initiative are being increasingly investigated by development experts and researchers. Yin Pumin (2015) maintains that “21st Century Maritime Silk Road” program is expected to bring socio-economic benefits to countries and regions along the route.<sup>4</sup> Zhai Kun (2015) contends that by undertaking a broad-based global strategy of connectivity known as the OBOR, China will be able to create a linkage between “Chinese dream” and “World dream.”<sup>5</sup> Zhang Xudong(2015) holds that China's strategic initiatives to build the Silk Road Economic Belt and the 21st-Century Maritime Silk Road will accelerate prospective regional as well as global development.<sup>6</sup> Muhammad Haris (2015) contends that industrialization in Special Economic Zone along the CPEC will help in rehabilitation of Pakistan's deteriorated industrial units.<sup>7</sup> Hamid & Hayat (2012) insists that since Pakistan is a small economy compared to China, it will have to seek special protections for its local industries.<sup>8</sup> Hussain and Ali (2015) argue that CPEC will increase social connectivity among people.<sup>9</sup> CPEC is significant for Pakistan as well as China as it will increase economic activity in Pakistan.<sup>10</sup>

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\* Associate Professor, School of Public Administration, China University of Geosciences, Wuhan, China (cathywh@163.com).

\*\* Professor and Dean, School of Public Administration, China University of Geosciences, Wuhan, China.

\*\*\* Professor and Dean, International Education College, China University of Geosciences, Wuhan, China.

The next part of this paper is divided into two thematic sections; Section I explains the framework of CPEC with respect to proposed projects. Section II, on the other hand, analyzes employment policies of Pakistan and China and speculates the chances of employment generation once CPEC is operational.

### **Section I: The Framework of China Pakistan Economic Corridor (CPEC)**

Premier of Pakistan Nawaz Sharif, visited China in July 2013 and affirmed his commitment to CPEC and highlighted its importance for South-Asian Region.<sup>11</sup> Expediting the process, both countries constituted a Joint Cooperation Committee for the CPEC headed by Ahsan Iqbal, Federal Minister for Planning, Development and Reforms, Pakistan and Zhang Xiaoqiang, the Vice Chairman of National Development and Reforms Commission, China. Following the constitution of a joint coordination committee between China and Pakistan, CPEC Secretariat has formally been set up.<sup>12</sup> CPEC project received a significant impetus with the signing of various agreements and MoUs worth US\$28 billion during Chinese president Xi Jinping's visit to Pakistan in April 2015.<sup>13</sup>

In the meetings of the Joint Coordination Committee held in January and February 2014, both sides agreed on various connectivity projects. To start with, Kashgar, Xinjiang, Khunjerab, Islamabad, Lahore, Multan, Sukkur, Karachi and Gwadar were selected as the pivot cities. It was decided that a "Master Plan of CPEC" will be prepared by July 2015.<sup>14</sup> While four main areas of cooperation between the two countries are transport, infrastructure, energy and industrial cooperation. The route of the corridor has not yet been finalized.

#### **Financing Mechanism**

The CPEC will almost be entirely financed by China. China has committed an amount of US\$45.6 billion for various energy and infrastructure projects over the next six years.<sup>15</sup> Out of this, approximately USD 10 billion will be provided in the form of commercial loans<sup>16</sup> while the rest will be made available through export credit and non-reimbursable assistance by the China Development Bank, the Export-Import Bank of China, the Industrial and Commercial Bank of China Ltd (ICBC) and other financial institutions. Major Chinese companies investing in Pakistan's energy sector are China's Three Gorges Corp and the China Power International Development Ltd.<sup>17</sup>

#### **Infrastructure development**

The infrastructure development would boost up industrialization of Pakistan. A 'roadmap of industrial parks and economic zones under CPEC was announced but has not been finalized. By August 2015, a joint working group on the CPEC was expected to launch a consultation with Pakistani provinces situated along the route for industrial parks and economic zones. Massive work has already kickstarted on Pakistan's road system. The second phase of the 1300-km Karakoram highway, a six-lane high-speed motorway running along the ancient Silk Road from Xinjiang into the province of Punjab, between the cities of Karachi and Lahore is being constructed. Public transport system, including metro and bus services in six main cities, is also being upgraded.

**Development of the Gwadar Free Trade Zone:** Pakistan is also planning to develop Gwadar as a free trade zone on the lines of Hong Kong or Dubai and couple it with the Kashgar Economic Development Zone, already approved and being developed by China.<sup>18</sup> During Pakistan Prime Minister Nawaz Sharif's visit to China in November 2014, various agreements were signed with China for construction of (i) the Gwadar New International Airport; (ii) the Gwadar Eastbay Expressway; and (iii) a Technical and Vocational Training Institute in Gwadar.<sup>19</sup>

Chinese assistance focuses particularly on Gwadar which has recently been built as a deep sea port on the Arabian Sea. The port is being managed by the China Overseas Ports Holding Company (COPHC). Gwadar offers China a direct access route to the Indian Ocean, the possibility to bypass Malacca Strait. This alternate access is strategically very important for China given the rising tensions in the South China Sea. Converting the city into a free-trade zone and attracting Chinese investments to transform the harbor into a major Indian Ocean port. The entire network of projects can potentially create trade routes linking Iran, Afghanistan, and even India.

**"Early Harvest" Projects:** Both countries also agreed to start some early harvest projects. The five principles for prioritization of projects/EHP are;

- ✓ Bilateral Connectivity,
- ✓ Socio-Economic Urgency and Impact,
- ✓ Mature Projects,
- ✓ Relatively Good Economic Returns and
- ✓ Quicker Completion Time (GOP MOF 2014).

On the basis of above principles, various projects worth US\$28 billion dollars spanning most provinces and regions of Pakistan have been approved under CPEC framework (GOP, Ministry for Planning Development and Reforms 2015; Kiani 2015). These include:

- ✓ Coal based Power Projects at Port Qasim (Karachi, Sindh), Gadani and Hubco (Balochistan), and Sahiwal and Sheikhpura (Punjab)
- ✓ 900 MW Solar Project (the world’s largest solar energy power plant at Bahawalpur, Punjab)
- ✓ A wind Power Plant at Jhimpir (Sindh)
- ✓ Karot Hydropower Project (Punjab)
- ✓ Sukhi Kinari Hydropower Project (Mansehra District, Khyber-Pakhtunkhwa)
- ✓ An Industrial Park in Faisalabad (Punjab)
- ✓ Up-gradation of the Karakoram Highway (Phase-II), Karachi-Lahore plus Peshawar (ML1) Railway track
- ✓ Orange Line (Lahore Metro Project)
- ✓ Sukkur-Multan section of the Karachi-Multan-Lahore Motorway (KLM) project, etc.
- ✓ Development of Gwadar International Airport
- ✓ Establishment of Havelain dry port of Pakistan Railways (Khyber-Pakhtunkhwa)
- ✓ Gwadar port East Bay Expressway Project
- ✓ Gwadar-Nawabshah LNG Terminal and Pipeline Project (Balochistan-Sindh)
- ✓ Laying of optic fibre between the two countries
- ✓ Establishment of China-Pakistan Joint Cotton Bio-Tech Laboratory
- ✓ Establishment of National University of Modern Languages (NUML) International Centre of Education (NICE), Islamabad.<sup>20</sup>

A closer scrutiny of sanctioned, approved and proposed projects (both the early harvest and long term projects) under the CPEC reveals that most of the projects are related to energy (US\$33.8 billion) and infrastructure / connectivity (US\$11.8 billion) – a trend exemplifying China’s overseas investment around the world. A sector-wise breakdown of China’s overseas investment between 2005 and 2013 shows ‘that energy tops the list of sectors for both investment and construction followed by transport sector including construction of roads, rail lines, and port terminals.’<sup>21</sup> As Pakistan is facing a severe energy crisis along with a critical infrastructure deficit,<sup>22</sup> these investments will also help Pakistan in solving the power shortages that have crippled its economy, thus serving mutual needs of both the countries.

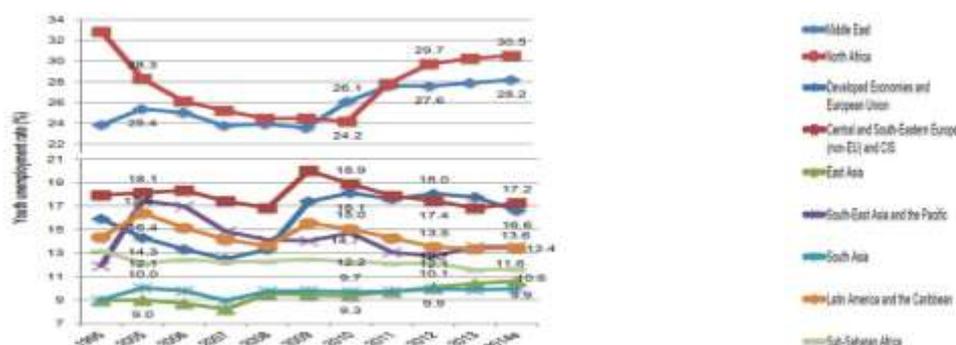
## Section II: Employment Trends in the World

The study of global employment trends is a very exciting and challenging undertaking. In recent years, youth unemployment rate in developed countries remained at high level. The trends of youth unemployment in 2013 and 2014 in different regions are as follows;

- ✓ North Africa; it was up to 30.1 percent and 30.5 percent.
- ✓ Middle East; it averaged up to 28.0 percent and 28.2 percent.
- ✓ South Asia; it was 9.8 percent and 9.9 percent.

In developing countries, the phenomena of unemployment and disguised unemployment occur simultaneously as the population of poor stratum continues to rise. Employment generation and provision of “Decent Work for All” is considered to be the key to eradicate extreme poverty and hunger. It has also been recognized as a key to sustainable development the world.

Figure 1. Youth Unemployment Rate in the World



e = estimate.

Source: ILO, Trends Econometric Models, April, 2015.

## Current Employment Policy Framework of Pakistan

“Decent work for all” is the name of National Employment Policy of Pakistan. It is the first employment policy of Pakistan, being formulated in 2008, under the framework of International Labor Organization (ILO). The main idea of the aforementioned policy is to invest in various sectors of economy by introducing diverse projects. It seeks to create a demand for labor and therefore, provide labors with decent work (National Employment Policy of Pakistan (NEP), 2008). But, the policy has not proved to be as fruitful as deemed. The employment to population ratio increased up to 52.9 percent in 2008-2009 which declined afterwards to 51.3 percent in 2012-13 (Decent work country profile, Pakistan, International Labor Office, 2014). One of the major reasons behind the decline has been the recurrent flight of investment from Pakistan while the state itself lacked monetary resources to fund the projects proposed by National Employment Policy (NEP), 2008.

Two twin challenges of energy crisis and terrorism wreaked havoc on Pakistan’s economy during the last decade. Resultantly, the state on the one hand, accumulated a huge monetary pressure, with excessive capital flight from Pakistan. Even domestic investors got their capital out of the market. Along with macro-economic deterioration, Pakistan faced monetary losses of around USD 10 billion from energy crisis only. Trade losses amounted to USD 3 billion while half a million people lost their jobs (Decent Work Country Profile, Pakistan, International Labor Office, 2014). Meanwhile, Foreign Direct Investment (FDI) went down, from USD 5.6 billion to USD 1.5 billion in 2013-14.<sup>23</sup> Pakistan’s abysmal economic trajectory posed a situation of uncertainty and unpredictability in the labor market. In this context, China Pakistan Economic Corridor is a ray of hope for the labor market of Pakistan in dark times following a decade of dark times.

## New Employment Chances for Pakistan

China Pakistan Economic Corridor holds a series of projects that are meant to be completed in a time span of over 15 years. This investment of USD 46 billion in multi-dimensional sectors will potentially create new labor markets. In the context of micro-economic and macro-economic conditions of Pakistan, we will analyze the impact of CPEC projects in two phases; a) Phase I (ongoing impact on labor market), b) Phase II (future prospects)

### Phase I

First set of projects under CPEC will prospectively be accomplished around 2017-18.<sup>24</sup>

Chinese investments have already started paying dividends to Pakistan’s labor market. With the rapid infrastructure development, Pakistan’s real estate and construction sector will grow and significantly contribute towards urbanization of remote areas including Gawadar, Badeen, and Thata. The construction of roads, rail-ways, motorways, and gas and oil pipelines would employ local labor force.

A relatively new market for linguists and interpreters (Chinese to English, Urdu and regional languages)” has emerged and learning Chinese language is trending upwards in Pakistan. The initial projects would contribute towards in the shortest possible time-period alleviation of energy crisis remains the main objective, so, development of infrastructure to assuage energy crisis holds key importance. CPEC projects would depend on the participation of Pakistan’s labor market from exploration and development leading up to production and transmission. These projects will also open up a vibrant job market for geologists, geoscientists, geological engineers, environmentalists, business administrators, public administrators etc.

Under CPEC, agreements between educational and technical institutions are being signed to develop and employ human capital. However, in the beginning, a lot of effort will be required for developing multi-cultural understanding wherein comes the scope for social scientists, philanthropists and researchers to explore Chinese societies. In this regard, various institutes would have to be developed to enhance the collaboration between China and Pakistan (e.g. Centre of Excellence China Studies, GC University, Lahore).

### Phase II

The completion of initial projects will ensure infrastructure development, alleviation of energy crisis and temporary operationalization of transit trade. It can be speculated that there will be huge investment from Chinese companies in subsequent stages. Other than these, foreign direct investment from other countries having stakes in CPEC would also be expected.

Agriculture sector of Pakistan employs the 42.3 percent of labor force. Initiation of transit trade will bring competitiveness among the farmers of Pakistan that will further pave a way to innovation and technological advancements. The development of port yards and fishing zones at the coastal areas will provide lucrative means to fishermen. As Pakistan is one of exporters of meat products, livestock industry will boom in this period as new markets will open. It will ultimately trickle down to the labor force in the form of high wages.

One of the major reasons behind Pakistan’s slow-paced industrialization is its colossal energy crisis. By the completion of CPEC projects, it is speculated that energy crisis will be gradually alleviated and domestic investors will be

back in Pakistan. Meanwhile, China and Pakistan will be looking at joint ventures to establish industrial parks around the CPEC route.<sup>25</sup> CPEC route will work as an energy corridor, from Middle Eastern nations and North Africa to Xinjiang, China, through Baluchistan, Pakistan. With accessibility to world's largest markets, Pakistan's small and medium industries will bloom. Cottage industry will have a chance to compete in international market (Employment trends of Pakistan, Statistics bureau of Pakistan, 2013). There will be diverse opportunities for entrepreneurs to enter the market with innovative ideas to compete and excel in an international market scenario.

With the operationalization of CPEC, a whole new market of service sector will also emerge. Service sector of Pakistan employs the largest portion of population, 45.3 percent.<sup>26</sup> In particular, logistics industry will grow within Pakistan to provide services to transit trade routes. Outsourcing of labor force will also be expected. Pakistan will be considered as the entry point to mainland China. It is expected that sub-offices of multinational firms, which are on coastal areas of China will also be opened within Pakistan. Infrastructure development would lead to urbanization and subsequent planning will bolster the real estate. Connectivity generated by CPEC would also contribute towards promotion of tourism industry in Pakistan.

### **China's Active Employment Policy Framework**

In China, employment situation has also deteriorated in recent years. It has also led to accumulation of rural labor surplus in urban areas. To increase employment, government has carried out a series of interventionist policies employment policies in China which include:

- ✓ Employment training
- ✓ Entrepreneurship training
- ✓ Unemployment insurance
- ✓ Employment subsidy
- ✓ Employment assistance
- ✓ "One-Stop" Employment Service.

### **New Employment Chances for China**

For China, CPEC will be beneficial for development of its western regions. Along with the process of regional economic integration, the CPEC would help in the development of closer relations and cooperation between China and the countries of Southern, Central and Western Asia.

Given that the bulk of China's oil imports pass through the Strait of Malacca, which is vulnerable to piracy and geopolitical uncertainties, a pipeline from Gwadar to China over the Karakoram would provide an alternative for the supply of oil from the Middle East to China's western and central provinces in particular. It will also create lots of employment opportunities for the skilled workers and high-tech technicians. Meanwhile, it will also advance China's logistics industry.

### **Conclusion**

South-Asian region is considered one of the least integrated regions of the world although it possesses two-third of the world's population. One major reason behind this phenomenon is high unemployment rate caused by lack of access to markets and investment.

The initiative of CPEC will provide South Asia with accessibility to the remote markets and increased investment leading towards industrialization and urbanization of under-developed areas in both Pakistan and China. It will create new labor markets to provide people with decent work. Meanwhile, ties based upon trade, economy and socio-cultural aspects will flourish and pave a way towards revitalization of ancient silk route.

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## **STRENGTHENING ENERGY COOPERATION BETWEEN CHINA AND PAKISTAN THROUGH CPEC**

**Xia Yunjiao** \*  
**Zhao Guowei** \*\*

***Abstract:** Energy cooperation between China and Pakistan is an important part of China-Pakistan Economic Corridor (CPEC). Energy cooperation between China and Pakistan is mutually beneficial and leads to a win-win scenario. CPEC would allow China to import energy from diversified channels which will contribute to its energy security. It would also help Pakistan to solve its energy shortage, and thereby seeks new economic growth points. This paper aims to analyze the dynamics of energy cooperation between China and Pakistan under the rubric of CPEC. Research methodologies used in this paper include case analysis, historical analysis and data analysis. Energy cooperation between China and Pakistan holds some successful precedents: energy-work organizations, cooperation agreements and bilateral cooperation mechanisms. An agreement on energy cooperation framework between China and Pakistan was concluded in 2006 and a memorandum on establishing energy working group was signed in 2010. Energy cooperation between China and Pakistan has begun to have a primary shape, but it has not been institutionalized yet. The construction of energy corridor itself also faces technical challenges and would face funding and costing pressures in future as well. It is also difficult to rule out the interference from outside. The paper maintains that energy cooperation fulcrum would stimulate economic corridor construction that would necessitate envisaging a sustainable energy cooperation framework with the help of a comprehensive Energy Charter Treaty.*

**Keywords:** Energy cooperation, Economic Corridor, transportation security, interference factors, comprehensive construction, CPEC

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### **Significance of Sino-Pakistan Energy Cooperation**

#### **Significance for China**

**Diversifying Imported Energy Sources and Developing Dew Layout of China's Energy Strategy:** With its vast land and rapid economic development, China's energy demand cannot be met domestically. At present, 40% of oil is imported from abroad. These are the major oil transport routes – the west line of the Sino Kazakh oil pipeline, the northern Russia oil transportation line and southern transport line passing through the Strait of Malacca. Since the 1990s, China has become a major energy consumer with imports from the Middle East accounting for 37% of total oil imports. These importations of oil by sea pass through the Indian Ocean, the Strait of Malacca, the South China Sea and thereby flow into east coastal ports. Therefore, the Malacca Strait may be considered as China's energy lifeline. In case of any unforeseen circumstances like war or clogging of the water passage, Chinese economy will be greatly paralyzed. In terms of Pakistan's geographical position, on its Western border lies Iran, and the Gulf's oil exporting countries, while China and India – the major oil importing countries – are located on the Eastern side.<sup>1</sup> Because of Pakistan's strategic location, oil and gas transmission channels through West Asia, via Sino Pakistan railway and highway networks, would remain accessible. Middle East and China can develop a two-way flow energy line. This will inject new vitality into China's economic development.

**Maintaining National Security and Ensuring China's Energy Security:** In modern states, smooth access to energy is always at the forefront of strategic objectives. Many states, however, have limited resources to stimulate economic growth. So, they have to continually pursue expansion methods in order to reach out to energy resources elsewhere. Because of the relative shortage of oil and natural gas resources, we need to expand international energy cooperation based on the supply of domestic production and supply. China's crude oil production is significantly lower than its net oil consumption, resulting into import dependency. 60% of crude oil imported into China comes from the Middle East and North Africa, The Middle East oil possesses good geological environment. Therefore, the mining and drilling of oil results into low production costs. About 4/5th of oil imported into China passes through the Malacca Strait. This constitutes what may be referred to as the China's energy security “Malacca dilemma.”<sup>2</sup> Accordingly, Chinese energy security in wartime would be significantly threatened. On the other hand, any blockage of the Malacca Strait might lead to temporary disruption of energy supply or a surge in prices which may prove fatal to a rapidly developing country's economy. Cooperation between China and Pakistan on Gwadar can help China bypass the Strait of Malacca and provide China's energy sector relative security which would also be a step forward towards the national security of China.

**Strengthening Sino-Pakistan Strategic Relations:** Pakistan was one of the first countries to recognize China. On May 21, 1951, the two countries formally established diplomatic relations. Since the establishment of diplomatic relations, the

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\* Associate Professor and Vice Director, Human Rights Law Institute, Public Management College China University of Geosciences, Wuhan, China (ddxyj001@126.com).

\*\* Vice-President, Human Rights Law Institute, Public Management College, China University of Geosciences, Wuhan, China.

two countries have pursued mutually beneficial cooperation on the basis of principles of peaceful coexistence. China and Pakistan have, thereby, established a comprehensive cooperation approach in the twenty-first Century. In the field of energy cooperation China advocates the diversification of sources of oil, multilateral trading and import divergence.

### Significance for Pakistan

**Alleviating Energy Shortage in Pakistan:** During 2003 to 2008, demand for energy has been in a state of rapid growth, with an average annual growth rate of 7.5%. Pakistan's domestic energy supply has also not been able to catch up with the pace of economic development. In Balochistan, large gas reserves exist, but they are not enough to provide for country's ever-growing energy needs. The development of hydropower requires a higher level of investment and technological advancement. Pakistan's technology and capital, however, is relatively scarce. Pakistan and China energy cooperation would not only be conducive to the development of domestic oil and gas resources within Pakistan but will also help Pakistan in construction of new energy import channels. Pakistan will also acquire renewed strategic relevance in the Middle Eastern and North African regions.

**Promoting the Development of Bilateral Economic and Trade Routes along the Area:** There is a saying that the economy goes with the train, that is to say, transport is the key to economic growth. The construction of China-Pakistan energy corridor would help Pakistan take the 'fast train' for developing regional economy besides bolstering its national economy.

**Strengthening the Strategic Position of Pakistan:** The profiling of Pakistan as the engine of the proposed energy corridor will reinforce Pakistan's strategic relations with the energy-rich Central Asia and West Asia.

### Development of Sino-Pakistan Energy Cooperation

Since the founding of the PRC, China and Pakistan have pursued a strong working relationship. On January 4, 1950, Pakistan announced the recognition of the People's Republic of China. After a year, diplomatic relations were formally established between China and Pakistan. For the last sixty years, the two countries have engaged in political, economic as well as cultural cooperation laying a good foundation of an all-round relationship. China and Pakistan relations have deepened even more in the recent years. The remarkable China Pakistan relationship characterized by all-weather bond and all-encompassing collaboration is well-catered for building a multi-dimensional energy support framework. In 2006, Pakistani President Pervez Musharraf repeatedly expressed interest in establishing a trade and energy corridor with China." During his visit to China in 2006, President Musharraf signed the Framework Agreement on Energy Cooperation whereby the two sides agreed to strengthen cooperation in the energy sector. In April 2006, the first "China-Pakistan Energy Forum" was held in Islamabad. The Prime Minister Aziz proposed Pakistan as China's "energy corridor." Since then, the President of Pakistan, Musharraf, repeatedly hinted at the establishment of China-Pakistan energy channel which could arguably be the "world's ninth wonders." In November 2006, during President Hu Jintao's visit to Pakistan, the two sides signed a joint statement regarding energy cooperation. Thereon, well-reputed Chinese oil and gas exploration companies were encouraged to cooperate in Pakistan's government-led projects. Chinese enterprises see the construction of Gwadar energy economic zone in terms of a win-win scenario. During President Zardari's 2008 visit to China, the two sides signed cooperation documents between China Development and Reform Commission and the Ministry of Petroleum and Natural Resources of Pakistan including framework cooperation agreement in mineral areas. On April 20, 2015, during President Xi Jinping's visit to Pakistan, 51 cooperation agreements (including five agreements on power projects) and various memoranda of understanding were signed. Many of these agreements and memoranda pertained to energy cooperation.

In 2009, Chinese and Pakistani governments restarted discussions on connecting China's Xinjiang (Kashgar) and the port of Gwadar through a network of highways railways and pipelines. China and Pakistan seek to expand the Karakoram highway under CPEC. In May 2011, Pakistan's Prime Minister Gilani's visited China and signed agreements regarding infrastructure, including the renovation of railways and highways and building new high-speed roads and airports. In 2012, agreements were signed between China and Pakistan regarding hydropower, nuclear and renewable energy. China, in recent years, has actively implemented the "going out" strategy to expand its access to foreign energy. Seventeenth Congress report also noted the need to "actively carry out mutually beneficial international cooperation in energy resources." In the same vein, Pakistani government formulated its own "National Energy Plan" to establish a new Energy Commission which may encourage the development of solar, wind and other new energy projects. Crude oil, natural gas, petrochemical industry, mining, and processing of agricultural products are also priority areas for Pakistan's energy policy. Chinese investments in Pakistan in the sectors of machinery, chemicals, trade, water conservation, communications, and electricity in 2007 amounted to \$ 712 million. China completed contracted projects at the turnover of \$ 1.391 billion. At present, not only Chinese state-owned but also private enterprises have entered Pakistan's energy corridor projects.

## Problems faced by Sino-Pakistan Energy Cooperation

Sino-Pakistan energy cooperation holds tremendous significance in relation to the longterm strategic partnership between the two nations. Although, in recent years, it has made substantial progress, Sino-Pakistan energy cooperation continues to face myriad problems.

**Weak Institutions of Energy Cooperation:** The current status of mechanisms under the joint Energy Cooperation Committee remains quite vague. Unless the Official Sino-Pakistan Energy Cooperation Committee is properly managed, there may emerge controversies regarding the specific contours of the cooperative framework.

**Insecurity of Energy Transport:** Pakistan continues to be marred by political instability which often leads to policy discontinuity. This creates uncertainty in energy cooperation. Balochistan remains in political turmoil as ethnic separatists call for secession from the state.

**Complex International Relations:** Keep in view the dynamics of international relations and global security, it would be very challenging for China and Pakistan to successfully materialize the “energy corridor.” In recent years, the situation of the Middle East and North Africa has changed dramatically in the wake of Arab Spring. CMB corridor is dependent on energy cooperation via Middle East and North Africa. Iranian nuclear issue may also inflame at any given time and jeopardize some of the connectivity goals envisaged under the CPEC framework. Any multinational intervention in Iran may also adversely affect the Sino-Pakistan Economic Corridor.

## Deepening Sino-Pakistan Energy Cooperation

**Energy Corridor Needed to Drive Economic Corridor:** Energy corridor is part of the overall economic corridor construction. Pakistan enjoys a very strategic geographical position, and China's seeks to make a rational use of Pakistan's geographical advantages. For Pakistan, energy exchanges based on the construction of transport infrastructure can stimulate the export of domestic products, alleviate the current economic woes, and strengthen the close cooperative relationship with China on strategic issues. The process of energy cooperation, however, will remain, quite naturally, contingent on devising a viable trade channel. China and Pakistan would, therefore, have to strive for broadening the scope of energy cooperation by fostering new trade growth points and expanding the capacities of railways, highways and pipelines. China and Pakistan should adhere to the principles of mutual trust so that they will be able to achieve complementary advantages and common development.

**Building Energy Cooperation Community:** Although the two countries have established China-Pakistan Economic Corridor, they need more consultation to institutionalize the cooperative mechanisms through clearly-defined norms and procedures. Without a bilateral institution (a Joint Commission or Inter-government Department), it will be very hard for both countries to dispose off issues efficiently and effectively. Therefore, the two countries should kick-start consultations for framing a proper mechanism with a problem solving approach. A joint working group should be set up that can look into prospective options for constituting an Energy Community. The community on energy cooperation could either be a government-led initiative or a market-oriented enterprise.

**Promoting Energy Information Sharing and Energy Policy Transparency:** The smooth flow of information holds great importance in the energy exchange process. Strengthening information systems pertaining energy cooperation would ensure smooth and timely communication encountered in the energy exchanges. The implementation of the policy would be led directly by the investment direction of enterprises and individuals,

**Protecting Energy Transport Security by means of Energy Charter Treaty:** Energy cooperation may also be regulated by involving a number of member states through a system of multilateral treaties. China is a signatory country to the Energy Charter Treaty whereas Pakistan is an observer to the Energy Charter Treaty. In the face of energy security issues, disputes can be resolved by aid of a treaty. Such a treaty in the Sino-Pakistani energy exchanges could provide both countries with a way for settlement of energy transport disputes, easing the contradictions between energy supply and demand, and reducing the loss caused by the fluctuation of energy prices.

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## **POLITICAL AND ECONOMIC DYNAMICS OF CPEC WITHIN THE LARGER FRAMEWORK OF CHINA'S ONE BELT, ONE ROAD INITIATIVE**

**Preksha Shree Chhetri \***

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*Pakistan occupies a strategic position in South Asia and the China Pakistan Economic Corridor (CPEC) has occupied an important place in the region's strategic and economic dynamics. With China's ongoing "One Belt, One Road" project, Pakistan will have a significant role in connecting Eurasia with the Gulf countries. Apart from that, Gwadar port will be one of the few points where the Silk Route will merge with the Maritime Silk Route. Given this context, the main objective of this paper is to critically analyze the CPEC within the larger framework of China's One Belt, One Road plan. The paper will seek to understand China's intentions concerning the One Belt, One Road project with focus on the CPEC. As such, this paper will interrogate the following two themes: 1. Analyzing the economic dimensions of the CPEC; 2. To examine whether the development of CPEC is China challenging the US influence in Pakistan? In order to answer these questions, a combination of qualitative and quantitative research methodology will be used. Since CPEC is a recent development, the paper will rely mostly on secondary sources from China and Pakistan. In conclusion, the paper will evaluate the ebbs and flows of opening transportation corridors especially in South Asia. It will also stress on the fact that the core of international relationships in the present era is economics.*

**Keywords:** OBOR, CPEC, Gwadar, transportation corridor, Maritime Silk Route

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### **Introduction**

Saying of the ancient Greek Philosopher Heraclitus that one cannot step into the same river water twice rightly signifies that change is the only constant. International Relations too have undergone massive changes over time. Foes have become friends, and friends have become foes. Countries that once went on wars against each other are today joining unions together. Furthermore, the erstwhile super powers have retreated to the background while the new emerging powers which were once considered third world nations are taking the reins of world order.

In 19th century major powers of the world were scrambling for influence in the Latin America, but at the end of the century the major powers were scrambling for influence in the African nations, and today the attention of the world is on Asia. Though the nature of influence varies, Asia can arguably be called the centerpiece of the world's attention in the present era. This century has been correctly defined as the Asian Century and for the very right reasons. Asia has much to offer to the world, and intelligently the major powers of the world are scrambling for influence in Asia. Particularly interesting in this regard is the subtle tussle between the United States and the People's Republic of China for Pakistan.

The One Belt One Road (OBOR) is a major foreign policy initiative of the PRC, and it is one of a kind. There have been numerous infrastructural projects in the past but none can match the profoundness and vastness of the OBOR. The OBOR project is a combination of two grand visions of connecting China with the world through numerous trade corridors. Together, the Silk Road Economic Belt and the 21st Century Maritime Silk Road (MSR) is called the "One Belt, One Road" project. The OBOR is a very vast project and the China Pakistan Economic Corridor (CPEC) is a very important part of China's plan. CPEC is going to play a very important role in the region's strategic and economic dynamics.

Pakistan is lying at a very strategic location. Especially with China's vision of building trade corridors connecting Europe, South Asia, Central Asia, and South East Asia, Pakistan's importance increases as it provides a convenient gateway to Central Asia and West Asia. Moreover, it is the most convenient route for the Central Asian countries to access the deep sea ports and connect to the rest of the world. It is geographically blessed for being located at the crossroads of three important regions, namely, South Asia, Central Asia and West Asia. It has been the zone of interest for many big nations in the past and at present. It is the only country which can provide access to the landlocked Central Asian countries to the warm waters of Arabian Sea.

China and Pakistan have shared a friendly relationship in the past and China has even been described as Pakistan's all-weather friend. The CPEC has further strengthened the cordial relationship between the two.

### **Overview of Sino-Pak Relationship**

China and Pakistan's amicable relationship was described as 'Deeper than the Ocean and higher than the Mountain' in 2006 by Prime Minister Nawaz Sharif. The warmth was reciprocated by China when President Xi Jinping announced "this will be my first trip to Pakistan, but I feel as if I am going to visit the home of my own brother" in May this year before

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\* Research Assistant, Institute of Chinese Studies, India (preksha.chhetri@gmail.com). She could not make it to the conference but very kindly sent her paper.

his Pakistan visit.<sup>1</sup> The diplomatic ties between Pakistan and China were instituted when Pakistan recognized the People's Republic in 1950. However, prior to the collapse of the communist regime, China and Pakistan did not get enough opportunities to blossom as they were in two different blocks. The relationship developed positively after the India-China war in 1962. In 1961, Pakistan voted for the restoration of China's rights in the United Nations. In 1963, the border disputes between Pakistan and China were resolved, and in 1965 China's support to Pakistan during the Indo-Pak war further sealed the deal for their friendship. Another landmark event in China-Pakistan relationship was when Pakistan facilitated Kissinger's visits to China in 1971 after the communist bloc got divided. In 1971, China provided economic and political support to Pakistan in its war against India. On 4th November 2003, China and Pakistan signed a joint declaration "On directions of bilateral cooperation." In February 2006, Musharaff's visit to China ended on an agreement regarding "peaceful application of nuclear power." The commencement of the bus service from Gilgit to Kashgar in June 2006 further enhanced the Sino-Pak relations. China-Pakistan relationship can be gauged on many fronts like diplomacy, trade and energy, but the most vibrant connection between them is in the field of defense. China has been providing Pakistan with military hardware. Pakistan and China have jointly developed JF-17 Thunder—a multi-role fighter aircraft. Pakistan is also seeking to buy 36 J-10 aircrafts, which would make Pakistan the first recipient of one of the most advanced weapon systems in China's arsenal. The relationship has continued over the years and both the countries seem keen on maintaining it. In 2011, the two countries celebrated sixty years of diplomatic relationship and marked it as the year of friendship. As far as economic relationship is concerned, in 2013, China-Pakistan trade volume crossed the twelve billion mark for first time. The biggest increase in Pakistan exports to China in 2012 has been in textiles and textile articles, vegetable products, ores and mineral products, leather goods and base metals. Similarly, major imports from China include machinery and mechanical appliances, textiles and textile products, metals, chemical products, mineral ores, plastic scrap and transport equipment. The signing of the free trade agreement between China and Pakistan in 2006 gave a new momentum to the trade relationship and the CPEC is bound to further boost this relationship.

Pakistan's location is very important to China as it helps China connect with the Middle East and Central Asia directly. On one hand, China will suffer tremendous loss if Pakistan plans on joining the US camp, and, on the other hand, Pakistan will be at a loss if China decides to strengthen its ties with India keeping in mind the high trade figures between India and China. As such this friendship is strategically very important to both the countries in the current scenario.

### **One Belt One Road**

The Silk Route<sup>2</sup> from Asia to Europe was the most important of routes for international trade until the 13<sup>th</sup> century (Bhattacharyay, Biswa and De). Attempts to revive this trade route have been made by many countries in Eurasia at different points of time. Russia was the first country to construct the longest rail section in the world in 1916. Russia's attempt at integrating transportation corridor in the Eurasian landmass has been given different names. This railway route was called the Trans Siberian Railway line back then, but today it has been renamed as "The Trans Asian Railway," "The Northern East-West corridor," "The Eurasian Land Bridge or the New Silk Road." A project called the Transport Corridor Europe-Caucasus-Asia (TRACECA) initiated by the EU in 1998 is also a significant contribution in this regard. The official TRACECA website of the European Union has nicknamed this project "the Silk Road of the Twenty First Century."<sup>3</sup> However, the most recent and the most extravagant of efforts in this regard have been made by China with its OBOR project which was initiated in 2013. China aims at collaborating with all the countries along the historical Silk Road in order to build an effective trade corridor in the Eurasian region. The Ancient Silk Route from Asia to Europe was never a single route but a collection of paths – both land and maritime – all over Asia; trade along these routes were free as the division of Asia only came by later with colonialism.<sup>4</sup>

The immense opportunity for trade and development in the Eurasian area was first realized by Kazakhstan's President, Nursultan Nazarbayev, when he talked of a Eurasian Union in 1994. The idea however did not gain much attention until China's President Xi Jinping promulgated it for the first time on 7<sup>th</sup> of September, 2013 at Kazakhstan's Nazarbayev University in a speech titled "People-to-People Friendship and Create a Better Future."<sup>5</sup> Since then the idea has been celebrated and expanded by many. In 2014, the Silk Road vision was enhanced by a two days seminar titled "The Silk Road Economic Belt International Seminar: An Opportunity to Work, Share, Prosper, and Succeed Together" which was held in Urumqi, capital city of the Xinjiang on June 26<sup>th</sup>, 2014.<sup>6</sup>

The main propositions of the Silk Road Economic Belt are:

- ✓ To encourage friendship and harmonious relation in the region.<sup>7</sup>
- ✓ To fight against terrorism, extremism, separatism, drug trafficking and organized crime.
- ✓ To strengthen relation between Shanghai Cooperation Organization and Eurasian Economic Community
- ✓ To strengthen policy communication amongst the members of the silk road economic belt
- ✓ To develop roadways and start trade canal the pacific to the Baltic sea
- ✓ To encourage trade assistance

After the 2014 Conference, President Xi Jinping formally disclosed his Silk Road vision in the Boao Forum for Asia, an annual economic dialogue held in China's Hainan Province, (Tiezzi, 2015). An action plan for the Silk Road project was issued by China's Foreign Ministry and Commerce Ministry. President Xi Jinping also stated that China is not shy of its elaborate plans, and that trade between China and other countries along the Silk Road would "surpass 2.5 trillion U.S. dollars in a decade or so" (Tiezzi, 2015). The plan as issued by the National Development and Reform Commission (NDRC), is summarized as follows:

"It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all" (Tiezzi, 2015).

The Silk Road Economic Belt is only the first half of China's One Belt One Road project. Either by land or by sea, China seems determined to expand its trade networks. The Maritime Silk Road (MSR) is also referred to as the Silk Road Economic Belt's "twin half" (Chan, 2015). The MSR is China's plan for economic cooperation from the Pacific to the Baltic Sea. The plan involves building infrastructure on this stretch to work as a convenient trade corridor (Hutzler, 2015). The aim of the MSR is to connect China's ports to those of South Asia's i.e., from South China Sea through the India Ocean to the Persian gulf, Red Sea and the Gulf of Aden (Chen, 2014). The Chinese Government has contributed \$40 billion to this fund and the Asian Infrastructure Investment Bank (AIIB) is also expected to extend financial support to the project. At present, the Silk Road project is mainly concentrating on the railway line from Europe to China via Central Asia, Kazakhstan-China International Logistics Company of port Lianyungang and the China-Pakistan Economic Corridor.

### **China Pakistan Economic Corridor**

The China Pakistan Economic Corridor (CPEC) is about 3,000 kilometers long transportation corridor connecting Western China's Kashgar to Pakistan's port cities of Karachi and Gwadar through Islamabad. The CPEC was proposed by Chinese Prime Minister Li Keqiang on 22<sup>nd</sup> May 2013 during his Islamabad visit.<sup>8</sup> This was followed by the inaugural ceremony of China Pakistan Economic Corridor Secretariat in August 2013 in Islamabad. During the inauguration<sup>9</sup> Federal Minister for Planning and Development, Prof Ahsan Iqbal in his opening speech stated that it was time for turning Pakistan's strongest political relationship into an economic one. He also mentioned that the CPEC would not only act as a trade corridor but also as energy and telecommunication corridor. Before Xi Jinping's visit to Pakistan, a three-day conference at Hainan was held where it was decided that a new Joint Pakistan-China think-tank called "Research and Development International (RANDI)" would be launched which would be dedicated to research and development of the China-Pakistan Economic Corridor. In April 2015, China and Pakistan signed fifty-one MoUs relating to the China Pakistan Economic Corridor. This was a historical event that took China Pakistan Economic Corridor to a new height. According to BBC News report, \$15.5bn worth of coal, wind, solar and hydro energy projects is supposed to come online by 2017 and add 10,400 megawatts of energy to Pakistan's national grid. Pakistan is suffering from fatal energy crisis and the CPEC would be an excellent deal for Pakistan if it could access the energy reserves of the Middle East in return for allowing the land locked countries to use its Gwadar port to access the warm water of the Arabian Sea. The CPEC will also give China a direct access to the Indian Ocean. According to the Reuters, Chinese companies financed by the Chinese Banks would construct the \$45.6 billion worth of energy and infrastructure projects in Pakistan over the next six years.<sup>10</sup> This is 20 percent of the country's GDP<sup>11</sup> and three times the total direct investment that Pakistan has received since 2008.<sup>12</sup> This is much more than what US has spent in Pakistan. The package worth \$7.5 billion given by the US in 2011 is too less when compared to the investment worth \$45.6 billion from China. Moreover, the multibillion packages from Obama administration faced a lot of technical difficulties while disbursing the amount.<sup>13</sup> The United States has been aiding Pakistan ever since its independence in 1947. However, as calculated in the green book, the amount received by Pakistan from the US amounts to \$67 billion between 1951 and 2011. While only thirty percent of the aids are appropriated for economics related funds, seventy percent is appropriated for security related requirements. At the same time almost all of China's assistance is for economic purposes.

China's investments in Pakistan would mostly be concentrated to build energy and transportation links. It also includes the construction of a \$44m optical fiber cable between the two countries.<sup>14</sup> The Gwadar port is the highlight of the China Pakistan Economic Corridor. It is one of the few points where the Silk Road meets the Maritime Silk Road. According to Pakistan, China even converted its Rs 23 billion loan for the Gwadar International Airport into a grant and making loan of Rs 13.5 billion for the Gwadar East Bay Expressway free from any interest.<sup>15</sup> This only proves how important Gwadar is to Pakistan and China. Gwadar is important as it is strategically positioned near the Persian Gulf and shares close proximity with Strait of Hormuz through which almost forty percent of the world's oil transactions happen. The CPEC is the biggest overseas investment for China.<sup>16</sup>

Given Pakistan's current situation defined by militancy, separatism, political volatility and official corruption, the plan may fall through. Another major problem is the fear of Chinese Separatist Uyghurs teaming with the militants in Pakistan. Though the Gwadar port is the most important section of the CPEC project, it is nevertheless a contentious space. It

has been a notorious space marked with many conflict situations. There have even been reported attacks on Chinese engineers as there are active groups against foreign funded investments in the Gwadar district.<sup>17</sup>

## Conclusion

In this present era, interdependence amongst nations have become pervasive to such an extent that all the countries have become open economies or are striving to expand their trade with more and more markets. A very important criterion to foster a country's trade opportunities is to do away with the notion that regional trade is the best and to realize the potential of continental trade (Norling, 2014). Instead of forming regional clusters of trade confined to similar countries, efforts should be made to experiment with new export destinations. Such agreements help to promote and further strengthen the economic ties between the partner countries. While it is true that economic interest is the major driver of international relations in the present era, but there are instances when political or diplomatic interests have dictated the terms of relationship between countries. This OBOR plan has the capability of bringing tremendous changes on the transportation front in the Eurasian region and Asia as a whole. In order to boost trade with Pakistan, China has also opened a bus service from Pakistan's Gilgit to Xinjiang, which means German industries operating in Xinjiang or any other part of China will have an easy access to Pakistan's markets. In order to increase its trade ties, China has been trying to resolve border disputes with India too. As a result of an agreement signed in June, 2006 trade route at the Nathu La Pass in the Himalayas was opened.<sup>18</sup>

The last two years have been important for Pakistan-China relationship as can be seen from the number of diplomatic exchanges between the two countries.

The new initiatives in the transportation sector will serve as a major boost to China-Pakistan trade and investment relations.

The countries in Asia is developing well but what's lacking is a "region wide connectivity" (Bhattacharya and de, 2009). Hence, it is in the best interest of all the countries in Asia to work together to develop proper infrastructure for connectivity. The various sections of the OBOR project will lead to greater interconnectivity between the various regions in Asia, Central Asia, East Asia and West Asia. There are obviously reservations about China's growing dominance in this project but prudent steps by partner countries can help this project be a success while assuring China will not be allowed to act in a hegemonic manner as far as the decision making is concerned.

Many international conflicts have been instigated due to economic aspirations and economic imbalances; hence economic integration is a useful way to curb future conflicts and to increase economic growth in the region. Though the Silk Road plan has only just started, a mere attempt at such cooperation itself highlights the importance of the need for integration. Even if the OBOR plan does not work out as expected by the Chinese Government, the project will definitely bear fruitful results at least at some level.

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## **CHINA-PAKISTAN ECONOMIC CORRIDOR: A TEST OF GOOD GOVERNANCE IN PAKISTAN**

**Mariam Ahmed \***

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**Abstract:** *China-Pakistan Economic Corridor (CPEC) has brought huge foreign investment in different sectors of Pakistan. Pakistan is facing financial constraints as well as infrastructural insufficiencies due to dearth of resources. CPEC can meet all its needs and can contribute in the prosperity of the country, if implemented effectively. Different CPEC projects will be operated on BOT (Build Operate Transfer) modality which is a type of Public-Private Partnership (PPP). PPP is market based governance which involves private sector for financial and technical support in delivering the efficient services to general public which leads towards good governance in the country. Pakistan has experimented PPP in power and telecom sector in 1990s to improve governance but it is not a successful experience which shows the incapacity of Pakistan in the arena of PPP. This research has explored the reasons due to which Pakistan is abortive in this regard. The data has collected through primary as well as secondary sources. Five structured interviews of well-informed people have been conducted as primary source of data collection whereas research articles, government and research reports have been consulted as secondary source. The sample of this research study has been selected through purposive sampling and the data analysis has been done through content analysis. The results of the study have helped to learn from the experiences and to address the weak areas which have made this experiment unsuccessful. This study has also identified areas for capacity building of public sector for effective implementation of CPEC projects on BOT mode for socio-economic development and good governance in the country.*

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**Keywords:** Good governance, China-Pakistan Economic Corridor, Built-Operate-Transfer, Public-Private Partnership, Pakistan

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### **Introduction**

Pakistan is a developing country and has lack of resources. The people of the country are suffering due to scarcity of resources which lead towards insufficient infrastructures and low level of services. China-Pakistan Economic Corridor (CPEC) is golden opportunity for Pakistan to solve most of its problems as it is bringing huge investment which is almost \$ 46 billion in different sectors of the country.<sup>1</sup> CPEC can resolve many issues of Pakistan if implemented effectually. CPEC is based on build-operate-transfer (BOT) mode which is one of the types of Public-Private Partnership whereas Pakistan has not very pleasant experiences in this regard. Public-Private Partnership was opted by government of Pakistan due to dearth of resources as it had given path to government to involve rich private sector for completion of projects. She had started to design projects on this mode in 90s in few sectors like energy and power but the experiment has not been rewarding. Consequently, it is vital to explore the experiences of Pakistan regarding Public-Private Partnership for discovering the reasons of this futile experience of Pakistan in the arena of Public-Private Partnership.

### **Statement of Problem**

Pakistan has experimented PPP in 1990 in telecom and power sector but it was not efficacious experience. CPEC is designed on BOT mode which is PPP modality whereas Pakistan is ineffectual in this regard. Therefore, it is required to explore the reasons of unsuccessful experiment of PPP in Pakistan to make CPEC, a prosperous venture.

### **Objectives**

- ✓ To explore the reasons of abortive experiences of Pakistan regarding Public-Private Partnership projects
- ✓ To give recommendations for improving the governance of the country in terms of Public-Private Partnership especially in case of CPEC

### **Methodology**

This is a qualitative study and exploratory in terms of its purpose as it is exploring the reasons of the unsuccessful experience of Pakistan in terms of Public-Private Partnership for making China-Pakistan Economic Corridor a successful endeavor. It is a cross-sectional study on the basis of time as data is collected in one point of time only. The data is collected from both primary and secondary sources. The primary source includes the well-informed people from Ministry of Finance, Planning Commission of Pakistan, Planning and Development Departments and Project Managers of Public-Private Partnership projects. The secondary data comprises of research articles, published reports and government policy documents of Public-Private Partnership. The data has been collected through structured interviews whereas sample size of this research study is 5 (five). Five interviews are appropriate sample size for any qualitative study to explore the phenomenon under study in depth.<sup>2</sup> The sample has been selected through purposive sampling because all these personnel are well versed with Public-

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\* Lecturer, Management Sciences Department, Virtual University of Pakistan (Email: mariamahmed@vu.edu.pk).

Private Partnership and have worked on this modality in different capacities. The collected data through structured interviews have been analyzed through content analysis.

## Significance

CPEC is a gigantic investment in multiple sectors of Pakistan. It is considered as game changer for the region due to immense foreign investment in the history of Pakistan in diverse fields. It can be a game changer if implemented successfully. However, Pakistan is not effective in PPP which is basic mode of implementation of CPEC projects. This research study has explored the reasons of bungled experience of Pakistan in Public-Private Partnership. These explored reasons will help government to learn from experiences and to improve the governance for utilizing CPEC effectively.

## Literature Review

Public-Private partnership (PPP) originated in 1970s and 80s after emergence of New Public Management (NPM) to bring reforms in public sector.<sup>3</sup> This is a loose relationship between state and private sector according to the needs and requirements of the partnership agreement.<sup>4</sup> PPP invites private sector for financing to build, operate and maintain the public sector project on mutually decided terms and conditions between both sectors.<sup>5</sup> The revenue generated by the project is collected by private consortium.<sup>6</sup> It is developed for this project only and private sector has the ownership of the project for limited time as decided in the contract finalized by both parties at the commencement of the project.<sup>7</sup> The possession of the project is transferred to government by private party after pre-decided period in the contract.<sup>8</sup> PPP projects are famous for infrastructural development but this mode is also used in other sectors like health, education, transport, power and defense.<sup>9</sup> There are different types of PPP projects like build-operate-own (BOO), build-operate-transfer (BOT), build-operate-own-transfer (BOOT).<sup>10</sup> According to BOT, private sector companies design, finance, build and operate the project.<sup>11</sup> The company collects revenue of the project for pre-decided tenure in the contract for recovering its invested financial resources and then transfers it back to government.<sup>12</sup> Public-Private Partnership helps government to get infrastructural assets without investing financial resources and it also shifts major risks to private sector.<sup>13</sup> Public-Private Partnership (PPP) is suitable tool of improving governance in this modern world where there are economic crunch and financial constraints in countries.<sup>14</sup> It is required to design contracts between public and private parties carefully for effective implementation of Public-Private Partnership (PPP).<sup>15</sup>

Pakistan is a developing country with various problems. She is facing financial constrictions as well as infrastructural deficiencies.<sup>16</sup> There is dearth of resources and bad governance in the state of Pakistan.<sup>17</sup> Public-Private partnership can be a key to all these mentioned problems of Pakistan. She has experimented with Public-Private Partnership (PPP) in 90s but there are no success stories in this regard.<sup>18</sup> Government of Pakistan has institutionalized it in the form of policy in 2010 which shows seriousness of government about this tool as solution of the problems of the country.<sup>19</sup>

China-Pakistan Economic Corridor (CPEC) is an inclusive development plan which includes numerous projects of transport including railways and roads, gas, energy and communication.<sup>20</sup> China is a time tested friend of Pakistan and according to economic survey of Pakistan both countries has trade of \$9.1 billion in 2012-13.<sup>21</sup> It shows the economic ties of both countries and CPEC will further strengthen these ties as it is a long term plan of economic development for the region.<sup>22</sup> It will accelerate the economic activity of Pakistan by reducing the energy shortfall of the country by producing 21,690 MW through different projects of energy.<sup>23</sup> It will also connect Gawadar port of Pakistan with North-west province of China through infrastructural development in terms of roads and railway lines which will enhance the economic activity of the country as it covers whole Pakistan.<sup>24</sup> CPEC includes different projects of communication, transport, energy and infrastructural development.<sup>25</sup> These projects are designed on build-operate-transfer (BOT) mode which is type of Public-Private Partnership (PPP).<sup>26</sup> Pakistan has no positive track record for Public-Private Partnership (PPP) projects whereas CPEC is a huge investment of almost \$ 46 billion and it is totally based on build-operate-transfer (BOT).<sup>27</sup> Thus, it is a serious matter of concern which requires exploration in terms of problems or reasons of low success ratio of PPP projects in Pakistan.

## Discussion and Findings

The participants of this research study have consensus on this fact that Public-Private Partnership (PPP) is an alternative and innovative mode of financing for government of Pakistan which is deficient in financial resources due to low tax base and revenue base. As concerned to the success of Public-Private Partnership projects in Pakistan, the participants of this research study have mixed rejoinders. According to 60% of participants of this research, Public-Private Partnership (PPP) is not effective and successful in Pakistan. Pakistan had commenced Public-Private Partnership (PPP) in power sector in 90s and HUBCO power plant was developed in Public-Private Partnership (PPP) mode. Foreign Direct Investment (FDI) was invited in this project. American and Saudi investors had brought investments for this project and it was first power project of its type which was established in developing world on the mode of Public-Private Partnership (PPP). Likewise, more power generation plants have been built in this mode of Public-Private Partnership (PPP) and these are branded as IPPs (Independent Power Producers). According to all participants of this research study, it is not an efficacious experiment. Public-Private Partnership is also trialed in railway by contracting out services of limited tracks to private parties but again it is a debacle.

According to some scholars, contracting out of services is one of the types of Public-Private Partnership but on the other hand it is considered as principal-agent relationship according to some scholars which is not Public-Private Partnership (PPP).<sup>28</sup> According to 40% of the participants of this research study, Pakistan is not a total failure in terms of Public-Private Partnership (PPP) projects. They have stated that there is success story as well in this regard and this is the story of PTCL. In 2005, 26% shares of PTCL were sold to private sector UAE based company whereas 62% shares are still owned by Government of Pakistan and remaining 12% shares were sold to general public in 2006.<sup>29</sup> These participants have explained that it has improved the service quality of PTCL and it has also brought innovation in the services. On the other hand, the remaining 60% of the participants of this research has considered PTCL a fiasco. According to them, the service delivery is deteriorated and revenue base of the company has been reduced. They have also considered the downsizing of the employees in the company, an indicator for the low performance of the company. Public-Private Partnership (PPP) has also been used in Balochistan in education sector for establishing primary level girls' schools through partnership of public sector, private sector and community but it is a small scale project as compared to earlier identified projects by the participants of this research study. Two of the participants which are 40% of the sample size have measured success of Pakistan in terms of Public-Private Partnership (PPP) projects by identifying Metro-Bus Service Lahore, Lahore-Faisalabad GT Road, Lahore Waste Management Company and Lahore-Islamabad Motorway. According to 20% of the participants, it is not Public-Private Partnership in its true sense. Lahore-Faisalabad GT Road is constructed in Public-Private Partnership (PPP) mode and it is a partnership between Government of Punjab and Frontier Works Organization (FWO) which is a public sector organization so it can be branded as Public-Public Partnership not Public-Private Partnership. On the other hand, Metro-Bus service Lahore is contracting out of services to private sector which is a principal-agent relationship and theoretically it is not Public-Private Partnership.<sup>30</sup> Lahore Waste Management Company and Lahore-Islamabad Motorway can be considered as success stories of Public-Private Partnership projects in Pakistan which have invited Turkish and Korean companies of private sector for investment in these projects respectively. According to all participants of this research study, there are two common factors which have made these projects success stories and these are transparency and well-designed contracts. The transparency has eliminated corruption from these projects and has made them effective and efficient. According to 60% of the participants of the study, the Public-Private Partnership projects like Independent Power Producers (IPPs), Pakistan Railway track services and PTCL have transparency issue and the contracts are not well designed and well developed in these projects.

## **Conclusion**

Pakistan has initiated Public-Private Partnership (PPP) in 90s by inviting private sector to build and operate projects in energy and power sector due to deficient resources. The government of Pakistan has utilized this innovative mode for satisfying the needs of the country but it is not proved to be very successful experiment. Independent Power Producers (IPPs) and contracting out services of Pakistan Railways tracks are not success stories. PTCL is also controversial project in terms of Public-Private Partnership (PPP) as there is varied opinion regarding the quality of services after selling of 26% shares to private sector company which owns management of PTCL also as per the contract signed between private sector company and Government of Pakistan.<sup>31</sup> There are innovative services introduced after this settlement of PTCL by the new management but on the other hand there is low revenue base and fewer profit margins after this new management from private sector. There is also retrenchment in PTCL in terms of downsizing which leads towards increased unemployment in the country which is already a massive problem of Pakistan. There are few success stories in Pakistan regarding Public-Private Partnership (PPP) like Lahore-Islamabad Motorway, Lahore Waste Management Company and Lahore Faisalabad GT Road. The success of these projects is due to transparency and effective contract management. The contracts are designed meritoriously which have led towards timely and efficient completion and operation of these projects. The transparency has ensured the corruption free environment for the projects which is essential for the success of the projects. These two elements are absent in failed Public-Private Partnership Projects of Pakistan. Therefore, it is concluded that transparency and effective contract management are essential for the success of Public-Private Partnership Projects in the context of Pakistan. China-Pakistan Economic Corridor (CPEC) is purely based on build-operate-transfer (BOT) mode which is one of the types of Public-Private Partnership (PPP). It is a huge foreign investment in the history of Pakistan which can bring economic prosperity and development in the country if utilized effectively whereas Pakistan has not successful past history in terms of Public-Private Partnership (PPP) Projects. The experiences of Pakistan regarding Public-Private Partnership Projects show that it is matter of governance which has made the Public-Private Partnership (PPP) project success or a failure. Henceforth, it is required for government of Pakistan to learn from its past experiences in this regard and to work on its weak areas. Transparency and contract management in terms of well-designed contracts are two important factors in Public-Private Partnership (PPP) Projects in Pakistan which should be ensured in China-Pakistan Economic Corridor projects for their effectiveness and efficiency. The success of China-Pakistan Economic Corridor (CPEC) can accelerate the economic activity in the country which can lead towards socio-economic development of Pakistan.

## Recommendations

Following recommendations and suggestions will help government of Pakistan to make CPEC effective and efficient. These suggestions will enhance the effectiveness of China-Pakistan Economic Corridor which will lead towards the economic development of the country:

- ✓ Government of Pakistan should focus on capacity building of its officials who will be involved in the implementation of China-Pakistan Economic Corridor.
- ✓ Government of Pakistan should train their officials for contract and process management as it is very significant for effective implementation of China-Pakistan Economic Corridor.
- ✓ Government of Pakistan should abridge the processes of government for facilitating the private sector of China in different sectors' projects of China-Pakistan Economic Corridor (CPEC).
- ✓ Government of Pakistan should develop clear and well-defined legal framework for every sector which are included in China-Pakistan Economic Corridor (CPEC) for designing effective contracts and for ensuring transparency in the projects.
- ✓ Monitoring and Evaluation is a very important instrument for assessing the benefits of the project and it also aids to monitor the progress of the project in the implementation phase as well as after the completion of the project. It is essential to develop effective monitoring and evaluation team for evaluating the socio-economic benefits of China-Pakistan Economic Corridor projects. Thus, it is required to form expert and skillful team of Pakistani officials which can monitor and evaluate the projects of China-Pakistan Economic Corridor (CPEC) efficiently and effectively.
- ✓ Transparency is a grave point of concern for Public-Private partnership (PPP) projects in Pakistan. Corruption in public as well as in private sector has affected the progress of Public-Private partnership (PPP) adversely in Pakistan as shown while reviewing the projects developed on Public-Private Partnership (PPP) mode. Therefore, it is necessary to ensure and guarantee transparency in China-Pakistan Economic Corridor (CPEC) projects in awarding contracts to private parties as well as in implementation of these projects.

## Limitations

Following are some of the limitations of this research study;

- ✓ Sample size of this research study is small as with this small sample size the concept under study cannot be explored in depth.
- ✓ The access to participants of this research study for taking interviews was very difficult.

The participants of this research study belong to Lahore and Islamabad whereas well informed people on the phenomenon from Peshawar, Quetta and Karachi could not be accessed due to resources constraint especially time.

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