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Are we ready to reap CPEC benefits?

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Pakistan has entered in the second Phase of China-Pakistan Economic Corridor (CPEC). Some 27 projects are planned within the framework of Phase II. This phase emphasizes industrial cooperation, agricultural development, and trade promotion. The tourism sector also expected to expand during this phase. These initiatives are very promising for the expansion of job opportunities for residents. The agricultural and tourism industries are considered the backbone of future growth.

Nevertheless, the critical question remains unanswered: is Pakistan ready to reap the potential benefits of CPEC? Does Pakistan have enough soft infrastructure to attract investments in the industrial sector, especially in the special economic zones (SEZs)? Pakistan has not developed the fundamentals needed to realize all the benefits of Phase II of CPEC. Three prerequisites are needed to reap the potential benefits of industrialization and tourism. These factors include: human capital (HC), rural connectivity (RC), and business environment (BE).The current status of these prerequisites is poor. First, the situation of human capital (HC) is lagging in Pakistan compared to other regional countries. HC has an enormous payoff for economic growth: between 10 and 30 percent of the differences in per capita income are attributable to cross-country differences in human capital. The HC indicators, particularly education and health, show miserable progress in Pakistan compared to the rest of the South Asian region.

According to the 2019 Human Development Report, Pakistan's human capital index (HCI) was below average by region and income group. Pakistan ranked 152, while India ranked 129, Bangladesh 135, and Sri Lank 71 of the 189 countries. Pakistan has one of the lowest rates, within the region, of female participation in the workforce.

Second, local road and transportation networks are underdeveloped. Well-developed rural roads are needed to connect growth-generating sectors in different regions and achieve a wider distribution of economic benefits. They are also a prerequisite to the development of remote and environmentally fragile areas. Infrastructure investments in rural areas lead to higher farm and non-farm productivity, employment, and incomes. Rural connectively with SEZs is key to creating opportunities for the poor to raise their economic status – a precursor of inclusive growth.

Nationally, approximately 60 percent of the Mouza (a type of administrative region similar to a town) is less than a kilometer from a sealed road. Around 67 percent of the Mouza hasexcellent transport connections in the same radius. However, road and transport connectivity is woefulin CPEC districts: only 4 percent and 23 percent of the Mouza in Kohistan, for example, have road and transport connectivity, respectively. The story is similar in other districts.

Third, FDI inflows are constrained by an unfavorable business environment.

According to the Doing Business 2020 report, Pakistan ranked 110 out of 190 economies in terms of doing business, improving 11 notches from the Doing Business 2019, while India ranked 63, Nepal 94, and Sri Lank 99. Even within South Asia, Pakistan ranked fifth out of eight countries. Getting electricity (ranked 123), paying taxes (ranked 161), trading across borders (ranked 111) and enforcing contracts (ranked 156) are low-performing indicators in Pakistan.

To improve upon the indicators, institutional frameworks – such as political stability and an independent legal system – play an imperative role. Unsurprisingly, the quality of institutional structures in Pakistan is inadequate. Pakistan is in the third percentile for political stability and absence of violence or terrorism. Where 0 is the least desirable and 100 the most desirable rank, according to data from the World Governance Indicator by the World Bank 2019.

In the government effectiveness indicator, Pakistan ranked in the 26th percentile while South Asia and ECA are in the 36th and 69th percentiles, respectively. In control-of-corruption indicators, Pakistan ranked in the 23rd percentile while South Asia and ECA are in the 34th and 63rd percentile, respectively. The situation is similar tothe rule of law and regulatory quality indicators.

To maximize the potential benefits of CPEC, Pakistan needs to improve upon the three prerequisites, in all of which it is currently underperforming. First, Pakistan needs to invest in development institutions that require restructuring to develop legal frameworks, to implement the rule of law, and to ensure political stability. The government is making concentrated efforts to implement reforms and positive impacts on the ease of doing business. However, these reforms may not produce the desired results until we have a stable political environment to promote government effectiveness. Second, the development of local roads and transport systems should be part of the CPEC agenda. Without creating local connectivity, the highways and SEZs may not produce the desired economic growth and employment. Provincial governments should actively plan and develop local roads and transportation networks.Third, the development of human capital through formal education and technical training should be streamlined, especially in deprived districts. The government should design area-specific training courses to cater to local needs. An assessment study may help to understand local needs and business opportunities.

Without the implementation of an integrated institutional framework, establishment of a local road and transport network, or developing area-specific human capital, the fruits of Phase II of CPEC may never materialize. The government should pay particular focus to lag districts to improve physical as well as social infrastructure.

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