

The Allama Iqbal Lecture

**Role of Productivity, Quality, and Innovation
in Making CPEC Work for Pakistan**

MARK GOH K. H.

Why do I say, this is a very important topic because for simple reason. When I looked at this topic when brief was given to me, I was a surprised because I am not in touch with this area for the last couple of years. The reason is historical, as you can see it is very brief to test role of productivity quality innovation in making CPEC work for Pakistan. The word CPEC was first heard when the Asian Development Bank (ADB) in 2009 first looked at economic corridors. They were thinking that every corridor should have at least two countries to make economic sense. Today we look at this that there are two countries China and Pakistan, but the implication of this project of these two countries or in other words this corridor is far away from effort and benefit these two countries put in. The second thing is that the word economic corridor if I recall correctly the original corridor is actually the trade corridor or transport corridor. This was the discussion in ADB at that time, then the ADB institute is said to focus on the trade corridor because the interest was in trade; to move from one point to the other, from one border to other, from one country to other. But the issue is something to do with trade. This has been said to enhance trade but it should also promote wellbeing of citizen who live along the corridor both from start to finish and in between and hence the term economic corridor can come about in a big way.

Today we see talks by many governments and interest groups about the development of these economic corridors. The big question off course is that this entire works is new or we have old philosophy and old thinking. Because if the economic corridor is along the coast or journey of economic corridor find's that there is the need to build infrastructure, need to develop industrial path for example and my work with the agency such as the World Bank and research in the economic development you find that some countries have gone to large extent in the way of the industrial development path. I can give examples even the region I come from that is in south Asia, and that's as mall country with 6 or 7 million people, there are 11 industrial paths and all are located in the free trade zone. So for this country it is said that every province must have an industrial path located in the free trade zone because by this they want focus on export or focus on export processing. Of course this is another discussion altogether that how we should determine industrial path is for export or it is for manufacturing.

Mark Goh K. H. <bizgohkh@nus.edu.sg> is Professor, NUS Business School, National University of Singapore, Singapore.

But let me now show you why I am happy to be here. When I looked city Gwadar with relation to CPEC I am very impressed and very surprised because this is the part I actually want to see and want to visit. This part has strategic importance in terms such as connectivity. Gwadar is both a success or failure, forgive for saying that but I think that's it's a reality that it's a success because it is what it is today and failure is because it's not the first time to take help through the foreign operators who can come and try to make it work. I give the story behind this. We put the Singapore authority in the case of PSA International (an international Port). They were the first terminal operator which tries to get work in Gwadar but they failed so it was put out and then the Chinese played the game into play, if you recall how history has headed today than it would be clear that it is going somewhere also. When I look at Gwadar I am very impressed because 12 years ago when I was working in China, a similar plan was setup for port development and if you look at Gwadar, its strategic important, its deep water port assist naturally deep and its well suited because of the configuration of the land escape that it has. So when I look it stares my mind so I want to say that I want to compare the deep port I saw in shanghai with it. Shanghai is naturally deep and naturally drafted of 30 meters or so, what it means? It means that if you setup the right structure then there are immense opportunities. This itself has a research prospect and there could be lots of studies which can be done in port of Gwadar in the development prospective. This could be looking and comparing the port of Gwadar against the port of Shanghai and see how much infrastructure setup is in the place to develop the intellect behind the port. In the case of Shanghai, China's government asked many industries to come and play their role. One of the firms was American president line, they were asked to come in and help. Now it can be seen that where it started and where is the port now. They developed the port, which was just green fuelled and totally green fuelled. Imagine the port stretched over 30km and the deep blue sea can be viewed when you driving to the port. You are driving through the paradise and you don't see the port, you don't see the land, you see the clouds. That is a fantastic feeling and I believe from Gwadar the same is accepted, although the water is little nosier and warmer. Over the years for Shanghai the policy was to develop, everything is now well developed and now with an equal system at least million people are working and living there. Of course there are issues too, one issue or one common practical issue is the guys come and start by 10 and end early by 5. One may ask question why, well lots of reason because logistically the guys come in and the urban workers in the city of shanghai also travel for about 2 hours early to come in work and in evening at least 2 hours are spent to go back their homes. But I think that's the message we can learn and experience we can compare against for Gwadar is there. Perhaps the key message is that right port planning is required and it can make into a meaningful success for everyone in the region to see.

Now I talk about the ADB and CAREC (2010)'s 6 corridors – Pakistan was one of Corridor specially the number 6 and when you look at the history correctly for corridor number 6 there would be much more to understand. When it first started there was one corridor and overtime they become 6a, 6b, 6c, 6d. Question is Why? well I think one the reason is because of politics. Politics can play every body. The importance in the highways is critical. I tell you that once the corridor is fully established then it will bear very clear tangible economic benefit for all. The roads will

be better, the electricity will be better, better energy will ensure even internet communication, as it will be a lot better.

In this case Pakistan is at the critical path, as she serves as south bound conduit for landlocked economies to all regions. It is about facilitating transport to facilitate trade. Trade is not just between countries, it's domestic as well. Even not just regional but potentially international trade will come to this region as a mint.

Now for CPEC there are two prospects to look at; one is the Chinese prospect and the other is Pakistani prospect. So what is new for China; for my Chinese colleague in this room to accept my apology if I become blunt, although I am open for discussion. Especially from the academic perspective neither from policy or to deal with politics. We leave all the things aside, we come and look at research prospect and say how does it benefits the economies, how does its benefit environment, how does its benefit for social aspect of life.

In the case of China I think they are very keen to open trade and transport corridor. This is not the first one and later I will show you bluntly that in other areas of work, which is anything China is interested in and here it is the one built one road initiative or the OBOR initiative. You can rest assure that China will have active interest that makes it work and make it happen. Because there is a commitment to see that it can be something for good of all that are involved in the initiative.

Point number two is that the OBOR is the concept that actually is not new, I remember in 2009 the ADB presented a thought of the new silk root. They mapped it out in a Kazakhstan right in an Amati. They took this concept and highlighted it for today. But this time the concept was smooth whereas earlier it became very rough. Now the concept is taking shape and the sub corridor is becoming a reality perhaps too fast too soon.

Close economic partnership agreement is over the sea pass. We talk about I think even the regional economic agreement or the CEPA's. RECP's can only happen if there is connectivity (hard and soft RECP does only happen when there is connectivity and that is something you heard in morning from the keynote speaker and others). I think the connectivity is important and connectivity in this case is not just about the infrastructure but also the soft connectivity. In short economic corridor can only work I think if the infrastructure is in place. It can only work if sufficient knowledge capital along the corridor exists. In short there must be people who should be trained equally to handle the new technology, they must be the people who have a mindset as per the economic corridor only then the country can be more productive. They must be innovative to think out of the box and there must be new ways of doing things. You have to remove the old mind set and quality of life must improve. If the quality of life does not improve then I put to you a question, what is the purpose of having another corridor?.

Go back a bit and look what other people talk about the World Bank and if we highlight this concept then the production network and the global value chain are the things that I am sure that you all are familiar with. But as per my experience if you recall correctly production networks and JVC's and the global value chain; they too need connectivity. The thing about this connectivity is something. We tend to forget is that connectivity is the necessary condition is to put in money no doubt but there are other sufficient condition you must put in place. In fact whatever the connectivity is in place it

allow corridor to work, it must be safe, it must be secure and its must be satisfactory. Why do I say satisfactory; it is because of logistic prospective because a corridor is only satisfactory if we can save cost and time. If you built a corridor and it does not overcome the trinity of distance for example and it does not overcome trinity of time then I think its proposed to spend money somewhere else. It's not a cheap corridor. We can see 46 billion dollars spend over time is a lots of money to spend if you spend it wisely the future generation can benefit but if you spend not so wisely than future generation will pay the price. One simple price to pay is the price of maintenances, right. Very simple and obvious price what the CAREC Institute come out is related with definition of economic corridor. But it's a very good working principle to follow on.

According to CAREC (2013):

- Economic Corridor is a spatial concept that defines a geographic region dedicated to or dominated by economic activities that may typically be focused on specific sectors such as IT, production of specific manufactured commodities, tourism, etc.
- Economic Corridor includes as prerequisites a good transport network; primary and secondary roads; and other infrastructure such as power, ICT, and industrial parks.
 - (i) **Economic potential.** An Economic Corridor (EC) cannot develop from nothing; rather, it magnifies and builds on underlying economic potential, which can subsequently attract private investment. The starting point for EC development is selecting and prioritising a target geographical area based on identified economic potential.
 - (ii) **Economic and technical analysis** to (a) identify ways of building on economic potential and prioritise where and how resources should be allocated; and (b) identify business opportunities, infrastructure needs, and policy and regulatory prerequisites.
 - (iii) **Political commitment and coordination** among multiple stakeholders at various levels of government, diverse government agencies at each level, and countries (for cross-border economic corridor development). Political commitment at the highest levels is another prerequisite for ensuring the successful development of economic corridors.
 - (iv) It must be **Sustained commitment over a decade or more.** Since EC development typically requires public and private investment in infrastructure, completing projects will take substantial time and resources. Successful growth of firms in the corridor can also take time.

Corridors developed along three tracks: (i) transport corridors to improve domestic transport networks within member countries; (ii) transit corridors to improve cross-border transport connectivity and flow of goods; and (iii) economic corridors that build upon existing connectivity with additional infrastructure, policies, and institutions to foster diverse economic activities in specific spatial clusters.

How the resources are allocated? There must be political commitment and coordination. There I put a question to you as policy-makers; how deep the commitment is and how well is the coordination. You can have the commitment no doubt but if with

commitment the coordination is not well done or not will be illustrated down the road. There will be challenges and I am glad to say that now you have at Pakistan set a centre of excellence on the CPEC. That is important for the prospective that this centre should be the clearing house for all issues and challenges related to the coordination of economic corridor.

The next point to talk about is this that it must assure a sustain commitment over the decade or more and I think that is what requires sustained commitment. What does that mean; it means that not only the public sector must come forward but also strong private sector involvement is required. What I think about is that, we can build a road; we can build a house where nobody stays. In that case and after a few years you just go through state of decay or a best a white elephant for world to see. I am not to implement a policy rather this is something as a take away here.

So this corridor becomes a big plan the ADB and CAREC take into the picture. Where the first one is to provide the transport corridor and that's where we look at this the high way you have, I think good money to spend to improve the infrastructure. I come there in last night from airport to hotel and I was very impressed by Islamabad because you have one of the best planned cities in the world. A city with 4 to 5 line in one side of the road, I never seen that in any of the developing country. If you have 2 to 3 lines you consider very good but you have more 50 percent of that and it is well managed the beauty of that also roads are well paved. In short there is sufficient maintenance so you don't to build a road and leave this to go without repair over time.

Point number 2 is there also activity along the corridor to improve cross border transport connectivity. Now this is the challenge as the roads are build but how you can arrange and how you can organise the border crossing points? How can you improve the green land, a kind of connectivity so that the passage of goods flow faster. This corridor must also improve the flow of good third one is of course is to create economic life along the corridor. Along the corridor we have additional infrastructure institutions and policy on why? Because in the end of the day you need special cluster but of course what are these special cluster for the CPEC?

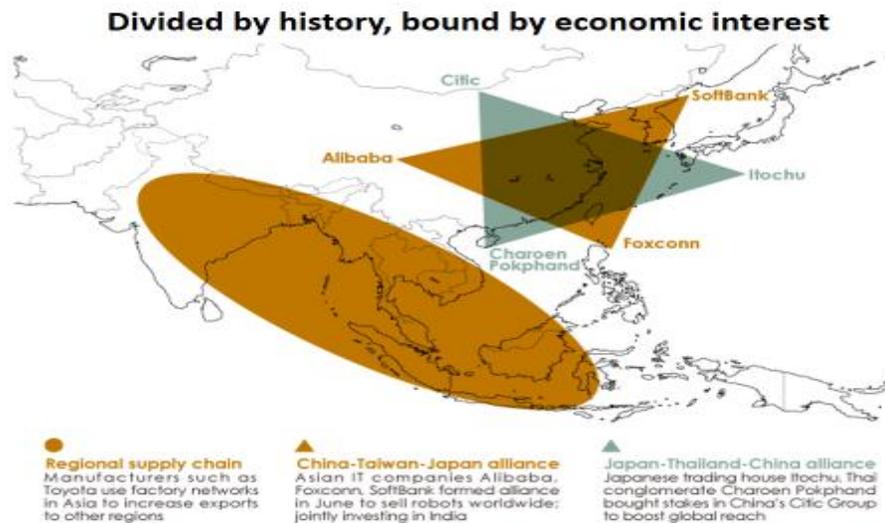
How the corridor was chosen well. If I remember correctly the corridor was chosen very simply after a number of assessments. I asked a question before and he told me; first one is current traffic volume (people and cargo). Two is prospect of economic and traffic growth and optional is what it can be in the next ten twenty years. Three; capacity to increase connectivity between economic and population centres. Fourth; the good news is that it links some other major cities and that's important because you don't want to build new cities in a corridor in somewhere else if you want the existing cities to grow and at the same time improve the life of those whose life needs to be improved.

The next point is of course is the potential to mitigate delays and other hindrances and this is the big thing. Whenever the roads are built even in the ADB when it built the corridors it measured all the performance. One of the things I found is that actually traffic flow in terms of speed along the road has been built. But actually it slowdown and this is not new. In the ADBI they started a project named as corridor performance measurement study. In this something is measured correctly, that is the timing to take from one point to another with in the corridor and they found that as economic development grow because of the development of corridor what happened was that traffic became slower rather than

faster or maintain the certain speed. Other agencies also had a similar study for corridor of recently and they found the same result.

So the question than is how we provide the insurance that economic sustainability will be there also. How do we have assurance that the corridor does not become another congested highway. There are many ways to skim this cat but I think that one way to look at this is the infrastructure, much importance is for the higher side we talk about but also most important is the soft infrastructure. For example harmonisation of your procedure for transportation and trade. While the road has been built, while the corridor has been built physically, I think it's important to start at the same time while we have planned to coordinate all the documentation flow between the countries also so that things they need to do can be started rightly.

Now just we will discuss the private sector involvement, while private sector has interest in these things. Let me explain involvement in this sector, companies today are not content to be just local companies, even not just national, they all want to grow big. The good news is that companies in East Asia are going global in a real and a significant way. What you see are names of few company Citi Bank, Alibaba, Soft Bank in Japan, Fox Conn and the CP group. Some of you may know, some may not know. Then I have to tell you that these companies have agreed that they want to grow from where they are and to cover the whole region. Guess is the CPEC is part of this region, is not it. So Alibaba is keen to come in, Softbank is keen, Fox Conn is keen to manufacture because they see potential in terms of electronic and contract manufacturing. This is by bringing closer to the market to reduce the land cost of transportation. Then the question is that how can we build the corridor so that it can serve the purpose of the global economic corridor or global production network.



Early on I talked about economic corridor and how we are able to reduce the trinity of time and distance. This is the example of another corridor that is built between China and Korea. Again China is very interested to make sure that export industry

doesn't suffer because of distance or location. So in short we are saying that if you can be in worse off location but if you put a corridor correctly you can still be net better off. So in this case they did the whole process. Map is right from factory down to the sea port, leaving from China to Korea which is from the departure airport to the destination airport.



If you found what to do than you can actually reduce the time. Intermodal transportation is thinking of connectivity comprehensively. The model of connectivity is like an economic corridor which is a real thing. Because in this corridor you find that there is whole new economy, in this case a whole new logistic part is providing good connectivity to the main line not just by bridges but by underground roads as well.

CPEC corridor is important, well I think if you look at what is happening now on a per day bases or per year bases, there is a huge expense about 46 billion \$ just to build over 2442 km connectivity, linking Kashgar (Xinjiang, western most China) to Gwadar (Pak's 2nd largest port) through network of road, rail, power plants and pipelines (including repairs to Khunjerab Pass) besides others.

Second is that it's a lot of work to be done, road, rail, power, pipelines, oil and gas from Persian gulf is to be piped into Xinjiang through Balochistan and Hindu Kush Mountains. Also there is talk about air airport (Gwadar) and this airport can serve very important and as a secondary role to support the region. But the completion is long time away, some of us may not see this in our life time by 2030 but the reality is that something is going to happen in next 4 years. By 2020 for site to rebuilding silk route. I think the Chinese side take lot of active interest to make sure that it does happen, why I think like that. One commodity and I already mentioned in early morning, is oil and gas. There is lot of oil and lot of gas in Persian Gulf countries.

Is it good to consider this corridor, well I ask you in this case. Without this the travel cost is expansive and takes lot of time. It's not cheap and it's not secure. Time saved by bypassing Straits of Malacca (truck out from Kashgar Xinjiang to SHG: 5 days,

5 days ocean to SGP, SGP to Jebel Ali (Dubai): 12 days). CPEC reduces cost plus time of travelling hence its economically feasible. A corridor serves a function, a very important function for trade and transport. Even if its fail to successes in the economic front, the transport and trade become the positive plus.

Using the CEPC corridor assuming, no congestion .it saves time by 82 percent. So this is important rational which I put in a blunt way. I think what the Chinese have is a far sightedness by saying that we need a backdoor to their economy. A backdoor for transportation and trade in terms of important resource. In this case it is oil and gas and later perhaps other. For example there is no study which has been done so far. They will approach a company, the Brazilin Company, two from Australia and Third from India. If it is from India or if it is from Brazil then you find this the invariably have to use the strait of Melaka which takes an extra time. Whereas if Gwadar port is open for business then all other cargos which go into China will be by Gwadar, that way their whole economy will grow so these potential are rare.

Now what is important is to consider logistic rate of infrastructure along the economic corridor. My stand or my suggestion to you on this is this that if you have adequate investment in infrastructure I think your trade cost will be reduced, it's not my finding, this study is done by ADB in 2012.

ADB (2012) highlighted that adequate investment in transport infrastructure could result in accumulated reduction in trade costs by 11.5 percent to Central Asia and 25.3 percent from Indonesia. You need to invest, if you see the longer picture, any investment is important in Regional infrastructure. What is important is that it fosters regional economic integration (REI). Countries have to work together a common agreement on a common platform of operations. If we don't do this, every day loss in exports is equal to loss in export value of 1 percent. So one can imagine one day it is like to have whole world as a company. That way this is important for us to consider this corridor in the context of not just to corridor but also how we help domestic industry to be improving and become more export oriented.

World Bank study on improving trade-related transparency in APEC found that this could increase trade by 7.5 percent or US\$148 billion only if we build infrastructure. But we must have transparency alongside the infrastructure so that things can work well in the concept.

So what industry really got going, depends on what type of industry is there for example in China in Kashgar. An interesting place, no one can think about this outpost in original silk route. Actually there is other frontier town around the world in western China in Kashgar. Kashgar is very important for corridor 5 and 6 (OBOR). But what happened is there is no mention of secondary industries. There are very basic industry that is, spices, fur caps etc. China has developed this in 2010 in corridor number 6. The Tourist spots; 1 million tourist visitors annually, its equal opportunity for both Pakistan and China.

In terms of Transport modality unfortunately the Air airport connects to Urumqi (domestic) and Islamabad (international) so what is this potential? There is lots of potential to perform and provide new gate ways. For Rail, relatively new, linked to Urumqi 25 hrs. But reliable hopefully and Hotan (10 hrs.). Road infrastructure is improving like Karakoram Highway (KKH) which links Kashgar to Islamabad, and link

sites in China's National Highways G314 to Khunjerab Pass (China-Pak border) and Urumqi; and G315 to Xining and Qinghai. So what that means once the corridor is in place, you have a big intellect behind this. This mean for port of Gwadar this is immense potential. Karachi is congested and to far so Gwadar is the next best option as far as port design is concerned.

In China's Western China Economic Development Plan (2009), if you look in every place in China they are already thinking about developing industries. Developing other sectors for example processing of silk products, applying technology on coal and chemical product so that means there will be greater flow of commodity in and out through this corridor. So the question for us is this is how can we harvest this opportunity, off course this is the one which is very fascinating. So this is to say, Wow this is a natural water port. The main thing that I have most liked all things put in place for Gwadar, it is good because the entire ingredient for setting up a new economic corridor is there. Both natural and manmade and proximity of this is very interesting too. A very important state if you think, it is critical to global transportation, and I tell you almost just as critical as to other flow through the Middle East to the rest of the world.

Port of Gwadar located 624 nautical km to east of the narrow Strait of Hormuz, provides China access to Arabian Sea through which passes about 35 percent of world's oil shipments. 60 percent of China's oil imports is from Middle East and 80 percent of that routes through Malacca Strait⁴ (Fazl-e-Haider, 2012) nearest port is Karachi (533 km). Faster, cheaper albeit has security concerns. Whenever the industrial port have been build, the joint industries otherwise there will always have economic benefit. For this one the estimate was that 40,000 jobs or more will be created. These are all are direct jobs and indirectly the figure here is that it will benefit at least half of the million people or so in region related to the jobs. From the economic start, this is a good opportunity not to mention on becoming the potential regional hub port, potential refuelling and repair point for the Middle East route. All you do now is to make it happen and make sure that it works and it's successful.

Implications

- (1) What are the implications for corridor, for productivity, quality, innovation etc. Well I put to you say think that we can look into implication from five or six perspectives i.e. from economical, environmental, social and political, cultural and legal aspects.
- (2) Economically speaking, clearly as you know now that the shorter path to China and Middle East and not just the Middle East but also to the Africa is through Gwadar. As Africa is the next continent with most economic activity and its happening and there are lots of Chinese investment in Africa itself and perhaps by the EU. If it goes well, Pakistan is most important to allow you to level up to the next level of plan. Right now the provision of right infrastructure and insuring better energy supply is required. The reality is that Africa ought to be new China business destination. Having Gwadar in place I think you have the opportunity to create into a new content in terms of industry. I think the major opportunity is in infrastructure and energy but the reality is that we need to bring other industries to support and one of the other industry is actually education

research and providing more energy efficient technologies to this sector. I think there are something that if you do it right you can prepare yourself properly compared to what the other countries have been struggling with so far. From the environmental context, now you also notice that I left the line of environment deliberately empty for two reasons. First I know there will be a talk on this by other presenter tomorrow. Second one is the reality that when any corridor is built whether it is trade or transportation the environment is to be effected. So there is something to think first and think early so that we have economic development and we still have environmental protection. This is as much as for short term as well as long terms we don't spoil the natural beauty of a place

- (3) Social side is something that is critical because it can pass through from land and area. It will be a challenge and upset the normal routine of people of village or tropes over there. So how do we manage these social unrest but the reality is this that we have a corridor. We can bring the foreign expertise to build the corridor but someone must maintain the corridor and infrastructure so that's why we need to make sure that the technical skills are present with the existing resources, otherwise this is really a challenge for you.
- (4) Politically we saw already that for China it is very clear, it is part of China economic strategy. She is prepared to move the whole country in this lieu. China is trying to meet the middle class boom, and the stakes are ambitious. These are no doubt do able and long term in context. But I guess the frustrating issue here is and this in with any big initiatives, you know, I think there is a need for better coordination between policy institution and private sector. I think, one, the ingredient is lacking is the private sector, some time we don't engage enough to private sector. Same experience everywhere. We see that policy makers are engaged among themselves, between countries and between institution and when it come to the business side its missing. Private sectors say that it a waste of my energy and time, right because we are discussing things and not attending to tangible outcomes for my company. Especially for the CEO or any one at the higher level it's important to see the next 3 to 5 years. So the question that how do we involve the private sector in to the equation. Historically of course, this old silk route station Kashgar to Gwadar could be the new one but the challenges is how do we make it success. How do we not allow the past failure to hunt us again.
- (5) Legally this is something you must think about green land, single window access. I think once you set it up in the Gwadar to have a green land in a single window e.g. for custom clearance in Kashgar, some are cleared up to shipment. Because you are in very short but well informed learning curve. Contact the countries which started green land window system; a signal window system which China also started about to twelve to fifteen years ago. I tell you, e.g. your staff negotiating with them from a company perspective but today they have learned a lot and they are willing to the agreement because they see the benefit in terms of enhanced trade. So my question to you is that this in terms of reality is the real involvement from customs. There is a requirement of true Trans boundary information exchange. Currently if this is good then the question is

can it be made better and faster. Can information be exchanged freely and clear before the goods arrive.

Lastly is CPEC new? Answer is no. I am telling you this that there are similar examples and again the China is following this practice. For example Myanmar's oil pipeline from Kyaukphyu to Kunming; Kelantan port on East coast of Malaysia & USD 13 billion KL-Kelantan rail line. Again for what? for transportation. So in short there are backup plans to overcome the challenges and there is backup plans in case the CPEC doesn't work. So the Chinese actually meant this to work out. This is what we exactly are talking about; the strategic position by China. So all these development activities we talk about so far I think needs to take into account the bigger strategic picture. This is for a forward planning to bring the country perspective in it for the next 20 to 30 years.