

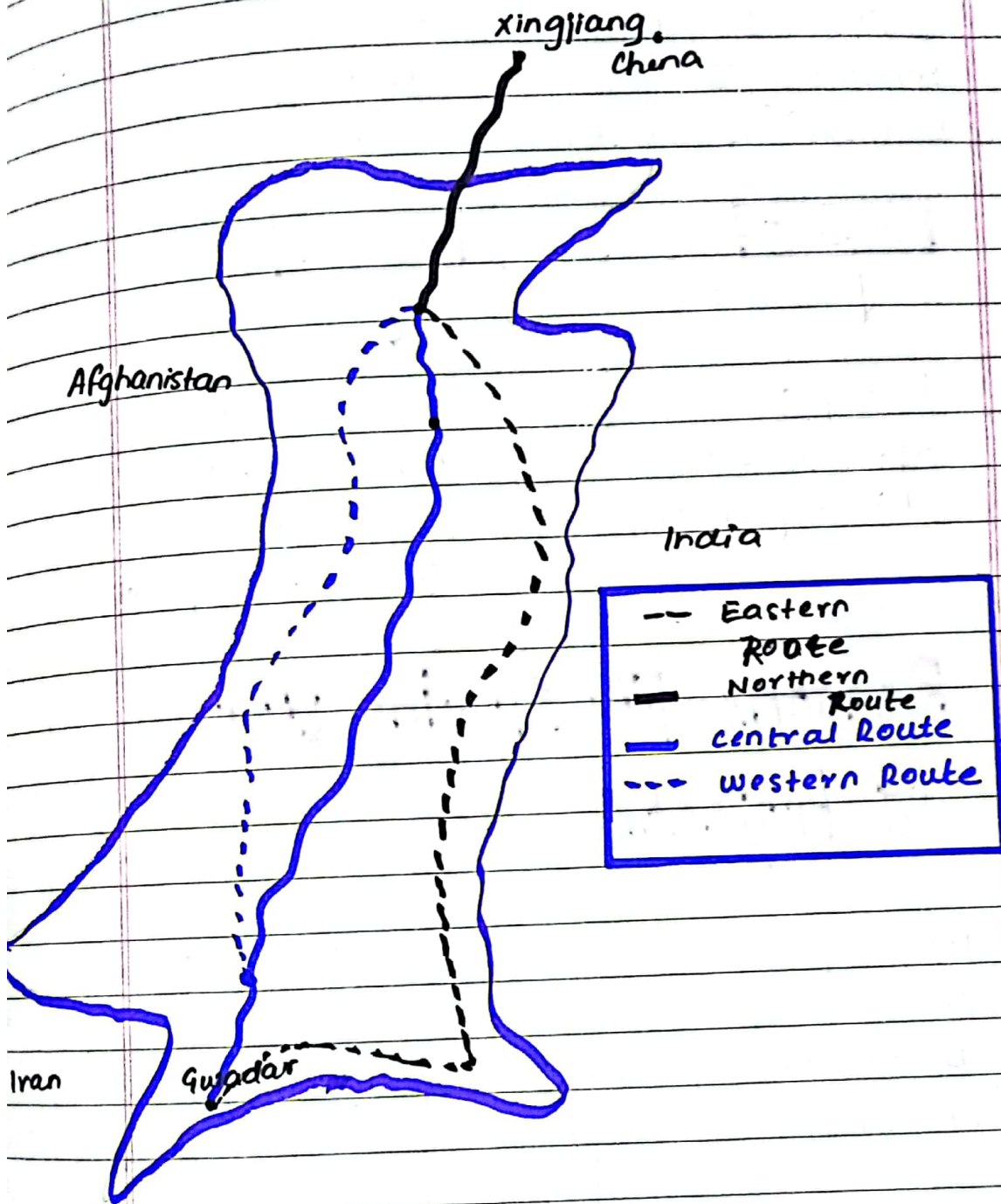
## Question: 8

Critically evaluate the reasons for the slowing down of CPEC projects. What options would you recommend to Islamabad and Beijing to reinvigorate.

### Introduction

CPEC is the flagship project of China's BRI. CPEC, started in 2015 aims to <sup>enhance</sup> connectivity within and across the regions. Where CPEC on one side provides China with an alternate route to access Arabian sea and European market. it also holds potential benefits for Pakistan including infrastructure development and enhanced connectivity. Started with enthusiasm, currently CPEC projects are proceeding at a snail's pace due to various domestic and international reasons. In order for both China and Pakistan to fully utilize the potential of this project, Islamabad and Beijing should take steps to reduce the barriers and speed up the projects.

# CPEC: Bird's Eyeview

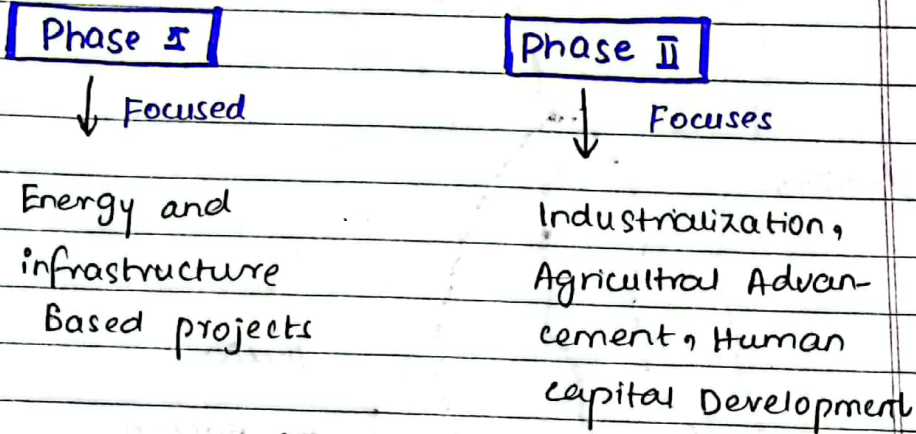


Arabian Sea

CPEC connects Chinese Xingjiang Prov with Gwadar, providing it a safer and cheaper alternative trade route. In Pakistan CPEC operates under various routes eventually ending up till

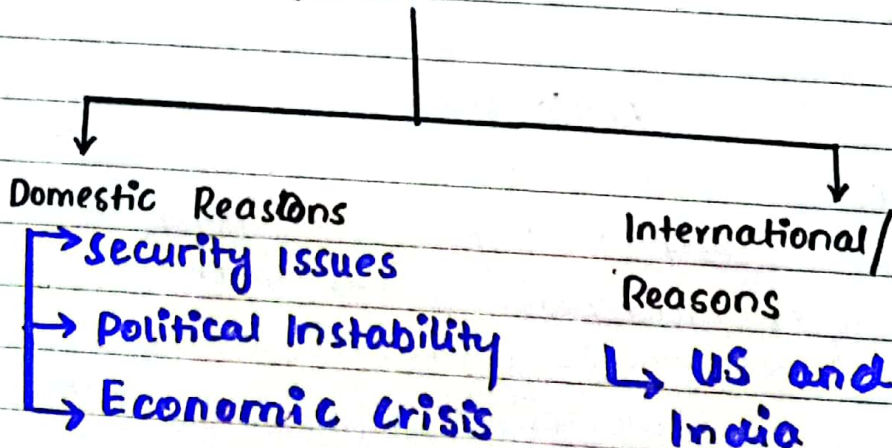


Gwadar. CPEC is planned to be completed in three phases. First <sup>initial</sup> infrastructure phase has been completed and currently it's in second phase, facing <sup>slow progress</sup> barriers to its timely completion.



## Reasons For Slowing Down of Projects

Following ~~reasons~~ domestic and international reasons are acting as a barrier slowing down the progress on CPEC projects.



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## (i) Domestic Reasons

### (a) Security Issues

Recently Pakistan's security landscape has gone fragile. The potential reasons behind this troubling security situation of the country are resurgence of TTP after withdrawal of USA from Afghanistan and anarchy posed by Baluch separatist agencies. Amidst this CPEC workers are continuously being the target of terror activities. Alone in 2024, more than 10 Chinese have died and various <sup>have been</sup> attacked. Such an uncertain and risky security situation has been leading the way to hinder the progress on CPEC projects, by making China more conscious and alert about security issues and reducing investment opportunities.

### (b) Political Instability

The marked political instability in Pakistan also contributes to the restrictive progress on CPEC projects. With every changed government, the progress speed of projects gets a speedbreaker in the name of reevaluation and reassessment of projects.



8

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This contributes to inconsistency of policy amidst changing political landscapes; eventually upseiling the program on projects.

## Economic Crisis

Pakistan is currently going through tough times economically. Issues like budget deficit, trade deficit, difficulty paying loans and seeking IMF's aid for economic survival; are at central stage to downturn the progress on CPEC projects. This fragile economic condition is leaving ~~very~~ minimum investment space for CPEC projects.

Alongwith this, china is also shifting focus towards other projects, with immediate outputs, considering Pakistan's economic down turn and challenges in paying loans back.

## (ii) International strain on the Progress of CPEC

### Stance of US and India on CPEC

US sees CPEC as china's effort to curtail US influence in the region

and, for the reason USA has repeatedly projected reservations over project to ~~the~~ Pakistan. Likewise, India claims CPEE route to be from the disputed territory of Gilgit Baltistan, making it a reservation for India too. Amidst these international reservations on the project, the task to diplomatically tackle them and proceed with the project is also reducing the speed of project completion.

## Recommendations for Pakistan

### (i) Improve Security

By taking advantage of platforms like SCO's RATS and by diplomatically ~~setting~~ ~~stressing~~ challenging Afghanistan and tackling internal security issues effectively

### (ii) Consistency of policy

To reduce the impact of political instability -



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### Deal Economic Crisis

Revamping flawed taxation system, privatization of loss making state owned enterprises.

## Recommendations for Beijing

(ii)

### Debt Rescheduling

Debt rescheduling for Pakistan amidst economic challenges of the country to facilitate efforts towards CPEC.

(i)

### Strategic focus On CPEC

Ensuring alignment of CPEC to its broader strategic goals and keep up the same comparative special focus

## Conclusion

CPEC is currently facing a sluggish progress and due to wide range of hurdles from security issues to economic struggles and diplomatic strains on Pakistan, and changing geostrategic shift of Pakistan. However, both Islamabad and Beijing should take steps on their behalfs to materialize the speedy progress of the project, considering geostrategic and economic benefits this potential project holds.



## Question: 03

State Owned enterprises have been a huge and persistent burden on the budgetary economy of Pakistan. Why and how these enterprises should be privatized?

**State Owned Enterprises:**

**A Huge and Persistent Burden on Pakistan's Economy**

Pakistan's state owned enterprises have become a continuous and ever increasing field of losses. Annually more than 0.8% of country's GDP are used to sustain these loss making enterprises, either in form of subsidies or grants. Compared to these loss making enterprises have become a huge and persistent burden on Pakistan's economy, grabbing major portion of budget leaving low financial space to be used up by primary sectors like education and healthcare. Thus, an effective way out to maintain these loss making enterprises and reduce burden from economy is to privatize these loss making enterprises.

# Why Enterprises (state - owned) Should be privatized:

## (i) Increased Efficiency

- Profit Driven motivation
- Advanced Operational procedures
- Competition Productivity

Privatization of <sup>loss making</sup> stated Owned Enterprises (SOEs) is beneficial, as privatization of enterprises have the ability to extract profit based on profit driven and competitive nature of private Sector. Along with competitiveness, private sector has also advanced operating procedures to enhance the quality of services offered by the enterprises; thus eventually enhancing efficiency of the enterprises.

## (ii) Source of Revenue Generation

- Enhanced contribution to tax collection
- Attract Direct foreign Investment
- Reduces economic burden of government.



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Firstly Privatization of SOEs, with their enhanced productivity under private sector brings increased tax revenue collection from the enterprises. The practical manifestation of phenomenon can be is the privatization of K-electric. In 2005, the tax contribution of K-electric was merely 200 million, however, after its privatization, its tax contribution has been tremendously increased upto 2.8 billion rupees. Thus privatization not only reduces the maintenance burden of enterprises from the government but also contributes to the annual tax collection.

### (iii) Attracts Direct Foreign Investment.

As privatization symbolises a market liberalization and minimum interference of government in the enterprises, providing a stable operating environment under private sector; which attracts direct foreign investment. This foreign investment aids in enhancing the operation of enterprises ~~allowing~~ & providing investor a new market. ~~and aiding the~~ The investment of



attracted by energy sector of Poland and Hungary <sup>amidst their privatization efforts</sup> as the testament to enhanced productivity and by direct foreign investment.

## ii) Reduces Economic Burden of Government

Government of Pakistan annually spends 0.8% of GDP to sustain loss making state owned enterprises. The total loss by state owned enterprises amounts to 4.1 billion dollars annually, which is 1.5 times more than the annual spending on education and healthcare. By privatizing these enterprises will eventually lift burden from the state's spending.

## How SOEs should be Privatized

ii) Privatization of state owned enterprises can be done in following ways.

### (i) Public - Private Partnership

- shared responsibility of both sectors
- Attracts investment without completely transferring control to public sector



↳ Beneficial for strategic sectors like railways and energy

## Initial Public offering (IPO)

↳ Promoting market liberalization and retains partial oversight of government too.

↳ Aramco's Initial public offering brought Saudia Arabia with billions of dollars - Example in point

## Japan's Regional Privatization Program

Japan has used regional privatization model to privatize its railway, by developing specific regional sectors <sup>divisions</sup> to ~~open~~ privatizing to different companies. In sectors like Railway, this regional privatization model can be used to enhance efficiency and tailor services according to the tailor services to regional requirements, resulting in more efficient operational performance and service delivery

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## Conclusion

Privatization of state owned enterprises especially the loss making enterprises, would be the step in right direction. It will not only optimize the service quality of the enterprises and their competitiveness but will also alleviate the burden from budget. However, for this privatization should be done with a regulatory framework and suitable privatization approaches like public private partnerships or initial public offerings.