



PRIME CPEC Monitor



As work on the China-Pakistan Economic Corridor (CPEC) enters its third year, things are beginning to take shape. A number of projects have been delivered, some have been dropped altogether, and quite a few are being added to the Early Harvest category. Meanwhile, new project proposals are being pitched every day for their inclusion in CPEC. Now that the general elections are approaching, as per expectations budgetary allocations for such projects have increased. Inauguration ceremonies of infrastructure projects are going to become much more common, as the year progresses.

In this issue of CPEC Monitor, we will take a look at the related developments during February-May 2017, and the foreseeable future trajectory of the economic and policy landscape of the country.

Major Milestones:

Roads:

On 12 April 2017, the federal government approved and earmarked three new road projects to complete the missing links between Kashgar and Gwadar port, at an estimated cost of \$1 billion. The projects include;

- 280 km road from Raikot to Thakot at a cost of Rs 8 billion
- 210 km dual carriageway from Yarik to Zhob worth Rs 76.5 billion
- 110 km road from Basima to Khuzdar, which will cost Rs 19.2 billion.

For the upcoming fiscal year, the government has allocated Rs 44 billion, almost a quarter of CPEC funding, for road projects on the CPEC's western route. The government's spending

pattern seems to suggest that the eastern route is at a more advanced stage of construction than the western part. Until June of this year, an estimated Rs 12 billion has been spent on the western part of CPEC.

Unlike previous years, this time the federal government has set aside sufficient resources for three main schemes of the western route. For the construction of Hakla-Yarik-Dera Ismail Khan motorway, the Planning Commission has proposed Rs 38 billion for the upcoming year. The cost of this scheme is Rs 110.2 billion and the ministry had allotted Rs 16.4 billion in the outgoing fiscal year.

Railways:

According to the Minister for Railways Khawaja Saad Rafiq, the gradation and doubling of the Main Line (ML-1) from Karachi to Peshawar, including the Taxila-Havelian section (55 km), and the establishment of a dry port near Havelian, have been declared as 'Early Harvest Projects' under CPEC. These also include the doubling of the track from Shahdara to Peshawar and enabling the speed limit to reach 160 km/h where possible.

The existing railway line (ML-3) from Rohri to Koh-e-Taftan to Quetta and Sibi-Spezand section (1022 km) and rail link from Quetta to Kotla Jam (538 km) is being further developed to be utilized for the full potential of the Gwadar Port and anticipated traffic from China after establishment of CPEC.

According to the fiscal year budget 2017-2018, the federal government has allocated Rs. 42.9 billion for 37 ongoing and new projects of the Railways Division under the Public Sector Development Program (PSDP). The major allocations under the new budget include;

- Rs 5 billion for the acquisition of land for the Railway Container Yard, Station and Railway line from Sea Port up to the Coastal Highway at Gwadar
- Rs 50 million for CPEC Support Project at the Ministry of Railways

- Rs 814 million for doubling of track from Khanewal to Raiwind

Employment:

New data released by the Planning Commission shows that more than 30,000 Pakistani engineers and workers have gained direct employment under CPEC. Although 8,000 Chinese are working under this project, the average strength of Chinese workers never crossed 25% of total employees. The data shows that 9,800 Pakistanis are working on Peshawar-Karachi Motorway (Multan-Sukkur Section), the biggest infrastructure project under CPEC.

The data further shows that KKH Phase-II (Havelian) provided jobs to 2071 locals; Orange Line Metro (Lahore) created employment for 956 people and Fiber Optic project created 580 jobs for Pakistan's local workforce. The Port Qasim Power Project got the top figure by creating up to 5000 jobs for Pakistani nationals. Estimates suggest that these projects could further create up to 10,000-15,000 jobs this year.

Gwadar Port:



According to Zhang Baozhong, Chairman and CEO of China Overseas Ports Holdings Company (COPHC) Ltd, the newly expanded Gwadar deep water port is nearly complete and is expected to process about a million tonnes of cargo next year. COPHC also plans to develop sea food processing plants and other facilities in a 923 hectare free zone, outside the port.

Minister for Planning and Development Ahsan

Iqbal also added that Gwadar Eastbay Expressway Project, an 18.9 km long 4-lane expressway has also been initiated in the city which would connect Gwadar Port with the Makran Coastal Highway. Other projects in Gwadar include Gwadar International Airport, development of Free Zone, facilities for fresh water treatment, water supply and distribution, Pak-China Friendship Hospital, Technical and Vocational Institute at Gwadar, Gwadar Smart Port City, Development of Gwadar University and promotion of fishing and boat-making sectors.

Energy Projects:

The second unit of 2x660 MW Sahiwal coal fired power plant is expected to be formally commissioned in late June and will become one of Pakistan's clean coal power plants with the largest installed capacity of generating 9 billion kWh of electricity per year.

In February 2017, Pakistan and China mutually decided to remove five pending energy projects with a combined capacity of 3470 MW. The projects which were dropped include:

- Muzaffargarh Coal Power Project (1,320MW)
- Salt Range Mine Mouth Power Project (300MW) including mining
- Gaddani Power Park (1,320MW)
- Sunnec Wind Farm (50 MW)
- Chicho ki Mallian Combined-cycle Power Plant (525 MW).

Technical infeasibility was reported as the main reason behind their termination.

Currently work on 1,320 MW Sahiwal coal-fired power project is in progress and work on 1320 MW Port Qasim Coal project is also ongoing which would generate 660 MW electricity by 2017, while the remaining 660 would be ready for distribution by 2018. Similarly, work on 600 MW Engro Thar Coal project is also continuing on fast track; it would produce 300 MW of electricity by 2017; and an additional 300 MW by 2018. Work on 1320 MW Qadirabad Coal Project is also in progress, which would introduce 660 MW of electricity in the national grid by 2017 while the remaining 660 MW would be

included in the system by 2018.



Security:

On 24 May 2017, the Punjab Assembly via a resolution ratified the deployment of Special Security Division troops (SSD) for the CPEC Projects across Punjab. This comes parallel to the abduction and alleged murder of two Chinese language teachers from Quetta. The Islamic State (IS) group is claimed to be behind the abduction and amid growing fears regarding their fate, a meeting of the National Security Committee, the country's highest civil-military coordinating security agency was called in the following week. Reacting to the incident, ministry of interior has decided to review the requirements for issuance of business and work visas for Chinese nationals.

Similar incidents such as the killing of 10 laborers in Gwadar district in May and more recently the shooting of two Navy Sailors in June has prompted the government to take measures to tighten the security for both CPEC and non-CPEC projects. The new measures taken include the police protection forces from all provinces to supplement the SSD, closer monitoring of Chinese nationals, and a re-evaluation of security arrangements in Pakistan.

Economic impacts and investments

The revised project investment volume of CPEC has reached a sum of \$62 billion from the previous \$55 billion (initially it stood at \$46 billion). In June, the English daily 'Dawn' unveiled the Long Term Plan on CPEC; the plan drafted by the China Development Bank and the National Development Reform Commission of the People's Republic of China contains 231 pages.



The plan envisages further strengthening the market presence of Chinese companies already operating in Pakistan; Haier in household appliances, China Mobile and Huawei in telecommunications, and China Metallurgical Group in mining and minerals.

Contrary to the popularly held belief, the main focus of the plan, as judged from the Long Term Plan, is on the agriculture sector. The plan outlines China's vision to operate across the entire value chain in the agricultural market of Pakistan; from seed, pesticide and fertiliser provision to providing cold storage and export facility. Setting up a 800,000 ton capacity NPK fertiliser production plant is also included in the plan. Companies will be engaged to lease out farm equipment such as precision fertilisation drip irrigation equipment, efficient plant protection machinery, and tractors etc.

Meat processing plants in Sukkur are planned with annual output of 200,000 tons per year, and two demonstration plants processing 200,000 tons of milk per year, are included in the plan. Asadabad, Islamabad, Lahore and Gwadar will see a vegetable processing plant, with annual output of 20,000 tons; fruit juice and jam plant of 10,000 tons and grain processing of 1 million tons. A cotton processing plant is also planned initially, with output of 100,000 tons per year. In crops, demonstration projects of more than 6,500 acres will be set up for high yield seeds and irrigation, mostly in Punjab.

This goes to say that corporate farming may finally gain ground in Pakistan. The country stands to gain a lot if it achieves a better crop yield per unit area, and a better milk yield per animal. Currently in agriculture and dairy sector,

the country is producing far less than its true potential due to lack of sophistication in our inputs and processes.

ESTIMATES OF FOREIGN ASSISTANCE (CPEC Projects) - Budget 2017-18

Special provision for completion of CPEC projects in budget 2017-2018 set at Rs. 5000 million.

Loans for federal PSDP projects

- Rs. 1000 million for new Gwadar International Airport.
- Rs. 41 million for construction of expressway on Eastbay of Gwadar Port.
- Rs. 1050 million for necessary facilities of fresh water supply and distribution Gwadar (CPEC).
- Rs. 200 million for Naulong storage dam, Jhal Magsi.

Loans for provincial PSDP projects

- Rs. 72,117.86 million for Orange Line in Lahore Project.(34377)
- Rs. 21,337.375 million for Orange Line in Lahore Project. (2015)
- Rs. 400 million grant to federal government for Pak-China Technical and Vocational Institute at Gwadar.
- Rs. 900 million grant to federal government for construction of New Gwadar International Airport.

Loans for autonomous bodies

- Rs. 20,750 million for Thakot-Havelian- Islamabad.
- Rs. 1,200 million for Basima-Khuzdar (106 KM) N-30 CPEC.
- Rs. 4,000 million for dualization of Yarik - Mughal Kot-Zhob Section of N-50 (210 KM) CPEC Western alignment including Zhob by-pass and land acquisition.
- Rs. 35,000 million for Multan Sukkur section-CPEC.

Source: Federal Budget 2017-18