

The background is a vast, colorful landscape of layered mountains and valleys, likely the Zhangye Danxia in China, with a wooden walkway and stairs in the foreground. The colors range from deep reds and oranges to blues and greens, suggesting different mineral compositions and weathering patterns.

The economic benefits of the modern silk road: The China–Pakistan Economic Corridor (CPEC)

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **198,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,291** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

More information is here: www.accaglobal.com

About Pakistan-China Institute (PCI)

Pakistan-China Institute, launched in October 2009, under the Chairmanship of Senator Mushahid Hussain Sayed has emerged as the primary organization devoted to promoting people-to-people relations between Pakistan and China. PCI is a key player in fostering multilateral dialogue, promoting cultural and economic connectivity, along with acting as a unique bridge between Pakistan and China to develop a closer, strategic partnership.

Pakistan-China Institute aims to take up a leading role in generating discussions and analysis on multiple aspects of the diplomatic relations between China and Pakistan, as well as the entire region. An integral part of PCI's mission is to serve as a resource to all those who seek a better understanding of the changing dynamics of regional relations, particularly in relation to Pakistan and China.

More information is here: www.pakistan-china.com

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Foreword



The Pakistan-China Institute (PCI) has emerged as the primary organisation devoted to promoting people-to-people understanding and friendship between Pakistan and China. The institute has emerged as a key player for fostering multilateral dialogue, promoting cultural and economic connectivity, along with acting as a unique bridge between Pakistan and China to develop a closer, strategic partnership. PCI's theme of 'Cultures, Corridors & Connectivity' (CCC) is closely aligned with the intricate link of Belt & Road with cultural engagement, which was also emphasized upon by President Xi Jinping during the Belt & Road Forum, in May 2017.

Pakistan-China Institute, as a think tank, is committed to continue its role as being the focal platform in Pakistan for taking the Belt & Road initiative and CPEC forward, along with playing its role in supporting cultural engagement across the region.

I am pleased to see an informative and insightful research report as a joint product of PCI and ACCA. Such research will be instructive for policy makers, academics, students and businessmen alike, and will help put into perspective the market dynamics and perceptions that have evolved thus far, as well as the challenges that the project may face and therefore, may help in highlighting the issues which need to be addressed for smooth continuity of this significant project.

I am confident that this is one of many more research reports to follow that we shall undertake to continue to play a leading role in research, advocacy, and diplomacy for the Belt and Road Initiative as well as the China-Pakistan Economic Corridor. We believe that the Belt and Road Initiative is the biggest multifaceted development agenda of recent history, and CPEC being its flagship project is a key case study for the Belt and Road countries to observe and emulate, making research on this project significantly important.

Mustafa Hyder Sayed
Executive Director
Pakistan-China Institute



Right from day 1 when the Chinese premier Xi Jinping visited Pakistan in April 2015 the accounting fraternity like other stakeholders in the Pakistan business community became absorbed with the economic, social and political consequences of the USD50bn China Pakistan Economic Corridor that was being inked by a variety of Chinese organisations with public and private sector parties in Pakistan. The spectrum of CPEC investments included IT, roads and bridges, ports and shipping, railways, enterprise zones and energy plants. For Pakistan this was seen as an injection of long term growth and stability hormone. Articles started appearing in newspapers; TV was streaming expert views of CPEC into homes 24/7 and of interest to ACCA, professional groups formed on social media to microscopically examine every aspect of CPEC. It was this mass elevation of CPEC to the top of the professional conversation charts that prompted ACCA to invest in research at a national and global level. Internally ACCA calculated

that 22 countries in which we operate were directly on the Chinese Belt and Road project which meant for ACCA that BRI would surely be a factor for our own strategic planning and certainly merited greater attention and understanding. ACCA more than any other professional body thinks ahead and plays an important role in keeping its members, the professional community and business people informed of what is appearing on the business horizon. Pakistan is an important country with a population of 220 million, geo-strategically positioned to provide enormous trade and commercial opportunities to Central Asia and Central and Western China from its newly built deep water port Gwadar. Pakistan is also a country that has a strong accounting profession, a long history of outstanding banking and finance and one of the most resilient economies which has enormous potential. ACCA has long recognized the role accountants can play in economic growth and stability. ACCA members over the last two decades in

Pakistan have gained great insights into the Pakistan economy and workings of business enterprises and they live the values enshrined in Kennedy's speech "ask not what your country can do for you but rather what you can do for your country!" There is a feeling in Pakistan that this is their time; Pakistan too can be an Asian tiger economy, Pakistan can start walking the walk of the economists Mahboob Ul Haq's economic blue print for Pakistan that was later adopted by South Korea and Malaysia as part of an economic model. I am delighted that we have launched this report "The Economic Benefits of the Modern Silk Road – CPEC" in Pakistan to start a dialogue amongst the finance professional and show leadership in thinking and planning for Pakistan's future.

Helen Brand OBE
Chief executive
ACCA



Executive Summary

CPEC AND ITS IMPACT ON THE PEOPLE OF PAKISTAN

The China Pakistan Economic Corridor (CPEC) is an unprecedented undertaking for Pakistan. The Chinese Ambassador to Pakistan, His Excellency Mr Sun Weidong, has summarised CPEC and its benefit in the following manner.

'[The] China-Pakistan Economic Corridor is a major and pilot project of the Belt and Road Initiative, to which the leaders of our two countries have attached great importance and rendered active promotion. It has also won the across-board support from our two peoples as it aims to provide new opportunities to the citizens as well as bring new impetus and vision to China-Pakistan friendship.

'CPEC is a long-term and systematic project to promote economic cooperation through collaboration on Gwadar port, energy, transportation infrastructure and industrial cooperation.

'CPEC will bring solid benefits to our two peoples. With the completion of energy and infrastructure projects, conditions in Pakistan will improve.

There will be more electricity integrated into [the] national grid and the electricity supply will be more stable. People will enjoy more convenient transportation and a better livelihood. Alongside the major projects, we are setting up social welfare institutions, especially in Gwadar, in the form of [a] primary school, vocational training centre, and [a] hospital with [the] Chinese government's grant. We will also provide KPK province with medical, educational and training projects in line with the need of local people, to translate the benefits of CPEC immediately among them. For average persons, the outcomes of the CPEC are tangible, accessible and enjoyable to hundreds of thousands [of] families across the country' (CPEC 2017a).

CHANGE IS IMMINENT

In an online survey of around 500 finance and business professionals, conducted for this report, 79% of them expressed the view that businesses will adapt to the changes engendered by CPEC and such adaptations will be made in the business plans of organisations in Pakistan within one to five years.

THE SKILLS NEEDED FOR FINANCE PROFESSIONALS TO DEAL WITH CHANGE

In order to deal with the imminent changes, finance professionals need to equip themselves with the key skills of effective communication, better use of business analytics, knowledge of the relevant taxation structure and strong leadership.

Around 86% of survey respondents agreed that they should attend short courses on business, Chinese language and culture.

Following the increase in Chinese investments in Pakistan, professionals in accountancy can explore providing a one-stop-shop solution to investors, from registration of a company to accountancy and tax advisory services.

GOVERNANCE STRUCTURES

Over 54% of respondents agreed that the board of directors will be the appropriate forum for discussing and deciding upon the opportunities that CPEC will bring, while 32% agreed that organisations' risk management committees should be engaged in evaluating such opportunities.

RISK MANAGEMENT

Around 54% of respondents either agreed or strongly agreed that there is a need for risk-management mechanisms in organisations for reviewing and assessing the challenges and risks that will arise from CPEC-related business changes. Not everyone had firm opinions on this, with 34.2% remaining neutral.

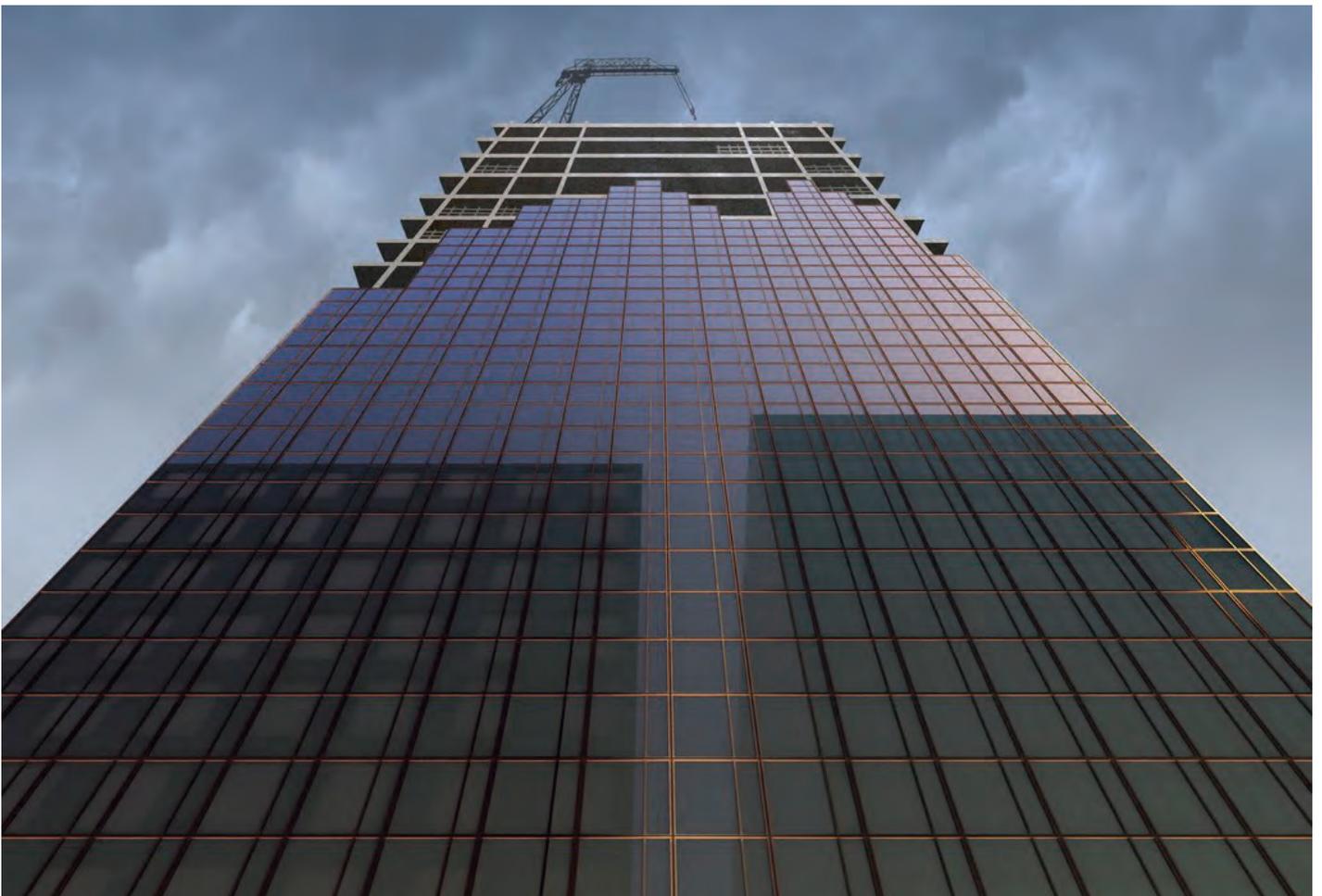
ENVIRONMENTAL IMPACT

Only 26% of respondents agreed that their organisations are taking steps to address the environmental issues that will arise from the impact of business growth due to CPEC, while around 50% remained neutral on the key question about the steps that their entities will initiate to protect the environment from these changes.

SWOT ANALYSIS

The key strengths cited by the business and finance professionals include availability of human resource in the country, the potential for tourism, the quality of infrastructure in the form of roads, etc. Despite the availability of human resource, however, one common weakness cited was a lack of skills, so there is a need for adequate capacity

building and increasing the literacy rate, enabling Pakistan's people to benefit from the CPEC developments. Lack of awareness about CPEC was also cited as one of the country's key weaknesses: more workshops, seminars and publications are required to educate people to equip themselves for the future changes. Possible failure to maintain law and order is one of the key threats cited, along with the mismanagement of resources and governance-related issues, while the opportunities commonly cited include the generation of employment opportunities, increased trade and improvements in infrastructure.





Introduction

ABOUT THIS REPORT

This detailed research report, commissioned by ACCA Pakistan in collaboration with Pakistan-China Institute, aims to comment upon the transformation taking place in Pakistan due to the forthcoming China-Pakistan Economic Corridor (CPEC), part of the modern economic Silk Road. The report had three purposes:

- i. to review the overall expected economic impact of CPEC on the economy of the country
- ii. to analyse the perception of CPEC among finance professionals and their views about plans to prepare for the future, and
- iii. to elaborate upon the skills needed by finance professionals to benefit from CPEC in the years ahead.

METHODOLOGY

This report is based on four key pillars:

- group discussions focusing on SWOT analysis, held in four provincial capitals and the federal capital, with finance and business executives
- an online survey of finance professionals
- interviews with relevant stakeholders
- a review of media reports.

The results of these investigations were analysed for the report.

This report explores the key capabilities and skills needed by businesses and

finance professionals in the changing situation and also contains the results of SWOT analysis conducted at Pakistan's four provincial capitals and the Federal Capital. The findings in the report are intended to allow stakeholders to engage in a meaningful dialogue and to be used as a tool for formulating long-term plans and setting up models for progress.

This report also includes results of an online survey of finance professionals jointly commissioned by ACCA and the Pakistan-China Institute, and conducted between the end of March and June 2017. Around 500 finance and business professionals across Pakistan participated in the survey and answered questions in the areas of business and financial planning, human resource strategy, governance models and environmental, social and governance matters (ESG).

Further, to obtain the views of Chinese companies, an interview was conducted

with Pakistan China Investment Company's executive and a survey questionnaire was also circulated. Executives from five Chinese companies operating in Pakistan responded to this.

ABOUT THE SURVEY

ACCA Pakistan initiated an online survey to obtain the views of finance and business professionals across the country. The survey was based on fifteen questions in five areas.

The aim of the survey was to compile and analyse views from business leaders and finance professionals on the China Pakistan Economic Corridor, which is part of the Belt and Road Initiative (B&R) (ACCA 2017). The respondents were ACCA affiliates, ACCA members and members from other accounting and professional bodies working in various service, manufacturing or consulting organisations across Pakistan.





1. What is the Belt and Road initiative (B&R)?

THE BELT AND ROAD INITIATIVE

Having attained the position of the world's second largest economy, China seems likely to reach the top spot in record time. It is doing this by spending its way to prosperity as part of a grand strategy that seeks to attain both geopolitical and economic competitive advantage. Beijing has launched the Silk Road Economic Belt and the 21st Century Maritime Silk Road projects, collectively called the Belt & Road Initiative (B&R) or One Belt, One Road. Envisioned by President Xi Jinping, the B&R is a massive international development project that envisages, at the least, a number of roads, railway lines, ports, industrial zones, and energy development projects that will connect major economic centres in China, via various routes, with Europe, and fuel industrial development along them (Figure 1.1).

B&R's envisioned impact on each participating country is primarily based on the linkages that each project will develop with the economy around it, and workers employed, either directly by the project's implementing enterprises, or indirectly by industrial value chains. A fair picture of B&R's impact potential is indicated by its projected extent, involving 65 countries, which constitute over 60% of the world's population, and contribute to 40% of global GDP (Hofman 2015).

THE NUMBER OF PROJECTS AND AMOUNT OF INVESTMENT IN B&R

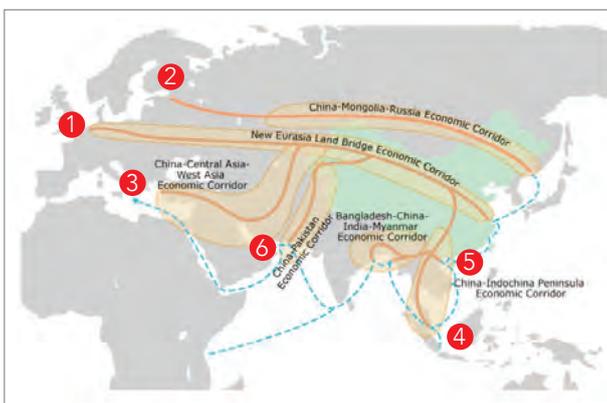
How extensive is B&R? 'Massive' would be the simple answer. But numbers allow better understanding and the available information, considering the wide outreach of B&R and individual needs of each participating country, indicates that the B&R initiative will include a total of 900 projects, amounting to an estimated cost of USD890bn.

FINANCING THE B&R

To finance these projects, multiple institutions from China have pledged financial support, including the China Development Bank, Asian Infrastructure Investment Bank (AIIB) and China EXIM Bank. A state-owned Silk Road Fund has also been set up to foster increased investment along the Belt and Road countries.

During the Belt and Road Summit for International Cooperation, which took place in May 2017, financial commitments made by these institutions were increased to accommodate the expanding number of projects. The Silk Road Fund, which was previously set up with USD40bn, saw an additional USD14.5bn funding support. Similarly, USD43.5bn was set aside in a special lending scheme by China Development Bank and China EXIM Bank.

Figure 1.1: The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



The B&R is geographically structured along six corridors and a maritime route. The six land corridors are:

1. from western China to western Russia
2. from northern China to eastern Russia via Mongolia
3. from western China to Turkey via central and west Asia
4. from southern China to Singapore via Indochina
5. from southern China to India via Bangladesh and Myanmar.
6. from south-western China to and through Pakistan.

2. The China–Pakistan Economic Corridor (CPEC)



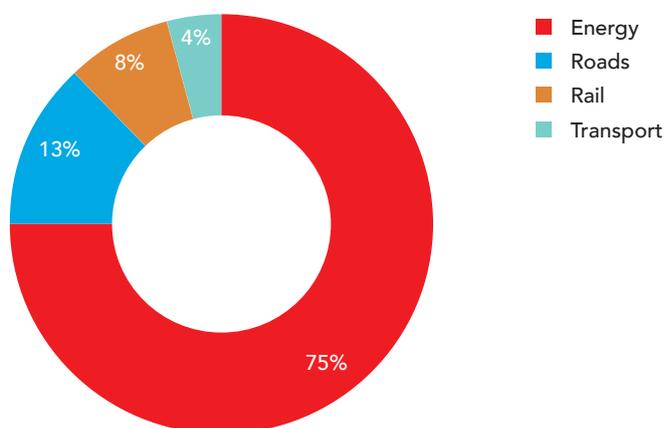
One of the terms that a reader can find almost daily in Pakistan’s English-language newspapers is CPEC.

Among the six corridors, the China–Pakistan Economic Corridor (CPEC) has achieved the fastest and most effective progress, with its 19 Early Harvest Projects aimed at upgrading Pakistan’s transport infrastructure and bridging the country’s longstanding energy deficit (Pakistan

Observer 2017a). Investment policies and financing services between the two countries have evolved to support projects being implemented under CPEC, and have nurtured the enhancement of industrial linkages and professional practices to cater for increasing investments.

CPEC, as part of ‘The Belt and Road’, is of major interest in professional networks around the world in general, and in Pakistan in particular. While people generally agree that B&R will benefit Pakistan, there are fears that the country may not be able to repay the loans obtained to finance the project, that China may dominate the project and that consequently, Chinese objectives will override Pakistan’s. Hence, the B&R generates both hopes and fears.

Figure 2.1: CPEC investment breakdown, USD46bn



The B&R will enhance geographical linkages by providing improved road, rail and air transportation systems, facilitating people-to-people contact.

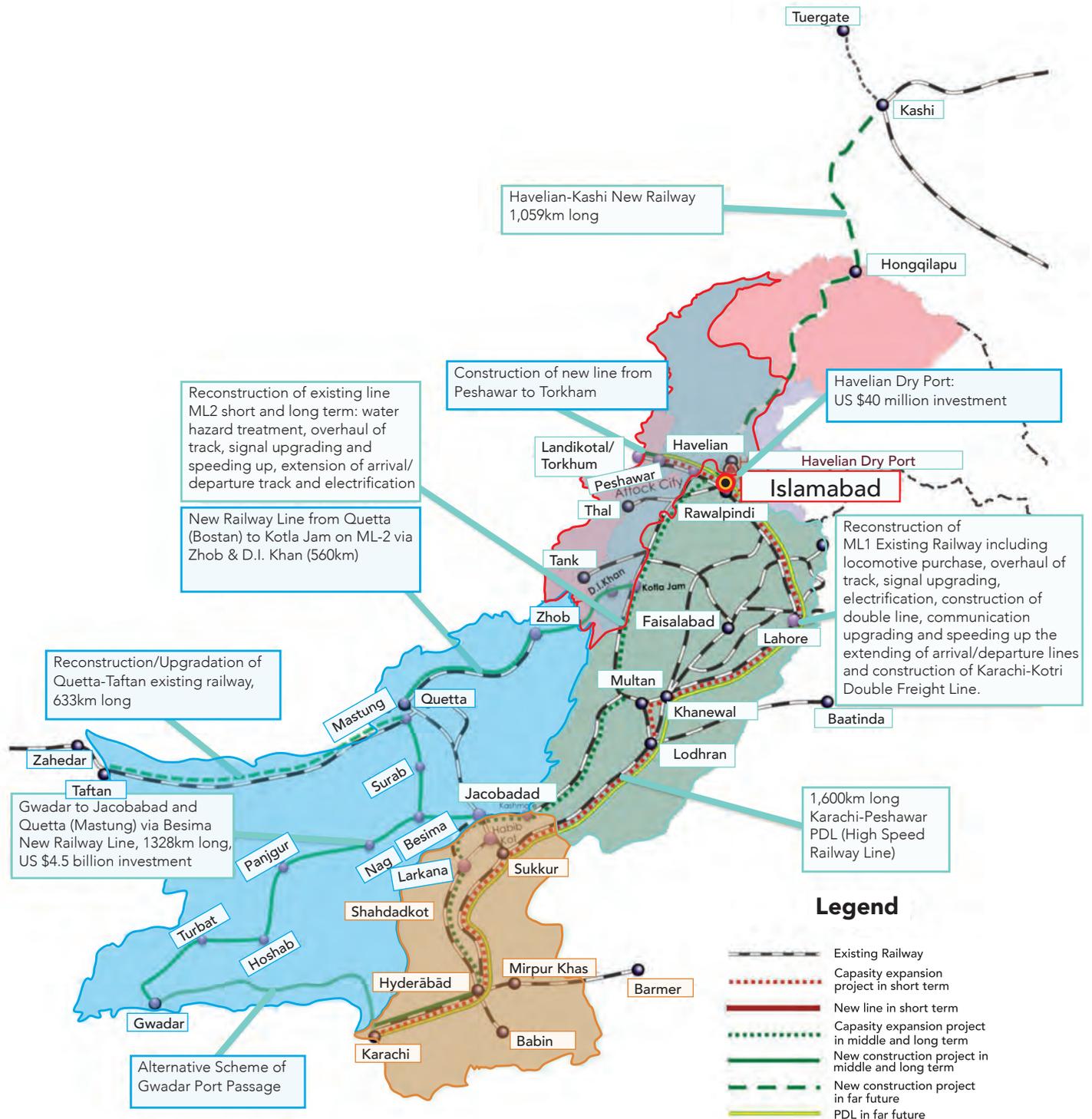
This should stimulate academic, cultural and regional knowledge and cultural exchanges, increase the volumes of trade and business, and facilitate

energy generation and transfer. These changes will, ideally, optimise the business environment and enhance mutual cooperation. The B&R's promoters argue that this 'win-win' model will result in a well-connected, integrated region of shared destiny, harmony and development.

The CPEC is aimed at creating economic regionalisation in a globalised world. Its promoters see it as providing hope of future regional improvement with peace, development and economic growth (CPEC 2017b).

Figure 2.2: CPEC's planned rail networks

Railways Network of CPEC



Political economist Asad Abbasi¹ has looked at the benefits that China expects for itself. 'For Pakistan, CPEC might represent "prosperity", "unity", etc., but for China it is just one small part of Yi Dai Yi Lu. This is usually translated into English as "One Belt One Road" (OBOR) but according to Tim Summers, senior consulting fellow at Chatham House, the English translation fails to convey the dynamic meaning that the phrase encapsulates. Yi Dai Yi Lu conjures up two different epochs of Chinese history: Silk Road of Tang Dynasty (618–906 AD) and modern silk maritime trade routes from coastal China. The aim of the project is to connect China with 65 countries in Asia and Europe. China estimates that OBOR will add \$2.5 trillion to its trade over the next decade' (Abbasi 2016).

To summarise, the four key pillars of CPEC include investments in the areas shown in Figure 2.3.

Favoured by geography, Pakistan is positioned as a bridge between the Eurasian landmass that is home to the Silk Road Economic Belt, and the Arabian Sea, which is an essential link in the 21st Century Maritime Silk Route.

THE LINCHPIN OF CPEC – GWADAR PORT: WHERE THE LAND AND MARITIME ROUTES MEET

The CPEC is a combination of investments, one aim of which is to bridge Pakistan's energy deficit and so rejuvenate its ailing industrial base, and loans. The latter will pay for an overhaul of the country's road and railway infrastructure / railway network to provide seamless connectivity within the country, and through it. The aim of this development is to create the first North–South link between the 'Belt' and the 'Road', converging on the Gwadar Port, the linchpin of CPEC.

INVESTMENT IN CPEC: USD46BN AND GROWING

CPEC is B&R's flagship project, and its implementation is considered to be ahead of that of other corridors being developed under the initiative. Having been chosen as the first corridor, CPEC was initiated with an extensive list of projects amounting in value to USD46bn (and growing). These projects have been structured into short-, medium-, and long-term plans, extending for a period of 15 years from the year of signing, ie from 2015 until 2030.

Over the two years 2015 to 2017, however, the project portfolios remained flexible to accommodate more projects, and the funding needed increased further.

Beijing and Islamabad have been successful in detailing the precise terms for the financing arrangements, including designating the institutions involved, and determining the length of build-operate-transfer (BOT) contracts, the quanta of taxation and excise tariffs, projected return on investments, the schedule of repayments, and sovereign guarantees offering assurance of returns, for both loan and investment-based projects. The exhaustive steps involved in strategising and negotiating each of these aspects of B&R financing may serve as a model for other countries to follow for their own B&R cooperation with China.

Figure 2.3: Key pillars of CPEC investment



¹ Asad Abbasi has a Masters degree in Political Economy of Late Development from LSE. Currently, he is researching conceptual frameworks of development. <http://blogs.lse.ac.uk/southasia/2016/02/05/lessons-from-africa-how-can-pakistan-make-the-most-of-chinese-investment/>



3. The impact of CPEC on Pakistan's economy

Pakistan's economy will be boosted if its energy crisis is resolved by CPEC.

Pakistan's economy has tremendous strategic development potential, as it is located at the crossroads of south Asia, central Asia, China and the Middle East and thus can serve as the fulcrum for a regional market with a vast population, large and diverse resources, and untapped potential for trade. The major obstacles faced by Pakistan's economy include persistent industrial losses due to the country's energy crisis, low foreign direct investment (FDI), lack of

infrastructure development, losses due to the war on terror, and a combination of low exports and high imports. The average shortfall in the energy sector is 7,000 megawatts (Kiani 2017), which, in the form of load-shedding and power outages, cost the Pakistan economy PKR1,439bn (7% of GDP) in 2015 (Pakistan Observer 2017b). Major industries have seen a downward slump in business because of energy shortages. Under CPEC, a grand total of 21 energy projects have been planned. Altogether, these projects would eventually produce 16,400 megawatts of power, roughly the same as

Pakistan's current capacity. Also, 11 of these projects, prioritised as the Early Harvest Projects, are expected to provide over 11,000 megawatts of electricity by March 2018 (CPEC 2017c) – more than sufficient to make up for Pakistan's energy shortfall of 7,000 megawatts.

One of CPEC's primary objectives is to address Pakistan's pressing infrastructural requirements. With nearly USD11bn earmarked for its development, the road and railway network will greatly benefit Pakistan's economy.

Figure 3.1: Roads planned for the CPEC

Highways Network of CPEC



Source: CPEC 2017d

‘We need to learn, we need to increase our capacities’

ROAD INFRASTRUCTURE TO IMPROVE

The road infrastructure (Figure 3.1) will see development along various routes within CPEC, while not necessarily being financed as part of it. These include Gwadar–Hoshab, Khuzdar–Basima, Karachi–Lahore Motorway (Sukkur–Multan section), the Karakorum Highway, and others. These development projects will enhance the connectivity between all four provinces and allow for ease of access of goods. Pakistan Railways is set to attract up to USD5bn investment for upgrading and deploying new railway infrastructure across Pakistan. To enhance connectivity and improve transportation facilities, rail track from Karachi to Peshawar will be upgraded (CPEC 2017e). Other projects for the railway infrastructure include railway track from Kotri to Attock city.

SPECIAL ECONOMIC ZONES

In its medium- and long-term projects, CPEC aims to use the enhanced infrastructure and energy generation capacity to amplify Pakistan's industrial productivity. As one of the four components of CPEC, industrial cooperation projects are being implemented to broaden the industrial base in Pakistan through local and foreign investments.

At the Federal level, as many as nine Special Economic Zones (SEZs) have been identified across the country, which, after detailed feasibility studies, will be set up

with state-of-the art facilities in which investors may capitalise (SEZ 2017).

‘The Government needs to provide [a] level playing field to Pakistani and Chinese investors when it comes to SEZ’, said Ehsan A. Malik, chief executive of the Pakistan Business Council, in an interview for this study. ‘There is a need to have a detailed financial forecast about the impact on exports due to new companies which will be established in SEZs’, he added. ‘Businesses related to transportation, logistics and supply chain shall definitely have growth. For Pakistani businesses, there is a need to move up ... [the] supply chain and provide value-added products to the world’,

While commenting on CPEC's environmental impact, Malik suggested that the government could consider initiating green bonds for the companies that will be established under CPEC, particularly in SEZs, so that the amount generated can be used for protection of the environment. Furthermore, Malik emphasised the need for more plantations, as the mega projects will also result in deforestation.

INDUSTRIAL COOPERATION PROJECTS

At a macro-level, the industrial cooperation projects under CPEC will potentially allow for import substitution and export-led production, which will not

only lower Pakistan's current account outflows by reducing imports, but also increase inflows as a result of exports. This makes the industrial cooperation component of CPEC an important tool for improving Pakistan's trade deficit and, more importantly, generating revenue for repayment of CPEC loans and other debts.

At a micro-level, SEZs under CPEC will play host to massive industrial units being set up across various industrial clusters of the economy, which will reshape the labour market dynamics in multiple ways. Firstly, they will create jobs for skilled and semi-skilled workers, who will primarily be hired from within Pakistan owing to wage-price competitiveness. Secondly, the government and enterprises will invest in the vocational training and professional development of labour to meet the rising demand, leading to a large-scale skills transformation of Pakistan's labour force.

‘We need to learn, we need to increase our capacities’, Hassan Daud, project director CPEC at the Ministry of Planning, explained in an interview for this study. ‘Imagine what will be the impact on business when the trains will move from 65km per hour speed to 130km per hour speed in [the] next five years. This means that the speed of business will change. It is up to people to get benefit from this opportunity’.

4. CPEC and different sectors of the economy

THE BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT

Working on this report, meeting people from different backgrounds, reviewing dozens of documents, conducting workshops in five cities and reviewing the results of the online survey, has left a strong impression that to predict the outcome of any unprecedented project, being implemented at vast scale, one would need a crystal ball. Any projections made as part of this report are based on factors and opinions that could evolve overtime, and are hence are subject to change.

It is said that the best way to predict the future is to create it. Pakistan is in the process of creating a future with hope for its people.

UNPRECEDENTED EVENT

CPEC is an unprecedented scheme for Pakistan, particularly in the context of China–Pakistan relationships. Never in its history has the country witnessed such investment from a single foreign country. It is estimated that the cash inflow under CPEC will more than equal all the foreign direct investment (FDI) that has come into Pakistan since 1970, an amount that is forecast to equal nearly 17% of the GDP.

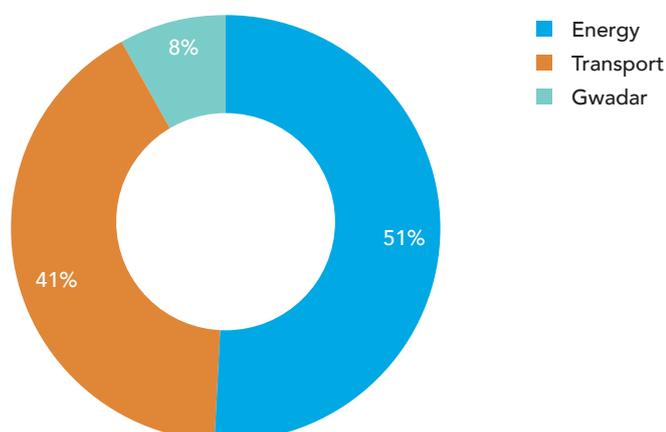
JOB CREATION

The International Labour Organization (ILO) has estimated that CPEC will support the creation of around 400,000 jobs (APP 2017), while the Applied Economics Research Centre (AERC) has estimated that it could create over 700,000 direct jobs between 2015 and 2030 (APP 2016).

According to Professor Samina Khalid, director of the AERC, CPEC could well create over 700,000 direct jobs between its start in 2015 and projected completion in 2030. This would increase annual economic growth by 2% to 2.5%. Hence Khalid believes that CPEC projects are likely to create more than 700,000 jobs in various sectors of Pakistan by 2030 (APP 2016).

Figure 4.1: Areas in which CPEC job creation 2015–17

CPEC Job creation till mid 2017; Around 30,000 people.



Source: Chart based on general press information

The Planning Commission's estimates show that the final figure may be much higher, as these indicate that CPEC would create around 800,000 jobs over 15 years (APP 2017).

Fawad Yousafzai, a journalist with Pakistan's newspaper, The Nation, reported in June 2017 that CPEC had by then created 30,000 jobs for Pakistani workers, including engineers who would expand their skills in the these roles. A further 8,000 jobs were being done by Chinese nationals. Of the 30,000 Pakistanis 16,000 were working in the energy sector (Yousafzai 2017). Work on transport infrastructure had created around 13,000 jobs by June 2017 (PCN 2017a).

‘CPEC will have an impact on almost all key sectors of the economy’, said Top Line Securities’ chief economist, Saad Hashemy, in an interview for this study. He added: ‘There will be a visible growth in banking, cement, automobile, insurance, refinery, power generation, oil and gas marketing and cable and electrical goods.’

800,000 CARS NEEDED IN NEXT 15 YEARS AND STEEL CONSUMPTION

During the interview, while discussing CPEC’s impact on the motoring sector, Hashemy said; ‘Current roads are around 265,000km and registered motor vehicles are 15m, which includes two-wheeler, three-wheeler and four-wheeler motor vehicles and also buses, trucks and others. We expect that CPEC and related projects can add 12,000–15,000km of roads after accounting for additional lanes, as per current project details. Assuming current road density of registered motor vehicles, CPEC’s impact on automobile sector road projects will result in additional demand for 800,000 autos over next 15 years’. ‘Steel usage will be huge’, Hashemy remarked. ‘Steel usage will be extensive in CPEC projects and can run into millions

of tons over [the] life of CPEC. Steel will be used in civil works, rail tracks, pipelines (LNG), etc.’ The steel sector has witnessed significant production growth in 2015–16. Nonetheless, Chinese imports have caused some damage to local production as the substitution product from China is cheaper.

FINANCIAL INDUSTRY

While talking about the financial sector, Hashemy was positive that the banking and insurance sector is going to grow. He remarked; ‘At present, [the] deposit base of local banks is around USD90bn and loans outstanding are around USD46bn. CPEC spread over 15-year can result in [a] direct additional 2–3% per year loan growth of the banking system. [The] indirect impact can be over and above this due to increased economic activity. Further, approximately USD30bn of projects will be insured locally and internationally. All local insurance companies [are] likely to benefit and [this] can result in additional insurance premium of Rs2bn annually, which is 4% of [the] total gross premium of [the] insurance industry’. (See also Hashemy 2016.)

SUSTAINABLE DEVELOPMENT GOALS

‘For SDGs dealing with infrastructure, urban development, energy, transportation, mass transit systems, etc the country needs to strengthen its capacity to access international green finance. The cost of the capital for green growth has created a new global ecosystem of financial instruments and policies. In fact, this has become an essential first step to stimulate sustainable economic growth for green jobs... Instead of simply being an ‘economic’ corridor, CPEC can become an environmental corridor... Pakistan and China share many SDG [sustainable development goal] challenges, ranging from increasing inequality to making cities sustainable, from combating climate change to managing water or protecting oceans and forests. It’s a historic opportunity for Pakistan to weave its SDG targets in the accelerated pace of CPEC. Equally important, CPEC can serve as a model in acceleration for some SDG indicators’ (Sheikh 2016).

Sartaj Aziz, a past adviser to the prime minister on foreign affairs, also believes that the sustainable development of the country can be achieved via trade promotion and not through financial assistance (Ali 2016).



INFRASTRUCTURE AND TRANSPORTATION

Owing to the increased connectivity of production sites and markets, public and goods transportation businesses are expected to grow, thanks to the road infrastructure constructed under CPEC, which will connect rural areas with urban areas across the country.

This also means that increased mobility will allow health and educational sector professionals to reach the places where demand exists but where professionals are few because of current inaccessibility. At the same time, once market access is available to producers, eliminating the need for intermediaries, their profit margins are expected to increase.

TOURISM, HOSPITALITY AND MOVEMENT ACROSS THE COUNTRY

One of the sectors that have already started witnessing growth due to better road infrastructure is domestic tourism. In 2015/16 there was a 25% growth in tourism to Gilgit Baltistan, on the distant north side of Pakistan, bordering China, as one million people visited during the summer of 2016, a number not witnessed before (Express Tribune 2016). In line with this, the hospitality industry has experienced a boom, as average hotel occupancy increased to 80% in 2016 from around 35% in 2015 (although one of the key reasons is an improved security situation in the country) (JCR-VIS 2016).

In addition to domestic tourism, there are also opportunities for encouraging tourists from China. 'People can consider promoting tourism related to [the] Gandhara civilisation and Buddhism heritage, where people from China will particularly be interested', explained Professor Haroon ur Rasheed from School of Business and Economics, University of Management and Technology, Lahore, in an interview for this report.

TRADE AND COMMERCE

'Trade will increase' said Professor Rasheed. He believes that where quality is high, such as in production of sports goods, leather, handmade products and food (meat and fruit), there is huge trade potential with China. He also believes that with increases in trade and business growth, Pakistan's middle class will have increased incomes and more purchasing power.

'We need to negotiate free trade agreement better', argued Nazish Afraz, adjunct faculty, Department of Economics at the Lahore University of Management Sciences, in an interview for this report. 'At present, [the] trade deficit with China is around 40%. We need to lower this gap. [A] regional value chain is needed to be created along with stability in our policies to increase trade', she added.

HOW WILL CPEC HELP CORPORATE SECTOR ENTITIES IN FUTURE?

Muzzammil Aslam, chief executive officer of Invest and Finance Securities Limited, a brokerage firm based in Karachi, was interviewed for this report. He commented; 'The companies will have an opportunity to get investors once they list on the Pakistan Stock Exchange [PSX]. For green field companies which will be established under CPEC, it will be an opportunity for initial investors to exit and provide a chance to other investors, who can purchase shares from PSX, once the green field project starts giving benefits'.

While commenting on the sectors that will be affected by CPEC, Aslam argued that growth will occur in many sectors, including power (energy), gas and electricity distribution, cement, steel, construction and allied industries, the motor vehicle sector, the financial services sector, and apparel.

'There will be increase in competition for the companies in Pakistan once the CPEC projects are executed', he explained. 'However, companies operating in Pakistan need to embrace the fact that for future, competitiveness shall be the key. CPEC shall push [the] corporate sector to think [about] innovation and work hard to be competitive'.

Attracting foreign investment will also be important. The president of Rawalpindi Chamber of Commerce, Raja Iqbal considers that 'many sectors, such as real estate, agriculture, construction, building materials, energy and infrastructure development, offer lucrative investment opportunities to foreign investors' (Dawn 2017).



Image Source: PCN 2016



5. Mode of doing business in Pakistan for Chinese companies

There are three options for the Chinese companies wishing to work in Pakistan:

- to work independently of any Pakistani counterpart
- to subcontract their work to Pakistani companies or
- to enter into joint ventures.

One of the examples of the joint venture approach is The Hub project, which is a joint venture between the State Power Investment Corporation, China Power International Holding, and the Hub Power Company of Pakistan.

'The Chinese government is investing USD46bn under CPEC projects in Pakistan and it was decided that the Chinese firms

would be engaged to execute the development projects. But if the Chinese firms need assistance, then they can complete the projects through joint ventures or sub-contracting', says Minister for Planning Ahsan Iqbal (Aftab 2016).

WHY JOINT VENTURE?

A joint venture between Pakistani and Chinese companies has certain advantages. A company based in Pakistan has local experience while the Chinese company will bring technical know how and skills that can be customised to meet local needs. This results in a 'win-win' situation, provided a working relationship is agreed under the terms of their contract and both the sides are clear on the desired business outcome.

MERGERS AND ACQUISITIONS (M&A)

M&A activity has also increased.

- Dutch firm Royal Friesland Campina acquired Engro Foods for USD446m
- Arcilek, a Turkish company, bought Dawlance Pakistan for USD250m
- there are reports that a Chinese energy conglomerate is seeking a majority stake in Karachi's largest utility for USD1.8bn (Rizvi and Niaz 2017).



6. Are Pakistani businesses prepared for the imminent change?

Around 500 finance professionals across Pakistan responded to a detailed online survey undertaken for the purposes of this report.

The key purpose of the survey was to obtain views from finance and business professionals about the business strategy being adopted by different businesses, their governance and risk-management models, and the skills needed by finance professionals and the measures being adopted by their companies to deal with the expected changes to the business environment.

59% of respondents strongly agreed or agreed that their organisation has such plans while almost one-quarter disagreed and another 16% either remained neutral or made no response (Figure 6.1).

GOODS FROM CHINA WILL RESULT IN INCREASED COMPETITION

When asked about imports from China, 73.8% of respondents agreed that there will be an increased inflow of goods from China, which will have a direct competitive effect on goods manufactured in Pakistan. Given the opportunity, 42.6% respondent agreed that they would move to one of the Special Economic Zones (SEZs; see Chapter 3 above), to increase their ability to compete with Chinese imports.

BUSINESSES WILL ADAPT TO CHANGE

With CPEC there will be economic growth. An increasing inflow of goods from China is expected as the road infrastructure improves and following the development of Gwadar port. The new infrastructure will, however, also facilitate exports of goods and services to China.

When asked about this, 42% of finance professionals said that the business strategy of their firms would cater to the change and relevant adjustments to their plans would be made in the next one to three years, while 37% responded that their organisations would make such changes to their business strategy in the next three to five years. Hence, 79% of respondents were of the view that the change arising due to CPEC would be incorporated into their business strategy within five years and the way their businesses work would adapt to the expected growth and change.

GOVERNANCE AND RISK MANAGEMENT

How might the governance structure of businesses adjust to deal with CPEC-related changes? When asked: 'Do you agree that, owing to changes related to CPEC, there will be a need to change the governance structure in your organisation?' 41.7% of respondents remained neutral while 24.9% either disagreed or strongly disagreed with the statement (Figure 6.2).

Over 54% of the respondents agreed that the board of directors would be the appropriate forum for discussing and deciding upon the opportunities that CPEC would bring, while 32% agreed that the risk management committees should be engaged in evaluating such opportunities.

A RISK-MANAGEMENT MECHANISM IS NEEDED

There is a need for a risk-management mechanism in all organisations, enabling the review and assessment of the challenges and risks arising from CPEC-related business changes. When asked 'Is there a need to develop a risk-management mechanism in your organisation with reference to the anticipated growth in the business which may arise due to CPEC?' 54.1% agreed or strongly agreed with the statement while 35.2% remained neutral or failed to respond; fewer than 11% disagreed (Figure 6.3).

Figure 6.1: Organisational plans to meet growing demand arising from CPEC

Does your organisation have plans to scale up capacity to meet any growing demand due to CPEC?

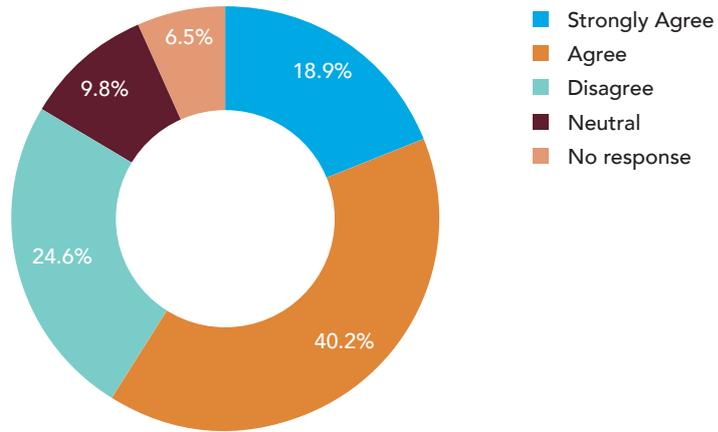


Figure 6.2: Will governance structures change in response to CPEC?

Do you agree that owing to changes related to CPEC, there will be a need to change the governance structure in your organisation?

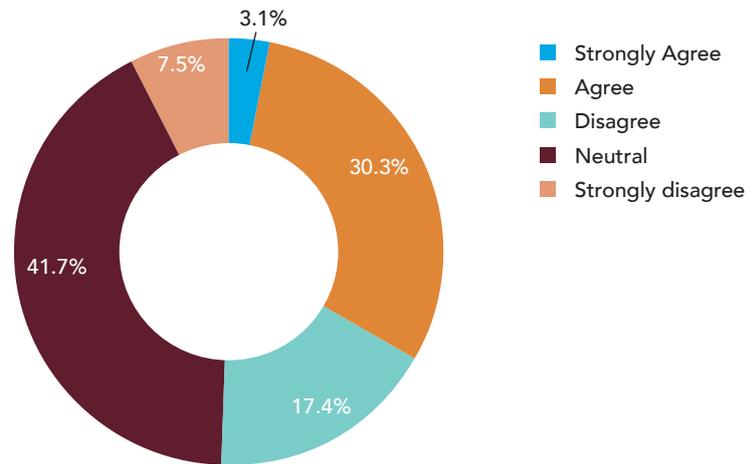
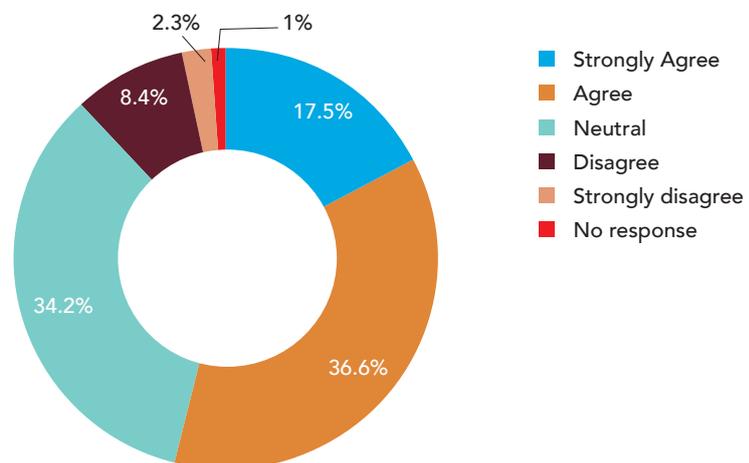


Figure 6.3: Risk-management mechanisms and CPEC

Is there a need to develop a risk management mechanism in your organisation with reference to the anticipated growth in the business which may arise due to CPEC?



WHAT KIND OF CHANGES ARE REQUIRED IN BUSINESSES TO PREPARE FOR THE FUTURE?

While responding to a question about what kind of changes are needed in business, respondents highlighted the following issues.

1. Organisations need to consider and analyse the impact of B&R initiative globally and its impact on the way business is conducted in Pakistan
2. Efficient allocation of resources to compete globally
3. Organisations such as in the IT and communications industry will need to consider major investment in human and organisational development, such as bringing in experts with skills that are highly technologically advanced, to enable them to compete globally. Such a step will help these organisations to align with the technological advancement to which the CPEC projects will give rise and will facilitate collaboration between Pakistani and Chinese technology companies.
4. Geo-political influences should be included in the scope of business risk assessments. Competing with Chinese

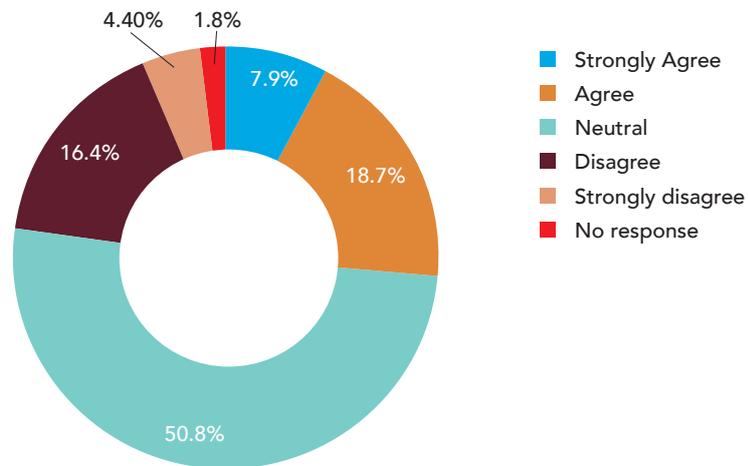
firms on production costs will be tough and it is expected that trading with China will increase because of the infrastructure development linking the two countries, inevitably increasing competitive pressures on local products. Risk-management mechanisms must be adapted to allow timely identification of any business risks.

ENVIRONMENTAL PROTECTION: HOW ORGANISATIONS ARE ADDRESSING THEIR ENVIRONMENTAL IMPACT

Only 26% of the respondents agreed that their organisations are taking steps to address the environmental issues that will arise from the impact of business growth due to CPEC, while over 50% remained neutral on this key question (Figure 6.4).

Figure 6.4: Steps for addressing environmental protection

Is your organisation taking any steps to ensure that the environment remains protected due to expansion in operations related to CPEC





7. Capital markets

The capital markets of Pakistan have been consolidated as the Pakistan Stock Exchange (PSX) (which was formed on 11 January 2016 by the integration of the Lahore and Islamabad Stock Exchanges with the Karachi Stock Exchange and the renaming of the Karachi Stock Exchange as Pakistan Stock Exchange Limited, a single nationwide capital market). PSX had 559 listed companies with market capitalisation of USD78bn as of 15 September 2016.

CHINESE CONSORTIUM OWNS A 40% STAKE IN PSX

The capital markets of Pakistan attracted international attention in December 2016 when a Chinese consortium bought a strategic 40% stake in the PSX. The consortium comprises Chinese Financial Futures Exchange Company Limited, Shanghai Stock Exchange, Shenzhen Stock Exchange, Pak-China Investment Company and Habib Bank Limited. Stockbrokers from Pakistan were paid approximately USD85.5m for their role in the acquisition of the shares (320m shares for Rs28 per share) (Siddiqui 2017).

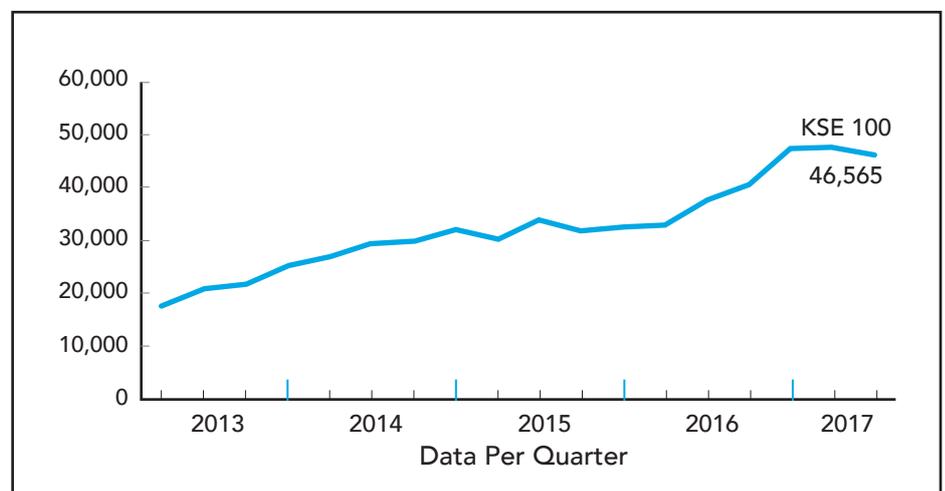
MORGAN STANLEY UPGRADES THE STATUS OF PSX

In light of the expected increased inflow of funds and foreign investments, and the acquisition of PSX by the Chinese consortium described above, Morgan Stanley Capital International (MSCI) has upgraded the status of PSX from 'frontier market' to 'emerging market' status, effective from 30 June 2017 (MSCI 2017). Pakistan had had 'frontier market' status since 2008.

The KSE 100 index² has moved from below 20,000 points at the end of Quarter 1, 2013 to over 45,000 points at the end of Quarter 2, 2017, registering over 125% growth in four years.

Tundra Fonder AB's chief investment officer, Mattias Martinson, says 'Pakistan has turned the tide; the CPEC agreement was probably the trigger for many investors to actively start looking. We all know China does not take short-term decisions' (Mangi 2016).

Figure 7.1: The development of the Karachi Stock Exchange index



Source: Graph based on data from the KSE website

² Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark for prices on the Pakistan Stock Exchange (PSX) over a period. In determining representative companies for computing the index, those with the highest market capitalisation are selected.

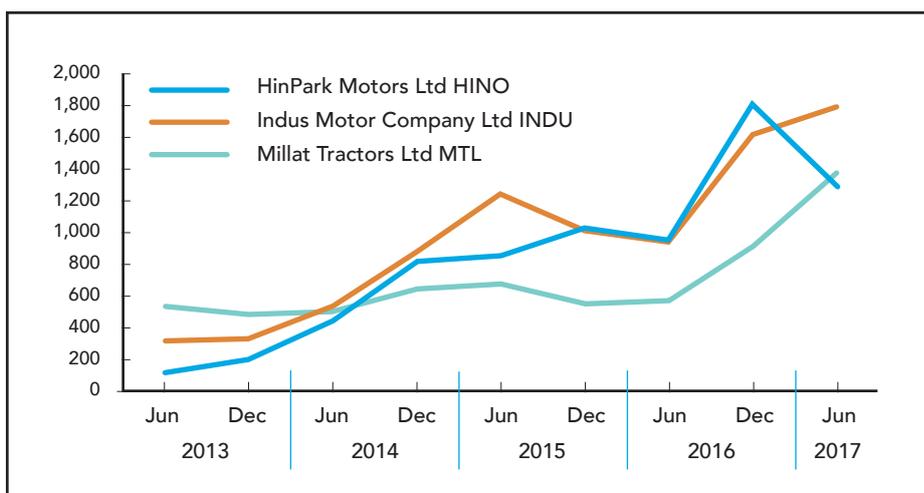
‘Pakistan has turned the tide; the CPEC agreement was probably the trigger for many investors to actively start looking.’

This is borne out by market activity. Shares in companies in the sectors likely to register growth related to CPEC have shown remarkable movement. Certain shares in the motor vehicle sector have grown to between 2.6 times and 11 times their Q1, 2013 value in the period from end of Quarter 1, 2013, when the CPEC memorandum of understanding was signed, to Quarter 2, 2017 (Figure 7.2). Besides other factors, one of the key reasons for this increase is attributable to rising demands due to the development of the country’s infrastructure. (PSX 2017)

Analysis of data on the PSX website shows that shares in certain cement companies have risen by between 2.6 times and 4 times in the period from the end of Quarter 1, 2013 and the end of Quarter 2, 2017 owing to rising demand, besides other factors (Figure 7.3), (PSX 2017).

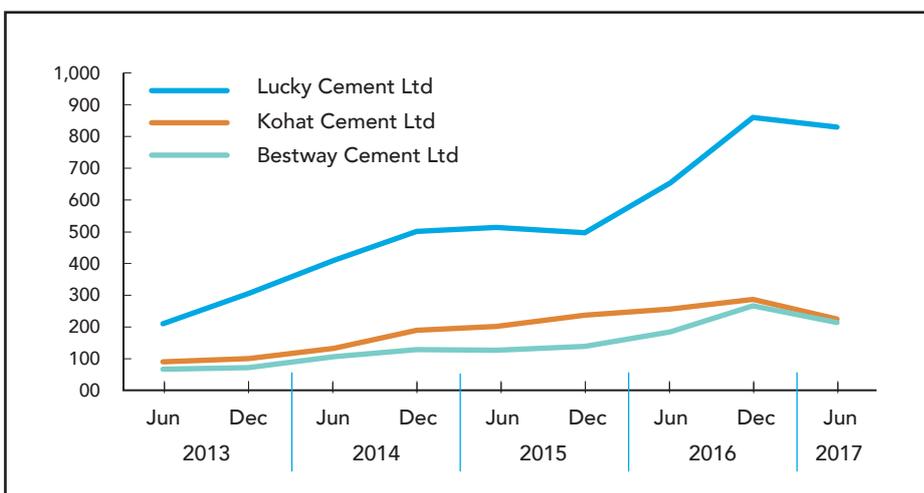
The cement sector has witnessed 17% production growth in 2015/16, compared with 3.6% in 2014/15.

Figure 7.2: Increase in value of shares in three motor vehicle assemblers since June 2013



Source: Based on data from Pakistan Stock Exchange website (PSX 2017)

Figure 7.3: Increase in the value of cement company shares since 2013 (PSX 2017)

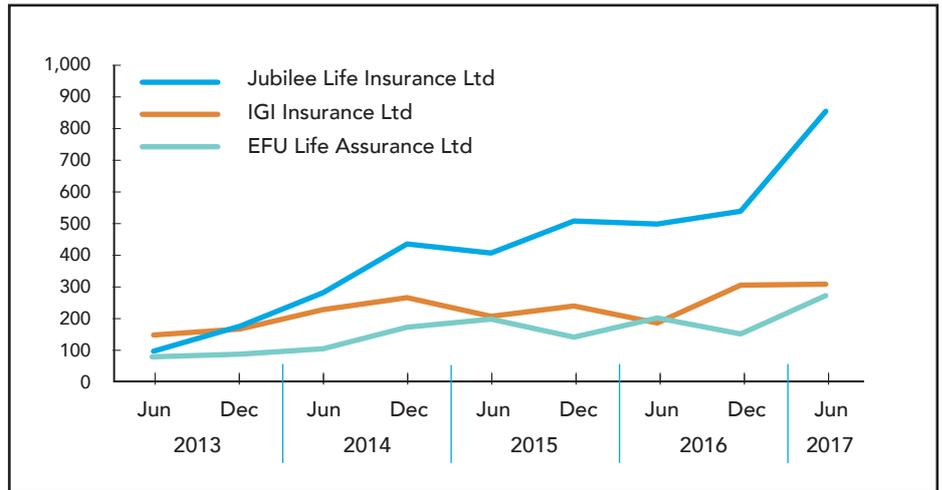


Source: Based on data from Pakistan Stock Exchange (PSX 2017)

THE INSURANCE SECTOR

Data from the Pakistan Stock Exchange shows that average share prices of three key insurance companies in Pakistan witnessed growth of between 2.2 times and 9 times during a period of four years. (Figure 7.4), (PSX 2017).

Figure 7.4: Share price increases in the insurance sector



Source: Based on data from Pakistan Stock Exchange (PSX 2017)



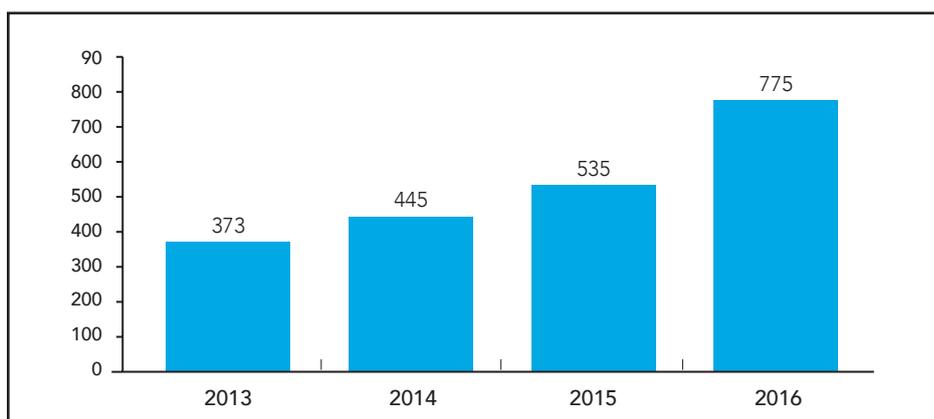
8. Ease of doing business and investment facilitation

Data from the Securities and Exchange Commission of Pakistan reveals that registration of Chinese companies in Pakistan is showing steady growth.

Information obtained from the Securities and Exchange Commission of Pakistan (SECP) shows that around 775 companies registered with SECP have Chinese directors, out of a total of 80,428 companies registered in the country, as of 30 June 2016. The number of companies with Chinese directors showed a steady increase from 30 June 2013 to 30 June 2016, as illustrated by Figure 8.1.

'We are facilitating company registration and related processes', said Murtaza Abbas, joint director of the Investor Education & International Relations Department at SECP, in an interview for this report. 'There [are] no separate policies or procedures other than the one promulgated under the new Companies Act 2017 for registration and operational matters of the companies in Pakistan. We consider CPEC to be regulated under [the] current framework of regulation for companies whereby any investor can initiate [a] single member company, a private company or a public limited listed or non-listed company'.

Figure 8.1: The rise in the number of Pakistani companies with Chinese directors



Source: Based on data supplied by the Securities and Exchange Commission of Pakistan

BOARD OF INVESTMENT – FACILITATING CPEC INVESTORS

To obtain licences and permits, a company needs to consult with the relevant government department, depending on the nature of its business. In addition, Pakistan's Board of Investment (BOI) can help to facilitate the process. The BOI is the central investment facilitation point responsible for promoting and facilitating investment, including in CPEC projects (BOI 2017).

The BOI's website describes its role as: 'provid[ing] assistance throughout the investment cycle. Investor Facilitation Centres have been established in

Islamabad and all provincial capitals to facilitate local and foreign investors. BOI as a focal point provides information and assistance for speedy materialisation of investment projects. Apart from facilitating projects, BOI's role is also important in the context of visa facilitation and opening up of branch offices and liaison offices of entities. Permission of BOI is mandatory for opening of branch or liaison office in Pakistan. BOI also recommends Work Visas to expatriates working in foreign and local companies in Pakistan. BOI's role is crucial for materialization and sustainability of the projects being started and to be started under CPEC (BOI 2017).

Finance professionals in Pakistan have a good educational and professional background. However, they need to develop their skills for the new future businesses which will emerge out of CPEC.

PAKISTAN'S RANKING FOR EASE OF DOING BUSINESS SHOWS GRADUAL IMPROVEMENT

Pakistan has shown improvement in its 'ease of doing business' ranking from 148 in 2016 to 144 in 2017, based on World Bank data (World Bank 2017). It takes 260 days for an entity to get construction-related permits as compared with the south Asian average of 196.4 days, while it takes 215 days to obtain an electricity connection and involves five procedures in Karachi (as compared with the south Asian average of 136 days and 5.7 procedures).

WORKING IN THE PROVINCES

Provincial governments have initiated processes to facilitate investment in CPEC projects. For example, the province of Khyber Pakhtunkhwa has established the Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC) as a non-profit organisation wholly owned by the local government of Khyber Pakhtunkhwa. As

stated on the company's official website: 'The company aims to develop and manage world class industrial estates in the Khyber Pakhtunkhwa to help organising and establishing planned and rapid industrialisation in Khyber Pakhtunkhwa. Rehabilitation of the existing industrial estates is also part of the objectives of this company' (KPEZDMC 2015a).

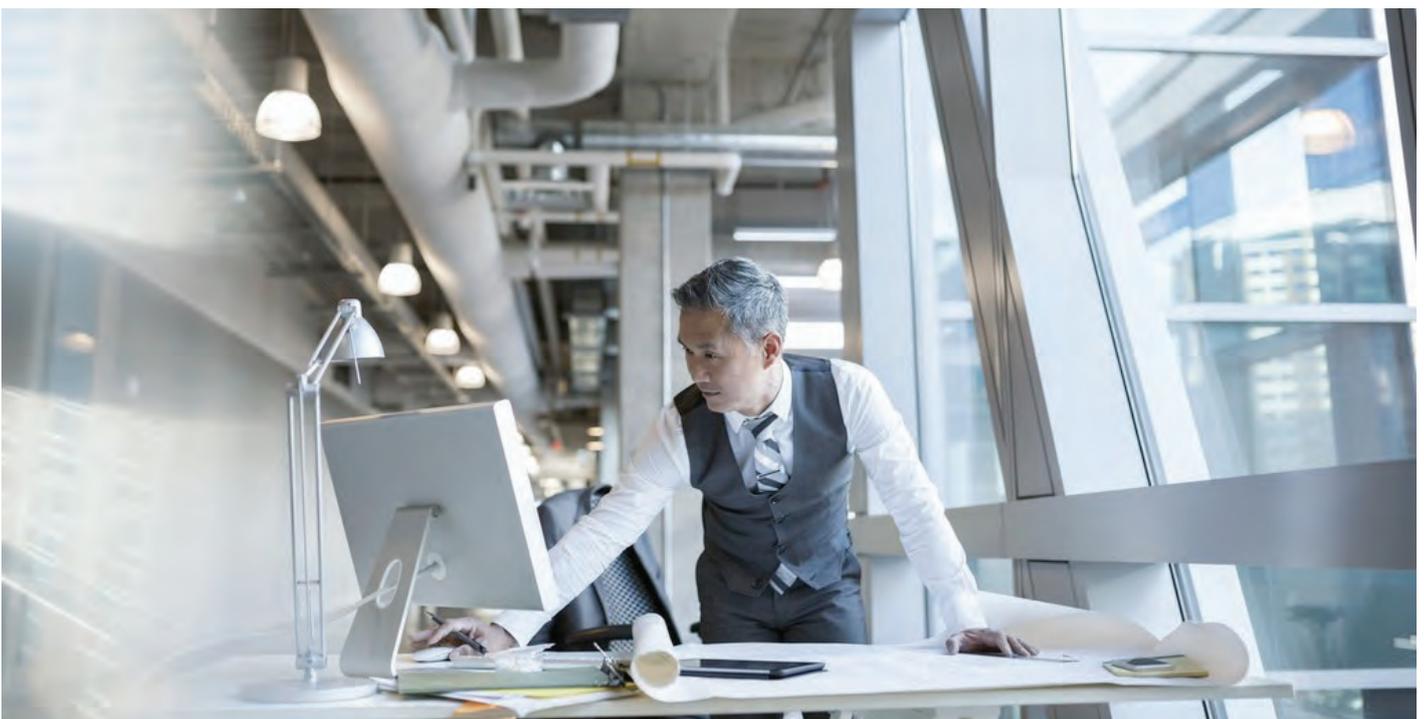
A corporate report (KPEZDMC n.d.: 15) states that: '[the] KPEZDMC strategic team believes in sustainability both technical and financial. Each industrial estate will have its own board of management of resident industrialists, who will be trained and guided by the Company in the management skills required for successful and effective management of industrial estates through a team of professionals'.

Hence, steps and measures are being taken to facilitate interested parties in establishing companies in the minimum possible time.

DOING BUSINESS IN PAKISTAN FOR CHINESE FIRMS

Chinese firms making investments in Pakistan are not required to register as a company. They can be registered as a branch office or initiate a joint venture with a local company or they can opt to become a company under the laws of Pakistan.

Whatever form of business a Chinese firm adopts, it is implicit that its directors need to comply with taxation and other rules and regulations related to audit and the filing of applicable returns to the relevant authority. For these purposes, it will require the services of firms offering accountancy, auditing and other financial services, providing opportunities for accountants.





9. Human development: areas of growth for finance professionals preparing for the future

To promote the availability of skilled workers in the country, the National Vocational and Technical Training Commission (NAVTTTC) is providing training in 38 CPEC-specific trades in 197 institutes across the country (PCN 2017b).

The survey conducted for this report indicates that Pakistan's finance professionals need new skills, new knowledge and behavioural change.

This was supported by 50.9% respondents of the survey, who agreed, and around 19%, who strongly agreed that executives in the finance function will need new skills, new knowledge and different behaviour to handle the challenges of CPEC (Figure 8.1).

FINANCE SKILLS FOR THE FUTURE

What are the skills that finance professionals need to prepare themselves for the future?

The two key skills needed are better communication (advocated by 68.7% of respondents) and better business analytics (66.1%) to enable them to deal with the expected changes.

Ability to communicate with all stakeholders is a most necessary requirement for finance professionals, so that the 'story' presented by the numbers is narrated well. With Chinese companies entering the country, communication skills will become even more important in winning business and articulating the challenges to be tackled. This must be coupled by the finance professionals' skill

in analysing future trends and suggesting to management how these could affect the business strategy. Hence, for growth purposes, transformation is needed from being 'bean counters' to becoming strategic business partners.

The two skills cited by the respondents of the survey as most important after communication and business analytics were taxation knowledge (52.2%) and leadership ability (52%).

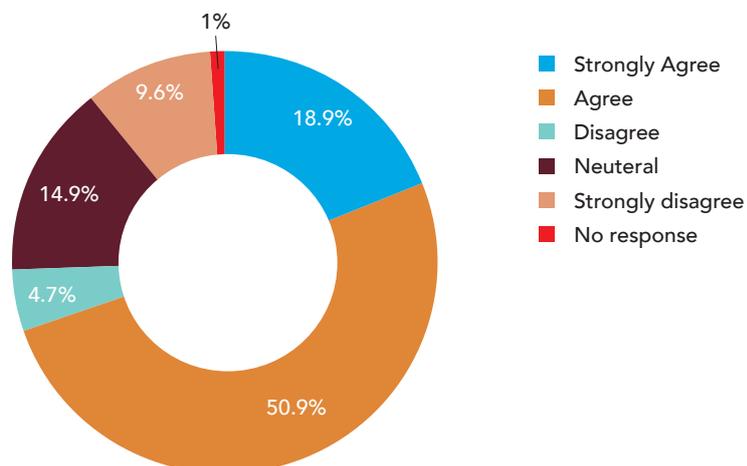
Therefore, in summary, to take advantage of the expected changes, the finance and business professional needs to develop skills in the areas of communication, business analytics, taxation and leadership for future finance excellence.

FINANCE PROFESSIONALS IN PAKISTAN – SKILL DEVELOPMENT. WHAT FINANCE PROFESSIONALS NEED TO LEARN?

'Finance professionals in Pakistan have a good educational and professional background. However, they need to develop their skills for the new future businesses which will emerge out of CPEC. Further, the senior finance professionals need to know about the business side of the ventures which will happen in future, eg coal plants, e-commerce, Fintech' Andy Liu, assistant vice president at the Pakistan China Investment Company, expressed in an interview for this report.

Figure 8.1: Requirements for finance function executives in meeting the challenges of CPEC

Do you consider that the executives in finance functions will need new skills, new knowledge and different behaviours with reference to CPEC?



‘Financially managing Cross-border trades is one of the skills which the finance professional needs to learn in the context of CPEC’, he added.

One of the key roles of finance professionals will be business planning, in which many assumptions have to be made about the future. Therefore, finance professionals need to understand business functions for better business planning.

Liu further elaborated that the Chinese companies have their own financial and accounting policies from their China head offices, for which compliance is required. Therefore, the Chinese subsidiary companies in Pakistan will need to have professionals who are familiar with the Chinese statutory requirements. In addition, for local taxation and reporting requirements, there will be a need for finance professionals who understand the local statutes.

While discussing the challenges faced in Pakistan, Liu mentioned that one of these is hiring experienced staff. Executives working in Pakistan need to learn about the way Chinese people do business, the ethical values of Chinese professionals and their work style. The Chinese believe in working hard, in teamwork and in ‘on time’ delivery. Pakistani business and finance professionals should learn about such traits to avail themselves of the opportunities of working with Chinese professionals in future.

RISK MANAGEMENT

While commenting on risk management, Liu remarked that this is essential in every project being financed under CPEC. There are several risks that have to be managed, including market risk, repatriation of funds risk, taxation-related risks, political and security risks. In practice, to mitigate the risks, one separate department can be formed within the organisation or third-party risk-management services can be used.

A SHORT COURSE ON BUSINESS, THE CHINESE LANGUAGE AND CULTURE WOULD BE HELPFUL

While answering the question about whether there is any need to learn business Chinese and about Chinese culture, around 86% of the c. 500 respondents to the survey agreed that they should attend short courses on business, Chinese language and culture.

Respondents also agreed with the statement that there is a marked difference in the business style of Chinese and Pakistani people (‘strongly agree’: 25.7% ‘agree’: 48.7%).

The need for learning business Chinese language has been emphasised by many finance professionals. Around 28 public and private sector universities are offering courses in Chinese language across Pakistan while ACCA and the Pakistan-China Institute have also jointly offered business Chinese courses.

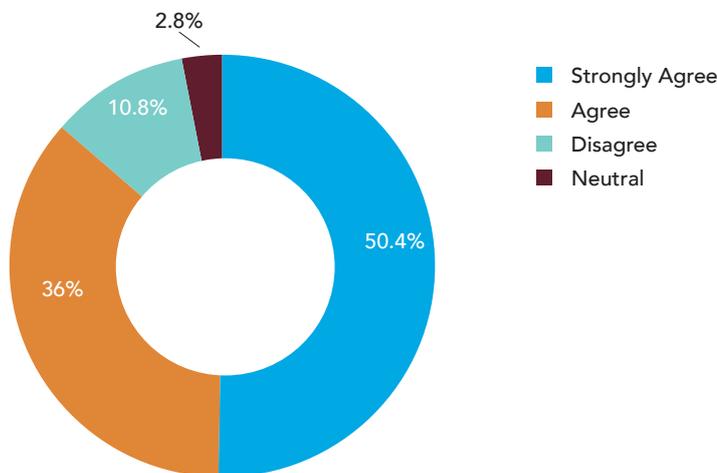
While responding to the question ‘What do you think are the key skills needed by Pakistani executives to be prepared for the future requirements related to CPEC?’, the executives from the Chinese companies listed the following:

- international vision
- good understanding of Chinese culture
- knowledge of Mandarin (the official Chinese language)
- project practices used by Chinese companies
- communication skills
- familiarity with company and tax laws of Pakistan; specific knowledge of tax policies, rebates and concessions allowed under CPEC in Pakistan
- familiarity with Chinese ways of conducting business and Chinese culture, and
- full awareness of the business policies set up by Pakistan’s government for CPEC projects and companies.

The Chinese executives emphasised that while hiring professionals in Pakistan, they look for those with an understanding of Chinese culture and with better communication skills.

Figure 8.2: Respondents’ views on taking courses to prepare for CPEC

Do you consider that the finance executives should attend a short course on business, Chinese language and culture?



THE FUTURE SKILL SET FOR FINANCE PROFESSIONALS

In 2012 ACCA and the Institute of Management Accountants (IMA) published a report titled 100 Drivers of Change for the Global Accountancy Profession (Fast Future 2012).

Most of the skills identified in the report can be linked with those that finance professionals will need owing to the changing business environment in Pakistan.

For the purposes of the present report, there were five expert forums organised in Karachi, Lahore, Peshawar, Quetta and Islamabad, covering four provinces and the capital city.

Each focus group discussion was attended by finance professionals from diversified backgrounds. The skills they identified are more or less similar to those skills identified in the ACCA/IMA report (Fast Future 2012). The skills identified in the expert forums fall in the categories of 'Practice of accounting', 'Accountancy

profession', 'Economy' and 'Business'. The professionals involved argued that international investors will look towards accountants and consultants for guidance in setting up businesses, for investment advice and for carrying out finance and accountancy services.

The 100 drivers of change were divided into eight different groups and related to CPEC and the skills needed for the future (Table 9.1).

Table 9.1: The relationship between drivers of change, CPEC and future skills needs

Drivers of Change	Does this relate to changes that CPEC will bring about?	Skills needed for finance professionals to prepare for the future in Pakistan
Economy	Yes	There will be growth in the economy. The economic environment will change. Economic factors, including demand and supply, will have to be clearly researched if a business intends to reap benefits from CPEC. Finance professionals should be in a position to provide forecasts of demand and supply for better planning and decision making.
Politics and the law	Yes	It is expected that the rules and regulations related to cross-border trade will become more important for finance professionals, who will have to advise management about the compliance required with the relevant statutes.
Society	Yes	There will be business dealings with Chinese firms and, hence, knowledge about business Chinese and cultural differences with the Chinese people will be an added advantage.
Business	Yes	The key skills to sharpen will include communication, negotiation, business management and planning.
Science and Technology	Yes	CPEC is also about digital connectivity. The Country has embraced 4G technology and there are discussions about 5G. Finance professionals will have to learn about the new technologies that will affect the way businesses are conducted.
Environment, energy and resources	Yes	There will be certain changes in the environment as it is expected that, with the establishment of Special Economic Zones and increasing industrial cooperation, manufacturing units will be established that will affect the environment. This will increase the importance of sustainability reporting and adherence to environment-related regulations.
Practice of accounting	Yes	One of the key areas where finance professionals will be in demand is the practice of accounting, particularly when Chinese investors needing services for registering a company with SECP or filing their tax returns or ensuring compliance with the applicable taxation regulations. Finance professionals will need up-to-date knowledge of International Financial Reporting Standards, taxation, business advisory matters and assurance.
Accountancy profession	Yes	Pakistan's accountancy profession is expected to grow owing to large investments from Chinese firms, joint ventures, mergers and acquisitions. During the expert forums organised for this report, finance professionals suggested that accountants need exposure to the international markets, particularly China's, to learn about their business style and increase knowledge of Chinese financial systems.

10.SWOT analysis and expert forums



Highways Network of CPEC

The provincial government considers that IT, hydropower, minerals, education, energy and power, infrastructure, housing, oil and gas, tourism, agriculture and transport are the areas in which investment opportunities exist.



KHYBER PAKHTUNKHWA (KP)

Khyber-Pakhtunkhwa (formerly known as the North-West Frontier Province, or NWFP), runs for over 1,100km along the border with Afghanistan, with Peshawar as the capital. Peshawar was the centre of the ancient kingdom of Gandhara and is rich in archaeological remains.

It is bounded by Afghanistan to the west and north, Punjab province to the south-east, and Baluchistan province to the south-west. On the western boundary of Khyber Pakhtunkhwa, along the Afghan border, are the federally administered tribal areas, a series of semi-autonomous areas that are ethnically homogeneous with the province but not politically connected to it.

The Khyber-Pakhtunkhwa (KP) government has signed a memorandum of understanding (MoU) for 82 projects, together worth more than Rs2.4 trillion, with Chinese companies in the recently-held K-P Economic Cooperation Road Show (KECRS) organised by the provincial government in April 2017 in China (Ullah 2017). The Chief Minister of KP province has termed the signing event and subsequent investment as an 'economic revolution'. In accordance with KP Economic Zones Development and management company website, there are 17 Special Economic Zones being planned in KP.

The sectors in which MoUs have been signed (and consequently where projects will be executed) include: the higher education sector (19 projects – USD393.7m); the housing sector (seven projects – USD3,332m); the industrial sector (12 projects – USD5,704m); and the IT sector (seven MoUs – USD245.2m). Other sectors include mines and minerals (three MoUs), roads (nine MoUs), urban sanitation (three MoUs), the local government sector (two MoUs) and one MoU each in urban development and transportation.

The provincial government considers that IT, hydropower, minerals, education, energy and power, infrastructure,

housing, oil and gas, tourism, agriculture and transport are the areas in which investment opportunities exist (KP 2017).

The provincial government plans to organise a Chinese investment forum, inviting a Chinese delegation to discuss the MoUs and associated projects further.



In order to discuss the strengths, weaknesses, opportunities and threats (SWOT) of CPEC for the province, a focus group discussion was conducted on 8 May 2017, attended by around 25 participants.

While discussing strengths, the participants expressed the view that the rich culture and heritage of the province offers a lot to the tourist who visit KP. Further, the province is rich in minerals, gems and jewellery and has a border with Afghanistan, which gives the province a strategic advantage by connecting it with China, thus facilitating exports. They also considered that human resource is available, though there is a need for vocational training.

While citing weaknesses, lack of awareness about CPEC was cited as one of the key weaknesses, followed by the need for better coordination among the central (federal) and KP provincial governments. Furthermore, they indicated that the pace of work on CPEC project needs to be accelerated and the people need to be trained in the different skills that will be required in the big planned projects.

The weaknesses can be turned into opportunities by:

- Initiating skill development training programs
- Organising CPEC related awareness sessions through universities and chambers of commerce; and
- Improving transparency through adequate disclosures on websites

Opportunities available to private sector companies include partnership with government to establish a public private partnership model, both to stimulate current growth and to take advantage of future growth prospects. In addition, focus group participants predicted that, owing to the advantages of the Special Economic Zones and increased industrial production, exports will increase. This will also generate increases in employment. Participants also considered that external perceptions of the province will improve because of huge investment in industry and improvement in the security situation. There will also be more opportunities for finance professionals (providing services to the newly established companies)

While deliberating on threats, participants considered the expected increase in competition and influx of new products from China as a key threat for local

manufacturing. Security threats will have to be addressed to ensure that investors are protected. It is essential that, after such massive investment, there is an increase in manufacturing in the country to avoid trade deficits. Therefore, a threat to the revival of local industries remains. On the other hand, such massive investment in industry will result in carbon emissions, industrial waste and possibly excessive consumption of natural resources. To counter this environmental threat, these aspects will have to be managed carefully.

A SWOT analysis summary of the KP focus group discussion can be summarised as shown in Table 10.1.

Table 10.1: Strength, weakness, opportunities and threats in KPK

<p>Strengths</p> <ul style="list-style-type: none"> • Availability of human capital • Culture and heritage of KPK will attract tourists • KPK has huge mineral resources and geographical advantage, including a border with Afghanistan • Competence and capabilities for future growth • Quality products are manufactured 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of awareness: locals are unaware of CPEC Projects • Need for better coordination among the federal and provincial governments • Slow pace of development • Lack of the necessary skills to benefit from CPEC
<p>Opportunities</p> <ul style="list-style-type: none"> • Strategic alliances and public private partnerships • Business growth due to increase in exports • Innovation and technology development • Increase in employment and tourism • Global image will improve - better perception abroad • Security situation will enhance and fiscal policies will improve • Demand for local goods will increase and local industries will flourish, specially SMEs • Opportunities for finance professionals (providing services to the newly established companies) 	<p>Threats</p> <ul style="list-style-type: none"> • Strong competition • Import of cheap raw materials from China will have adverse impact on local markets • Security and terrorism risks • Increase in imported cheap goods in the markets • Trade deficit will increase, if reliance remains on imports • Carbon emissions, industrial waste and excessive consumption of natural resources will damage the environment.



PUNJAB

Punjab is Pakistan’s most industrialised province, with the industrial sector making up 24% of the province’s gross domestic product. The province is known in Pakistan for its relative prosperity, and has the lowest rate of poverty among all Pakistani provinces. Punjab is also one of south Asia’s most urbanised regions with approximately 40% of people living in urban areas.

The chief economist of the Planning and Development Board of the province, Dr M. Aman Ullah, is of the view that ‘Punjab has a huge potential to take the lead under CPEC. This is primarily due to Punjab’s conducive business environment in terms of its suitable geography, its sustainable law and order situation, the high Human Development Index of its population and its cultural diversity and dynamic leadership’ (Aman Ullah 2017).



The focus group session was organised in Lahore on 18 May 2017 and was attended by around 30 participants.

While discussing the province’s strengths, participants argued that Punjab, being a cultural centre of long standing, offers tourists a lot to visit. Furthermore, the province shares a border with India. The province has a large number of educational institutions and a large youth population. The availability of quality infrastructure in shape of the metro bus system is considered to be a strength (PMA 2017).

While discussing weaknesses, participants mentioned the need for skilled labour, ie technically trained staff for employment in the large-scale projects. Further, there needs to be more public awareness of CPEC.

Participants considered that job opportunities will increase and living conditions will improve. Further, businesses will obtain access to Chinese and central Asian markets and population increases will give rise to the development of new cities, new recreational centres and parks. On the whole, participants considered that the quality of life will improve.

While discussing threats that may arise from CPEC, participants cited over-exploitation of natural resources, pollution and environmental threats and a need to manage those adequately. Participants also expressed their concern about the increase in the national debt and security challenges that will have to

be addressed. Participants argued that further influxes of goods from China may pose a threat to existing SMEs, for which they need to prepare and adapt.

The weaknesses can be addressed by forecasting the demands of skilled labour arising due to CPEC projects and then initiating targeted skills development programs. Further, public trust can be enhanced through more public private partnership projects. To ensure accountability and increase transparency, information about public financial management systems can be made public through websites and public announcements.

SWOT analysis summary of the Punjab focus group discussion can be summarised as in Table 10.2.

Table 10.2: Strength, weakness, opportunities and threats in Punjab

<p>Strengths</p> <ul style="list-style-type: none"> • Historical places to attract tourists • Shares a border with India, which will enhance trade through the border • Strong educational institutions and large number of young professionals • Investments in infrastructure, eg Orange train and metro buses • Agriculture sector is very strong and supplies the country 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of availability of a skilled workforce/ lack of training • Lack of awareness about CPEC projects • High production costs • Lack of accountability • Lack of public trust in private public partnership projects • Financial constraints of provinces • Weak bargaining power in relation to CPEC projects
<p>Opportunities</p> <ul style="list-style-type: none"> • Job opportunities • A chance to boost to the living conditions of locals • Access to Chinese and central Asian markets • Development of new cities • New developments of recreational centres, parks and hotels • With Chinese investment, there will be an opportunity to improve the security/law and order situation 	<p>Threats</p> <ul style="list-style-type: none"> • Threats to heritage and culture • Chinese infrastructure – threat to local industry and SMEs • Security threat • Lack of separate policies for foreign companies • The problem of repaying debts that Pakistan incurs through CPEC • Over-exploitation of natural resources • Pollution and other environmental threats, and health issues



SINDH

Sindh is the third-largest province of Pakistan by area, and second only to Punjab by size of population. Sindh is bordered by Balochistan province to the west, and Punjab at the north. This province also shares a border with Indian states to the east and has a coastline on the Arabian Sea to the south.

Sindh's landscape consists mostly of alluvial plains flanking the Indus River, although the Thar Desert lies in the eastern portion of the province. Sindh's climate is noted for hot summers and mild winters. The provincial capital of Sindh is Pakistan's largest city and its financial hub, Karachi.



A focus group discussion session took place at Karachi on 10 May 2017 and was attended by around 22 participants.

The participants cited availability of human capital as one of the key strengths of the province, particularly in Karachi city. Karachi, being a port city and having access to Gwadar (another port city in the making), is a huge strength for the province, giving it opportunities for increasing business via the sea route. The province has a vibrant financial sector and is home to shipping, fishing and other industries.

While deliberating upon weaknesses, the lack of adequate law and order in the province and energy shortages were cited. The group recognised the need for more awareness about CPEC-related projects, enabling people to take advantage of the opportunities that will become available in future. Lack of adequate IT infrastructure in rural areas and a high illiteracy rate were also cited as weaknesses of the province that need to be addressed.

Participants opined that CPEC presents lots of opportunities, particularly growth in business for fishing, transportation, cement, steel and the banking sector. It should also generate employment. Companies will have opportunities for entering into joint ventures with Chinese companies and their products/services will have access to international markets.

The key threats from CPEC for the province include an environmental threat due to the increase in industrial activities, and threats from the dominance of Chinese companies in the market. Participants considered that the debt financing of the projects may pose a financial threat while CPEC projects may result in the cultural dominance of Chinese people.

SWOT analysis summary of the Sindh focused group discussion is summarised as in Table 10.3.

Table 10.3: Strength, weakness, opportunities and threats in Sindh

<p>Strengths</p> <ul style="list-style-type: none"> • Availability of human capital (skilled and unskilled) and unused land • Easy access to Gwadar and the Arabian Sea • Large number of financial aid providers • Availability of low-cost labour and raw material • Shipping, fishing and motor vehicle industries already exist and are growing • Construction of roads and infrastructure projects is in progress • Cosmopolitan society 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of law and order • Insufficient electricity generation • Lack of public awareness of the CPEC opportunities • Lack of long-term strategies and vision • Low literacy rate • Poor IT Infrastructure • Lack of understanding of Chinese culture
<p>Opportunities</p> <ul style="list-style-type: none"> • To develop businesses, particularly for fishing, transportation, cement, steel and the banking sector • Employment generation • Joint ventures with Chinese companies • Increase in access to international markets • Growth in SME / cottage industry • Opportunities for outsourcing industry 	<p>Threats</p> <ul style="list-style-type: none"> • Pollution and environmental threats • Dominance and undue influence of the Chinese • Increase in importation of petroleum and electronic goods • Regional rivalry • External debt financing and payment • Cultural imperialism • Lack of meritocracy • Intra-provincial conflicts

The province has Gwadar port, which is one of the key focus areas of CPEC's work and projects.



BALOCHISTAN

Geographically, Balochistan is the largest province of the country but with the lowest population of all Pakistan's provinces. Its provincial capital and largest city is Quetta. It has borders with Punjab and the Federally Administered Tribal Areas to the northeast, Sindh to the east and southeast, the Arabian Sea to the south, Iran to the west and Afghanistan to the north and northwest.

Largely underdeveloped, Balochistan's provincial economy is dominated by natural resources, especially its natural gas fields, which are estimated to have sufficient capacity to supply Pakistan's demands over the medium to long term. Aside from Quetta, a further area of major economic importance is Gwadar Port on the Arabian sea of Pakistan, forming the southwestern region of the country.



The focus group discussion was organised on 19 July 2017 at Quetta and was attended by 22 participants.

The discussion covered tourism, the mining industry and the availability of land, which, along with mineral resources, participants considered to be the province's strengths. Further, the province has Gwadar port, which is one of the key focus areas of CPEC's work and projects.

Participants discussed the province's lack of skilled labour and the low literacy rates compared with other provinces. Therefore, this area needs particular attention to ensure that local people are able to find jobs in the CPEC projects. In addition, the general public is not aware of the CPEC projects or of how to prepare themselves for the opportunities that will arise in the future.

Owing to massive investment in CPEC, participants argued that there will be employment opportunities that will create economic prosperity. Improved access of businesses to markets will contribute to this. To benefit from the opportunities, the people of the province need to manage available resources with care, and governance within the province needs further improvement. Security and law and order arrangements need to be monitored and controlled to ensure that the benefits of CPEC projects are manifested.

SWOT analysis summary of the Balochistan focused group discussion is summarised as in Table 10.4

Table 10.4: Strength, weakness, opportunities and threats in Balochistan

<p>Strengths</p> <ul style="list-style-type: none"> • Tourism • Mining industry • Export of agriculture products • Natural resources – coal, gold and copper • Large area for industry set-up and for energy projects • Gwadar port 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of availability of skilled labour • Low literacy rate • Lack of government projects and initiatives • Military interference and feudalism • Scarcity of basic needs such as drinking water • People are unaware of the benefits of CPEC
<p>Opportunities</p> <ul style="list-style-type: none"> • Employment opportunities • Access to other markets in central Asia and China • People empowerment due to access to new markets • Investment in infrastructure is certain • Connectivity with other parts of the country through new rail and road connections • Foreign direct investment 	<p>Threats</p> <ul style="list-style-type: none"> • Mismanagement of resources • Local unemployment • Inadequate law and order/ security • Governance issues

CPEC offers opportunities for collaboration with Chinese companies, particularly for the transfer of technology to improve production and efficiency.



The participants considered that the infrastructure of the city is improving and CPEC is expected to provide better access to international markets. They argued that CPEC will give a boost to many sectors of the economy, including tourism, transportation, hospitality and energy.

The weaknesses that need to be addressed include lack of skilled human resource, the law and order situation, lack of inter-province collaboration, communication issues with Chinese companies and higher production costs in Pakistan, where industries lack the economies of scale found in Chinese industries.

CPEC offers opportunities for collaboration with Chinese companies, particularly for the transfer of technology to improve production and efficiency. With better infrastructure, trade opportunities are expected to increase.

As elsewhere in Pakistan, there will be an increasing threat to the environment from expanded industrial activity, which will need to be addressed. Other threats arise from governance issues and the weaknesses identified above: inadequate security and lack of inter-provincial collaboration and cooperation.

SWOT analysis summary of the Islamabad focused group discussion is summarised as in Table 10.5

ISLAMABAD

Islamabad is the capital city of Pakistan. In 1960, land was transferred from Rawalpindi in the Punjab province for the purpose of establishing Pakistan's new capital. Being the federal capital, Islamabad is the seat of government and the location of foreign embassies/missions and international donor agencies.



The focused group discussion was organised at Islamabad on 18 May 2017, attended by around 25 participants.

Table 10.5: Strength, weakness, opportunities and threats in Islamabad

<p>Strengths</p> <ul style="list-style-type: none"> • Broadband telecom and hospitality industries are growing in the capital • Better and cheaper access to international markets • The service, manufacturing, transportation, energy and hospitality industries are ripe for expansion • Strong Pakistan-China friendship • Barrier for new entrants is low 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Poor law and order • Lack of skilled labour • Lack of transparency and cooperation among provinces • The language barrier results in gap in communication • Dependency on China for financial aid • Production costs in Pakistan are high owing to shortage of electricity and imported raw material use
<p>Opportunities</p> <ul style="list-style-type: none"> • Strategic alliances, partnerships • Import, export • Innovation and technology development • Employment generation for skilled and unskilled labour • Improvements in industry know-how • Productivity enhancement • Inflow of FDI • Hospitality industry growth • Opportunities for existing local industries such as cement, banking and transport • Infrastructure development • Export of goods and services • Tourism is set to increase 	<p>Threats</p> <ul style="list-style-type: none"> • Security threats and lack of law and order • Migration of local industry to the economic zone • Political instability and influence • Governance issues / transparency • Lack of communication between provincial and federal governments • Exhaustion of natural resources • Pollution (ecosystem damage) and limited energy resources • Possible damage to relationships with neighbouring countries



11. The way forward

There will be a new day. Things will change. To prepare for the anticipated changes and to grow, one needs to adapt according to the changing circumstances. It is said that change is growth and growth is change. The B&R and CPEC both provide visible indications of massive changes that will take place in the years to 2030.

What should finance and business professionals do to prepare themselves for the business growth that will take place?

- The key is to understand how change will affect their lives and the organisations in which they are working.
- On the completion of the so-called 'early harvest' projects related to power plants, most of the energy requirements will be fulfilled. This means that electricity will be available for production. Will this result in reducing the cost of production? This is anybody's guess.

- Finance professionals will need to answer two questions - how will we become competitive in the changing scenario?; What additional skills are required to take advantage of the road and railway infrastructure improvement and availability of industrial zones?
- In the case of skills development, there will be a need for skilled human resource in all related industries, including the manufacturing and services sectors, as outlined in this report.
- Visiting China and meeting with relevant Chinese companies interested in investing in Pakistan is another option to be explored.
- Knowledgeable people may be needed to develop a detailed future strategy based on the longer-term implications of CPEC.
- To make appropriate decisions at the organisational and personal level, finance professionals with need to learn and think carefully about cross-border trade, the Chinese way of doing business, Chinese cultural and ethical values, and the advantages that could arise from CPEC, among other things .

Relevant Government departments should consider creating more awareness, particularly for the writers and media professionals on the concerns raised related to debt repayment and transparency in CPEC related projects. This will foster trust between different segments of society and the Government. Policy level dialogue may also be initiated to address concerns of the business community in the country and obtaining feedback from the relevant stakeholders.

Thinking ahead and preparing for change requires an improved skill set to ensure that the benefits are realised. Finance professionals are in a position to reap these benefits. To obtain them, reading more about CPEC is essential, concentrating on the area of business growth that is of interest to the individual and then analysing the course of action that must be adopted.

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