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Research Paper

Post Covid-19 Economy and CPEC



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ABSTRACT:

The Covid-19 pandemic has resulted in massive devastation in almost every walk of life. The contagious virus has left national economies and businesses counting the costs, as governments struggled with the limitations to curtail the spread of the virus. Hundreds of thousands of people have already died across the continents. The world is still combating the virus. It has emerged as the greatest challenge of all times, thereby, the economy of every country has suffered in a very drastic manner. Pakistan has been one of the countries, which is worst affected by the pandemic. However, in the post-pandemic era, some significant progress has been made in different dimensions. The halted growth of Pakistan's economy has also started to revive. The economic sustainability of the country is associated with the prosperity of the China Pakistan

Economic Corridor (CPEC). In this regard, discussing the important aspects of CPEC related economic growth in post-pandemic era is vital. Many other regional states



have shown their desire to get aligned with this mega project. This type of constructive engagement and cooperation would result in a win-win situation for all the partner states and would help to attain the desired goal of a shared future collectively. This paper highlights in general, the global economic prospects in the post-Covid era, and particularly, the prospects of Pakistan's economy. Moreover, this paper also enunciates the significant contours of CPEC in the Post-Covid era.



1. Introduction:

In today's algorithmic world, the National Security agenda of sovereign states have extended beyond the traditional state-centric approach. After the end of the cold war, the security approach has been widened by the inclusion of a large set of threats to the people of the state. Broadly, non-traditional threats are perceived as: "Challenges to the survival and well-being of people and states that arise primarily, out of non-military sources, such as climate change, cross-border environmental degradation, pandemics, resource depletion, infectious diseases, natural disasters, irregular migration, food shortages, human and drug trafficking, and other forms of transnational crime" ¹. As the world has progressed into a new dimension, new challenges started to shape the course of security studies. In this context, the non-traditional security threats gained relevance in the 21st century. Presently, out of all above mentioned non-traditional security threats, the world has witnessed massive economic set back due to the pandemic. In human history, Coronavirus is one of the most devastating pandemics. Due to this virus, the economies have suffered catastrophically. The major global disruption of this pandemic had spillover effects and consequences. The disruptions to the global supply chains, tight border control policies, traveling limitations, lockdowns, have daunting impacts on financial and economic systems. These were the main reasons for the global economic halt. The pandemic has resulted in massive devastation in almost every walk of life. The contagious virus has left national economies and businesses counting the costs, as governments struggled with the

¹Iqbal khalid, "Pakistan's traditional and non-traditional challenges", Academia.edu.



limitations to curtail the spread of the virus. Even now, with the start of the global vaccine campaign, the world is still combating the pandemic.

Analysis and Discussion

The first part of the research discusses, in general, the implication of the Covid-19 pandemic on the global economies and particularly on Pakistan's economy. Moreover, a brief overview of the initiatives to combat the virus and analysis of the containment policies are also discussed. The second part of the study highlights the potential contours of the China Pakistan Economic Corridor (CPEC) in the post-Covid-19 era. The opportunities of inclusive economic connectivity and future prospects for regional cooperation under CPEC are also explained briefly.

2.1 Covid-19 Pandemic: A Non-Traditional Security Threat

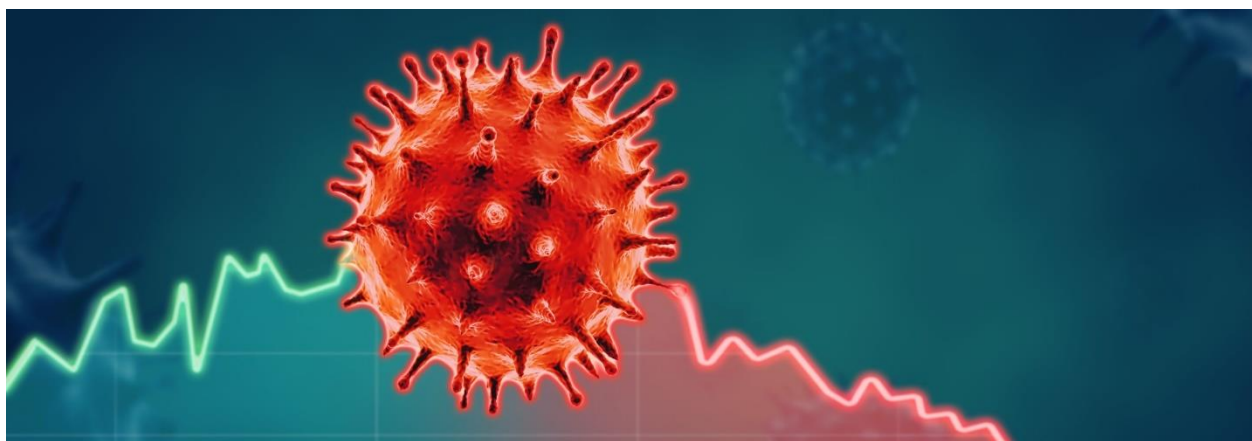
The pandemic has not only caused casualties like deaths and severe illnesses but also generated uncertainties and fears that lead to a shift of beliefs and adopted behaviors. The regional and international organizations have serious concerns over its long-lasting impacts. The financial and economic aspects of life are affected by the virus, thereby, changing the course of globalization expressively. In the context of Pakistan, for a quite long time now the focus has been shifted towards the non-traditional security threat (NTS). In present times, security is viewed as a comprehensive security. It is said that if a country is weak from the inside, it is easier to break it from the outside.² So, national security is now interlinked with the non-traditional security domain. These

²Lt. General Nasir Khan Junjua (R), "Non-traditional security challenges to Pakistan", Institute of strategic studies, March 28,2019.

challenges are non-military in nature, transnational in scope, neither purely domestic nor interstate. However, it severely affects the national security, survival, and wellbeing of the people. The consequences of the non-traditional security threats are associated with the non-conventional nature of the security paradigm. In human history, Coronavirus is one of the most devastating pandemics. Pakistan has been one of the countries, which is worst affected by the pandemic. It has brought numerous transformations in human lives. The multi-dimensional changes are witnessed in almost every sector. For example, the finance sector, economy, environment, political relations, education, and most importantly the health-care system.

2.2 Impacts of Covid-19 on the Global Economies: An Overview of a Changed World

The global economy has witnessed a contraction in different segments of production and services. Even in most advanced countries, a drastic change has been witnessed, particularly, in the manufacturing and services sectors. Moreover, the adverse effects have also resulted in the form of global recession. Following are the areas: financial markets, consumption patterns (through both income and wealth effects), trade, and



investment. The implications were so huge, thereby, created more havoc than the Great Depression in the past century.

According to an analysis, the real global Gross Domestic Product (GDP) was contracted by 0.5% in 2020 and will contract further by 3.2% in 2021.³ Also, in 2020 the Global growth is projected at -4.4 percent, a less severe contraction than the forecast in June 2020. ⁴As per another analysis of Richard Kozul-Wright, director of Globalization and Development Strategies at United Nations Conference on Trade and Development (UNCTAD), a \$2 trillion shortfall in global income is to be expected, with a \$220 billion setback to the developing countries. ⁵In this regard, it can be anticipated that the most badly affected economies could be the oil-exporting countries.

2.3 Pakistan Healthcare System in Covid-19:

Healthcare workers are one of the most affected communities at the global level during the pandemic of COVID-19. In the context of Pakistan, it allocates less than 1% of its GDP for the healthcare sector. This is the reason that in majority cases,



healthcare workers are bound to serve without adopting standard safety measures

³ Official Source: <https://invest.gov.pk/covid19-and-pakistan#gallery-1>

⁴ Source: A long and difficult ascent, Executive Summary, *World Economic outlook, October*, ExecSum.pdf, WEO (Update)
<https://www.imf.org/media/Files/Publications/WEO/2020/October/English/ExecSum.ashx>

⁵ Ibid 4



while dealing with patients. During the pandemic, the need for proper Personal Protection Equipment (PPE) and other medical necessities, has been felt more than ever. Due to the quick transferability of the virus, from an infected person to a healthy one, vulnerability increased at a higher level even after the start of a global vaccination campaign.⁶

2.4 Global Response to Combat Covid-19: Measures taken to Sustain Economies

At the global level, many significant measures have been taken to sustain the economic structures of the nations and maintain the socio-politico system within the state. Sever containment measures were taken to overcome the swelling economic damage and combat the common global health crisis. Globally, apart from liquidity injections to keep the banks and corporations afloat, significant measures have included in government spending to avert the slowdown of economic activity. It was particularly for the health care system, immunization, social outreach, social mobilization, extended unemployment benefits and cash transfers.

According to a report of Globalization and Development Strategies at the United Nations Conference on Trade and Development (UNCTAD), the global stimulus packages will boost the national incomes of advanced economies and particularly China, to the tune of \$1.4 trillion in 2020.⁷ The ratio of the relief packages is expected to rise in near future. The impact, however, is smaller than the values of the packages

⁶ Jafar, M., & Shoukat, A. (2020). Factors Affecting Performance of Healthcare Workers During COVID-19 in Pakistan. *Space and Culture, India*, 8(2), 62-73.

⁷ Source: <https://invest.gov.pk/covid19-and-pakistan#gallery-1>



themselves. It surely will have a positive impact not only on the relevant country's economy but also the global economy. The impetus is expected to prevent the economic recession from turning it into a prolonged period. In this aspect, four immediate actions should be taken that can help in combating the Covid-19 crisis, building resilience and ensure that adequate finance is channeled at a broader level.

The options are as follows:

- a. The monetary authorities and the Government must continue to stabilize financial markets by injecting needed liquidity.
- b. The Governments must get partnered with the private financial institutions to finance the debt in Small to Medium Enterprises (SMEs) and individuals. It can result in a Quid pro quo.⁸
- c. Strengthening the regional and global partnership.
- d. A robust policy response must be taken to build resilience and facilitate sustainable development in multiple dimensions. In this regard, the following are the areas mentioned below:
 1. Public and private investment in sustainable development such as building resilient infrastructure.
 2. Strengthening social protection systems and implementing laws.
 3. Additional investment should be done in planning, conflict resolution, crisis prevention and risk management.

⁸ Details: Quid pro quo is a financial term used in mutual agreement between parties that gives consideration and benefit to each other in exchange for the goods or services.



4. Eliminating trade limitations and barriers that affect the supply chains.

2.5 Post Covid-19 Chinese Economy: An Analysis

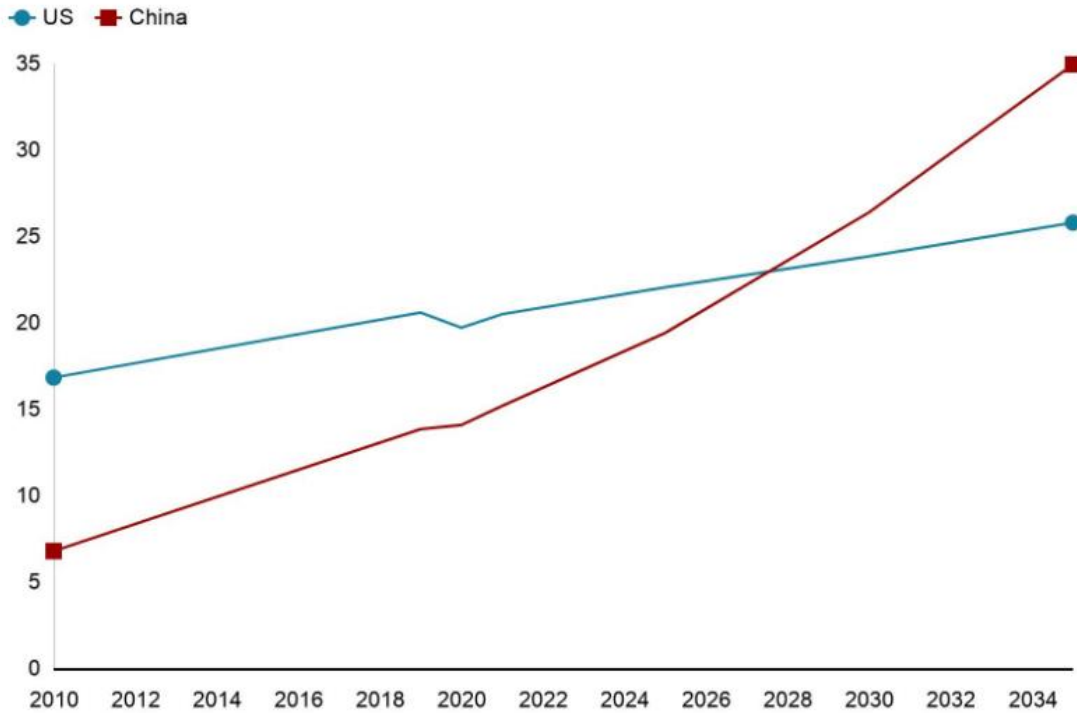
China is the first country that has emerged too quickly out of the devastating implications of the pandemic. In the early months of 2020, the Chinese economy grew up to 2.3%.⁹ The swift economic recovery was made possible because of strict virus containment measures and emergency relief packages for the businesses. Moreover, it is expected that the quick recovery would pave the way for China's economic growth rate to further increase in 2021 and beyond. Its manufacturing sector appears to have recovered, with a 7.3% increase in the industrial output. All these success stories manifest that its exports grew by more than what was expected, as coronavirus disruptions around the world have increased the demand for its products. Despite the economic assistance, in present times, China has been assisting many developing countries with the supply of pharmaceuticals and Corona vaccine (Sinopharm). It is also expected that China will aid/assist 38 more developing countries, which need Covid-19 vaccines.

⁹ Source: S&P Global Platts <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/011821-chinas-2020-gdp-rises-23-robust-economic-growth-expected-in-2021>

2.6 Comparative Analysis of the Economic Growth: China and U.S

US and Chinese economies 2010-2035

Gross domestic product in \$US trillions (constant prices)



Source: CEBR World Economic League Table 2021

BBC

The above-mentioned graph shows that the economy of the United States (US) will witness a surge of about 1.9% annually from 2022-24. However, it will get slow to almost 1.6% in the years after 2024¹⁰. On the other side, the Chinese economy will grow by 5.7% annually until 2025, and 4.5% from 2026-2030 annually.¹¹ As per these figures, it is clear that China is fruitfully accounting for the economic prosperity. The Chinese

¹⁰ Source: *BBC News*, 26 December 2020
<https://www.bbc.com/news/world-asia-china-55454146>

¹¹ Ibid

share in the world economy has risen from just 3.6% in 2000 to 17.8% in recent times.

Moreover, the country is expected to become a "high-income economy" by 2023.

2. The Belt and Road Initiative (BRI):

The advancement of China in the 21st century is clear through its connectivity via the Belt and Road Initiative (BRI) and its Flagship project China Pakistan Economic Corridor (CPEC). Even in the adverse time



of the pandemic (Covid-19), the pace of connectivity and economic projects is not halted. This shows China's optimism and constructive engagement in integrating and completing the projects in due course of time. BRI is a unique initiative at the global level, which offers a plethora of opportunities for sustainable development across and within countries. The approach encapsulates the pillars of multiple national, sub-national, regional and local economies. Profound and ambitious in its reach and scope to ensure complementary advantages, it has the potential to influence sustainable development outcomes.

3.1 China Pakistan Economic Corridor (CPEC): An Overview of the Potential

Pakistan is enriched in natural endowments like minerals, five seasons, fertile agricultural land, a hardworking labor force, the world's largest and oldest canal system and the deep-sea port of Gwadar. In this context, CPEC is one of the most significant, biggest and far-reaching initiatives for both nations in the history of their mutual



relationships. It is fruitfully accounting for open market development, building mutual trust, economic integration and fostering cultural ties between both states. Due to this project, new patterns of cooperation are emerging that is substantially contributing to enhance people to people contact, robust diplomatic and commercial ties and cultural exchange benefits. CPEC is supported by detailed planning, smooth execution and skilled human resource from both countries. Its main aim is to connect Western China with the Gwadar. The core objective is to maximize the advantages from its geostrategic location that pave the way for a prosperous future. The benefits would contribute to state's GDP growth, build the nation's resilience and have a positive ripple effect on long term sustainable development. The project was commenced in 2015 and has defining future goals for the next 25 years of inter and intra-regional connectivity. The economic growth axis and development in the determined time is featuring complimentary advantages to both states. Both countries have their own goals to be gained through the CPEC. Pakistan aims to overcome the challenges faced in economic development, energy and social welfare. While on the other hand, China is aiming high economic growth rate and intends to extend its trade periphery in the global market and to create energy and trade routes.

In this aspect, CPEC has become a central focus for many regional powers. It provides a great opportunity for foreign direct investment and trade. Enormous business opportunities are being created due to this mega project. It has provided the traders, vendors and entrepreneurs a lucrative way to invest within and across the border. With the completion of the desired goals, Pakistan will be the beneficiary of having world-



class model of road/railways networks, infrastructure, communication networks and SEZs. There are also multiple policies imperatives of CPEC i.e., energy policy, industrial policy, financial policy, trade policy and skill development policy. Out of these policy imperatives, a standard trade and economic appraisal give a chance to giant multinational corporations (MNCs), firms, and entrepreneurs to bring capital, invest in multiple projects and generate a lucrative amount of profit.

3.2 Pakistan's Investment Initiatives:

Under CPEC, the country's financial investment would witness an upsurge during the ongoing period of medium-term plans. To operationalize these plans, long-term balance of payment (BOP) outflow, is required. It would be in the form of profit repatriation, loan repayments and imports of input fuels. Moreover, in the medium term, the outflows of oil-based generated electricity in the energy projects, are expected to rise in coming years. However, less growth of energy demand and fast phasing out of oil-based energy generation capacity along with other contributing factors will help in lowering these outflows.

3.3 Opportunities for Small and Medium Enterprises (SMEs):

The game-changer project (CPEC) offers significant ways for SMEs to sustainably grow in the process for inclusive economic development.¹² It provides a step forward for SMEs to access the capital markets, establish a profitable business plan, improve the capacity of financial institutions, focus on capital flows and develop a collateral

¹² Official Source: <http://cpec.gov.pk/news/9>



inclusive mechanism to remove the barriers in business affairs and economic development. In this aspect it can be anticipated that, with increased economic regional activity and connectivity via CPEC, the SMEs would meet the desire goals of foreign direct investment and reserves.

In this regard, there is a pertinent role of the relevant business firms, financial institutions, universities, industrial faculties and research networks. In this aspect, they should provide conducive opportunities, training programs and facilitate research projects that link students and young entrepreneurs directly. Moreover, they can learn the various patterns of entrepreneurship, multiple business techniques, develop business skills, and get familiar with the advanced business trends. This comprehensive process would allow them to explore new chances, employment, increase their living standards and experience success under CPEC. The main focus to achieve all these aims should be aligned with creating harmony among the social and economic platforms with a strong policy orientation process and ambitious goal.

3.4 Analyzing the Trade Policy under CPEC:

Liberalizing the trade policy and reducing tariffs outrightly, for both imports-exports, gives a great opportunity to Pakistan for its economic prosperity.¹³ In 2018, Pakistan's exports to China was equaled about US\$1.75 billion, while China's exports to Pakistan reached US\$14 billion. ¹⁴ The ratio of import and exports are enhancing further in this

¹³Source: International growth center

<https://www.theigc.org/project/pakistans-international-trade-the-potential-for-expansion-towards-east-and-west/>

¹⁴ Report: South Asia Economic Focus- Spring 2019



domain. Moreover, it is expected and already witnessed that the trade ratio would grow at a fast pace particularly under CPEC in near future. It is a project that identifies the hurdles for the smooth flow of trade and financial transactions within and outside the state even at the time of crisis like Covid-19.

The liberalization of economic policies, increases the flow of transactions. Also, it will enhance the ratio of import and export of goods and services. The substantial expansion of the trade sector will facilitate Pakistan and attract foreign direct investment. But for this, the growth rate has to increase up to a certain level annually.¹⁵ However, the foreign exchange regime is becoming too restrictive for making timely payments to the vendors, financiers, constructors and suppliers. In this context, the exchange rate has to be managed effectively that the new export product and firm get easily penetrated in the market. Moreover, providing feasible policy options and prices on goods and services is significant to maintain the existing capital flows and price mechanism under CPEC.

3. Future Prospects: Post Covid-19 Economy and CPEC

In the post- Covid-19 era, significant progress has been made in different areas. Now, the world is progressing forward with the start of the global vaccine campaigns. The slow growth of Pakistan's economy has also started to revive. With the start of the

<http://pubdocs.worldbank.org/en/610891557730060473/051419-South-Asia-Economic-Focus-Exports-Wanted-Robert-Beyer.pdf>

¹⁵ http://cpec.gov.pk/brain/public/uploads/documents/CPEC-and-Pakistani-Economy_An-Appraisal.pdf



vaccine campaign, the Government of Pakistan has taken other significant measures initiatives to sustain the economy and provide relief to its citizens. Furthermore, the CPEC project has also revolutionized the concepts of regional connectivity, integration, inclusive economic patterns and assistance in many dimensions. The economic sustainability of Pakistan is indeed associated with the CPEC. In this regard, discussing this intrinsic dynamic of the CPEC related economic growth in post-pandemic era is vital. As mentioned above that even in the global catalyst, the pace of the projects is not halted. This shows the efforts and commitment of China and Pakistan to fulfill the mega project in due time. Moreover, the other regional states have shown their desire to get aligned in this mega project. So, this kind of constructive engagement and patterns of cooperation would result in a win-win situation for all the partner states and would also help to attain the goal of community with a shared future collectively.

Moreover, it is quite known to everyone that China has become the world's first economy that has recovered quickly out of the adverse impacts of covid-19. It is also assisting many countries in this crucial time of the pandemic. In this aspect, the connectivity and potential of regional integration via CPEC can be harnessed in a way to build multilateral ties with other regional countries. It will also bring peace to the region through collective efforts.



4. Conclusion:

The exemplary nature and contours of the diplomatic relations between Pakistan and China are well-known and well-discussed at the regional and global levels. Consequently, both countries have established an example for the international community to jointly fight the coronavirus pandemic. Both countries are optimistic to further strengthen cooperation to defeat the Covid-19 pandemic and strive to promote the establishment of community with a Shared Future and Community of Common Health.

The advent of the CPEC has steered the ties between two countries into a new era of vitality and economic recovery. It has rightly gained a symbolic status in strengthening the existing relationship of both countries. The diplomatic relations, in reality, go beyond the CPEC, as both states are connected in many other important dimensions. For example, cultural, political and strategic ones, which are set to have a greater impact on contemporary regional and global dynamics.

Furthermore, it has created more advanced patterns of cooperation and integration. In the post-Covid-19 scenario, through collective efforts of both the countries. CPEC will become the hub for regional trade, connectivity and also academic collaboration. These established modern trends would build states' resilience to counter, the present and future perils through cooperation and sustainable policy measures. BRI denotes the win-win approach for the world. CPEC, a flagship project of BRI, is also fruitfully



accounting for the new prospects for open market development, economic integration, and fostering cultural ties among the nations.

Nevertheless, to reverse some of the Post Covid- 19 distress on investment and trade patterns, Pakistan needs a robust investment strategy response and to have a Quid pro quo¹⁶ in financial liquidity. In the wake of the disruptions caused by Covid-19, there are certain new opportunities as well. By focusing on certain broader agendas, success can be achieved for inclusive economic development and building resilience. Following are the ten-point agenda mentioned below that are emanated out of the study. These agenda act as a preliminary policy response for attracting more investment into Pakistan under CPEC:

- Relocation or adjustment of industries under CPEC-IC (China Pakistan Economic Corridor -Industrial Cooperation) to cater for other international companies as well.
- Provide incentives for the Special Economic Zones (SEZs).
- Deployment of 5G is expected to increase the industrial cooperation in technology.
- Building capacity in Information Technology (IT) and security sector.
- Revisiting the strategies in the sectors of priority for investment.

¹⁶ Details: Quid pro quo is a financial term used in mutual agreement between parties that gives consideration and benefit to each other in exchange for the goods or services.



- Making investment patterns/strategies for the diaspora, globally to procure funds and turn them into quality projects, which would result as a boon for every stakeholder.
- Facilitating the industrial and technological transformation.
- Devising robust survival plan for the Small and Medium Enterprises (SMEs).
- Providing due diligence for economic mergers and acquisitions of the capital resources.

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