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## Issue Brief

# China Pakistan Economic Corridor-Transforming Pakistan's corporate culture

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The China-Pakistan Economic Corridor (CPEC) is one of the biggest and most significant projects for Pakistan and the region. With an investment of \$ 46 billion, Pakistan faces a huge challenge not just to create a transparent, accountable and efficient manner of utilizing and absorbing such an investment but to bring about a revolution in corporate ethics and efficiency. This investment will be channeled to energy, infrastructure and industrial development. The major chunk of the investment, estimated at US\$ 34 billion, will be spent on energy projects. The CPEC aims to add 16,500 MW to the energy grid in the next decade. Around 10 coal fired projects will be started under the early harvest projects. Potential sources include hydel, solar and wind power plants. The \$ 12 billion allocation for projects pertain to basic infrastructure and are mainly state to state credits in the fields of roads, rail network, ports, airports and data connectivity. These credits will be in the form of soft loans by Chinese companies or credit institutions. For such projects the 10% percent of the cost will be borne by the Government of Pakistan and 90% as Chinese credit facility.<sup>1</sup>

An investment of this magnitude is unparalleled for Pakistan and brings not only Chinese investors but also businesses from all over the world. Some western investors have also expressed interest in CPEC associated projects. Rapid development requires a rigorous work ethic and a highly competitive and productive corporate culture at all levels. Pakistan must transform itself by investing heavily in its human resource development and skill development to foster a hospitable culture for corporate discipline and higher productivity.

Pakistan and China are not starting from scratch. The two countries have been collaborating in various industrial sectors since the 1960s. This collaboration includes giant projects like Heavy Mechanical Complex, Heavy Electrical Complex and recent co-production of Frigates and JF-17 fighter aircraft. It has covered diverse sectors such as energy, construction, shipping and defense cooperation. With the launch of the CPEC the time is ripe for expanding this collaboration to enhance the absorptive capacity of both our public and private institutions geared towards the completion of CPEC. In this context lessons learnt from our past collaboration would be valuable.<sup>2</sup>

The tradition of corporate collaboration between China and Pakistan has usually been between public sector entities but the CPEC may evolve as a hybrid of public-private partnership. The energy sector projects will adopt the private sector model in the form of independent power producers (IPPs). Pakistan does have a fairly developed industrial base and infrastructure and therefore it would not be difficult to channel Chinese investment into power generation plants. That said, there are huge deficits

in public and private sectors that need to be redressed. This would require changes in corporate leadership and managerial styles as well as productive behavior of corporate employees.

A consistent reform of the bureaucratic structure and procedures at both the federal and provincial levels would be necessary to make them responsive to the challenges that would be thrown up by the implementation of the CPEC. Massive reorientation of professionals therefore is the first requirement so that bureaucratic leaders, managers and personnel imbibe the new culture to accelerate the pace of decision making. Red tape would have to be dealt with firmly to meet deadlines and to remove road-blocks for the speedy completion of the projects. In this context, a generalist approach will not be sufficient. Cadres with technical and professional expertise will have to be raised to implement decisions taken by the government and corporate leadership.

For this endeavor, a deeper understanding will have to be developed of the norms, rules and culture of work in Pakistani organizations related to corporate decision making. Meritocracy and ethical workmanship adhering to deadlines, work hours, consistency and quality of work, goal-based performance and result orientation require immediate attention. A wider institutional base should be created by the government and businesses to focus on enhanced skill development, training and education directly pertinent to the expertise required for energy, infrastructure and industrial projects as well as ancillary services to support the Corridor. Chambers of Commerce and Industry should be involved in the work of CPEC in order to give them ownership and foster participation.

The government needs to leverage its Free Trade Agreement with China to attract high quality machinery for manufacturing. We also need to emphasize on full participation by the Pakistani businesses in CPEC related projects through joint ventures in addition to the existing BOT (Build, Operate and Transfer) model which creates a dependency syndrome within our corporate entities and slows down transfer of technical knowhow.

In this context, we can learn from China's phenomenal economic progress over the past three decades. Back in the 1980s, when China embarked on economic transformation it reformed its state institutions and streamlined corporate laws and procedures impinging on industrial performance and productivity. China's biggest success was modernization of its corporate structure while keeping it close to the socialist ideals of egalitarianism. However, from the 1980s the emphasis shifted to efficiency, effectiveness and marketable products while maintaining a high speed. China took precautions of not plunging into unfamiliar territory. It moved incrementally into niche markets and, after acquiring the

requisite corporate muscle, it made a bid as a participant in the main-stream production and marketing chain enterprises. The key here was research, geared towards exploring new markets abroad for Chinese products and for attracting foreign direct investment (FDI) to the mainland.

Two other things need to be borne in mind while studying the Chinese model. First China sent hundreds of thousands of people abroad mostly to the developed world to learn from their economic and scientific advancement, and secondly they created a hybrid model of private-public sector partnership. The public sector imbibes free market ethics, whereas the private sector closely conforms to the Communist party of China CPC-led regimen and procedures. For the speedy implementation of the CPEC, we could learn from the models of other emerging economies as well. Our approach may be eclectic when it comes to learning corporate practices best suited to the energy, infrastructure, industrial and telecommunication sectors. In this regard, the government departments need to involve corporate leaders both from private and public sectors as well as think tanks specializing in strategic, economic and corporate dimensions of Pakistan-China relations.

The crux of the argument is that Pakistan needs to redesign its corporate sector in order to gain oversight over processes of decision making. According to the Economic Survey of Pakistan services sectors in Pakistan accounts for about 55% of the GDP and about 40% of the job market. The provincial and federal governments need to introduce vocational training to complement the Services sector as it is an important contribution to economic growth. Pakistan's corporate leaders and financial experts should be exposed to the Chinese culture of work in order to create an interface for better understanding. Reforms are needed in the banking sector by encouraging businesses to borrow and invest in the CPEC related projects. Banking transaction laws need to be relaxed to boost investment in different portfolios. Education and training should be tailored to the jobs that will be created due to the huge investment. Higher education and research studies need to be developed in the sectors of engineering, insurance, logistics, transportation and finance. The duration for the completion of projects is between 15 years. Skill development, training and education should be aligned to this cycle.

## References

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<sup>2</sup> Hasan, Rizvi A. "THE CHINA-PAKISTAN ECONOMIC CORRIDOR-regional cooperation." 2015.