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Joint Ventures under CPEC and Prospects for Pakistan' Industry: A Remarkable Yield of One Belt One Road Initiative

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Abstract-China Pakistan Economic Corridor (CPEC) is a revolutionary project having remarkable implications for the economy and considered as fate changer of this region. The mega project of CPEC creates regional connectivity among Central and South Asian countries under the one belt one road (OBOR) initiative. The CPEC project includes the establishment of the country-wide 9 priority special economic zones (SEZs) providing the opportunities of possible joint ventures for local businesses with the world class export oriented Chinese and foreign companies to relocate in the industrial parks and special economic zones (SEZs) developed by Pakistan. As the Joint ventures (JVs) are mutually formed by two or more firms having positive outcomes such as economic benefits and enhanced market potential prospects for the partners (Carnovale and Yeniyurt, 2014), they can successfully habitat the SEZs. This paper defines and assesses the significance of joint ventures for the Pakistan's economy and offers the possible JVs opportunities under CPEC as a fruit of bilateral regional connectivity with China. The work highlights the latent comparative advantages of specific geographical regions of Pakistan covered in SEZs and offers insights for potential industrial clusters for maintained governance, improved skill-set, knowledge sharing, technology transfer and spill over effect causing the industrialization and trade promotion in Pakistan.

Keywords: Joint ventures, industrial clusters, trade, industry, SEZs, China, and Pakistan.

I. INTRODUCTION

China-Pakistan Economic Corridor (CPEC) is the dynamic portfolio of various projects with the investment started from $46bn has now reached upto $59bn with the addition of new projects. China-Pakistan Economic Corridor is basically a framework of regional connectivity that will not only benefit the countries of China and Pakistan but will also have positive impacts on Iran, Afghanistan, India, Central Asian Republic, and on overall region. CPEC is flagship of growth and development as the enhancement of geographical linkages having improved road, rail and air transportation system with frequent and free exchanges of services and through people to people contact will enhance understanding through academic, cultural and regional knowledge as well as the volume of trade and business activities, level of production and energy movement will also be increased tremendously as a result of co-operation among the countries along this belt. In this way, it is a win-win model that will result in well connected, integrated region of shared destiny, harmony and development. CPEC is a journey towards economic regionalization in the globalized world. It has the vision of generating peace, development, and win-win situation for all nations of this region.

The project of CPEC will act as a catalyst for connecting China and South Asia to Central Asia, Eurasia, West Asia and through CPEC Pakistan will be able to develop its relations with South Asian countries and also with many countries for example, countries of Central Asia, Russia, West Asia, and Middle East. Pakistan through its economic diplomacy will have a chance to flourish trade with these countries. Another significant privilege of this connectivity is Pakistan's enhanced foreign relationship and international repute with many countries of these regions contributing towards economic gains. There is an opportunity for Pakistan to be a trading hub eventually facilitating huge trade and transits.

Connecting Central Asia with South Asia and other regions, CPEC will provide a land route for trade and travelling. In fact, using the CPEC and Gwadar port many countries will be able to trade with Central Asian Republics (CARs) and CARs will also be able to open up with the outer world. This opportunity is going to give many economic benefits to Pakistan including trade expansion, and attraction of foreign direct investment (FDI). This great opportunity will greatly facilitate CARs' economic development. CPEC will also enable Afghanistan to act as a hub of trade for CARs, South Asia and other extra-regional countries' trade with each other.

Expansion in trade and exports is an outcome and end to which means is the efficiency of production, enhanced productivity and all factors stated above. A more in depth approach towards this expansion is productivity and efficient production possible in the relocated industries under CPEC. Joint venturing with Chinese firms is an attractive opportunity which can bring all potential benefits for Pakistani economy. Regional integration agreements, though not necessary for regional cooperation, may also be helpful by embedding the negotiations on regional cooperation in a broader institutional framework (Schiff and Winters, 2002). Generally speaking, international organizations can help with trust, expertise, and financing. The United Nations and the World Bank for example, have been involved in a number of such projects in Africa, Asia, and elsewhere, and have been successful in helping parties reach cooperative solutions.

II. LITERATURE REVIEW

Economic value of Joint Ventures

Joint ventures have been defined as "a common project between legally and commercially independent companies in which the parties jointly bear both the responsibility for management and the financial risk. International joint ventures (IJVs) continue to proliferate as a hybrid form of organizational governance so much that it has been suggested that we are stepping into an ''age of alliance capitalism'' (cited in Yan & Gray, 2001). Formation of joint ventures (JV) has been increased rapidly during the past two decades (Bjorkman and Lu 2001). JV is pooling up of physical, financial, and technical resources and in this way can uplift the business activities and can promote investment in the economy especially in small and open economy like of Pakistan through possible positive externalities.

In any JV, formed with the partner from western countries, can be benefitted in terms of achievement of strategic goals for example lower costs, entering the International market, enhancing competitiveness, or becoming familiar with the unique international environment (Calantone and Zhao 2001). For Chinese partners, JVs can facilitate the transfer of foreign countries' advanced technologies and management expertise (Yu & Egri, 2005).

Therefore, previous literature reports that trust, control, and learning are three of the most important and studied concepts in joint venturing. When a joint venture is formed, there is a subjective probability that a partner will cooperate. Experience will lead to adjustment of the probability, which in turn may lead to a shift in the level of trust (Inkpen & Currall, 2004).

Trust

Joint venture formation results not only in learning of the partners but also develop trust based on norms of equity and as termed by Shapiro, Sheppard, and Cheraskin (1992), 'knowledge based trust' among the partners. This trust is generally based on both strong cognitive and emotional bases, which can be noted symbolically among individual organization members. Macaulay (1963: 63) reported that close personal ties emerged between individuals in organizations that contracted with each other; these personal relationships in turn 'exert pressures for conformity to expectations' and further provide foundational base to trust development.

Ring and Van de Ven (1992) distinguish calculative forms of trust from confidence in another's goodwill. Lewis and Weigert (1985) distinguish leaps of faith from trust based on reason and experience. Lewicki and Bunker (1995) identify three types of trust: calculus-based, knowledge-based, and identification-based trust. Calculative trust occurs when farsighted parties recognize the potential benefits of their continued interaction and expect that the other party will behave predictably (Williamson, 1993). In knowledge based trust, one person relies on another because of direct knowledge about their behavior. Parties with identification-based trust develop a social bond with each other based on mutual appreciation of each other's needs. Hebert (1996) found that trust was positively related to performance in dominant joint ventures.

Learning

Learning processes are central as an outcome of a joint venture (Doz 1996). However, there are two kinds of learning; (1) learning *about* the joint venture partner and (2) learning *from* the joint venture partner. Learning about the joint venture partner, studied in detail by Doz (1996), refers to learning that is primarily endogenous to the collaboration. When a firm learns *from* its joint venture partner, the knowledge generated can be used by both firms to enhance strategy and operations in areas other than JVs' activities. This knowledge constitutes the private benefits that a firm can earn unilaterally by picking up skills from its partner (Khanna et al. 1998). When a firm learns from its partner, the knowledge has value to the firm outside the joint venture agreement, which means that the knowledge can be internalized by the parent and applied to new geographic markets, products, and businesses. This potentially useful information is knowledge the parent would not have had access to without forming the joint venture.

Performance of Joint Ventures

Plethora of research studies have reported considerably high rate of joint ventures' failures and numerous evidences have also been found of successful joint ventures with some unique success elements (e.g., Kanter, 1989; Bleeke and Ernst, 1991). Such success factors include: flexibility in management of the joint venture, trust among the partners of JV, regular information exchange with the partners, constructive conflict management; continuity of assigned personnel responsibilities of individual firms for the interface between the firm and the joint venture, managing partners' expectations, and so on. Following are some of the crucial elements for laying the foundation of joint venture.

Social network

Gulati (1998) found that social networks play a significant primary role as an opportunity as well as constraint for firms and have considerable behavioral and performance implications for joint venture. Social networks help channelling the information while enabling the firms finding out further joint venturing opportunities and in this way, social networks also affect firms' linkages. When two firms form a joint venture the relative proximity of the firms provide potential capacity for a strong governance structure required for the formalization of the joint venture. Moreover, Gulati (1998) claimed that "the extent to which two partners are socially embedded can also influence their subsequent behavior and affect the likely future success of the alliance". A firm's portfolio of alliances and its network position in an industry can have a profound influence on its overall performance.

Governance

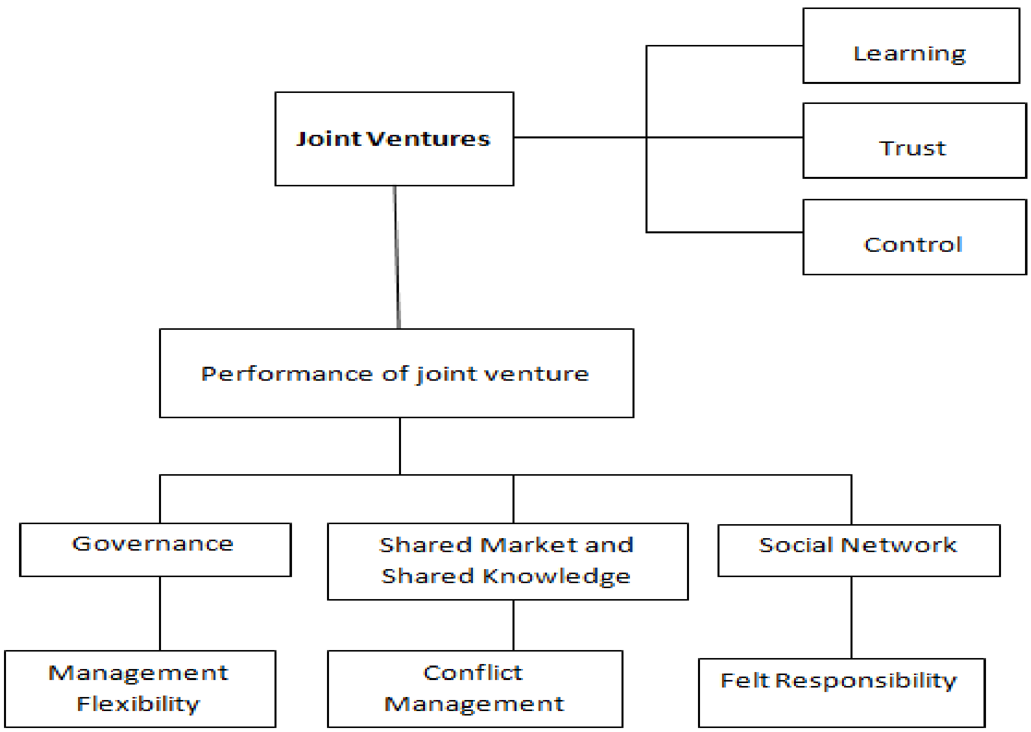
The formal contractual structures used to organize the partnerships, called the governance structure, have become area of consideration after a number of scandals of giant renowned firms. Hence, important is to consider the governance mechanism of the JV as it is different from any other kind of business controlled by single ownership. JVs are different from other corporate types in terms of market, hierarchical structure, and the unique organizational structure requirements (Powell, 1990). Therefore, available choices for formation of firm under any business category provide owners a set of options for firm's institutional structure. Micro and macroeconomic environments also affect the firms' structure. For instance, the extent of market overlap between the partners and within the JV, also known as 'relative scope,' can influence the likelihood of competitive dynamics between the partners (Harrigan, 1987; Khanna, Gulati, and Nohria, 1998). Firms may anticipate the likelihood of such dynamics in JVs and alter the structure to address those concerns if they arise.

Shared-market and shared-knowledge

Knowledge management practices within the JV plays critical role especially when information from various and primarily different sources has to be combined (Buckley & Carter, 1999). In this respect, often marketing functions are considered useful lend particularly appropriate for an investigation of knowledge as well as transfer of this information within JVs firms. Basically, all marketing functions are associated with the cultural context. Similar explanation was given by Simonin (1999b), that the following properties of marketing knowledge: a high degree of tacitness rooted in the socially complex nature of marketing, a high degree of specificity because of transaction specific skills, and a high degree of complexity. The importance of the cultural context on knowledge transfer in marketing also becomes evident by looking at typical tasks like the acquisition of knowledge on customers and their preferences, competitors, products, distribution channels, service providers, laws and regulations (Bennett & Gabriel, 1999, p. 215).

In order to transfer marketing knowledge successfully across cultures, the potential knowledge sources, exchange nodes, and exchange mechanisms of a dispersed MNC have to be identified. Moreover, it has to be recognized that human capability to capture and understand complex facts is rooted in a cultural setting and, thus, tends to differ across cultural areas. As (Riesenberger, 1998, p. 99) put it: "Cross-cultural knowledge management systems among global marketing organizations must take into account learning techniques in various cultures" (Schlegelmilch & Chini, 2003). This can be summarized as:

FIGURE 1. JOINT VENTURE MODEL



The Joint Venture Practices in Developed and Developing Economies

Why, then, do companies from developed regions choose to enter into joint venture relationships with local companies in developing countries, instead of "going it alone," as they might prefer to do? Among the most obvious reasons is the fact that in some countries, investment regulations require a link with a local firm. In many cases, in fact, the regulations have called for foreign companies to limit their participation to minority status. India provides a clear example where, until quite recently, foreign firms were required to be minority partners in a joint venture if they were to invest at all. For foreign companies that saw India as a potentially attractive market, investment as a minority JV partner was the only alternative to attempting to import over substantial barriers. Subsequently, this restriction has been relaxed, and many foreign companies have moved to become at least controlling partners in the joint ventures. Miller and colleagues (1996) noted that developed economies enter into joint ventures for following reasons:

- Cost and risk sharing
- Lack of country familiarity
- Lack of relevant contacts
- Existing facilities
- More effective technology use

Joint ventures may represent a maturing of an older relationship where companies have worked together in marketing or technology arrangements. From the multinational company's point of view, in fact, the JV might be seen as an intermediate step in a longer term strategy to exploit a market through this partnership (Miller et al, 1996). Further, Miller and colleagues (1996) reported factors of motivation for developing economies to enter in JVs are:

- Access to Technology
- Process Technology
- Product Technology
- Provision of Finance
- International Reputation
- Access to Management Know-how

III. JOINT VENTURE POTENTIAL OF PAKISTAN' INDUSTRY UNDER CPEC

Special economic zones (SEZs) are defined as "it is a geographically delimited area, usually physically secured" and the concept of Special Economic Zones, as custom-free zones, has existed in international trade for about 2,500 years, first in ancient China, then Carthage and in the Roman Empire (World Bank, 1992). Special Economic Zones are a modern adaptation for development objectives of the age-old concept of free ports (FPs). There are nine (9) SEZs under CPEC approved by the Minister in 6th Joint Corporation Committee (JCC) which are in process of development. These SEZs are located in different regions in all four provinces including Punjab, Sindh, Baluchistan, and KPK. Below is the list of 9 approved SEZs and 7 of them are in progress.

1. ICT Model Industrial Zone, Islamabad, Federal Government
2. Mohmand Marble City, FATA
3. Punjab-China Economic Zone/Quaid-e-Azam Apparel Park (QAAP), M-2 District Sheikhupura
4. Rashakai Economic Zone (REZ), KP
5. China Special Economic Zone Dhabeji, Thatta
6. Mirpur Special Economic Zone
7. Bostan Special Economic Zone
8. Steel mills at Port Qasim Special Economic Zone
9. Moqpondass SEZ Gilgit-Baltistan

Each SEZ has specific geographical competency and unique competitive production potentials that can be utilized, improved and flourished by joint venturing with Chinese companies into these SEZs. Board of Investment Pakistan has identified suitable industries to be relocated in major priority economic zones and feasibility studies for remaining economic zones are in process.

Name of SEZ	Suitable Industries
Mohmand Marble City, FATA	Marble industry, dimensional stone industry
Punjab-China Economic Zone/ Quaid-e-Azam Apparel Park (QAAP), M-2 District Sheikhupura	Clothing and Apparel factories, Vertical Integrated Units for garments manufacture (from Ginning to garment manufacturing), Garment vendor Industry (Zips, Button, Label, Packing, textile chemicals) Embroider, Commercial Washing, Dying & Printing, Apparel related Machinery Manufacturing
Rashakai Economic Zone (REZ), KP	Fruit/Food/Packaging/Textile Stitching/Knitting
China Special Economic Zone Dhabeji, Thatta	Steel industry, chemical industry, cement manufacturing firms and pharmaceutics
Bostan Special Economic Zone	Fruit Processing, Agriculture machinery, Pharmaceutical, Motor Bikes Assembly, Chromites, Cooking Oil, Ceramic industries, Ice and Cold storage, Electric Appliance, Halal Food Industry
Moqpondass SEZ Gilgit-Baltistan	Marble / Granite, Iron Ore Processing, Fruit Processing, Steel Industry, Mineral Processing Unit, Leather Industry
Mirpur Special Economic Zone	Feasibility studies for land acquisition and suitable industries are in process
Steel mills at Port Qasim Special Economic Zone	Feasibility studies for land acquisition and suitable industries are in process
ICT Model Industrial Zone, Islamabad, Federal Government	Feasibility studies for land acquisition and suitable industries are in process

Source: www.boi.gov.pk , www.cpec.gov.pk

IV. CONCLUSION

Joint ventures are a way to resources accumulation, technological progress, risk diversification and expansion in economies of scale and scope. Therefore, success of joint venture depends on a number of elements i.e. time duration (age) of joint venture, dependence, partners' experience, industrial and dyadic conditions, and characteristics of the venture itself such as autonomy and flexibility (Beamish, 1985; Harrigan, 1986; Levinthal and Fichman, 1988; Kogut, 1989). There is need to consider the issues regarding management capacity of the individual partner firms which is important in order to avoid conflicts regarding control of the venture. More importantly, control the venture depends upon the firm capability. Systematic differences exist among two partners however with increased learning and experience, joint venture can be successful as compared with single owner firm (Lyles, 1988). Emphasis has been made on the competitive capabilities of the venture and also upon some systematic tactics that JVs use to internalize such capabilities. Role of trust among the partners is not negligible. Trust among the JV partners also sets the choice for further joint venturing decisions. All success factors of the JV need to be considered in order to sustain the JV for long time as well as to avoid failures.

RECOMMENDATIONS FOR JVS IN PAKISTANI SEZS

In terms of Pakistan's latent comparative advantage (LCA), joint ventures based on the tetile, leather, chemical, pharmaceutical, food processing and agro-based products can be effective tool to uplift economy. However, for successful development and long term sustainability of joint ventures, there are some of the factors should be avoided. First of all, both Pakistani and Chinese nations need to avoid valuation problems. Market based valuation of the capital and all other inputs, is one of the way any valuation related conflicts. However, difference in the two markets' demand and supply is one cause of variance of the values which can therefore be solved by taking a standard base. Secondly, an issue arises in joint ventures is of transparency. Best governance practices, monitoring, tight control and check and balance exercises can be used to evade such issues. However, one important factor is in case of any conflict, how conflict resolution has been executed among both parties. Third significant cause of failure is the unjustified division of management responsibility among the venture partners. Fair and appropriate assignment of management responsibilities, ownership and control can protect venture to be collapsed and can maintain trust among the partners. Fourth considerable factor is financial matters e.g. dividend policy and other financial aspects of business. Lastly, cultural issues can be arise which can be reduced by developing harmony among the employees working in same locale.

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