



CPEC: Analyzing External Challenges

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Introduction

In May, more than 100 countries attended the inaugural “Belt and Road Forum for International Cooperation” hosted by Beijing. The forum was deemed a huge success by the Chinese media. Attended by several heads of states, the forum was used by the Chinese government as another opportunity to reiterate how the One-Belt-One-Road initiative (OBOR) could help bring about improved connectivity, greater economic growth and cooperation among countries.

The Vision and Action document revealed at the forum said that the OBOR initiative “accommodates the interests and concerns of all parties involved, and seeks a conjunction of interests and the ‘biggest common denominator’ for cooperation so as to give full play to the wisdom and creativity, strengths and potentials of all parties.”

The Joint Communique of the Leaders Roundtable of the Belt and Road Forum for International Cooperation further highlighted the significance of “uphold[ing] the spirit of peace, cooperation, openness, transparency, inclusiveness, equality, mutual learning, mutual benefit, and mutual respect by strengthening cooperation on the basis of extensive consultation and the rule of law, joint efforts, shared benefits and equal opportunities for all.”

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The forum once again helped demonstrate how the OBOR can bring world leaders together and create an environment for enhanced cooperation in the region.

All optimism voiced following the forum aside, there are numerous reports regarding problems linked with individual projects under the OBOR.

Many of such reports have led to megaprojects being shut down. Recently, Kathmandu’s government canceled a major deal with the Chinese state company, ‘China Gezhouba Group’ to build the Budhi Gandaki Hydro Electric Project. Soon after, Islamabad also revealed that it will be removing the long-awaited Diamer-Bhasha dam project from the China-Pakistan Economic Corridor (CPEC).

Both cases had one thing in common: the host country felt Beijing is not accounting for its interests as much as it is for its own. Owing to Pakistan’s long history as an ally and as a long-standing enthusiastic supporter of the OBOR, its decision to annul cooperation with Beijing on this project is of particular importance.

These developments have for many observers confirmed suspicions over China's claim to be promoting the kind of cooperation that is meant to benefit all partners in the OBOR. The large influx of Chinese workers and lack of opportunities and technological transfer to locals are other factors that have further put China's commitment in question. It seems

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Pakistan's Diamer-Bhasha dam project's case does not stand alone. A similar debate emerged in Laos where locals questioned the need for a high-speed railway, which was planned to be built with a huge loan from China. As in Islamabad's case, it was felt that China had a lot more to gain from the project than Laos.

Other than concerns emerging domestically in Pakistan with regards to the terms and conditions of agreements on CPEC projects, the OBOR initiative itself is faced with challenges from other powers in the region as well. This paper will focus on two major challenges the CPEC is presently faced with: US-China rivalry and India's opposition to the project. It will further also look into the possibility of a difference in interests between Pakistan and China with regards to CPEC projects, in an attempt to explore how this could prove challenging to bilateral cooperation in the long-run.

External Challenges

In opening new channels to increased interaction with China, CPEC has been portrayed by several Pakistani analysts as the solution for all of Pakistan's ills. CPEC can potentially change the economic and strategic environment in the region. Notwithstanding, there are challenges that the project might face from other countries. Additionally, the Pakistan-China relationship is also faced with challenges of its own, as with the development of individual projects under CPEC it is becoming obvious that the two might not always see eye to eye on financial agreements.

US-China Rivalry

The US is deeply troubled by China's rise. As made obvious with the recently released US National Security Strategy (NSS), the US sees China's expanding influence in the region as severely hegemonic and authoritative. The US President began his presidential campaign as a vocal critic of China; he accused China for the rising trade deficit, the pace of the American economy and even the rate of unemployment in the US. There were a few moments of some hope for positive change in the trajectory of bilateral relations with President Trump's visit to Beijing. However, the NSS document has with certainty blocked the potential for any optimism in this regard.

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The NSS censures the Belt and Road Initiative (BRI) for its “unfair trade practices” and “extractive economic policies.” It underlines all that is wrong with China using economic trade deals and the Chinese military to “persuade other states to heed its political and security agenda.” Criticizing China's infrastructure and economic activities around the world, the NSS document regards the US as a champion of “free and open seaways, transparent infrastructure financing practices,

unimpeded commerce and peaceful resolution of disputes.” The NSS document marks a toughening of stance in US-China bilateral relations.

It is apparent that the US is considerably flustered by China's rise. The NSS document also takes note of China's growing economic footprint in African countries, which it says is due to China “corrupting elites, dominating extractive industries and locking countries into unsustainable and opaque debts and commitments.” Bilateral tensions are only likely to increase overtime with issues over trade practices and

territorial sovereignty, and perhaps even confrontations at multilateral forums. The US will use its allies in the region to attempt to curb Chinese power and influence. As it seems, US-India ties will likely grow with worsening US-China ties.

In the NSS document, the US has for the first time ever clearly identified India as an important US strategic and defense ally in all of: Central Asia, South Asia, and the Indo-Pacific region. India's geography and location offers important strategic benefits that can only be accessed with enhanced cooperation and engagement. India overlooks the Indian Ocean region and lies in close proximity to important sea lanes, including the Malacca Strait and the Gulf of Aden—which can both prove significant for US energy interests and as trade routes. With US economic and military assistance, the NSS has additionally pushed for India to take up the role of a net security provider in Central Asia. The document further highlights the need for India to expand its economic assistance in the South and Central Asian regions.

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President Trump in one of his most recent tweets called US decision to give Pakistan \$33 billion in aid over the last 15 years 'foolish', accusing Pakistan of giving the US "nothing but lies & -deceit, thinking of its (our) leaders as fools." Pakistan's Foreign Affairs Minister Khawaja Asif the very next day responded to Trump's accusations on his own Twitter account, saying: "President Trump quoted figure of \$33billion given to PAK over last 15yrs, he can hire a US based Audit firm on our expense to verify this figure & let the world know who is lying & deceiving..."

All the while, China also stood in Pakistan's defense. China's foreign ministry spokesperson Geng Shuang at the regular press conference on January 2 went ahead and said:

"Pakistan has made great efforts and sacrifices for combating terrorism and made prominent contributions to the cause of international counterterrorism, and the international community should fully recognize this. We welcome Pakistan and other countries' cooperation on counter-terrorism and in other fields on the basis of mutual respect and their joint commitment to the security and stability of the region and the world".

As a show of Pakistan's appreciation and willingness to deepen economic cooperation with China, Pakistan announced on January 2 that the country has officially adopted the Chinese Yuan (CNY) as a currency for trade and investment.

Pakistan's central bank, the State Bank of Pakistan (SBP) announced: "Considering the recent local and global economic developments, particularly with the growing size of trade and investment with China under CPEC, SBP foresees that CNY denominated trade with China will increase significantly, going forward; and will yield long term benefits for both the countries".

With this move, Pakistan and China can now trade in the Chinese Yuan, as opposed to the US dollar. Considering that China and Pakistan have signed multi-billion-dollar agreements under the BRI, this measure will likely consolidate the power of the Yuan, while also challenging the status of the US dollar in the global marketplace.

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With President Trump dictating the new world order, US-Pakistan ties have been significantly damaged. The Trump administration is considering cutting security assistance for Pakistan. Pakistan understands the unpredictability of this bilateral relationship. Its investment in Sino-Pak ties is in many ways a realization of this reality. It has found a trusted ally in China. Both the US and India are opposed to the development of the Gwadar Port. The US has stood by India

as it has opposed CPEC on the grounds that it passes through territory disputed between India and Pakistan.

In mid-December, Pakistani National Security Adviser Nasser Khan Janjua blatantly criticized the US and India for "conspiring against" CPEC while at a seminar in Islamabad. Concern over India's growing influence in the region and over the American president is shared by both China and Pakistan. In recent years, the US and India have collaborated with other countries like Bangladesh, Sri Lanka and Myanmar to curb China's influence. As the US adopts a tougher stance, Pakistan and China will likely only issue further cooperation plans.

Beijing hosted the first China-Afghanistan-Pakistan Foreign Ministers' Dialogue on December 16, which was attended by China's Wang Yi,

Afghanistan's Salahuddin Rabbani and Pakistan's Khawaja Muhammad Asif. A second dialogue is scheduled to be held in 2018 by Afghanistan in Kabul.

Wang revealed an important agreement reached on economic cooperation regarding CPEC at the end of this meeting: according to Wang's statement, China and Pakistan will be extending the CPEC to Afghanistan.

"In the long run, through Afghanistan, we will gradually connect the CPEC with the China-Central and Western Asia Economic Corridor," Wang said.

Added to that, Wang was later quoted saying: "the CPEC has not targeted at any third party, but hopes to bring benefits to the entire region and become an important driving force for regional integration...The CPEC is an economic cooperation project and should not be politicized".

Despite this assertion, China's intention to further solidify relations with Pakistan and interest in additionally bringing in Afghanistan to its sphere of influence with extended dialogue is apparent. As the US looks to draw back assistance to Pakistan and limit its exchange with the country, China's decision to extend support for Pakistan and Afghanistan will pose serious challenges to US role in the region. Rivalry between the US and China will undoubtedly continue to impact the development of CPEC and China's ability to get support from other countries in the region.

The Indian Factor

With regard to CPEC India has made no secret of its sentiments. India has protested against the ambitious CPEC on the grounds that its route passes through the region of Gilgit-Baltistan, which is part of Pakistan-administered Kashmir. India's opposition to the CPEC is based primarily on its claim to Gilgit-Baltistan.

India fears that the project will give legitimacy to Pakistan's claims on the Kashmir dispute. China, however, rejects this view, stressing that the project has nothing to do with territorial disputes. It has both asked India to join CPEC and solve the Kashmir issue with Pakistan through dialogue.

Frequent firing along the Line of Control and statements made by Indian ministers and officials however indicate India's frustration with the issue. India has been voicing its concerns over CPEC since the very beginning of the project. Debate over Kashmir with regard to the CPEC started after India raised its voice over how China and Pakistan were using territory which is an "integral part" of India.

Now it seems CPEC may also be able to help improve relations between Afghanistan and Pakistan. China recently made its invitation to Afghanistan to join CPEC public. This could lead to greater economic and social integration between the two countries. Such cooperation and interdependence can also subsequently extend to Central Asia.

Along with the decision to extend Afghanistan an invitation to join CPEC, China made another important decision this year which was linking Pakistan's Gwadar port to Iran's Chabahar port.

The plan to anchor new trade routes to Central Asia with a deep-water port at Chabahar has been repeatedly portrayed as India's attempt to counter CPEC and its Chinese-sponsored Gwadar port. India has presented the project frequently as not only a strategic venture but also an economic one that will encourage the "unhindered flow of commerce" between India and Central Asia. For India this is a way to secure its position with the 'land corridor obsession' that seems to have taken over Asia, and also consolidate its economic partnership with Afghanistan.

What could additionally damage India's plans for the region is if Iran also decides to join CPEC in order to benefit from gas exports to China.

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The NSTC project will include a network of ship, rail and road routes between India and Europe, via the Middle East, Central Asia and Russia. It will be linking the Indian Ocean and Gulf with the Caspian Sea. The project is expected to make current routes shorter by almost half and cut costs by about 30 percent. However, progress on the NSTC has been fairly slow since its announcement in the year 2000.

While the BRI has about 60 countries interested, the NSTC has so far managed to attract only about 15 countries. Nonetheless, both projects encourage fairly different types of partnerships; BRI relies on bilateral trade agreements between China and individual countries, and the NSTC is more reliant on multilateral partnerships. In this way, the NSTC allows countries with limited financial capabilities to also feel welcomed in costly developmental projects, since the burden is shared.

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Pakistan has accused India of creating irritants for CPEC on several occasions; accusations against India for fueling militancy by sponsoring separatist groups in Pakistan's Baluchistan province loom large in the Pakistani media.

In the late 1960s, India's Prime Minister Indira Gandhi asked all major powers to withdraw from the Indian Ocean owing to the risks of great power rivalry in the region. This

approach fits with India's need to distance itself from the British Raj, which had for long been a key security provider in the Indian Ocean. Overtime however this measure began to be viewed as a part of India's

long-term plan to consolidate the Indian Ocean as “India’s Ocean”. In March 2015, Prime Minister Narendra Modi said that India will be working to ensure a safe and stable Indian Ocean region.

Contemporary developments in the China-Pakistan relationship have only heightened concerns among Indian policymakers, the political leadership and India’s defense and security establishment. China already has linkages through its many infrastructure projects with countries like Hambantota in Sri Lanka, Sittwe in Myanmar and Chittagong in Bangladesh. With CPEC and the Gwadar port, India is worried that China will now have direct access to the Arabian Sea and perhaps even an enhanced naval presence in the Indian Ocean, thereby threatening Indian maritime strategy and its ability to become the chief naval power in the western Indian Ocean region.

Former Indian Foreign Secretary Shyam Saran views the OBOR as having clear political and security implications for the region. For Saran, the OBOR is “a carving out by China of a continental-marine geo-strategic realm.”

India remains opposed to CPEC, perhaps largely in order to also oppose Pakistan and China’s growing bilateral ties. With the CPEC Pakistan will likely escape any economic influence or sway India had previously enjoyed over the country. Indian opposition to the project and its growing proximity to the US will continue to pose serious challenges to the development of CPEC.

CPEC: Differences in Pak-China Interests

Pakistan withdrew its request to include the \$14-billion Diemer-Bhasha Dam in the China-Pakistan Economic Corridor due to Beijing's strict monetary conditions which did not fall within the country's national interests. Pakistan has been trying to complete the dam project on its own for years now. Being an energy-starved nation, Pakistan's decision to pull back raises a lot of questions.

This dam project on its own will certainly not impact the future of CPEC or the China-Pakistan partnership—yet, the fact that Beijing thought it appropriate to impose such monetary conditions in the first place does

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put the future of Pakistan's economy at risk.

The dam project is just one example. Details of China-funded projects have so far not been made completely transparent. There is a lot of uncertainty with regards to the level of debt such projects and dealings may impose on Pakistan. Several policymakers in Islamabad have voiced concerns regarding the long-term financial implications of the secrecy the Pakistani government has so far maintained around deals made under CPEC.

“The debt repayment terms are not transparent and are difficult for outside analysts to access, but what seems clear is that Pakistan has put itself in a position where it will need to put very large amounts of money into debt servicing in the coming years. For an economy as fragile as Pakistan's, that's an undesirable and perhaps even an untenable proposition,” says Michael Kugelman, the deputy director of the South Asia program at the Woodrow Wilson Center.

So far it seems the government of Pakistan does not want details of CPEC projects to be made public because it could risk generating a lot of controversy over already agreed upon financial terms and could also raise questions on how these terms might affect Pakistan's sovereignty in the long-run.

Islamabad's still-developing economic model is becoming increasingly dependent on China. However, it is also true that Pakistan doesn't have

any sustainable economic plans of its own to revive its economy. Pakistan's economy has been in danger of facing an economic collapse previously and China has stepped up on various occasions to offer its support.

Yet, if Beijing does not stop pushing forward its strict monetary conditions on Pakistan the country may have to drop more projects.

According to Kugelman, "A one-off incident of Pakistan backing away is not so serious, but if we start to see multiple cases of Pakistan walking away, then the very viability of CPEC could come into question. Given the astronomical level of importance that Pakistan and China have placed in CPEC, any suggestion that the project may not see itself through is cause for alarm".

It isn't likely that China will stand for any mega infrastructure deals that would put it at the losing end. At the same time Pakistan has been warned by several observers against Beijing's aggressive conditions and the general deal-making style opted by China.

Pakistan's Federal Minister for Ports and Shipping, Mir Hasil Bizenjo, too recently pointed to how the 91 percent of revenues generated by Gwadar port as part of CPEC will flow out to China, providing China with control over all projects. There are also significant indications that CPEC may not be producing as many jobs for locals in Pakistan as many previously anticipated.

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The public affairs consultant and the founder of Liberty South Asia, Seth Oldmixon was recently quoted as saying: "There appears to be a realization among Pakistani decision makers that many of the deals are lopsided to the point of being exploitative." Kugelman adds: "The fact that Pakistan has backed away from several projects – coupled with the fact that China has itself backed away from a few projects – is significant in that it highlights that for

all the heady talk and soaring rhetoric about CPEC and its successes, there are some significant constraints that need to be worked out."

Perhaps both sides are developing a difference of opinion on which side is set to benefit from the project in the long-run. Presently however, with

Pakistan facing diplomatic and financial isolation from the US, it is even more likely that Pakistan will be more accepting of Chinese plans. While India has enthusiastically welcomed Washington's tough line on Islamabad, it should also be aware that Beijing will now inevitably exploit the US-Pakistan rift.

It is significant to note that only shortly after the US announced the suspension of aid to Islamabad, Pakistan announced its decision to begin using the Chinese Yuan for bilateral trade and investment. Even more importantly, the Chinese ambassador to Pakistan soon after proclaimed that the country would speed up the timetable of the CPEC project.

Pakistan is at a great risk of falling for what has been labeled as China's "creditor imperialism". Sri Lanka for instance is a good example of such a case: it was forced to turn over its Hambantota port to a Chinese state-owned company under a 99-year lease deal after being unable to repay the debt the country sustained from Beijing for having it built.

Conclusion

Rather than a single initiative, the One-Belt-One-Road can be better described as more of a collection of several cooperation projects between China and other countries. Many projects under the CPEC framework are projects that have been going on for years before the OBOR even began. With the OBOR now however more resources are available to continue the same projects.

It is significant to consider that individual projects remain more or less independent of one another—thus, the failure of one cannot lead to the failure of the OBOR altogether. As with most ambitious projects—deemed as ‘too massive to fail’, with CPEC too there are concerns that efforts to secure the project’s smooth expansion may include investors overlooking the negatives of economic decisions made along the way. Analysts have frequently warned against OBOR granting extension of credit to countries with already questionable credit ratings. Projects under the OBOR have been framed keeping in mind Chinese interests—both economic and political. The OBOR itself is considerably broad in terms of its aims and objectives. It can be better described as more of a policy direction rather than a single defined project. The very size and scope of the OBOR provides Xi and his administration ample flexibility to determine the way it progresses. At the same time, its success also rests on the way other countries receive the project as a whole.

Beijing has an important task at hand. It must work consistently with regional partners in order to ease suspicions around Chinese intentions with the OBOR. In order for this to happen, Beijing will have to follow a foreign policy that presents China as a cooperative and constructive power in regional politics.

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It is even more important now for diplomats to play their part in defending mega projects like CPEC, which can prove beneficial for not only Pakistan but other Asian countries as well. At a time when the project is receiving a lot of criticism from

regional rivals, it would benefit Pakistan if it adopts an institutionalized approach in addressing foreign policy challenges and propaganda against the project.

It is worth noting that any efforts by New Delhi or Washington to threaten CPEC will likely only draw China and Pakistan even closer. If Pakistan is lost to the US or isolated, the US loses out too. The issue of the safety and security of nuclear assets in Pakistan remains significant to the US, and so does non-proliferation. In case relations further strain, the US stands to lose communication with Pakistan on the nuclear issue and in any talks on finding peace in Afghanistan. It also loses its influence over Pakistan's efforts to deal with extremism and militant outfits. Lines of communication and intelligence sharing on transnational terror groups like al-Qaeda and Islamic State will also subsequently be lost. Trump's strategy for South Asia has complicated Pakistan's already strained ties with India and Afghanistan. Policies on both sides need to be adjusted to secure core interests.

The present situation demands robust political and diplomatic initiatives by Pakistan and China to develop an understanding with neighbors on the CPEC project. For Pakistan, there is a need to settle doubts and suspicions regarding the project domestically as well. While CPEC is a welcome move for the development of Pakistan's economy, the government needs to make sure that effective measures are kept in place to monitor and secure the country's long term interests.