CPEC: Past and Future Challenges

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Introduction

The China-Pakistan Economic Corridor (CPEC), an enormous $62 billion bilateral developmental project between Pakistan and China, is hailed as a “game changer” in the geopolitics of South Asia. The economic corridor will connect Pakistan’s Gwadar Port in Baluchistan with Kashgar in the northwestern Chinese province of Xinjiang through several extensive networks of roads and various other infrastructure projects. This project has become a “flagship project” of China’s Silk Road Economic Belt. Launched in 2015 and intended, at least on paper, to be finished by 2030, the economic corridor has of late figured regularly in Pakistan’s economic and national security discourse.

Many hope the project will prove to be a win-win for both countries. China is expected to save millions of dollars every year through increased access to the Indian Ocean and the creation of a shorter route for energy imports from the Middle East. The project holds great potential to not only boost China’s domestic economy, but also enhance its geopolitical clout, and improve regional stability.

Pakistan is also understandably pleased. The excitement felt among political and economic circles stems to a large degree from Pakistan’s wobbly economic performance in recent years, where the country has been failing to meet its GDP targets. For the Pakistani government, the project promises an economic boost and a potential solution to the country’s feeble socioeconomic structure. Many hope CPEC will result in: an expanded infrastructure in the country, the introduction of large-scale hydro, solar, thermal, and wind-driven projects fit to tackle the country’s severe energy crisis, and perhaps also a transnational rail system.

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Fortunately, sharing genial relations with a regional superpower may also reduce the threat of diplomatic isolation currently facing Pakistan. As Pakistan battles extremism, terrorism, and rampant corruption, several observers not only expect Pakistan to profit economically under
the patronage of China but also hope CPEC will help mend Pakistan’s international image.

Other analysts, however, have asked the wider public to be “cautiously optimistic” about the project. German Marshall Fund Transatlantic Fellow Andrew Small for instance, in his book ‘The China-Pakistan Axis’, records that security risks in Pakistan haven’t changed much, but “the security and economic logic for Beijing is quite different now. With China motivated partly by efforts to help stabilize Pakistan, and its western periphery more broadly, it’s more willing to live with the attendant security threats.” Since China’s fast-tracked growth during the 1980s, China-Pakistan economic cooperation has continued to expand in multiple ways. CPEC is popularly viewed as a lifeline for Pakistan. Yet, as Small too notes obstacles still exist that could potentially derail the project—some of which have lingered from the 1990s onwards.

A similar view of geopolitics and mutually shared interests kept ties between China and Pakistan strong after the Cold War. With the Pressler Amendment, the US in 1990 suspended military and economic aid to Pakistan. Soon after, US-Pak ties worsened as US also refused the transfer of 28 F-16 fighter aircrafts to Pakistan. This was a serious blow to the relationship. As US assistance reduced, Pakistan intensified cooperation with China and the US gradually moved towards India. The Pak-China friendship is marked not only with economic but also collaboration on nuclear programs. China has since the late 1990s closely worked with Pakistan on projects centered on building Pakistan’s military and weaponry systems.

Yet, it is interesting to note that the China-Pak relationship up until CPEC was marked with relatively slow economic cooperation. Consequently, CPEC has added new dimensions to the China-Pakistan alliance, which has now evolved into a much broader and more dynamic economic and commercial partnership.

To understand the role of CPEC in driving the relationship forward, it is important to consider challenges that the Pakistan-China relationship has been dealing with since the 1990s (before CPEC). This paper will explore the role of CPEC in helping the bilateral relationship overcome its difficulties in an effort to recognize the way ties have progressed.
overtime. Additionally, it will note future challenges that await the project and discuss its potential in terms of being a “game-changer” for Pakistan’s regional position.
Concerns in the China-Pakistan Relationship Following the 1990s

Slow Economic Cooperation
China extended its economic cooperation with Pakistan by signing first the ‘China-Pakistan Free Trade Agreement on trade in goods’ in November 2006 and then the ‘Free Trade Agreement on trade in services’ in February 2009. Compared to the $4 billion in 2006-07, bilateral trade volume reached a record high at $12 billion from 2014-15. Exports jumped to $2.1 billion in the period 2014-15 from a previous sum of $575 million in 2006-7. China’s exports to Pakistan also increased to $10.1 billion in 2014-15 from $3.5 billion in 2006-7.

Nonetheless, the growth of China-Pakistan bilateral trade in comparison to other countries remained slow. The trade relationship as also noted by Zahid Hussain in his paper on “CPEC and the New Regional Geopolitics” was inherently “imbalanced”. China under the CPFTA offered concessions. Pakistan however was only able to use 3.3% of the total tariff lines. Out of a total of 7550 tariff lines Pakistan exported only in 253, when average export value was at $500. Pakistan’s export basket consisted of raw materials and intermediate products like cotton yarn and woven fabric; value added products were not included. This is also why Pakistan has not been able to fully take advantage of the CPFTA, even though certain value-added products like garments are part of the concessionary regime.

Comparatively, it is interesting to note during the same time period China’s trade relationship with India increased at a faster pace. Sino-Indian trade rose from $5 billion in 2002 to more than $60 billion in 2010. At present, it has increased to $100 billion annually, which is approximately eight to ten times the value of Pak-China trade. Regardless of border tensions and India’s growing proximity with the US, Indo-China trade has remained fairly stable. This perhaps is also one of the reasons why Beijing has been consistent in its offer to mediate between the two and balance its relationships with India and Pakistan.
Security

The security atmosphere in Pakistan has posed numerous challenges to the development of Pakistan-China ties. Chinese authorities, who perceive Uighur separatist sentiment as a terrible threat, have been concerned with ‘Pakistan as a haven for radicals’ since the mid-2000s. China’s troubled Xinjiang region provides residence to about eight million Uighur Muslims—some of which are known to have joined the movement for an independent “East Turkestan”. Chinese authorities have charged the movement with having strong ties with Pakistani militant groups.

Tehrik-i-Taliban Pakistan (TTP) expanded operations over Pakistan’s tribal areas and parts of the Khyber Pakhtunkhwa province from 2007 onwards. After taking over the Swat district, TTP expanded further stopping only 60 miles from Islamabad in 2009. Islamabad eventually had to deploy an entire division of army troops to protect the Karakoram Highway which was also under threat. Chinese authorities wary of Uighur militants’ connections with the Afghan Taliban have frequently attributed ethnic strife in the Xinjiang region to foreign militants rather than domestic discontent.

Following the July 2009 riots in Urumqi, China pressured Pakistan to crack down on members of the East Turkestan Islamic Movement (ETIM) and shut down religious seminaries training Uighur separatists. Approximately 10 ETIM militants suspected to have been involved in terrorist activities in Xinjiang were extradited to China. China’s strangely specific accusations after the Kashgar city attacks in late July 2011 hinted at China’s growing impatience with Pakistan’s inability to control radical groups operating within its borders. China established a link between growing terrorist militancy in Pakistan and growing aggressiveness of Uighur separatists in Xinjiang. It soon became clear that any more attacks with Pakistani connections could have severe consequences for the China-Pakistan relationship.

Moreover, separatists frequently targeted Chinese workers in Baluchistan. In the summer of 2007, the kidnapping of Chinese workers from a massage center sparked outrage. The military-led government of General Pervez Musharraf launched an operation at the Red Mosque to free the detained Chinese women. More incidents demanding action from Pakistan soon followed. In July 2007, certain Chinese officials were killed by militants avenging the execution of a Uighur separatist leader.
Ten Chinese engineers were killed in Baluchistan in a targeted suicide bombing. Out of fear for the protection of the lives of Chinese workers President Hu Jintao threatened to suspend Chinese projects in Pakistan.

In December 2008, Beijing dropped its opposition at the UN to declare Jamaat-ud-Dawa (JuD) a terrorist group. Mounting Chinese pressure was also one of the many reasons that eventually motivated Pakistan to launch operation “Zarb-e-Azb” in June 2014. The operation targeted extremist militant groups, including ETIM members.
CPEC: Changes in Pakistan’s Geopolitical Position

Economic Enhancement
CPEC offers Pakistan a tremendous opportunity to upgrade the basic infrastructure of all provinces since the corridor essentially passes through the whole of Pakistan. New roads, highways, railways, airports, and seaports are to be built and developed according to the blueprint of this massive project. Pakistan’s Ministry of Planning, Reform, and Development will be heading the management from Pakistan’s side. From China’s side the National Development and Reform Commission (NDRC) is in charge of the BRI scheme. Presently, a Joint Cooperation Committee periodically reviews progress in projects, managing important areas such as long-term planning, energy, transport infrastructure, Gwadar, and industrial parks and Economic Zones.

CPEC has made power generation a critical part of its development plan. Supply shortfalls and transmission and distribution losses reportedly cost more than 2% of GDP growth to Pakistan in a year. The problem is further exacerbated by Pakistan’s demographic growth; an increase of 2% every year in population falls heavily on the country’s resources. Under CPEC, twenty-one new projects will add about 17000 megawatts of generation capacity which can nearly double Pakistan’s installed capacity. Fourteen out of the twenty-one projects will be completed on a “fast-track basis” to generate an additional 10,400 megawatts to the national grid by 2018. Around the power generation sites the Pakistani government also plans to build industrial parks and special economic zones that will provide jobs to local communities and attract local investment.

In sum, CPEC holds great potential to transform Pakistan’s economy and significantly boost its growth. However, necessary safeguards have to be provided in the CPEC agreement to ensure Pakistan’s ability to service its debts.

Rising militant violence and political instability in Pakistan has also had an impact on foreign direct investments (FDI). For about a decade, Pakistan’s average annual economic growth rate has been limited to 3%. In the last three years, FDI has remained below the one billion-dollar mark. The lack of foreign investment has also affected domestic investments. China’s investment plan will ensure more than the double of all FDI in Pakistan since 2008. Pakistan’s GDP growth rate has already risen from 3.7 to around 5% owing to China’s investment in the project.
In sum, CPEC holds great potential to transform Pakistan’s economy and significantly boost its growth. However, necessary safeguards have to be provided in the CPEC agreement to ensure Pakistan’s ability to service its debts. Greater transparency can help analysts conduct proper analysis on Pakistan’s ability to repay Chinese loans. More clarity on CPEC can also encourage participant countries to wholeheartedly support the BRI (Belt and Road Initiative).

**Increased Connectivity**
Chinese interests in Pakistan are not just economically driven. Massive infrastructure development projects and power plants not only provide China with lucrative commercial benefits but also huge strategic and geopolitical advantages.

China has approved additional financing for infrastructure projects under CPEC, taking the investment volume to $62 billion from the originally announced sum of $46 billion. The increase in cost can be attributed to the inclusion of Pakistan Railways and rail-based mass-transit projects in the provincial capitals of Sindh, Khyber-Pakhtunkhwa and Baluchistan. About $28 billion of the proposed investment plan is designated to early harvest projects; including $18 billion for projects and $10 billion for transport infrastructure. The rest of the investment plan is set to be released from 2030 onwards.

CPEC will ultimately open up a 3200 km trade and energy route between the city of Kashgar in Xinjiang and the port of Gwadar in Southern Baluchistan, connecting Western China to the Arabian Sea. Regional connectivity has remained on the China-Pakistani cooperation agenda for decades. Pakistan’s geo-strategic location provides a unique opportunity to connect South, West and Central Asia. Even though the CPEC agreement was formally signed during Chinese President Xi Jinping’s visit in 2015, deliberation over the nature of the project had been ongoing for a long time under both the military and civilian administrations of Pakistan. The Karakoram Highway constructed back in the 1960s was a landmark project that strengthened connectivity between Pakistan and China. This Highway in many ways led to the introduction of the CPEC.
The eagerness of Iran, Russia, and Saudi Arabia to be a part of CPEC has added to the mystique of the already exceedingly hyped economic corridor. CPEC provides Pakistan an opportunity to work closely with other regional players, independent of Western influence.

CPEC: Future Challenges

Security
Since the project is distributed across Pakistan, covering regions of northwest Pakistan where militant groups are active, security is likely to remain an issue of concern.

Insurgency in Baluchistan
Gwadar port in Baluchistan is central to the success of CPEC. Calls for a separate state and the ensuing armed conflict in the region however pose an enormous challenge to its development. The province has been facing low intensity insurgency for over ten years now, and Chinese engineers and officials have been targeted frequently. As a result, Pakistan has pledged to deploy a Special Security Division of 15000 which will include 9000 regular Army soldiers in addition to 6000 paramilitary personnel. Other provinces in the country have also been asked to raise extra paramilitary and police forces for the security of Chinese citizens working on CPEC.

Baluchistan, the largest province in terms of landmass, has a very low population density. Baluch nationalists fear having the demographic balance of the region turn against them. The influx of labor and technical manpower from other regions to the Gwadar port for instance would mean the local population would be reduced to a minority. Unfortunately, it seems the local population does not have the skill set necessary to fulfill the occupational requirements for as demanding a project as CPEC. It is also likely that people from other provinces of Pakistan may move to Baluchistan and settle there, if the corridor does become a success. Fear of marginalization is felt by a major portion of the population, already unsatisfied with the central government.

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_Provincial Resentment_
Numerous political organizations from provinces like Khyber Pakhtunkhwa and Sindh have voiced concerns over Punjab—Pakistan’s richest province -- getting preferential treatment. Opposition parties centered in Sindh and Khyber Pakhtunkhwa have complained about the allocation of services, industrial parks and special economic zones to Punjab. There are also domestic arguments over the exact route of the CPEC, which will define which provinces and cities will reap the benefit of Chinese investment. Opacity surrounding the negotiated deals has for many observers confirmed the idea that CPEC may in actuality increase regional disparity within the country.

_Balancing Regional Ties_
Various external political challenges can hamper the progress of CPEC. Addressing the apprehensions of other countries regarding the development of CPEC is essential to regional stability.

_Indian Concerns_
New Delhi opposes CPEC because it passes through Pakistan-administered Kashmir and Gilgit Baltistan, which India claims to be its own territory, illegally held by Pakistan. One of the major Indian concerns is that with CPEC China could use Gwadar as a naval base for its extended blue water fleet and operations through the Indian Ocean. Moreover, Islamabad has accused India of conspiring to disrupt the project by fueling the Baloch insurgency, a claim vehemently countered by the Indian state. It is likely that unhealthy Indo-Pak relations will cast shadows over the development of CPEC.
US Concerns

Increasing outreach to the US will continue to be a challenge when Pakistan is helping China extend its influence and counter US dominance in the region.

America worries CPEC is helping increase Chinese access and influence in Eurasia. Washington is concerned with the new geopolitical nexus between Pakistan and China and the loss of its leverage over Islamabad. China’s expanding influence in Pakistan might also push Washington into competing to regain its influence over Islamabad. This could also make it increasingly difficult for policymakers in Pakistan, primarily with respect to balancing relations between Beijing and Washington. Of late however Pakistan’s relationship with the United States has hardly been what can be termed as amicable. Pakistan’s administration feels betrayed by the chameleon attitude the Trump administration has shown. Increasing outreach to the US will continue to be a challenge when Pakistan is helping China extend its influence and counter US dominance in the region.

Afghan Concerns

During his recent visit to India, Afghan President Ashraf Ghani welcomed India’s new role in Afghanistan and said that he would not join CPEC if Islamabad refused to permit connectivity between India and Afghanistan. Since October 2016, Afghanistan has expressed a strong interest in joining the corridor. Previously, Afghanistan’s ambassador to Pakistan, Dr. Omar Zakhilwal, “emphasized his country’s interest in joining CPEC and stressed that a development project of this scale would be beneficial not only to Pakistan but also for the entire region”. More recently however, as ties between India and Afghanistan have improved Pakistan has grown increasingly wary of India’s development contributions viewing them as part of New Delhi’s strategic encirclement policy. Pakistan’s strategic depth policy has not only failed but has also led it to a critical situation where it is now important for Pakistan to pursue rapprochement and address differences with all of its neighbors.

Both China and Pakistan stand to gain by welcoming Afghanistan to CPEC. China has long been interested in Afghanistan’s untapped
reserves of natural resources. Pakistan can benefit from easier access to Central Asia through Afghanistan. With Afghanistan being a landlocked, terrorism- and militancy-prone nation, improvement in infrastructural development and uplifting of the Afghan economy with the help of Chinese investors can be beneficial not only for Afghanistan itself but also the entire region.
Conclusion
The current government’s reluctance to release details of the project publicly out of fear of the politicization of the project has led many to believe CPEC is molded to favor Chinese interests alone. The government is also concerned that if details are made public, it could potentially generate otherwise avoidable debate and attention, domestically and internationally, which could prove to be an irritant for not only the ruling party, but also for its Chinese counterparts. Regardless however, these apprehensions can by no means be justified given the stakes involved in the multibillion dollar project. The main task at hand for the Pakistani government is implementing CPEC in a way that can help do away with structural imbalances and put the country’s economy on a sustainable growth trajectory. The government must ensure that effective measures are in place to protect the country’s long term interests.

CPEC is a potential game-changer that could transform economic growth and inject prosperity and capital in Pakistan’s existing socio-economic fabric. The idea that economic growth can bring political stability is shared across Pakistan’s many provinces. CPEC can become a source of regional economic integration provided that the government takes active steps to reduce inter-provincial disparities and reorients focus to Pakistan’s economically backward areas.

Other than the CPEC itself, burgeoning ties between the US and India has also brought China and Pakistan closer together. CPEC aims to increase connectivity and economic cooperation in the entire region. In order for this to happen and for Pakistan to fully benefit from its geostrategic location, settling its troubles with regional powers is equally important. Islamabad’s approach to Afghanistan for instance is ultra-focused on security. The way Islamabad has managed relations with the Afghans has led the Afghan government to link the independence of its foreign policy to its relations with New Delhi — precisely what Pakistan’s foreign policy is intent on preventing. The security-centric pattern needs to change. CPEC has the capacity to promote multilateral cooperation. Pakistan should use this opportunity to establish better ties with its neighbors and the region in general.

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