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Does the China-Pakistan Economic Corridor Really Help Pakistan?

The China-Pakistan Economic Corridor (CPEC) encapsulates a number of China's strategic objectives and cannot, therefore, be viewed only as the silver bullet that will lift Pakistan out of its economic difficulties or solve the issues afflicting its society. The first unstated but major obstacle is that the objectives of China and Pakistan are quite different, almost at cross-purposes – while China has a larger strategic objective and views the corridor more as an essential stepping stone towards global leadership, Pakistan sees it just as a solution for its economic difficulties. To put it in clearer context, the CPEC is part of the 'One Belt, One Road' (OBOR) strategic geo-economic initiative launched by Xi Jinping with the express purpose of making China a global power by 2049, or the hundredth anniversary of the People's Republic of China (PRC)!

Since the 18th Party Congress in November 2012, particularly, China has switched to an increasingly assertive and muscular foreign policy doggedly focused on China attaining its self-perceived global status of a world power. In an article on 28th January 2014, Prof Yan Xuetong, a reputed Chinese strategist with proximity to Xi Jinping and Dean of the Institute of International Studies at Tsinghua University, said that the new policy decided at the path breaking 'Conference on Peripheral Diplomacy' convened in Beijing in October 2013, aims at "achieving global leadership" for China with emphasis on the 'China Dream'.

A large part of what drives today's Chinese leaders – and particularly Xi Jinping – is a strong sense of destiny manifested as the 'China Dream'. The 'China Dream' is the desire to redress the 'humiliations' inflicted on China for over 110 years in the Nineteenth

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Century, during which period it suffered repeated military defeats and “unequal” treaties were forcibly imposed on it. During this period China lost a lot of territory, had entire provinces taken over, puppet regimes installed in its cities, and was coerced to trade on disadvantageous terms by the victorious foreign powers who established ‘concessions’ or enclaves mainly in the coastal cities. Official Chinese accounts describe this period as the dark times when China’s rulers were forced “to surrender sovereign rights and bring humiliation to the country”. The need to redress this humiliation is today a recurrent theme in the statements of Chinese leaders and the ‘China Dream’.

Cognizant of the growth in China’s economic and military might, the ‘Conference on Peripheral Diplomacy’ decided on a more robust foreign policy reinforced by military muscle. The aim of the new foreign policy is to provide China’s leaders an expanded set of strategic options and “ample chances to avoid using ‘military conquests’ to achieve regional dominance”.

It designated countries as ‘friend’ or ‘enemy’, with ‘friends’ benefitting from the gains flowing from China’s development and rising global influence. It envisaged regional or sub-regional “cooperative” security agreements. An objective was to create a “community of common destiny” with select countries. It simultaneously emphasized that those who are hostile to China, or oppose it, will be confronted with sustained periods of tough sanctions and isolation. Chinese strategic analysts have been advocating that China should now (since it has the capacity to do so), change the status quo to its advantage while avoiding military conflict and begin to shape the international and regional environment in its own favour. They argue that China should take the initiative and create a favourable periphery.

The expectation is that the CPEC, which is a part of the OBOR, will give a much needed fillip to China’s economy and stature by putting to use the hitherto idle infrastructure technology capabilities of its State owned Enterprises (SoEs), huge unemployed labour, and the unutilized fiscal reserves available with its banks, in revenue-generating ventures abroad. This in turn will further facilitate China in its quest to extend economic influence and military power well beyond its borders to dominate the region. China has, therefore, been aggressively pushing the OBOR with, for example, Nepal where 184 of 312 roads connect Tibet with South Asia, Bangladesh, Bhutan and India. Beijing’s close ties with Pakistan since 1951 and the anti-India attitude of both facilitated the CPEC. Its existence and operation adversely impacts India’s sovereignty and territorial integrity – as it alters the status quo in the region and begins to bend borders and shape the geo-political environment – and its military content further lends weight to the prospect of the always looming threat of a two-front war.

Assessments of the CPEC’s benefits to Pakistan vary considerably, but a recent study by DeLoitte is interesting. Pointing out that the volume of trade between Pakistan and China had increased to US\$ 16 billion by 2014–15, the study alluded to impending benefits. It estimated that if all planned projects are implemented, their value would exceed all foreign direct investment in Pakistan since 1970 and would be equivalent to

17 per cent of Pakistan's gross domestic product in 2015. It further estimated that the CPEC will create some 700,000 direct jobs during 2015–2030 adding up to 2.5 percentage points to the country's growth. Importantly, it noted that the Karakoram Highway between Rawalpindi and the Chinese border will be completely reconstructed and overhauled and Pakistan's railway network will be extended to eventually connect to China's Southern Xinjiang Railway in Kashgar. Almost 80 per cent of China's oil is currently transported over 16,000 kms from the Strait of Malacca to Shanghai, but once Gwadar becomes operational this distance would reduce to less than 5,000 km. The CPEC will also open immense economic opportunities for Pakistan and physically connect China to its markets in Asia, Europe and beyond. According to China Daily, the energy projects would provide up to 16,400 MW of energy altogether with over 10,400 MW of energy generating capacity developed between 2018 and 2020 as part of the corridor's fast-tracked "Early Harvest" project.

The assessment of the Deloitte study is not mirrored in the numerous comments and articles by Pakistani politicians, journalists and academics. While they are appreciative that the CPEC has brought a massive influx of much needed infrastructure aid and investment to Pakistan, they are very apprehensive that Pakistan risks losing sovereignty to China.

The study also fails to take into account the high energy production cost of these power plants. With fuel imported from China's Xinjiang Autonomous Region, the cost per unit of electricity generated by the new power plants would be double the present, imposing a very high burden on the consumers. Early indicators suggest the time and production estimates are exaggerated.

Politicians in Pakistan's provinces have complained for the past year that locals are not getting employment in CPEC projects and are not even being allowed access as the sites are 'protected' by 10-foot high perimeter walls. On the other hand, they say, there has been a huge influx of Chinese labour. Serious concern has been voiced by politicians, academicians and journalists about Pakistan's mounting debt to China and the anticipated high cost of electricity from the new energy projects.

Expressing concern about the viability of the CPEC, Ali Malik, a researcher at the South Asia Program at the Hudson Institute in Washington DC, on 04 January 2017, pointed out that "most of Pakistan's urban centers are located in the east, not the west and that inter-provincial resentment and differences have flared, with the western provinces accusing the centre of being partial to the country's eastern portion, where majority of Pakistan's economic bases are located". Contributing to this is the historically poor record of the Pakistani government in fulfilling past guarantees of investment. One article disclosed that because of the inadequate investment in infrastructure and chronic electricity shortages, factories in Khyber-Pakhtunkhwa (KP) have been closing down. Mounting criticism has prompted Pakistan Prime Minister Nawaz Sharif to promise that 12 out of 48 special economic zones will be built in Khyber-Pakhtunkhwa

(KP) and Balochistan.² Nonetheless, doubts still persist as to whether the central government – seen as unstable – will be able to deliver on its promises.

There are other questions about the economic viability of the CPEC, for which the bulk of financing has come in the form of loan based financing, and not unconditional grants from the Chinese government. Though the loans are given to individual construction companies involved with the projects, there are significant risks to the government. Many of the power projects are under sovereign guarantees, thus making the Pakistani government responsible if these companies fail to meet their debt obligations. Pakistan's current liabilities (debt), both private and public, have reached a staggering 75 per cent of GDP (Rs. 22.5 trillion). In 2015, the circular debt of Pakistan's energy sector rose 23 per cent to Rs. 633 billion. In November 2016, Pakistan was unable to repay Rs. 136.5 billion in bank loans of the energy sector and it postponed payment for another two years. Many provincial politicians, journalists and academicians feel Pakistan is taking a real big gamble by putting all its eggs in the CPEC 'basket' and hoping that the benefits will be able to outweigh the risks. They stress that there is no "Plan B" if things go awry.

In a recent report, the State Bank of Pakistan pointed to heavy borrowings from the Chinese commercial banks at questionable rates to pay for Chinese machinery imports. Loans to Pakistan from China during the first quarter of this financial year has jumped to US\$ 979 million, compared to US\$ 138 million during the comparable period last year. Saying he does not know what the terms are on these loans from China, the Governor of the State Bank of Pakistan Ashraf Wathra in December 2015, said the "CPEC needs to be more transparent." He also added that he does not "know that out of the total US\$ 46 billion how much is debt, how much is equity and how much is in kind". The State Bank of Pakistan, meanwhile, recently confirmed that Pakistan's tax collection is unable to pay for this debt servicing. The IMF has also urged caution to Pakistan. Some analysts say much of the criticism of the CPEC is possibly based on hypotheticals and "what-ifs", but concede that the lack of a contingency plan is a major source of anxiety. Sri Lanka is cited as an example, which saddled with staggering, unpayable Chinese loans is now set to allow a US\$ 1.4 billion debt for an 80 per cent equity swap that will allow China a 99-year lease on the Hambantota port and 1,500 acres of adjacent land where the Chinese are expected to set up a 'Special Economic Zone'. The similarities between Sri Lanka's Hambantota port and Gwadar are unmistakable. In Gwadar, the Chinese have signed a 40-year lease on 2,300 acres of land to develop a 'Special Economic Zone' and an international airport.

Amidst rising criticism in Pakistan about the CPEC, the official 'China Daily' on 14th September 2016, reflected on Beijing's growing concern and expressed apprehension about the successful implementation of the CPEC. It warned that China and Pakistan should be prepared for "potential setbacks" and that the implementation of the CPEC might slow down due to "security reasons" as the project passes through some turbulent areas like Gwadar and Kashmir. Concern was also expressed about the likelihood of poor rate of return of Chinese investments under the CPEC. The China

Daily article even suggested that instead of relying too much on Pakistan, China should focus on economic cooperation with other Southeast Asian countries.

China's Ambassador in Pakistan Sun Weidong met Pakistan Tehreek-e-Insaf (PTI) chief Imran Khan on 18 October 2016 to seek assurances that projects under the CPEC would not be harmed or sabotaged in Khyber Pakhtunkhwa province. Separately, Khyber Pakhtunkhwa took matters concerning the CPEC to court. China retaliated and denied visas in November 2016, to a high level delegation from Khyber Pakhtunkhwa, comprising of Ministers and senior bureaucrats, who were to travel to China to study the mass transit transport system. Chinese officials also sought to directly dispel misgivings about the CPEC and Zheng Xiaosong, Vice Minister of the CCP CC's International Department, met representatives of political parties in Islamabad on 20 December 2016, and urged them to unite for the success of the CPEC. Assuring them of China's assistance he said both would jointly work for it. Muhammad Lijian Zhao, a senior Chinese diplomat based in Islamabad, also sought the Pakistani public's support on 20 December 2016, to counter "disinformation" over CPEC. He also criticised those maligning the CPEC and then claimed that the project enjoyed popular public support.

These concerns compelled China to take the unusual step of holding the Joint Cooperation Council (JCC) – the highest decision-making body of CPEC – in Beijing during December 2016, where for the first time the chief ministers of the five constituent units of Pakistan were invited. Beijing calmed the parties with assurances of evenly-distributed industrial estates and mass-transit systems. However, misgivings remain.

Additional worries are that the CPEC's success depends entirely on Pakistan's ability to export its goods and services and show a strong rise in exports. Pakistani analysts warned that these sectors of the economy would have to compete with the influx of cheaper Chinese imports that have the potential ability to strangle the domestic market. Chinese imports have, incidentally, already grown from 4 per cent in 2010 to 9 per cent in 2015. Economists say that if this downward trend of exports and increase in imports continues, Pakistan will face a serious balance of payments crisis. Others suggest that Pakistan is already on the verge of experiencing a crisis as debt servicing will increase to between 30 per cent and 60 per cent by 2020 because of the CPEC and Pakistan's purchase of Eurobonds. There is a general view that in order to safeguard its economic future Pakistan must be cautious in how it implements and administers completion of the CPEC. More importantly, they assert that the central government must be honest about the nature of Chinese investment as Pakistan risks losing its sovereignty and being beholden to China and exploited by it for its natural resources and geostrategic location.

For China, however, the centre-pieces of the CPEC are the Gwadar Port and area of the Karakoram in the north. It has eyed Gwadar for years and agreed to fund its development only after Pakistan agreed to grant it "sovereign guarantees to the port facilities" in 2007. The importance of Gwadar for China is emphasized by the inclusion

of Gwadar International Airport and other major development works of Gwadar Port in the CPEC's first phase with completion targeted for 2017. A total of 9 projects valued at approx US\$ 1 billion, each intended to augment China's commercial and military capacity, are planned in and around Gwadar. China is reported to have established electronic eavesdropping posts at Gwadar. The CPEC's first phase also includes expansion of the Karakoram Highway, connecting Pakistan's railway network to China's Southern Xinjiang Railway in Kashgar, and placement of a secure fibre-optic line between Kashgar and Rawalpindi, all projects of military significance. What is really interesting is that when tensions rose early last year because of Pakistani complaints about the rising costs and the slow pace of work, China sought to assuage Pakistan and said many of the projects around Gwadar would be grants!

The security of Gwadar is a source of continued concern for the Chinese and has imposed a heavy financial burden on Pakistan. In January 2016, the Pakistan Navy decided to deploy two additional Marine Battalions to provide around the clock security at Gwadar. On 21 September 2016, in the wake of the deterioration in Indo-Pakistan relations over Kashmir, Chinese Premier Li Keqiang publicly expressed reservations and told Pakistan Prime Minister Nawaz Sharif that he "hoped" Pakistan can continue to provide protection to the CPEC and Chinese personnel in Pakistan. The official Chinese newspaper *Global Times* similarly warned that "the increasing cost of security is becoming a big problem in efficiently pushing forward the project." In November 2016, during the inaugural Kashgar-Gwadar cargo run and subsequent transfer of the containers to waiting vessels at Gwadar port, Pakistani officials went to great lengths to allay Chinese concerns and the Pakistan Navy deployed ships and aircraft to provide security cover to ensure safe and secure transit.

Since Gwadar became operational, the role of Pakistan's maritime forces has increased and the Pakistan Navy has been assigned special responsibility to protect the Gwadar seaport project and more than 500 Chinese nationals working there from offshore threats. Hussain Sayed, who chairs Pakistan's parliamentary committee on the CPEC, recently said that Pakistan plans to double the size of the Special Security Division (SSD), set up under a Major General solely for protecting CPEC construction sites and the estimated 10,000 Chinese workers, by the end of March 2017. With China refusing to provide any financial assistance towards security expenses of the CPEC, the Pakistan government on 24 September 2016, decided to meet such expenses by adding 1 per cent more to the cost of all central energy projects and recovering it from consumers through the National Electric Power Regulatory Authority. This cess is to help the Pakistan Army meet expenses incurred on the SSD. The Senate Standing Committee on Planning Development and Reform has protested over the billing of Pakistani citizens for providing security to Chinese nationals in Pakistan. Pakistani politicians are already complaining about the US\$ 12 million a year expenditure on the SSD, which is now expected to double.

Success of the CPEC and Gwadar Port depends on having a safe and secure maritime environment in the Arabian Sea and Indian Ocean region in general. Envisaging attacks

by militant groups or insurgents on seaports and vessels, and use of the container vessels to smuggle weapons, drugs etc., Pakistan has strengthened maritime security capabilities. This includes: intensifying security patrols and coastal exercises; creation of Coastal Watch Stations; establishing a Joint Maritime Information Coordination Centre (JMICC); establishment of the Force Protection Battalion of the Pakistan Marines; and more robust maritime security activities jointly by Pakistan and China.

Collaboration in building navy craft has been stepped up. China and Pakistan have agreed to jointly construct the F-22P frigate in addition to the Azmat and Jalalat class fast attack craft and corvettes for the Pakistan Maritime Security Agency. In June 2015, Pakistan's Ministry of Defence Production signed a contract with M/s China Ship Trading Company for construction of seven Maritime Patrol Ships, four of which are being built in China and the others at the Karachi Shipyard and Engineering Works. The China Shipbuilding Industry Corporation (CSIC) is to also provide Pakistan's Navy with eight attack submarines. Pakistan has to pay for these vessels.

Other serious issues threatening the development of Gwadar have surfaced with Pakistani analysts implying that China has undue interest in Gwadar port. Gwadar is described as an "island isolated in an arid landscape with roads and railways linking it to the rest of the nation." The city's water-supply dam has dried up following three years of drought. The existing desalination plant does not work and there is no more water. Unless Gwadar gets its full road and rail connectivity, the port cannot flourish. Gwadar additionally symbolizes the sense of alienation felt by many in Balochistan, who suspect that most of the benefits of the CPEC are going to outsiders.

The biggest threat to the CPEC and, potentially the Sino-Pak relations in the future, is the unchecked – or rather, un-checkable – rise of radical Islam in Pakistan. The CPEC will unfortunately facilitate the passage of radical Islamist elements, including that of the returning battle-hardened Uyghurs into China's sensitive and restive Xinjiang-Uyghur Autonomous Region. The announcement on January 11, 2017, that China's restive Xinjiang-Uyghur Autonomous Region has closed its borders with Pakistan is the first visible crack in the gloss of lacquer that the CPEC seeks to put on the China-Pakistan relationship.

Chinese provincial officials have earlier vented their frustration at the persistent efforts at proselytisation by Pakistani religious *tanzeems* and named Pakistan during discussions earlier at the National People's Congress sessions. The persons involved in terrorist actions in China have definite links to Pakistan is not in doubt much, – like in the knife attacks in Kunming – and these have, quite unusually, been mentioned in China's official media. "Communist Party leaders of Xinjiang have also expressed fears of militants getting training in Pakistan and Afghanistan and returning to the province to carry out terror attacks".³ The decision of 11 January 2017, would have had high-level approval and followed protracted discussions between Chinese and Pakistani officials including between the respective Intelligence and security services. The terrorist attack in Hotan on 28 December 2016, that killed five people was the trigger. Separately,

Xinhua quoted the Chairman of the Xinjiang Regional People's Congress, Shohrat Zakir as saying that security along the China-Pakistan border would be further tightened "to prevent terrorists from entering or leaving the region illegally in 2017". Local officials in Kashgar prefecture, that borders Pakistan, specifically stressed the need to check illegal infiltration from Pakistan.

One reason for China's concern about the situation in Afghanistan and its effort to open independent channels of communication with elements of the Taliban is their desire to reduce the dependence on Pakistani security forces for preventing extremist elements from crossing into Xinjiang. It is also, of course, to allow Chinese companies to exploit Afghanistan's natural and mineral resources. China's concern is long term and this is clear from the tasking of the PLA's Western Theatre Command which mandates that it focus on "threats in Xinjiang and Tibet as well as Afghanistan and other states that host training bases for separatists and extremists". Troops of the PLA Western Theatre Command can be deployed to protect Chinese workers and projects inside Pakistan and the CPEC. China's National Security Law enacted in 2016 authorises China's armed forces and Intelligence and security personnel to enter foreign countries to apprehend terrorists.

The other potential threat to the Sino-Pakistan bilateral relationship is the growing confidence of the extremist Islamic radical groups in Pakistan. Underscoring the steadily increasing radicalisation of Pakistan, the Chief of the Jamaat-ud-Dawa (JuD) and founder of Lashkar-e-Tayyaba (LeT), Hafeez Saeed told the Nawaz Sharif government in late May 2016, to "show some courage and direct China to stay away from hurting Islamic sentiments". Hafeez Saeed is the first Pakistani national to express concern about the plight of Muslims in China. Surprisingly, a high-powered delegation of Pakistan's Ministry of Religious Affairs subsequently left for China on 28 June 2016 to check the veracity of reports that Chinese authorities in the Xinjiang-Uyghur Autonomous Region have banned fasting in the holy month of Ramazan. The ISIS had earlier identified the Xinjiang-Uyghur Autonomous Region as a place of its interest. These are signs that clearly portend trouble.

Finally, there is serious opposition in Balochistan, where the CPEC is perceived as harming their sense of identity with their historic homeland... Many non-locals, businesses and multinational companies' personnel have recently come under attack in the restive Balochistan region. Local Balochis are already debating that the CPEC will be benefitting only Chinese interests and would convert the local population into a minority. Allah Baloch, leader of the Balochistan Liberation Front, has called the Gwadar project "fake" and a conspiracy against the Baloch people.⁴ The Balochistan National Party, Baloch National Front, and the Baloch Republic Party too have opposed the project. Adding to the resentment is the estimate that by 2048, "the native Baloch population will be outnumbered by an influx of Chinese and migrant workers from Pakistan's other provinces".⁵ Thus, the sense of marginalization felt by the people of Balochistan is further fuelling their animosity by the governmental actions. The President of the Gwadar Educational Welfare Society said that "Gwadar fishermen are not allowed

near the port boundaries. Thousands of fishermen have been asked to leave the harbour.”¹⁶ These concerns of marginalisation are shared by residents of Gilgit-Baltistan too, in Pakistan’s north, who fear “we will become a minority and economically subservient”. Unless these sentiments are assuaged with investments made for the local people, the ensuing resentment and restiveness cannot be calmed and the consequences can prove to be fatal.

While there are serious doubts about the viability of the CPEC and its completion, India on the other hand, must see it as the thin end of the wedge. It represents an enhanced level of Sino-Pak collusion which potentially threatens very large portions of the Indian territory, including Kashmir. China has already laid claim to Ladakh and is pressuring India to ease tensions with Pakistan and “resolve” the Kashmir dispute. Western and Chinese interests also converge in preventing the collapse of Pakistan. With China rising and getting increasingly aggressive, the CPEC’s frailties need to be exploited to their fullest. Already, Prime Minister Modi’s remark last year expressing empathy with the Balochi people has caused disquiet in Islamabad and Beijing and, in China’s assessment, put the CPEC at risk.

Pakistani Major General responded with a superficial ‘invitation’ in December 2016 to India asking them to join the CPEC while Beijing sought to broaden the participation in the CPEC by getting Iran, Turkmenistan and Russia to join so as to portray it as more of an international venture. A section of the US academicians are also suggesting that some US companies should also be allowed to participate in the CPEC. To safeguard its national interests however, and given the discomfort with the CPEC in Pakistan, India must insist – as China has done with the Asian Development Bank and World Bank in the case of funding for poverty alleviation projects in Arunachal Pradesh – that the AIIB and other designated banks for the OBOR and CPEC should not give loans or funds for CPEC projects located in the POK or Gilgit-Baltistan. The Balochis are unhappy at being marginalised. These developments will thus prevent Chinese pressure and influence from gaining ascendance in the countries in the immediate region, including Nepal and Bhutan, thus making India a really serious factor in the politics of the region.

Notes

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