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# CHINA PAKISTAN ECONOMIC CORRIDOR: IS IT A WIN-WIN FOR PAKISTAN?

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The China Pakistan Economic Corridor (CPEC), with an investment of \$46 billion, was inaugurated in 2013 and is viewed as a *game changer* which will benefit both Pakistan and China. The Economic Corridor carries immense potential to upgrade and revive Pakistan's infrastructure and also alleviate Islamabad's energy crisis. CPEC involves building of highways, railway lines, and oil and gas pipelines which will connect Pakistan's Gwadar port to China's autonomous region of Xinjiang. Beijing's initiative has been taken with the primary objective of upgrading all of Silk Roads which China terms as *One Belt, One Road Initiative*. The corridor is the largest foreign investment made by China in the framework of the One Belt, One Road initiative. This will significantly enhance the importance of Gwadar in the region and it will serve as a gateway for trade between China, the Middle East and Africa. For China, the corridor would assist in expanding its strategic space, fulfil its energy requirements, facilitate

trade and, to some extent, cater to its security concerns in the Xinjiang province.

Gwadar port became operational in 2016 and China has not only constructed the port but also has operational control of the port. Gwadar offers a geo-economic and geo-strategic pivot to China and Pakistan. It is strategically located on the south-western coast of Pakistan between three increasingly important regions of the world; South Asia, Central Asia and oil-rich Middle East. Gwadar, overlooking the Gulf of Oman, and the entrance to the Persian Gulf region, is just 180 nautical miles from the Straits of Hormuz. China's involvement in Gwadar, which started more than a decade back, has linkage to China's emerging energy requirements. China is the world's second largest oil importer and approximately 70% of Chinese oil supply comes from the Middle East and Africa through sea. China has been expanding its energy procurement efforts and implementing the strategy of having a series of ports along the oil

shipment routes which would allow China to safeguard and monitor energy flows.

From the military point of view, Gwadar is a decongestion point for the Pakistan Navy and it will provide it a berthing point for its submarines and surface warships. Gwadar port area has been designated as a “sensitive defence zone” by the Government of Pakistan.<sup>1</sup> In January 2017, China handed over two maritime patrol vessels to the Pakistan Navy for joint security along the sea route of the CPEC. The ships are equipped with state of the art guns and will be used to protect the sea-lanes in the Arabian Sea. Reports suggest that China will be providing two more ships “Dasht” and “Zhob” to the Pakistan Navy.

Gwadar port is central to Beijing’s energy requirements and strategic objectives in the region. The port has been officially leased to China for 43 years. CPEC involves multiple projects in Gwadar including: Gwadar East-Bay Expressway, New Gwadar International Airport, Development of Free Zone, Construction of Break Waters and Dredging of berthing areas and channels.<sup>2</sup>

### ***CPEC: Challenges for Pakistan***

The proposed corridor is a comprehensive investment program in sectors including: infrastructure, security, and broader economic development. Pakistani leadership and media are extremely optimistic about the corridors it is estimated that it will positively impact the

economy as a whole, generating job opportunities and creating wider business prospects. Both Pakistan and China view CPEC as a source of potential synergy between their respective national development strategies, which would assist in translating their political and military cooperation into economic cooperation.<sup>3</sup>

Islamabad is struggling with declining FDI, *investments* and energy crisis and is expected to reap economic dividends from the upcoming corridor helping mitigate its current economic struggle. Although the Pakistani leadership seems to be confident of the economic and strategic benefits of the corridor, it is certainly not free of challenges. One of the most critical challenges highlighted in a report by the International Monetary Fund (IMF) is the significant repayment obligation for Pakistan with this huge investment in the future. According to the IMF report:

“Repayment obligations to CPEC-related government borrowing, including amortization and interest payments, are expected to rise after FY 2020/21 due to the concessional terms of most of these loans. Combined, these CPEC-related outflows could reach about 0.4 percent of GDP per year over the longer run.”<sup>4</sup>

The report highlighted likely impact on inflows:

“During the investment phase, as the “early harvest” projects proceed, Pakistan will experience a surge in FDI and other external funding inflows. A concomitant increase in imports of machinery, industrial raw materials, and services will likely offset a significant share of these inflows”<sup>5</sup>

It further states that the CPEC-related capital inflows (FDI and external borrowing) are expected to reach around 2.2 percent of the projected GDP in the FY 2019-20. The CPEC-related imports would reach around 11 percent of the total projected imports in the same year for Pakistan.<sup>6</sup>

There are strong voices within Pakistan opposing the CPEC and warning the state against the fallouts of the corridor. Pakistani government is being accused of not protecting the rights and interests of its people. Senator Tahir Mashhadi, chairman of the Senate Standing Committee on Planning and Development, said: “Another East India Company is in the offing; national interests are not being protected. We are proud of the friendship between Pakistan and China, but the interest of the state should come first.”<sup>7</sup>

The Senate’s Standing Committee on Planning and Development has expressed serious fears that the corridor “could build or ruin Pakistan and its future if the country’s interest were not safeguarded.”<sup>8</sup> There are fears and apprehensions attached with CPEC, for example: fear of clash of culture between the two

nations and whether Pakistan would get the appropriate share of benefits. There is also a fear that the small scale industries which are at the stage of infancy might feel the hit with increased Chinese investments within the country. Flooding of the Chinese products in the Pakistani markets is something which needs to be analysed, given the history of Beijing’s economic and trade pattern.

There has been strong resentment from the Baloch over the corridor. While Gwadar will become the hub of economic activities, the locals, Baloch, still struggle for their basic rights from the Pakistani government. The region has been facing constant violent opposition from the locals. The implementation and success of the CPEC is likely to get affected by the regional conditions and stability. Even though the port of Gwadar has been developed and is functional, Gwadar remains deprived of even clean drinking water and basic necessities of life. Locals are being driven out in order to accommodate the Chinese workforce and this has added to the existing resentment in the region. The local fishermen are not allowed to fish near the port, which is a significant problem as a large portion of the population in Gwadar is dependent on fishing for their livelihood.

The Baloch separatist groups have vowed to resist the project and their activities are bound to hinder the implementation of the CPEC. However, the Pakistani leadership has denied the

objections of the Baloch separatist groups, claiming that it is taking care of the Baloch interests and the CPEC would benefit the region. CPEC may face security challenges in the future as the Baloch term the project as “colonization” of the region. The corridor is important and Islamabad is expecting to reap economic and strategic benefits but there are economic and security challenges which are likely to affect the corridor adversely.

*(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])*

## Notes

<sup>1</sup> “PNS Gwadar” at, <http://www.globalsecurity.org/military/world/pakistan/pns-gwadar.htm>, accessed on March 15, 2013.

<sup>2</sup>CPEC China Pakistan Economic corridor, CPEC Gwadar Projects, <http://cpec.gov.pk/gwader>, accessed on February 11, 2017.

<sup>3</sup>Shi Zhiqin and Lu Yang, “The Benefits and Risks of the China-Pakistan Economic Corridor”, *Carnegie-Tsinghua, Centre for Global Policy*, December 21, 2016, <http://carnegietsinghua.org/2016/12/21/benefits-and-risks-of-china-pakistan-economic-corridor-pub-66507>, accessed on March 1, 2017.

<sup>4</sup>Pakistan Twelfth and Final Review Under the Extended Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Proposal for Post-Program Monitoring- Press Release; State Report; And Statement by the Executive Director of Pakistan, *IMF Country Report 16/325*, October 2016, p.25

<sup>5</sup>ibid.

<sup>6</sup>ibid.

<sup>7</sup>Syed Irfan Raza, “CPEC could become another East India Company”, *DAWN*, October 18, 2016, <https://www.dawn.com/news/1290677>, accessed on February 20, 2017.

<sup>8</sup>Syed Irfan Raza, “Senate panel wants Pakistan’s interests fully protected under CPEC”, *DAWN*, March 1, 2017, <https://www.dawn.com/news/1317736/senate-panel-wants-pakistans-interests-fully-protected-under-cpec>, accessed on March 4, 2017.