

## **CPEC; an instrument of economic development, Prospects for Pakistan**

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### **Abstract**

*CPEC; project, worth about \$ 48 billion was signed on November 8, 2014. 61 % of this investment is allocated to energy projects, while 36 % is devoted to infrastructure, transportation and communication. Prime Minister of Pakistan Sharif has reiterated that the CPEC couldn't be a game changer for Pakistan but for the entire region as well. The China's Foreign Minister Wang Yi, , has described the CPEC as the "flagship project" of One Belt, One Road initiative. Since Mao's time, China has adopted policy of cosmopolitanism and the current President Xi, gives a new direction to its foreign policy and initiated "Constructive Engagement". The major objective of the study is to highlight the economic significance of the CPEC project and prospects for Pakistan. This research is an attempt to investigate CPEC as game changer of the region and as a fat changer for Pakistan. To achieve the desired objective, data are collected from official website, research articles, books, journals and prominent academicians. Descriptive and analytical methodology is adopted. This research concludes that participation in the CPEC would enhance the life standard of native people and will drag significant benefits to Pakistan in terms of security, stability and economic development.*

**Key worlds:** CPEC, OBOR, China, Pakistan, GDP, development

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### ***Introduction:***

Since its announcement on July 2013, probably no policy initiative has received more attention in Pakistan than the CPEC. Prime Minister of Pakistan Nawaz Sharif has reiterated on several occasions that the CPEC could be a game changer for Pakistan and the entire region as well.<sup>1</sup> Along the same lines, Wang Yi, China's Foreign Minister, has described the CPEC as the "flagship project" of the One Belt, One Road initiative,<sup>1</sup> Xi Jinping's signature foreign policy project.<sup>2</sup> Moreover, there is a widespread consensus among the Pakistani military, political parties and society at large on the enormous potential of the CPEC for economic growth in the country.

The \$ 46 billion worth project grant an excellent opportunity to Pakistan to sort out its problems of economic development, hindrance in the field of energy, poor infrastructure and male attraction for foreign investment. The agreement of CPEC was signed on November 8, 2014 between Pakistan and China. 61 per cent of the CPEC investment will be allocated to energy projects aiming to improve energy-system capacity and the transmission and distribution network. Thus, Pakistan may be able to terminate with what a Wilson Centre report labeled, Pakistan's Interminable Energy Crisis,<sup>3</sup> which, according to their estimates, has cost its economy 2 per cent to 2.5 per cent of GDP annually. About 10,400MW of electricity will join national under the early harvest 2017-18.

Up to 36 per cent of CPEC funding will be devoted to infrastructure, transport and communication. It is evident that greater connectivity will create new opportunities for development in Pakistan. According to the Planning Commission of Pakistan, the poor performance of transport sector costs the Pakistani economy is 4 per cent to 6 per cent of GDP every year.<sup>4</sup> The improvement in communications will be important both for greater integration of the domestic market and for facilitating Pakistan's exports. In addition, the CPEC will help to improve the confidence of international investors in Pakistan, whose image is not always in line with current situations and tends to be more negative than merited by actual conditions. According to the former Economic Minister of the Pakistan Mission to the EU, Safdar Sohail, "Pakistan has turned a page in terms of terrorism and

regional integration and the Chinese investment is a way of sending that message.”

Economic liberalism and integration:

**CPEC; a mega project:**

CEPEC is a part of Chinese “one belt one road” policy which is of immense global significance. OBOR initiative engulfs the region having 4.4 billion population and economic volume of \$ 21 trillion, which is 63 % and 29 % of the world’s total respectively.<sup>5</sup> The basic concept of the project is to enhance regional cooperation, boost economic growth, trade, encourage investment in transportation, energy and mining sectors and to create political flexibility. This project would bring many parts of the world closer together with the art of diplomacy and free trade.<sup>6</sup>

OBOR is consists of three routes, southern, eastern and central. CPEC is part of the southern route which begins from Guangzhou, third largest city of China. Further, it connects Kashghar to Gwadar through Kunjrab pass.<sup>7</sup>

**Potential of CPEC:**

CPEC is an extension of the Chinese twenty first century Silk Road strategy. The proposed completion date of the project is 2030. The project is divided into three phases i.e. short term project, completed in 2017, midterm projects to be completed in 2025 and long term projects which would be completed in 2030.<sup>8</sup> The estimated cost of the project is about US \$ 48 billion. The project consists of railways, highways, oil and gas pipelines and fiber optic cable links.

**Gwadar port:**

Gwadar port is a central part of the CPEC, connecting South Asia and Central Asia to oil rich Gulf region. Further, it is connecting China to Africa through Kashgar pass. CPEC without Gwadar port wouldn’t be a true economic corridor. The port play significant role in Chinese security, as it is located on the mouth of strait of Hurmoz, handling one third of oil trade of the world. The 2500 km distance from Gwadar to Kashgar would be a great relief to China for its oil transportation through Malaca straits, covers 12900 km to the eastern shore of China.<sup>9</sup>

The port would transform Pakistan’s strategic location into an asset.<sup>10</sup> Further, it would put both Pakistan and China on advantageous strategic position in the Arabian sea, as India’s concerns on China’s involvement in Hambantota, Sittwe and Chittagong in Sri Lanka, Myanmar and Bangladesh respectively.<sup>11</sup>

## **Prospects for Pakistan:**

Pakistan is an important player of South Asia. With the completion of the economic corridor commercial, economic and strategic environment of Pakistan would improve. This project will help Pakistan to deal with poverty, underemployment and undeveloped provinces. President of Pakistan Mamnoon Hussain during his meeting with Xi Jinping, Chinese president declared this corridor as a game changer for the entire region, due to its massive economic and trade generation and initiation of new venues of development and prosperity for the inhabitants of both the states and approximately three billion masses of the region.<sup>12</sup>

CPEC would prove a real game changer and is a win-win situation for all players. This project would truly expand Chinese sustainable economic development. Chinese investment would enhance US \$ 274 billion GDP of Pakistan by over 15 %. Economic prosperity will help Pakistan to overcome “epicenter of terrorism”. Economic and military assistance of China would help Pakistan to narrow its ever widening gap in economic-nuclear-military fields with India and in improving its defense capability.<sup>13</sup> According to Sun Weidong Chinese ambassador to Pakistan, the projects under CPEC would be beneficial for all the provinces of Pakistan. Further, he said that CPEC isn’t just a road, but a complex project. He added that the project will enhance cooperation in finance, banking, energy, commerce, industry and education sectors.<sup>14</sup> Following are some most important benefits of CPEC.

a. **Energy generation:** Energy the lifeline of any economy and the most significant instrument of socioeconomic development of a state. Pakistan due to her population and industrial growth face acute energy crisis. The major reason behind this crisis is political instability, ever growing demand of power and lack of competence. She failed to find a solution to the problem yet. Load shedding is common throughout Pakistan. Power availability would revive industries and would add about 2 % to GDP growth.<sup>15</sup>

According to CM of Punjab, Shahbaz Sharif, the government with collaboration of China is resolving the energy crisis in the country.<sup>16</sup> Ihsan Iqbal, federal minister of Planning development and reforms, told that CPEC is covering four key areas and power zone is one among these. Under the early harvest program 10400 MW of electricity would be added to national grid by 2018. Under the investment policy, available to all investors, Chinese firms would put

up US\$ 35-37 billion in FDI for IPP (independent power production).<sup>17</sup> These projects of 10400 MW consisting of wind, solar, thermal and hydro are located in all provinces and AJK. The 6600 MW project in Thar Desert will transform this remote region into energy capital and will bring new opportunities of economic development to the people.<sup>18</sup>

**b. Infrastructure:** CPEC will basically improve infrastructure of Pakistan to connect it with Asia, Europe and Africa to remove all trade and economic hindrance and to establish a business friendly environment among these states.<sup>19</sup> As the project will be completed market for manufactured goods will be expanded. Adjoining areas to the project are attractive points for services, manufacturing and agricultural industries. Significant expansion is expected in economic and employment growth.<sup>20</sup> It will be an attraction for the entire world for trade and economic assistance.

KKH is listed for the first phase, while Khunjrab-Havalian-Islamabd section would be completed in 3 years, this route will be used for free and special economic zones. Fresh economic zones working group is to be created to link all provinces, AJK, FATA and GB to equally distribute the benefits of the project.<sup>21</sup>

Gwadar port will bless Pakistan with a naval base. CPEC will bring Pakistan to a position where she will get the most innovative infrastructure that will be advantageous for her. China provided soft loans with extension of grace period therefore there isn't needed to consult other monetary institutions with high interest rates. Planning commission declared that out of \$ 46 billion investment \$ 11 billion is reserve for infrastructure.<sup>22</sup>

**c. Economic development:** CPEC will help Pakistan to build a stable and vigorous economy. She will get a tremendous opportunity to revive its industry and to promote its economic interests. The project would help Pakistan to overcome psychological hindrance to the flow of foreign investment from other sources. Although there is restricted economy in India but still there are 150 private equity funds (domestic and foreign) active. About three to four such funds are working in Pakistan. With the collaboration of private sector, encouragement of FDIs is indispensable in Pakistan.<sup>23</sup>

Ex-fiscal Minister of Pakistan Ishaq Dar said that war-phobia can be defeated through economic advancement. Peace and tranquility could be achieved through economic development.<sup>24</sup> The project would not only bring enormous changes to national economy but would

change economy of the people at local level as well. CPEC will change the economic paradigm of Pakistan as she will act independently of the western influences especially of US. The project will help to normalize its relations with Afghanistan, Iran and India.

CPEC is a blessing for Pakistan. The project will be a wildcard, providing opportunity to stabilize its economics, with reinstating its relation to its neighbors and by converting Gwadar into regional trade and economic hub. The project will not only be an answer to the unsolved questions of its derailed economy but will provide new skies of development, resulting improvement in socio-economic condition and quality of life. 9 industrial zones, 29 industrial parks, 21 mineral zones and Special Economic Zones (SEZ) in KP, Punjab, Sindh and Baluchistan will ultimately bring prosperity with the investment from international players and will help to expedite its economic growth.

**d. Poverty eradication:** CPEC, fate changer project is expecting to lift millions of Pakistani out of misery and poverty. Various projects under CPEC will generate employment and ownership opportunities.<sup>25</sup> The bye projects of CPEC will improve the life standard of the people.

**e. Security Cooperation:** CPEC is an instrument to boost security cooperation, which is of primary significance between the two countries. US led war on terror in Afghanistan resulted terrorist activities in Pakistan while unrest in Xinjiang is a matter of concern for China. Broad base security situation is demand of the day to alleviate the situation in Xinjiang and adjoining regions. Both of them are on the same page to eliminate terrorism, separatism and extremism which is the main hurdle to progress and development. The improved security situation under the CPEC project will strengthen peace and stability of the entire region.

Under the umbrella of CPEC China and Pakistan get the opportunity to conduct joint naval exercise to combat piracy in open seas. US want to assign the leading role to India in Indian Ocean which is intolerable to both Pakistan and China. India as emerging threat compels both India and Pakistan to strengthen their alliance. Sino-Pak cooperation is to counter any such hegemonic situation in Indian Ocean.<sup>26</sup>

Handing over the operational rights of Gwadar port to China brightens chances of a naval base in Arabian Sea in future.<sup>27</sup> Naval cooperation under the paradigm of CPEC would result balance of power in the entire region.

**f. People to People Contact:** people to people contact is another significant aspect of CPEC which results cultural cooperation between the people of both sides that is essential to strengthen the project and to ensure pleasant neighborhood. Chinese president Xi Jinping is of the view that people are the only source to enhance national progress and history. People's support is the true spirit behind Sino-Pakistan all weather friendship and multidimensional cooperation. The concepts of sister cities, media organization and cultural centers could be used to conduct various events of cooperation.

Both countries should continue the practice of sending hundred members group of youth to each other's country and to encourage more exchange of youth. Chinese government would provide 2000 training opportunities to Pakistani people and will train 1000 language instructors for Pakistan.<sup>28</sup> He further encourages contribution of Pakistan in people to people contact and cultural exchange between China and South Asia to strengthen people support for Sino-Pak friendship.

China Pakistan Economic Corridor, as running through the significant geostrategic location of South Asia, is of immense importance. It will convert Pakistan's location into conjunction to connect China, Europe and Middle East. The project would generate hundreds of job and revenue worth billion dollars for these countries.<sup>29</sup>

**Challenges to the project:**

There are numerous challenges to China Pakistan Economic Corridor project. These challenges can be categorized into internal and external. Dr. Luan Jianzhang, the vice director General of policy research office in international department of Central committee communist China said that administrative issues, political unrest and security situation are the major hindrance to the success of the corridor project. Many analysts assumed the corridor as strategic moment for Pakistan, as she expected pivotal economic position in the region. To some anomic states the paradigm shift in situation is a matter of great concern.

**a. External:** America, India and Israel aren't happy with the project. India considers the project as greater challenge. These three have join hands in hands to develop new strategies to block further progress of the project. A special office of RAW is established in Delhi India and \$ 300 million is allotted to derail the CPEC project. Which is visible to everyone in shape of sudden hype in terrorist activities, some

NGOs activism and think tank who are trying create psychosis through propaganda.<sup>30</sup>

looking into the lens of economy, the greatest challenges come from competitors. The top most of them is Iranian Chabahar port. India has inclination to invest enormously in development of Chabahar port, about US\$ 85 million, which is in close proximity with Gwadar port, part of its strategy to access landlocked regions of Afghanistan and Central Asia to bypass Pakistan. Chabahar will be a potential option for energy transport from the Gulf and would be a defiant destine for Central Asia and Afghanistan. The port would be a gateway to Middle East and Europe for trade from landlocked regions of Afghanistan and Central Asia.<sup>31</sup>

**b. Internal:** Some Pakistani political parties i.e. PKMAP, ANP and Baloch nationalist have serious concerns regarding CPEC. The JUI (F) and PTI are intended to go with anti CPEC elements. Despite the assurance of the government that there would be equal share of all provinces, objections are being raised.<sup>32</sup>

The present security situation of the country is a major hindrance to the project. The renowned Baloch leaders have negative perception regarding CPEC for their motherland and few of them even threaten Chinese to avoid Gwadar.<sup>33</sup> In order to address Chinese concerns on the issue Pakistan announced on April 2015 in Islamabad, to establish a well-equipped force of 12,000 men to protect national interest of both countries during the visit of President Xi, jiangping.<sup>34</sup> The special security force is financed by Pakistan and about Rs 45 billion was the cost in 2016 of the newly established force and operation “Zarb-e-Azab”.<sup>35</sup>

### **Conclusion:**

Pak-China relationship holds great importance in the world as per the special message of both Presidents. Pakistan’s leadership describes the CPEC as a game changer for Pakistan and the region. However, the dividends of this project will fully materialize gradually over a period of 10 to 15 years. It therefore requires a continued determination on the part of China and Pakistan to stay firm on the course. The political determination to implement various aspects of the project has to be demonstrated time and again so that the bureaucrats and others involved in its different phases do not slack. It is important to make sure that all Memorandums of Understanding and any new

policy arrangements that may be agreed to in the future by China and Pakistan, are implemented in their true spirit without any delay.

This project converted geography of Pakistan into an asset. Pakistan bridges most important region i.e. Central and West Asia, Western China and Middle East to each other through rail, road, trade, pipelines, and transmission lines. All these bring great benefits to Pakistan.

The multidimensional CPEC project is financially beautiful plan that can serve as a bridge to link up the whole Asian region together to make it integrated and collaborative in the Asian Century. However, the project will initiate emerging venues for collaboration where regional players could avail the opportunities to materialize their economic interests via this gigantic project. On the other hand it enhanced the possibility of clash among the diverse regional actors.

Emerging friendly relations between India and US, US Iran nexus after the nuclear deal, the growing Iran India cooperation and growing Indian influence in Afghanistan might be matter of concern for both China and Pakistan. At present, it is apparent that regional coalitions are going through some speedy changes; and with this changing scenario, both countries need to understand this situation and form policies accordingly to keep their house in order. Both of the states should be fully prepared to cope with the evolving geo-political dynamics of the region and respond in best way to serve their desired interests especially in the prospect of the corridor.

As a sensitive project, Pakistan should adopt a very careful approach to get the maximum benefits of CPEC. This project will develop socio-economic and policy environment in Pakistan. As a mega project the benefits of CPEC should be propagated through social media, local newspapers and televisions. The agreements of the project are required to be addressed and Pakistan has to implement the policies up to the mark. Utility of raw material and the process of valve addition should be completed in Pakistan. Security situation which is main obstacle to CPEC should be address in good faith.

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