

Strategic Meaning of the China-Pakistan Economic Corridor

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Abstract

The China-Pakistan Economic Corridor (CPEC) is a well-thought out and well-crafted concept and project to unleash the process of meaningful cooperation between the two neighbouring countries, and for the benefit of China and West Central and South Asia. Based on the notion of win-win situation, the strategic meaning of Pakistan-China economic corridor needs to be defined and examined from four perspectives: historical, economic, cultural, and geo-political. Hence, the very concept of a corridor, which has been a cause of enormous development in different parts of the world, will take off in Pakistan with the building of a network of roads, highways, railways and power generation plants all the way from Khunjerab, the border of Pakistan and China, to the Pakistani port of Gwadar.

Keywords: CPEC; great leap forward, win-win situation, bridge state, infrastructure development.

Introduction

A great leap forward in Sino-Pak relations occurred when the two countries agreed in 2013 to give a practical shape to connect the Chinese city of Kashgar with the Pakistani port of Gwadar through a network of roads and railways. When the Chinese President Xi Jinping visited Islamabad in April 2015, the project of China-Pakistan Economic Corridor (CPEC) was formally launched. Therefore, it is rightly stated that:

The formal launch of the China-Pakistan Economic Corridor (CPEC) during the recent visit of President Xi Jinping has understandably generated a lot of euphoria in Pakistan. With a planned portfolio of

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projects totaling around \$46 billion, the size of the ‘investment’ in CPEC over the next 15 years, if materialised will equal the cumulative gross foreign direct investment inflows into Pakistan since 1970.¹

CPEC is a well-thought out and well-crafted concept and project to unleash the process of meaningful cooperation between the two neighbouring countries and for the benefit of China and West, Central and South Asia. Based on the notion of win-win situation, the strategic meaning of Pakistan-China economic corridor needs to be defined and examined from four perspectives: historical, economic, cultural, and geo-political.

This paper will examine the dynamics of the CPEC by responding to following questions:-

1. What is the *strategic* significance of the China-Pakistan Economic Corridor?
2. How will the economic corridor be a *win-win* situation for both countries?
3. What are the *challenges* and *impediments* to the China-Pakistan Economic Corridor?
4. How the two countries can *cope* with challenges and impediments which may occur in the mega-project?
5. What is the *future* of the China-Pakistan Economic Corridor?

Furthermore, this paper will also discuss the implications of the China-Pakistan Economic Corridor for the region, India and other extra-regional players and how the two countries can respond in this regard.

Strategic Significance

When Pakistan’s Prime Minister Nawaz Sharif visited Beijing and presented an institutional framework for the whole gamut of China-Pakistan Economic Corridor in November 2014, four major assumptions existed. First, the corridor will ensure billions of dollars of investments in the whole of Pakistan, including in the under-developed regions of Pakistan. The construction of roads, bridges, railway lines and other means of modern communications all the way from the Chinese province

of Xinjiang to the Gwadar port located in the Makran coast of Pakistan will result in a 'great leap forward' in generating massive employment opportunities in the two countries. After all, from the historical point of view, Sino-Pak relations are called higher than the mountains, deeper than oceans and time-tested. During the late 1950s and 1960s, Pakistan was amongst the few non-Communist countries to have meaningful strategic, security, political and economic relations with Communist China. Despite being a member of the US-sponsored anti-Communist alliances of Central Treaty Organisation (CENTO) and South East Asian Treaty Organisation (SEATO), Pakistan resisted the pressure of the West and sustained its friendly relations with the People's Republic of China. Pakistan also acted as a 'bridge state' between the United States and Communist China from 1969 to 1971.

Second, the corridor will strategically connect the two countries by becoming a source of shipping millions of tons of goods from China to the Middle East, Africa and Europe via the Gwadar port. The construction of oil and gas pipelines through that corridor will help meet energy needs of China. Such type of activity will be strategically and economically fruitful for China, as it will reduce distance and time to ship its goods to the Middle East, Africa and Europe. Third, the corridor will act as a source of connectivity between East Asia and South Asia, as well as the Gulf and the Middle East. With a length of around 3,000 kilometers from Kashgar to Gwadar and with US \$46 billion Chinese investments, one can expect a turnaround of backward and less developed regions of both Pakistan and China. Pakistan, located at the crossroads of Central and West Asia, the Persian Gulf and the Middle East holds a strategic position, and CPEC will further augment that position. Fourth, the mega-project will further strengthen China-Pakistan time-tested friendship. China since long has helped Pakistan in infrastructure development and the most important contribution of Beijing for the development is the construction the Karakorum Highway, called the eighth wonder of the world. Soon, China will overtake the United States as the world's first economic power, and Beijing's approach to take advantage of Pakistan's strategic location reflects how serious the Chinese leadership is for promoting regional connectivity.

Pakistan's Federal Minister for Planning and Development, Ahsan Iqbal, during his address to the delegation and participants of National Defence University workshop on “National Harmony and Cohesion” on May 12, 2015 at the Auditorium of Planning Commission in Islamabad outlined four main characteristics of CPEC viz:

1. Gwadar Port
2. Communication infrastructure
3. Energy Infrastructure
4. Industrial zones

He made it clear during his address that the “CPEC would benefit all the provinces of Pakistan including Gilgit-Baltistan. That it is a life-opportunity for development, progress and prosperity for Pakistan which should not be missed at any cost.”²

The signing of US \$ 46 billion worth of agreements between Pakistan and China on the occasion of the visit of Chinese President Xi Jinping to Islamabad on April 20-21, 2015 is considered as a milestone in strengthening Sino-Pak relations. Hence, the very concept of an economic corridor, which has stimulated enormous development in different parts of the world, will take off in Pakistan with the building of a network of roads, highways, railways and power generation plants all the way from Khunjerab, the border post of Pakistan and China, to the Pakistani port of Gwadar. The purpose of economic corridor is to promote trade and commercial ties through connectivity. Conceptually, a strategic corridor relates to the following features:

1. Political will to augment the process of cooperation at the multi-dimensional level.
2. Determination to promote connectivity between diverse regions.
3. Establishment of economic stakes to facilitate the process of peace.
4. Establishment of a mechanism for sustaining institutional cooperation.

If one analyses the significance of a strategic corridor in different regions of the world, it becomes clear that it first got an impetus in the post-1945 Europe with the formation of European Economic Community

in 1957 and its subsequent transformation into European Union (EU) in November 1993. The free movement of people, goods, services and capital became the main pillars of EU. The idea to establish Exclusive Economic Zones (EEZ) comprising Cambodia, Laos, Vietnam and Myanmar under the Greater Mekong Sub-region Economic Cooperation Programme is also akin to the concept of establishing economic corridor for promoting trade and people to people interaction.

According to Economic Research Institute for ASEAN and East Asia (ERIA) discussion paper series entitled, ‘Special Economic Zones and Economic Corridors’:

The economic corridor is a concept introduced at the GMS Eight Ministerial Meeting in 1998 at a time when the GMS-ECP implementation was stalled by the Asian Currency Crisis. Economic corridors were born to help the area to rise above the difficulties after the crisis. The basic idea is to enliven economic activities along the major roads or the transport corridors. Concrete examples include the establishments of industrial estates on the borders, and the construction of telecommunication and electricity transmission cables, natural gas pipelines and tourism activities along the corridors.³

Economic corridors at the inter and intra-regional and sub-regional level can go a long way in establishing short and long-term stakes for investments, employment opportunities and tourism.

According to an Asia Development Bank (ADB) report:

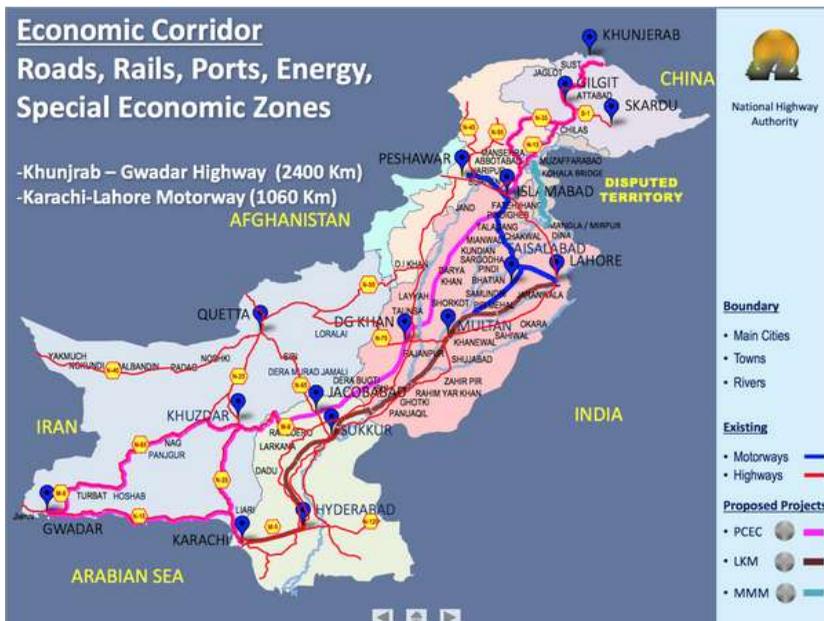
Economic corridors connect economic agents along a defined geography. They provide important connections between economic nodes or hubs that are usually centered in urban landscapes. They do not stand alone, as their role in regional economic development can be comprehended only in terms of the network effects that they induce. As the case studies in this paper show, there is no standard picture of what economic corridor development is and what it can achieve. What economic corridors can achieve for regional economic integration depends first on what characteristics the specific existing economic networks in which the economic corridors are embedded personify, and second on which characteristics corridor development are intended to introduce or

strengthen. Corridor characteristics interact dynamically to create patterns of regional economic development. Models that make this interaction explicit have combined elements of the New Economic Geography (non-linear and General Equilibrium elements).⁴

With the surge of urbanisation, industrialisation and technological innovation, the phenomenon of the corridor, whether it is composed of highways, railways or sea lanes has assumed much significance in the recent era. Economic corridor is established particularly for states which are landlocked or dependent on seeking a short connection to sea ports.

The Dynamics of China-Pakistan Economic Corridor

Proposed Map of the China-Pakistan Economic Corridor



Source: <https://www.google.com/search?q=Maps+of+Pak-China+economic+corridor&ie=utf-8&oe=utf-8>

Map of the Western Route of CPEC as Agreed on the Occasion of All Parties' Conference Held in Islamabad on May 28, 2015



Source: <https://www.google.com/search?q=maps+of+China-Pakistan+Economic+Corridor>

Following its ‘great leap forward’ in emerging as the world’s second largest economy, People’s Republic of China entered into numerous agreements with different countries of the world, particularly in Asia, Africa and Latin America to promote economic, commercial and trade relations. More than sixty years of rapport between Islamabad and Beijing culminated into the application of the concept of economic corridor.

One cannot deny the historical significance of deep rooted ties between Pakistan and the People’s Republic of China because since the establishment of diplomatic ties between China and Pakistan on May 21,

1951, the relations of bilateral trade and economic cooperation have been expanded and deepened in numerous areas.⁵ According to Masood Khan, Pakistan's former Ambassador to Beijing, "the Pakistan-China Treaty for Friendship and Cooperation and Good Neighbourly Relations is a key instrument which enables us to strengthen our strategic, economic and cultural relations. A Joint Economic Commission (JEC) helps us stimulate growth of our economic and trade ties."⁶ The origins of China-Pakistan Economic Corridor (CPEC) could be traced to the construction of the Karakorum Highway in 1970s from the Pakistani town of Havalian in Hazara division to Khunjerab Pass, the border of China and Pakistan. In 2010, China declared Kasghar, an important transit point on the ancient Silk Route and a gateway between China and Pakistan, as Special Economic Zone (SEZ) with the idea to develop the Chinese western province of Xinjiang into a major trading hub leading to energy and economic integration with South and Central Asia. The SEZs in the Pakistani port of Gwadar and Kashgar and the rail and road connectivity between proposed SEZs would develop great economic, political and strategic implications for the region. The two countries are laying the strategic Havalian-Khunjerab railway track in the difficult terrain of Karakorum connecting China and Pakistan from Gwadar in Balochistan.⁷ The concept of CPEC was formally presented by Pakistani Prime Minister Nawaz Sharif during his visit to China in November 2014. The two countries signed 19 agreements and Memorandum of Understanding (MoU) to boost the bilateral ties between China and Pakistan in various fields including energy and basic infrastructure sectors. Earlier, a meeting between Prime Minister Nawaz Sharif and his Chinese counterpart was held in Beijing when both leaders discussed bilateral relations and regional situation."⁸

According to Ahsan Iqbal, "Pakistan-China Economic Corridor is not the name of a single route or alignment, it is a comprehensive package of cooperative initiatives and projects encompassing regional connectivity, information network infrastructure, energy cooperation, industry and industrial parks, agricultural development and poverty alleviation, financial cooperation as well as livelihood improvement including municipal infrastructure, education, public health and people-to-people communication which will result in the thousands of new ventures and

millions of jobs in every part of Pakistan.”⁹ Further elaborating his contention on CPEC, he said that, CPEC would link Kashgar in Western China with Gwadar Port through a mesh of communication networks comprising a world class seaport, commercial sea lanes, an airport, highways, railways, fiber optic cables and oil and gas pipelines. He further said that the corridor was part of a wider ‘one belt, one road’ strategy to develop China’s Western region and link the Silk Route with the 21st century Maritime Silk Route. The corridor comprises modern highways and railway transportation system linking Kasghar with Khunjerab in the north and onwards to Karachi and Gwadar in the south of Pakistan through multiple routes. The corridor projects initially envisage \$ 34 billion in the energy sector. The two countries had finalised plans to add 10,400 megawatt of electricity as early harvest energy generation projects spread across the country to be completed by 2017-18.”¹⁰ However, “a major chunk of \$ 46 billion was purely Chinese investment in Independent Power Projects (IPPs) mode, Pakistan will purchase electricity from those projects, while the remaining \$ 8-9 billion will be Chinese concessional loans for infrastructure development like roads, ports and railways.”¹¹ While speaking at a seminar on ‘China-Pakistan Economic Corridor’ held in Islamabad on April 17, 2015, Ahsan Iqbal cautioned that:

Islamabad will have to move with Beijing’s pace on operationalising the China-Pak Economic Corridor; otherwise China could choose some other route and engage some other partner. It is Pakistan’s responsibility to complete Khunjerab-Gwadar route at a pace that can supplement China’s economic priorities attached to the China-Pakistan Economic Corridor.¹²

About the agreements signed during President Xi’s visit to Islamabad in April, Prime Minister Nawaz Sharif said that they have sound financial and technical backing and are being put on a fast track. “We are starting a fresh phase in our geo-economic partnership that will create new jobs, start businesses, provide education and professional training and will become a symbol for peace and prosperity.”¹³ A statement issued by the Planning Commission on April 20, 2015 maintained that “China and Pakistan had signed 54 agreements and memoranda of understanding (MoUs), [which] incorporated eight projects by unveiling plaques and performed ground breaking of five projects. On top of the list were 16 MoUs and protocols and 25 framework agreements or terms sheets for

which formal agreements would be signed later.”¹⁴ Furthermore, Mr. Zhang Lijun, head of the political and press section of China’s embassy in Pakistan, says the corridor covers many important regions in Pakistan, such as the main industrial areas, grain areas and big cities. He further stated that the two countries will create a comprehensive transport lifeline with highways, motorways, and oil and gas pipelines. But the corridor offers much more than that. Along the way, there will be infrastructure construction, industrial parks and power plants, giving the whole corridor sustainable development strength.”¹⁵

Challenges and Impediments

CPEC is not without challenges and impediments because of four main reasons. *First*, Pakistan must provide the required peace and stability for the successful completion of this project because in an environment which is insecure and violent, it will be highly difficult for the Chinese workers and technicians to involve themselves in projects on the construction work. *Second*, if China is investing in Pakistan in mega-projects, it is the responsibility on the part of Islamabad to build its capacity building and professional skills to meet the deadlines for the construction of roads, railways and power stations. Failure to meet deadlines will have a negative impact on CPEC and Beijing may seek other options to seek an outlet to the Arabian Sea via Iran. *Third*, as repeatedly stated by various government officials of Pakistan, forces that are deadly against CPEC will try their best to sabotage efforts aimed at bringing foreign investments and putting the country on the track of development. For that purpose, such forces will deepen their efforts to covertly sponsor acts of sabotage, violence and terrorism. *Fourth*, corruption, nepotism and inefficiency are major impediments to launch successful mega-projects in Pakistan. Islamabad will have to make sure that negative factors in Pakistani society which tend to discourage foreign investments are effectively dealt with. *Finally*, lack of consensus or undue criticism about the route of CPEC is also a major source of concern both for China and Pakistan because if such a mega-project becomes a victim of political wrangling between the government and the opposition, it will have a very adverse impact on foreign investment and Pakistan will lose a life time opportunity to

transform its vision of emerging as an economically stable and prosperous country.

In order to dispel concerns about the safety of Chinese workers and officials to be involved in CPEC, Director General Inter-Services Public Relations (ISPR) in a statement issued on April 22, 2015 said that, “a special force is being raised for Pakistan-China economic projects. The new force named ‘Special Security Division’ would be of the size of a division consisting of nine army battalions and six wings of para-military forces in Rangers and Frontier Corps.”¹⁶ Hence, the government of Pakistan is mindful of security threats which may arise once the project takes off.

Apart from security, there are other major challenges related to CPEC. As argued by a Pakistan writer:

Beyond governmental capacity, another daunting challenge projects under CPEC will face is availability of local financing. Even if external financing is fully arranged, the CPEC portfolio will have a substantial local financial component. With the government unable to credibly broaden the tax base, its ability to provide funds for development spending is seriously constrained. In addition, the failure to reform public finances also means that the government borrows most of the available credit from the banking system, leaving little or no room for financing of private infrastructure projects.¹⁷

The government is trying to create a consensus on CPEC by arranging several brainstorming sessions that include different stakeholders. The Awami National Party (ANP) chief, Asfandiyar Wali Khan, had expressed his reservations about what he termed “changing” the map of CPEC and excluding the province of Khyber Pakhtunkhwa (KPK) from the original route of that project. But, Ahsan Iqbal dispelled any notion about deviating from the map of CPEC and blames certain elements of making the project controversial as was done in case of Kalabagh Dam.

Examining some of the *fault lines* in CPEC and its challenges, it is argued that, “there are crucial issues related to our economic capacity, and our ability to absorb the massive investment. In order to transfer any sort-

term gains into long-term economic success, Pakistan needs to increase its absorption capacity by investing in both vocational training programmes, and by revitalising the education sector. This will assist Pakistan in generating semi-skilled labour in the short run to accommodate the Chinese investment, and skilled labour in the long run to generate persistent economic prosperity in future decades.”¹⁸

On May 28, 2015 on the occasion of All-Parties’ Conference held in Islamabad, participants belonging to the ruling and opposition parties agreed to wholeheartedly support CPEC. Such a consensus emerged when the government agreed to first build the western route linking Gwadar to Kasghar passing through Balochistan and KPK.¹⁹ The government has prudently looked into the reservations and concerns raised by various sides vis-à-vis CPEC, and ended the controversy on the route of CPEC by agreeing to first construct the western route followed by work on other routes.

Two perceptions which impact on the viability or unviability to shape the discourse of CPEC are: first, the project should not be suspected or made controversial because as mentioned by Ahsan Iqbal, CPEC is a life-time opportunity for the people of Pakistan to move in the direction of development and progress. Earlier, a mega-project called Kalabagh Dam for power generation and irrigation on the Indus River was made controversial several decades ago to an extent that the provincial assemblies of Balochistan, NWFP and Sindh had passed resolutions against its construction. The stakeholders in the province of Sindh particularly objected that the proposed Dam would deprive Sindh, being the lower riparian, of its share of water. As a result, Kalabagh Dam, which could have helped reduce energy crisis and provide sufficient water for irrigation was not allowed to be constructed. In case of CPEC, objections were raised by various sides, particularly by those representing the provinces of Balochistan and KPK that the project would not benefit their provinces as the key roads and railways from Khunjerab to Gwadar will not pass from their provinces. Whereas, Ahsan Iqbal, in a briefing which was arranged in the Prime Minister’s House on CPEC on May 13, 2015 in front of the leaders of various political parties, rejected the notion that the project would bypass Balochistan and KPK and asserted that it would not

only benefit all the provinces of Pakistan, but also Gilgit-Baltistan and Azad Jammu and Kashmir.

Second, there is a perception that the security environment of Pakistan is not conducive for foreign investments because of repeated acts of violence and terrorism in different parts of Pakistan; and that the government must first create a suitable environment before inviting foreign investment like the enormous mega-project of CPEC. The designs of internal and external forces trying to destabilise Pakistan by patronising terrorist and violent groups are often mentioned by government officials of Pakistan. As remarked earlier, in order to provide security to the Chinese workers and the staff who will be involved in CPEC all the way from Khunjerab to Gwadar, a separate security plan has been prepared so that the project can be completed smoothly.

The governments of China and Pakistan have done homework before embarking on CPEC. It would have been better if the briefing and consultation process started in Pakistan had begun earlier. At the same time, those political leaders who have their reservations against the route of CPEC should get correct information and maps before expressing their opinions to criticise the project. With better transparency and planning in CPEC, it is expected that the project will be a win-win enterprise for all stakeholders and it will unleash the process of development which is badly needed in Pakistan.

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