

# CPEC: Prospects of OBOR and South-South Cooperation

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## Abstract

*South-South Cooperation (SSC) has been a recurring theme in the global discourse but it neither resulted in self-reliance of the South nor it could yield in the political and economic liberation of the South. The major obstacles in its ways have been the North's overarching control over the international system and the South's incapacities to address its own shortcomings. The renewed economic cooperation among developing countries seems to be undoing the strictures imposed on them before, be it by default or by design. In this milieu, China's ascendancy to the global economy and its massive investment in Asia and Africa has set the stage to analyse Beijing's policies and projects of SSC promotion. President Xi Jinping's One Belt One Road (OBOR) initiative is a huge opportunity for the South to reinvigorate their socio-political and economic ties. While implementing OBOR's flagship project, China-Pakistan Economic Corridor (CPEC), Beijing adhered to the five principles of peace and shunned the traditional intrusiveness of the North. It generated hope and avenues for altering the economic landscape in Pakistan, which illuminated the path of cooperation among developing countries and brightened the prospects of OBOR even more.*

**Keywords:** South-South Cooperation, One Belt One Road (OBOR), China-Pakistan Economic Corridor (CPEC), Resurgence of SSC, BRICS.

## Introduction

The idea that the Global South, the developing and the poor countries, should emancipate itself from the Global North, the developed countries, and gain self-reliance has been a recurring theme in the international discourse. In the early 1950s, all this translated into the willingness of the South to strive for its socio-political and economic liberation from the

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North, while strengthening a multi-layered cooperation within the South. This laid the foundation of South-South Cooperation (SSC).

Since its inception till date, SSC faced starts and stops, and surges and retreats. The on-off pattern of SSC resulted from two factors mainly: South's inabilities and incapacities to address its problems; the North's overwhelming domination in the international system and organisations. Therefore, the South has been unable to get a fair share in the web of the international organisations by default and the North has kept it dependent by design.

For decades, SSC has been a neglected issue in the international development cooperation but the recent rise of Brazil, Russia, India, China and South Africa (BRICS) has renewed economic cooperation among developing countries, followed by a new surge of SSC. In the past decade, BRICS countries have greatly contributed to strengthen the flow of international finance, trade, and knowledge in the South. Particularly, China has played a significant role in the South-South financial flow. In 2009 and 2010, the China Development Bank and the China Export Import Bank (EXIM) have lent more than the World Bank did in the same period.<sup>1</sup> It is estimated that from 2009 to 2010, these two Chinese banks have lent around US\$110 billion to the developing countries, whereas the World Bank lent around US\$100 billion to the developing countries from mid-2008 to mid-2010.<sup>2</sup>

Owing to its massive investment in Asia and Africa, China has emerged as a catalyst of SSC. Moreover, Xi Jinping's OBOR initiative has also provided a platform for developing countries to pursue their shared destiny of progress and development. OBOR's flagship project, China Pakistan Economic Corridor (CPEC) is developing fast and manifesting itself as a case study to assess the prospects of OBOR as a project of SSC. The resurgence has not only brought SSC on the world stage again but it has also brightened the possibilities and potentialities of the rise of the South. These developments have sparked a debate whether developing countries would be able to attain self-reliance or suffer another setback.

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<sup>1</sup> Chris Hogg, "China Banks Lend More than World Bank-Report," *BBC*, January 18, 2011. <http://www.bbc.com/news/world-asia-pacific-12212936>

<sup>2</sup> *Ibid.*

In this background, this research paper is an endeavour to answer three main questions:

- i What challenges and obstacles did SSC face since its inception?
- ii How did OBOR address the longstanding challenges and remove obstacles in the advancement of SSC?
- iii Can CPEC, brighten the prospects of OBOR as a project of SSC?

To answer these questions, the study has been divided into four sections. The first section analyses the historical evolution of SSC and the challenges it faced since the 1950s. The second section briefly discusses the renewed economic cooperation among developing countries while the third section examines OBOR as a project of SSC. The fourth section assesses the role of CPEC in brightening the prospects of OBOR and SSC.

### **Historical Perspective of SSC: Challenges and Obstacles**

SSC is the quest of developing countries to reduce their dependency on the developed countries and strengthen their economies. It is an organising concept and a multidimensional project of transcending the unidirectional links with the North, liberation from the colonial vestiges and of gaining voice and influence in the world affairs through collective actions. It witnessed many a surge and retreat since its inception; however, it has always been a neglected area in the international development cooperation for mainly three reasons: the overarching domination of the North in the international system and organisations, lacklustre policy proposals and initiatives and the lack of interest of the South in the promotion of SSC.

In 1955, the historic Bandung Conference laid down the first foundation of SSC as a global political movement. In this conference, developing countries initiated the Movement of the Third World Solidarity by enhancing economic and cultural cooperation, human rights and world peace promotion. The 'Bandung Spirit' thus, came encapsulated with the policies of non-interference and non-alignment, in a bid to challenge the global inequality while reducing the Third World's economic and political dependence on the North. Non-Aligned Movement (NAM) was a case in point. The Bandung Conference and NAM accentuated the political dimension of SSC.

In the early 1960s, SSC economic dimensions, too, began to emerge. In 1964, the UN Conference on Trade and Development (UNCTAD), whose Final Act underpinned the importance of regional cooperation and integration,<sup>3</sup> established the foundation of the UN Economic Commission for Latin America (ECLA). The 77 nations, which were present at the founding of UNCTAD, formed the Group of 77 (G77) and called for the New International Economic Order (NIEO).<sup>4</sup> Later, the secretariat of UNCTAD took many regional and sub-regional undertakings in different parts of the South, but these ventures faced several challenges and obstacles.

During the decade of NIEO, several initiatives were launched. The spirit of this decade revolved around developing an equitable and fair share of the imports from the North and the exports from the South with an emphasis on sovereignty over natural resources and the right to nationalise key industries. These aspirations were rooted deep in the failure of the post-World War II Order to prevent the colonial legacies from eating into the vitals of the South. It eventually resulted in three most important initiatives: oil prices decision of the Organisation of the Petroleum Exporting Countries (OPEC); the 1978 Buenos Aires UN Conference on Technical Cooperation among Developing Countries (TCDC) and the 1981 Caracas G77 High-level Conference on Economic Cooperation among developing Countries. A wide-ranging Programme of Action was adopted as a result of these high-level developments.<sup>5</sup> The programme looked big on the paper but, in reality, it was less substantive.

At that time, two factors put a damper on the efforts to SSC promotion. First, the developing countries did not attach special importance to SSC. Second, the World Bank and the regional development banks did not support those projects which involved two or more countries from the South. In the North, SSC was deemed politically unacceptable and objectionable. Cooperation among the South was viewed as a threat to the political and economic domination of the North. Coupled with these

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<sup>3</sup> For a detailed history and function of UNCTAD, <http://unctad.org/en/Pages/aboutus.aspx>

<sup>4</sup> Branislav Gosovic, "The Resurgence of South-South Cooperation," *Third World Quarterly*, vol. 37, no. 2 (2016): 734.

<sup>5</sup> Vijay Prashad, *The Darker Nations: A People's History of the Third World* (New York: The New Press, 2007), 59.

two factors, the Third World Debt Crisis and the inception of Neo-Liberal era further shadowed the spirit of NIEO.

Afterwards, the 1981 Cancun North-South Summit proved another major setback. In this summit, the North announced its unilateral discontinuing of the international development dialogue, which marked the shift of the markets right towards the developed countries. In this era, the Global South got caught in the vicious dynamics of the Cold War. The Capitalist and the Communist blocs pulled the strings of the UN in their own favours, shaped the international development agenda on their own terms, and dedicated their statecraft to spread their respective socio-political ideologies across the nations. As part of a broad ‘Cold War offensive,’ the fundamental institutional forces and inspiration for SSC, UNCTAD was abolished in a bid to ‘restructure.’ Besides, G 77 became the interlocutor of the North and stood as a hostile force towards SSC. It, thus, undermined the solidarity and unity of the group.

North’s hostile attitude came into open in the Neo-Liberal Globalisation Era, when the demands of G 77 for holding a UN conference on SSC were blocked by in the UN, time and again.<sup>6</sup> All the efforts for ‘trade diversions’ were put to waste when Part IV of General Agreement on Trade and Tariff (GATT) was weakened after the Uruguay Round.<sup>7</sup> The Part IV of GATT did away with the special and preferential treatments provisions of the trade favouring the South. Resultantly, the South lost its opportunity to get its due share in the world trade.

The Third World Solidarity Movement almost died down at the 1992 UNCTAD Summit in Cartagena, when UNCTAD withdrew its demands for adjusting the International Patent System (IPS) to the development needs of the South and expressed the adoption of technological transfer to the developing countries through the World Intellectual Property Organisation and GATT.<sup>8</sup> Hence, GATT and its successor, the World Trade Organisation (WTO), excessively eclipsed the role of UNTAD. Earlier, UNCTAD served as a counter-hegemonic organisation and resisted the dominance of the Bretton Woods Institutions; however, its restructuring decreased its

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<sup>6</sup> Ibid., 24.

<sup>7</sup> Ibid., 26.

<sup>8</sup> Ibid., 26.

confrontational role in North-South dialogue.<sup>9</sup> The Bretton Woods Institutions did intensify the globalisation of the products and advocated a systemic solution of the underlying structural problems, which best served the capitals of the North only.

Apart from the North's efforts to jeopardise the cause of SSC, the South itself impeded the progress of SSC. It is worth mentioning that the countries of the South were less keen for SSC for several reasons. Many considered it as a means of diverting the North's attention from the global issues of critical importance such as international development agenda. Yet, others intended to avoid the consequence of possible burden-sharing of Official Development Assistance (ODA) with the donors of the North. Since then, SSC remained a neglected area of concern in the international development cooperation until its resurgence after the rise of BRICS.

### **Resurgence of SSC: Renewed Economic Cooperation among Developing Countries**

The recent economic achievements of several developing countries have brought the idea of SSC on the world stage again. It is that the economic rise of BRICS, especially of China, has given impetus to economic cooperation and trade among the developing countries. The production and manufacturing centres have shifted from the North to the South, which has altered the global economic landscape. With this shift, the globalisation tendencies highlighted the South's latent potentials of economic growth and accelerated industrialisation. This development helped loosen the strictures imposed on the South on the account of the colonial vestiges and the North's economic and political control in the post-World War II international system.

Three factors account for the current wave of SSC resurgence: the economic crisis in the West; the popular discontent in Latin American countries due to neoliberal globalisation and the neo-colonial policies of their mighty neighbours of the North; the strengthening cooperation of the BRICS group, particularly of China, with developing countries. Among all, the most significant factor is China which has emerged as a

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<sup>9</sup> Marc Williams, *International Economic Organisations and the Third World*, (Hemel Hempstead: Harvester Wheatsheaf, 1994), 79.

key factor in enhancing this cooperation which has recently taken the form of a South-South flow of Foreign Direct Investment (FDI) and accelerated the process of regional integration.

China has emerged as a catalyst of SSC, particularly after its increasing economic engagement in Africa and Asia, on the principle of mutual benefit and “win-win cooperation.” It has been helping developing countries in strengthening and diversifying their economies by building infrastructure at the national and regional level, including trans-regional railway and road networks. China has multiplied its ties with the big and small countries of South: It has become one of their major trading partners; importer of their products; exporter of goods; investor of infrastructure projects and provider of financial resources. Generally, it is on favourable terms with developing countries since it has intentionally avoided the traditional intrusiveness of the North, paternalism and attaching conditional strings to economic assistance and aid. Nonetheless, it is subject to debate how long and to what extent China would continue its current benign attitude.

When it comes to infrastructure and development, Asia appears to be an under-developed region. According to the Asia Development Bank (ADB) report, Asia has US\$8 trillion funding gap in infrastructure development.<sup>10</sup> Another report maintains that the region is in dire need of US\$1.4 trillion investment in infrastructure per annum, between 2017 and 2030, in order to maintain its growth momentum.<sup>11</sup> Europe after the Brexit and the US after the rise of Populism are not in a position to commit themselves to the progress and development of Asia. China, in such critical time, rose to the occasion and decided to use its signature economic success and infrastructure construction, not only to help other Asian countries but to deal with its overcapacity problems and to speed up development in its western provinces also.

Being an investment-grant-loan model, OBOR promises economic equality, suitability to each country’s investment needs and economic

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<sup>10</sup> William A Callahan, “China’s Asia Dream,” *Asia Journal of Comparative Politics*, vol.1, issue. 3 (2016).

<http://journals.sagepub.com/doi/abs/10.1177/2057891116647806>

<sup>11</sup> China Real Time Report, “Building Binge: ADB Calls for More Infrastructure Across Asia,” *Wall Street Journal*, February 8, 2017.

<https://blogs.wsj.com/chinarealtime/2017/02/28/adb0228/>

environment, inclusive applicability and, above all, the consensus of all the stakeholders. Indeed, it is opening new vistas of cooperation among developing countries. Assistant Director of the United Nations Office of SSC, Adam Roger, acknowledging China's efforts in advancing cooperation among the developing countries of the world stated that "China had been an important partner of South for many years and its OBOR initiative was very well received at the headquarters in New York. China provided support to SSC and the initiative of OBOR is but one example."<sup>12</sup>

### **OBOR: A Project of SSC**

The factors which impeded the progress of SSC can be broadly classified into two categories, the one which stemmed from the lack of interest of and shortcomings of the South, and the other which resulted from the mighty approach of the North towards the South. Although these two factors are intertwined, it is generally believed that if the South work for addressing its own shortcomings and challenges, a great deal of progress can be achieved towards advancing SSC. On the part of the South, the lack of effective actions which could yield to tangible outcomes has been a major stumbling block.

Five broad measures need to be taken to make substantive advances in SSC: establishment of South's own conceptual framework-cum-platform for SSC; cooperation of the big countries of the South with the smaller countries; national commitment to developing countries and institutional cooperation; ample financing and institutional support at global, regional and sub-regional level. As far as the conceptual framework is concerned, much needs to be done. However, as a policy initiative, OBOR has the potential to rekindle national commitments of developing countries towards SSC and spark increased economic cooperation of big countries of the South with the smaller ones. It has also the support for national, regional and international institutions.

In 2013, President Xi Jinping announced the project of OBOR and unveiled its components. In a September 2013 speech, at Kazakhstan's

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<sup>12</sup> Lyndal Rowlands, "Interview: Silk Road is an Example of South-South Cooperation: UN Officials," *New China*, July 10, 2015.  
[http://news.xinhuanet.com/english/2015-10/07/c\\_134688104.htm](http://news.xinhuanet.com/english/2015-10/07/c_134688104.htm)



Nazarbayev University,<sup>13</sup> he disclosed its overland component, as a “21st Century Maritime Silk Road” and, one month later, in his address to the Indonesian Parliament, he proposed a “21st Century Maritime Silk Road.”<sup>14</sup> In his address to the parliament, he also announced the establishment of the Asian Infrastructure Investment Bank (AIIB) and expressed China’s intention to unite the Asian nations in a “community of shared destiny and responsibility.”<sup>15</sup> With China’s commitment to forging deeper ties of cooperation among developing countries, two major hurdles seem to be removed: lack of national commitment and concrete policy initiatives.

The trans-continental ‘Belt’ bears resemblance to the ancient land-based Silk Road which linked China to Central Asia and Europe. The new ‘Belt’ has been planned to start from the Southeast and South Asia, stretching across the Eurasian landmass. This overland component of OBOR will build a network of roads and railways along with a parallel network of pipelines, fibre optics, and telecommunication links across the 11,000 km of the Eurasian continent. On the other hand, ‘the 21st Century Maritime Silk Road’ aims to connect China with Southeast Asia, South Asia, the Middle East, and Europe through the South China Sea, the Indian Ocean, and the Mediterranean by contrasting seaports according to its “Strings of Pearl” strategy.

When the ‘Belt’ and the ‘Road’ are combined, OBOR emerges as a chain of six corridors. The New Eurasian Land Bridge; China-Mongolia-Russia Corridor; The Bangladesh-China-India-Myanmar (BCIM) Corridor; The CPEC; The China-Indochina Peninsula Economic Corridor (CIPEC); and China-Central Asia West-Asia Economic Corridor (CCAWAEC). These corridors cover about 40 to 60 countries, consisting around 65 per cent of the World’s population and generating 30 per cent of the world’s

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<sup>13</sup> Ministry of Foreign Affairs of the People’s Republic of China, “President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries,” September 7, 2013, [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpfwzysiesgjtfhshzzfh\\_665686/t1076334.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml).

<sup>14</sup> Speech by Chinese President Xi Jinping to Indonesian Parliament,” ASEAN-China Centre, October 2, 2013, [http://www.asean-china-center.org/english/2013-10/03/c\\_133062675.htm](http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm). 5. Author’s interview

<sup>15</sup> William A Callahan, “China’s ‘Asia Dream’ the Belt Road Initiative and the New Regional Order.” *Asian Journal of Comparative Politics*, vol. 1, no. 3 (2016): 226-243.

GDP.<sup>16</sup> Such an ambitious project needs a well thought-out policy roadmap to connect with other developing countries. Therefore, China's Ministry of National Development and Reforms Commission (NDRC) and Ministry of Foreign Affairs architected the blueprint of OBOR, "Visions and Actions on Jointly Building the Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road."<sup>17</sup> The publication bears far-reaching implications on the conceptual framework and a platform for the South. It is an avowal of staying away from any act similar to the traditional intrusiveness of the North. The Chinese authorities pledged to stand by the five principles of peaceful co-existence: non-interference; mutual respect for each other's sovereignty and territorial integrity; mutual non-aggression; mutual non-interference in each other's internal affairs; equality and mutual benefits and peaceful co-existence.

Since the major task of OBOR is to increase trade and investment across the Eurasian continent, the publication encourages other developing countries to follow their own models of development so that such a pattern of economic engagement could be formed, which reduces dependencies of developing countries even on the donor countries of the South. It advocates the use of dialogue to shelve differences and further development cooperation instead of sanctions and threatening measures. As per the document, OBOR will be implemented according to the principles and purposes of the UN Charter. The document accepts the decisive role of the market in resource allocation and the primary role of enterprises while letting the government perform their due functions. It states that OBOR will follow the market operation and pledges to abide by rules of the market and the international norms, which imply no drastic implications for the post-World War II world order.

OBOR has the support of international, regional and sub-regional institutions which removes the long standing barrier of financing the projects of advancing SSC. The UN fully backed OBOR in the UNSC

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<sup>16</sup> Pravakar Sahoo, "One Belt One Road will Help China in More than One Way," *Daily O*, December 16, 2015.

<http://www.dailyo.in/politics/one-belt-one-road-china-xi-jinping-apec-maritime-silk-road-world-bank-ADB-IMF/story/1/7978.html>

<sup>17</sup> "Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road," *National Development & Reforms Commission*, [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)

Resolution 2344 which calls on all the countries “to strengthen the process of regional economic cooperation through regional development initiatives such as the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiative.”<sup>18</sup> At the Belt and Road Forum, held in Beijing on May 14, 2017, the President of the World Bank promised to support the project and predicted the improvement of trade, investment and people-to-people contacts due to OBOR.<sup>19</sup> Other than these international institutions, International Monetary Fund (IMF), AIIB and the Silk Road Fund (SRF) are also financing the OBOR initiative.

As OBOR connects developing countries in Asia, North Africa and the Central and Eastern Europe, it becomes a major vehicle of SSC. Over time, China’s infrastructure construction became one of its signature economic successes. This success is China’s comparative advantage which it could utilise to develop its neighbouring countries and even beyond. In this way, OBOR presents a huge opportunity to these countries to engage in mutual assistance in trade, technology and economics while offering them a chance to enhance their self-reliance and independent development. Yet, it is subject to debate what practical outcomes it would yield. To investigate this, this study discusses CPEC and examines the interplay of the elements of SSC in its implementation.

### **CPEC: Interplay of the Elements of SSC**

The fundamental elements of SSC are economic interdependence, self-reliance, mutual benefit, win-win partnership, equality and mutual respect for territorial integrity and national sovereignty. In this mega-investment project, Pakistan is acting as a ‘locomotive’ and China as a ‘catalyst,’ by incorporating all the elements of SSC, initiating a win-win cooperation pattern of engagement of the South.

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<sup>18</sup> United Nations, “Security Council Authorises Year-Long Mandate Extension for United Nations Assistance Mission in Afghanistan,” UN Resolution 2344 (2107), March 17, 2017. <https://www.un.org/press/en/2017/sc12756.doc.htm>

<sup>19</sup> “Remarks of World Bank Group President at the Belt and Road Forum,” *World Bank*, May 14, 2017. <http://www.worldbank.org/en/news/speech/2017/05/14/remarks-of-world-bank-group-president-jim-yong-kim>

President Xi visited the South Asian countries and announced his investment plans. Pakistan, having special ties with China, became a hotspot of these investment projects. On his visit to Pakistan in 2013, President Xi signed the Memorandums of Understanding (MoU) on CPEC project.<sup>20</sup> The initial investment of US\$ 46 billion, was raised to US\$51.5 billion<sup>21</sup> and then to US\$62 billion.<sup>22</sup> It is a mega-investment project in Pakistan, which aims to connect Xingjiang with Gwadar port by building a network of roads, rail routes, and oil and natural gas pipelines. CPEC has four subsets of the investments: Gwadar port, energy, infrastructure and industry.

CPEC is an entirely bilateral (government-to-government) arrangement. It is a cross-party and cross government project; it is not directed at third party or country. State-to-state bilateral cooperation has allowed the control of money being spent on the projects. It is favourable to Beijing in retaining ownership of the tendering process and in awarding contracts to the Chinese companies. However, this is not the case in all the projects. Though the Chinese companies are given priority, any company from the world over can invest in CPEC.<sup>23</sup> However, the Government of Pakistan has the ultimate say in deciding which company to give contract of a project.

The Gwadar port is the signature project of CPEC which is being implemented by China Overseas Ports Holding Company Limited (COPHC) and Gwadar Development Authority (GDA). On April 20, 2017, Pakistan's Minister for Ports and Shipping, Mir Hasil Khan Bizenjo, announced in the Senate that "Pakistan has handed over the Gwadar port to COPHC on lease for 40 years. The company will have 9 per cent share of the revenue collection from gross revenue of terminal and marine operations and 85 per

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<sup>20</sup> Andrew Stevens, "Pakistan Lands \$46 billion Investment from China," *CNN*, April 20, 2016.

<http://money.cnn.com/2015/04/20/news/economy/pakistan-china-aid-infrastructure/>

<sup>21</sup> Khaleeq Kiani, "With a New Chinese Loan, CPEC is Now Worth \$51.5b," *Dawn*, June 12, 2017. <https://www.dawn.com/news/1287040>

<sup>22</sup> Salman Siddiqui, "CPEC Investment Pushed from \$55b to \$62," *Express Tribune*, April 12, 2017. <https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/>

<sup>23</sup> Kennet Lieberthal and Geoffrey Lieberthal, "The Great Transition," *Harvard Business Review* vol. 81, no. 10 (2003): 70-81.

cent from gross revenue of free zone operation.”<sup>24</sup> It will accrue immense benefits for Beijing. China’s western provinces, Xingjiang being one of them, are thousands of kilometres away from its eastern seaports, whereas, Kashgar is 4500 km from the Port of Shanghai. Gwadar port, on the contrary, reduces Kashgar’s distance to the nearest warm-water seaport to 2800 km. The port provides China with an access to the Central Asian states and Afghanistan. By providing an alternate route to the Indian Ocean and the South China Sea, Gwadar port resolves China’s Malacca Dilemma.

The Gwadar port can make Pakistan the hub of the regional trade activities and marks the beginning of the new era of development. Gwadar connects Pakistan with three regions Central Asia, Africa and the Middle East. Being located at the cross junction of international shipping lanes and oil trade routes, it can act as an international trade hub. It can enable Pakistan to turn a new leaf in the development of Balochistan and to benefit tremendously from the oil and gas rich Central Asian Republics. The port will also increase employment opportunities and will facilitate economic development through transit fee and foreign exchange reserves. Thus, it will attract foreign investment and will give an impetus to the tourism industry. Moreover, Establishment of the Special Economic Zone in Gwadar will increase foreign reserves which will accelerate Pakistan’s economic growth.

Energy and infrastructure projects are undertaken by the Chinese companies on the Build-Own-Transfer (BOT) model. The infrastructure projects are being carried out by China Road and Bridge Corporation, China State Construction Engineering Cooperation Limited and China Railway in cooperation with the Frontier Works Organisation (FWO) of Pakistan.<sup>25</sup> The energy projects are an investment, in the form of loans from the Chinese banks to the Chinese companies. The Chinese companies which are carrying out energy projects include Sinohydro, China Three Gorges Corporation, Gezhouba Group, Power China Resources Limited, China Sunec Company, Shanghai Electric, China Power International Holding Ltd, China State Grid, China Machinery Engineering Corporation, Hydrochina International Engineering Co. Ltd, and Zonergy Company

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<sup>24</sup> “Gwadar Port Leased to Chinese Company for 40 Years, Senate Told,” *Nation*, April 20, 2017. <http://nation.com.pk/business/20-Apr-2017/gwadar-port-leased-to-chinese-company-for-40-years-senate-told>

<sup>25</sup> “CPEC Infrastructure Projects,” *CPEC Info*, <http://www.cpecinfo.com/road-infrastructure>

Ltd.<sup>26</sup> In the mining sector, China Metallurgical Group Cooperation and China Kingho Group are involved while Pakistan Energy (Pvt) Ltd and UEP Wind Power (PVT) Ltd are participating in building the electricity generation projects.<sup>27</sup>

The Special Economic Zones (SEZs) have been planned to establish in each province of Pakistan under the umbrella of CPEC. The idea of SEZs is to establish a specific area of land in which industrial growth is promoted by giving special concessions on taxes and economic policies. Around 46 sites have been identified for establishing the zones in coordination with the Government of Pakistan and China.<sup>28</sup> Nine out of these 46 sites have been declared as Priority Zone under CPEC.<sup>29</sup> Pakistan's SEZ Act 2012 details the governing structure of the zones and allow the federal and provincial governments to set them up under various administrative structures.<sup>30</sup> Pakistan's Board of Investment (BoI) has established "CPEC-SEZ" cell for facilitating all the stakeholders involved. According to Chairman BoI, Saleem H Mandiwala, the investment policy under this law is open to foreign investors and protects the local investors.<sup>31</sup>

The mechanism of finances in CPEC is a mix of aid, investments, grants, and loans. Investment, aid, equity ratio and debt depend upon the sector and financial arrangement of the projects. A major part of CPEC loans is covered through concessional or soft loans, with two to three per cent interest rate, which is less than those of the loans given by the IMF and the World Bank (5 to 8.5 per cent interest rate).<sup>32</sup> All the energy projects are investments and based on Independent Power Projects (IPPs) mode. Yet, some of them are based on grants; others are joint ventures and funded by the SRF, IMF, and the World Bank.

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<sup>26</sup> "CPEC Energy Projects", *CPEC Info*, <http://www.cpecinfo.com/energy-generation#>

<sup>27</sup> "CPEC Energy Projects."

<sup>28</sup> "46 Special Economic Zones Being Setup in under CPEC," *Nation*, July 31, 2017. <http://nation.com.pk/national/31-Jul-2017/46-special-economic-zones-being-setup-under-cpec>

<sup>29</sup> "CPEC Energy Projects."

<sup>30</sup> Amin Ahmed, "SEZ Act to Boost Investment," *Dawn*, July 15, 2017. <https://www.dawn.com/news/734422>

<sup>31</sup> *Ibid.*

<sup>32</sup> Manzoor Ali Isran, "Six Concerns PLM-N Government Must Address About CPEC," *Express Tribune*, January 27, 2017.

Some of the projects are also invested by the International Finance Corporation (IFC) of the World Bank and SRF. Port Qasim power plant has a worth of US\$ 2.085 billion; its equity ratio is 21 per cent and the rest is to be arranged by the companies involved. The financial burden will be borne by the companies not the state of Pakistan. China is giving soft loans on the government-to-government basis for the industrial and infrastructure projects. The projects are being constructed upon BOT basis. When BOT is not feasible, China would provide three kinds of soft loans:

- i Preferential Buyer's Credit (KKH-II and KLM; and Railway Projects)
- ii Concessional Loans (Cross Border Optical Fibber)
- iii Interest Free Loans (Gwadar Eastbay Expressway)

Indeed, CPEC came as an enormous opportunity to alter the economic landscape of Pakistan. Pakistan, which had flat FDI for decades, became the desired destination of the foreign investors (Figure no.1). International credit rating agencies observed this change and began to rate the country higher. Morgan Stanley Capital International (MSCI), which provides the international investment support tools worldwide, reclassified Pakistan as an emerging economy.<sup>33</sup> EFG Hermes, the leading bank in the Middle East and North Africa, assessed that with this up-gradation Pakistan could attract \$475 million of inflow by the end of 2017.<sup>34</sup> Stockholm-based Chief Investment Officer at Tundra Founder AB, Mattias Martinson, said that "Pakistan has turned the tide. CPEC agreement was probably the trigger for many investors to start looking. We all know China does not take short term decisions."<sup>35</sup> Arthur Kwong, the Hong Kong-based head of Asia Pacific equities, at BNP Paribas Partners that oversees around \$619 billion, also expressed optimism in Pakistan's brightening economic prospects after the Chinese investment.

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<sup>33</sup> Faseeh Mangi, "Asia's Best Performing Stock May Get Uplift with MSCI Move," *Bloomberg*, June 15, 2016, <http://www.bloomberg.com/news/articles/2016-06-14/best-performing-asian-stock-market-may-get-extraboost-from-msci>

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*

**Figure No.1**

*Source: Faseeh Mangi, "China's Billions Luring Once Shy Foreign Investors to Pakistan," Bloomberg, November 7, 2016.*

Pakistan's Merger and Acquisition (M&A) transactions climbed to a new high after the Chinese investment. According to *Bloomberg*, Pakistan's M&A transactions witnessed an exceptional surge in 2016; the transactions touched more than US\$4 billion per annum. The power plants fuelled by the Chinese companies are expected to help with power outages and have reinvigorated Pakistan's moribund economy. The foreign investors have begun to consider the real potentials of Pakistan and its population. CPEC, indeed, has proved to be a quantum leap forward and a big step of collective imagination in the larger interest of the Chinese and Pakistani communities.

## Conclusion

The South strived for gaining self-reliance and pursuing common development but it faced setbacks due to its own inadequacies and incapacities. China's economic engagements with developing countries came imbued with the spirit of non-interference, non-aggression, mutual respect for sovereignty and territorial integrity, equality and mutual benefits. OBOR is one such initiative. It imposes no political conditions and encourages developing countries to become self-sufficient by pursuing the shared goals of economic development. It reduces constraints on developing countries in financing and inadequate capacity. OBOR offers developing



countries the chance to remove their structural bottlenecks and engage in development cooperation based on mutual benefits.

Having combined the principles of SSC, Xi Jinping launched CPEC in Pakistan. It has begun to increase the economic opportunities for both countries. More importantly, CPEC has put Pakistan on the track of economic progress and development. It has the potential to make Pakistan a regional hub of trade by building Gwadar port and establishing SEZs. It will reduce the energy shortfall in Pakistan and make it self-sufficient in the energy sector. By building a network of roads and railways, not only China but Pakistan, too, can connect with the Eurasian region. In fact, the project is the embodiment of all the elements of SSC, especially of mutual benefit, which were presented theoretically in OBOR. If the spirit of “win-win cooperation” thrives, CPEC would continue to brighten the prospects of SSC.