

# **The China-Pakistan Economic Corridor: Regional Cooperation and Socio-Economic Development**

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## **Abstract**

*The China-Pakistan Economic Corridor (CPEC) Project is going to be a positive turn-around both for Pakistan and the western region of China. It represents two major trends in China-Pakistan relations: A long experience of sustained cooperation in the economic domain over the last six decades has given sufficient confidence to the two countries to undertake such a major project; and the shared aspirations for a prosperous and stable future for the people of both countries.*

*The paper examines the backdrop of the CPEC and what it includes in terms of roads, infra-structure improvement and various projects in industrial, technical and energy domains for socio-economic development of Pakistan. What are its benefits for both countries? The paper also examines the challenges to this project and how China and Pakistan can cope with these challenges so as to fully realise the major objectives of this project which is integral to the bigger plan for reviving the traditional Silk Road and establishing the new Silk Road Economic Belt and the Maritime Silk Road for regional and global economic and trade connectivity by creating modern highways, sea and air routes and energy pipelines.*

*The political and strategic implications of the CPEC project are examined with reference to three theoretical formulations of International Relations. These include regional cooperation and integration; economic connectivity and relevance in terms of movement of goods, services and people across the territorial boundaries of the states; and the soft power as opposed to military power.*

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*It is argued that the CPEC will defuse tensions in the region and promote regional cooperation, harmony and integration. Regional economic conglomerates have become important players in international politics. The notion of an economic corridor through roads and sea-links connects several regions into one transnational entity; and their mutual relevance increases. Thus the concept of economic corridor is broader than regional economic or trade groups. Further, the countries that perform excellently in economic, industrial and trade domains will have greater impact on other states than those possessing bigger military and weapons systems. Strong economic and human connectivity is going to be a major strength for any country in the future. This also facilitates internal harmony and stability which in turn reduces conflict and increases positive relevance of a state at the international level.*

**Keywords:** Pakistan, China, economic corridor, regional integration and cooperation

## **Introduction**

The China-Pakistan Economic Corridor (CPEC) project epitomises the growing mutuality of interest and the vision of a shared politico-economic future on the part of the Islamic Republic of Pakistan and the People's Republic of China. It creates a new framework of interaction on the basis of economic connectivity and regional cooperation which will have far reaching positive implications for the two countries as well as the adjoining regions.

While military power stays important in regional and global politics, socio-economic interaction and regional cooperation will gain greater salience. The key question is going to be if the states can cultivate positive mutual relevance and how far each state views its internal socio-economic development connected with its multifaceted interaction with other states? How far the movement of goods, services, energy, technology and people is possible across the territorial boundaries of the states? There will be much premium on networks of highways, railways, energy pipelines, electricity transmission lines, trade and investment. This is going to be the main currency of international diplomacy in the 21<sup>st</sup> century. The more a

state is connected with other states in a positive and mutually rewarding manner in economic and technological domains, the better for the state as well as the people. The states are expected to pursue pragmatic considerations with a view to benefiting the state and society as the guiding principles rather than a strict adherence to abstract ideological formulations.

### **Economic Connectivity and Regional Cooperation**

Traditionally, the academics in International Relations have argued that conflict and war can be managed by cultivating cooperation in socio-economic and technical areas of mutual interest across the territorial boundaries of states. Such an inter-state cooperation can be cultivated if the power elite and politically relevant sections of population learn from experience that there are tangible economic rewards in cooperation within a region and beyond.

Cooperation across the territorial boundaries of states can increase from one area of cooperation to another, provided the experience of the interacting states is equally rewarding for all. However, if the outcome of interaction in economic and societal domains is not rewarding for all the interacting states, or such an interaction creates an environment of hegemony of one over the other, there will hardly be any spillover from one area of cooperation to another. Rather, the process of cooperation among states will be stalled, if not reversed.

The multifaceted interaction among different states has to be carefully managed so as to ensure expansion of cooperation over time. The states can increase their mutual relevance and build a cooperative and positive environment by greater economic activity, especially trade, cooperation in technical fields and social sector development, coping jointly with natural calamities, and non-official societal interaction.<sup>1</sup>

In the post-Cold War period, internal political harmony and economic resilience have become more relevant to a state's role at the international level. What matters most is the positive relevance of a state in the globalised international system where the greater emphasis is on

privatisation, free economy, and movement of goods, services and people across the territorial boundaries of the states.

This pattern of interaction has continued in the 2<sup>nd</sup> decade of the 21<sup>st</sup> century when multiple pivots of power developed in different parts of the world. The principle of regional or sub-regional economic groups and cooperation is emphasised more than ever. There has also been a discussion of the ‘soft power’ as a policy instrument which gives greater attention to the economy, the diversified modern media, and societal and cultural connections instead of a sole reliance on traditional military power.<sup>2</sup>

The proposed China-Pakistan Economic Corridor recognises the new realities of global and regional politics by cultivating a more systematic, up-graded and need-based interaction for socio-economic, industrial, energy and trade development. This also provides an opportunity to China and Pakistan to improve their interaction with Central Asia, West Asia, the Middle East and Europe. Both Pakistan and China are expected to gain from the proposed connectivity through highways, railways, sea lanes, energy pipelines and electricity transmission lines. They will equally contribute to socio-economic development of other countries that become part of these arrangements.

China and Pakistan are not expected to face any political problem in expanding their mutual connectivity. These two countries have developed strong mutual trust through the multifaceted bilateral interaction over the last six decades. This experience demonstrates that “there are no contradictions in the strategic and political goals of Pakistan and China, and they have found out over the years that their relationship is mutually rewarding.”<sup>3</sup> There is unanimity of views among various political parties in Pakistan “to strengthen Pakistan’s ties with China.” Pakistan is expected to “maintain this tradition and take our relations and friendship to new heights.”<sup>4</sup>

China’s decision to pursue the CPEC project demonstrates its strong commitment to Pakistan’s stability and economic development. It also manifests China’s confidence in the future of Pakistan, rejecting the

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propaganda by some quarters at the global level that expresses reservations about Pakistan's future as a coherent and stable political state.

This is a new 'ball-game' of interdependence in international and regional politics and positive connectivity with immediate neighbours. This will require changes in Pakistan's foreign policy strategy that has, in the past, preferred closer economic ties, trade and security interaction with the far-away states in order to cope with the security threats from within the region of its geographic location. Now, Pakistan will be required to cultivate more active relations with the immediate neighbours for sharing energy and pursuing economic development and trade. This will give a major boost to Pakistan's economy. The areas adjacent to the Corridor will experience a major economic uplift.

The project is equally beneficial to China. It provides a road and sea link to the Xinjiang region, connecting it with the Middle East and the Arabian Sea and the rest of the world. If these roads, pipelines and sea ports become functional, the economy of the Xinjiang region will secure substantial improvement. China gets a new access to sea which is free of conflict that characterises the South China Sea outlet and reduces its dependence on the Strait of Malacca.

China's notion of economic connectivity through highways and sea-access, energy transfer and trade has to be viewed as its expanding global role that has become visible during the last couple of years. China's new role also includes its cooperation with Pakistan for controlling terrorism in the region. China is also working with Afghanistan for ensuring the latter's internal political stabilisation and economic development. An analyst describes this as the coming of age of Chinese foreign policy and that China "is behaving more and more like a normal great power."<sup>5</sup>

### **Historical Evolution of the Economic Corridor**

An economic corridor is described as a territorial or sea-based transportation grid which is used on a regular basis for movement of goods, services and people from one state to another. It connects economic activity along a clearly identified geography and provides a "connection

between economic nodes or hubs... in which a large amount of economic resources and multiple actors are concentrated.” It links “the supply and demand side of markets.” Therefore, an economic corridor does not represent “mere transport connections along which people and goods move.” It is “integral to the economic fabric and the economic actors surrounding it” which “have to be analysed as a part of integrated economic networks.”<sup>6</sup>

An economic corridor involves the availability of economic resources and economic activity in different regions that have active land or sea-based connectivity for movement of goods, energy and services. Such economic linkages must create new economic opportunities for the people of the connected regions or states.

The idea of regional economic connectivity was floated by China in 2013 to revive the ancient trade and transportation routes in a changed environment of the 21<sup>st</sup> century. However, its antecedents go back to the pre-2013 period.

While addressing the Boao Forum for Asia in April 2013, President Xi Jinping made a strong plea for promotion of regional cooperation among the states of Asia and the rest of the world. He said, “We will energetically promote regional cooperation in Asia and around the world. China will increase connectivity with its neighbours... advance economic integration within the region... China will take an active part in Asia’s regional cooperation process and promote regional and sub-regional cooperation with non-Asian regions and countries.”<sup>7</sup>

President Xi Jinping articulated these views in a succinct manner during his visits to Kazakhstan and Indonesia in September and October 2013 respectively. In Kazakhstan, he proposed the establishment of “an economic belt based on the original Silk Road through an innovative cooperation model” to connect China with Central Asia and Europe.<sup>8</sup> In Indonesia, addressing the Parliament, he sought cooperation with the ASEAN countries and beyond by reviving “the ancient Maritime Silk Road.”<sup>9</sup>

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China's notions of the "Silk Road and Economic Belt" and the "21<sup>st</sup> Century Maritime Silk Road" denote land routes and maritime links for economic interaction, on the one hand, with Central Asia, Russia, South Asia, the Persian Gulf and Europe, and, on the other hand, with ASEAN countries, Southeast Asia and the Indian Ocean region. The idea of these linkages is based on the old trading routes connecting Asia, Africa and Europe. These trade routes, described as the Silk Routes, continued to function for a long time in the past despite conflicts and wars from time to time. Now these trading land routes and water channels have to be revived in the present day context.<sup>10</sup>

China's grand plan to create land routes and maritime openings for building economic and trade linkages and connections with the neighbouring countries and beyond includes the CPEC. It provides important land route to China to Pakistan, the Gulf region and the Middle East and beyond as well as an access to the Arabian Sea and the Indian Ocean. From Pakistan's perspective, the CPEC strengthens the already existing road link, trade, investment and economic ties between the two countries, and opens new opportunities for economic and infra-structure development.

The CPEC project adds on to the already existing road link between Pakistan's Gilgit-Baltistan (formerly the Northern Areas) and the Xinjiang region of China. The roots of road building in Pakistan's remote areas adjoining China goes back to 1959 when Pakistan's Army Engineers began to build a 155 mile long low quality road linking Chilas to Gilgit, named later as the Indus Valley Road. After the 1965 Indo-Pakistan War, it was decided to extend this road to the Chinese border. The Chinese agreed to build a similar road on their side.<sup>11</sup> In 1967, the road link was opened for overland trade, albeit limited, marking the reopening of the "old Silk route" that was practically unused since the Chinese revolution in 1949. The Sino-Pakistan agreements in 1966-67 set the stage for Chinese and Pakistanis to build the road, later designated as the Karakoram Highway (KKH) which began to be used in 1971. In 1973, China and Pakistan decided to turn it into an international standard highway, with the Chinese making the lead contribution to this project.

The modern KKH was inaugurated in June 1978. It was opened to third country travellers in May 1986.<sup>12</sup>

The KKH was damaged by the floods and landslides in 2010 that created an artificial lake. China offered financial support and labour for the rehabilitation and repairs of the KKH in 2011-2012. The Chinese also agreed to cover the 85 per cent cost of construction of two highways in Gilgit-Baltistan.<sup>13</sup>

Two additional proposals are under consideration. Whenever the Iran-Pakistan gas pipeline is constructed, China will be inclined to link Xinjiang with it through another pipeline.<sup>14</sup> China and Pakistan are also exploring the option of laying a railway track between the two countries through the Khunjerab Pass to Havaillian to connect it with Pakistan's railway network. They took up this issue for the first time in 2010 and 2013.<sup>15</sup> However, they need to do more thinking on the railway project because the topography of a large part of the route is difficult.

### **The China-Pakistan Economic Corridor**

The CPEC fits perfectly in China's notions of "the Silk Road and Economic Belt" and the "21<sup>st</sup> Century Maritime Silk Road" because it not only strengthens China's relations with Pakistan, but also provides the much coveted access to other regions and the sea. This route is in addition to China's connectivity through Central Asia. In fact, the CPEC reinforces and expands the existing ties and links between Pakistan and China. The two countries have learnt that their bilateral interaction in almost all sectors of state relations are mutually rewarding. Both are bound to be keen to expand their relations under the rubric of the CPEC.

Pakistan made a significant decision in February 2013 to award the contract for construction and running of the Gwadar Port to a Chinese state-run company.<sup>16</sup> The formal handover of the Gwadar Port to the Chinese company was done in May 2013. China decided with Pakistan in 2013-2014 to invest in various projects relating to port development, communication, education, energy and medical facilities. This port is to be connected by a modern road system with Western China, i.e. the Xinjiang region.



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It was during the visit of China's Prime Minister Li Keqiang to Islamabad in the last week of May 2013, that a Memorandum of Understanding was signed for building an economic corridor, linking Kashgar in the Xinjiang region of western China with Gwadar by road, air and railway.<sup>17</sup> This proposal was expanded during Prime Minister Nawaz Sharif's visit to China in the first week of July 2013. Eight Memorandums of Understanding (MoU) were signed for helping Pakistan's economy and increasing connectivity between the two countries.<sup>18</sup> The Joint Declaration gave a special attention to the construction of the CPEC.<sup>19</sup> Its secretariat was inaugurated in Islamabad on August 26 to ensure the implementation of the Memorandums of Understanding concerning the CPEC and the related projects for Pakistan's industrial and energy development and infrastructure and transportation improvement. A Joint Pakistan-China Coordination Committee was also set up for a periodic review of the work on the CPEC and other joint projects in Pakistan. China and Pakistan expanded their cooperation in 2013-14 for various industrial and energy-related projects by launching some energy and industrial development projects and they explored ways and means to pursue more projects in the future.

The most significant breakthrough in the CPEC projects matured during President Xi Jinping's visit to Islamabad on April 20-21, 2015 which set the tenor of the Pakistan-China relations for the future, emphasising increased sharing of views and action in all sectors of state relations including security and foreign policy, regional and global issues of mutual interest, energy and industry, communication and infrastructure development and an over-all diplomatic and technological support to Pakistan's socio-economic development.

The CPEC can be described as the key set of projects for linking China's western region with Pakistan and its ports of Gwadar and Karachi for creating an enduring connection between China, Pakistan, the Arabian Sea and the Gulf and the Middle East. This is going to be mutually beneficial to China and Pakistan because the CPEC is not simply a set of roads and highways, but it includes development of industrial and energy projects all along the CPEC route in Pakistan.

In an exclusive article for Pakistani media, President Xi Jinping explored the future direction of the relationship between the two countries. He wrote:

Over a long period of time, China and Pakistan have conducted all-round, mutually beneficial and fruitful cooperation in various fields, bringing tangible benefits to the people of both countries. At present, the two sides are working together to steadily advance the China-Pakistan Economic Corridor. Committed to building a China-Pakistan community of common destiny, we cooperate to expand our converging interests and strive for common development. Our aim is to deliver even more benefits to our peoples and realise brighter development prospects.<sup>20</sup>

He further wrote:

The aim of China's initiative of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road is to promote common development by enhancing connectivity among countries along these routes. We hope that this initiative will enable us to work together with South Asian countries to fulfill our common dream of rapid development.<sup>21</sup>

Describing the importance of the CPEC, he wrote:

The China-Pakistan Economic Corridor is located where the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road meet. It is, therefore, a major project of the "Belt and Road" initiative. We need to form a "1+4" cooperation structure with the Economic Corridor at the center and the Gwadar Port, energy, infrastructure and industrial cooperation being the four key areas to drive development across Pakistan and deliver tangible benefits to its people.<sup>22</sup>

Pakistan and China signed 51 Memorandums of Understanding (MoUs) during President Xi Jinping's visit to Islamabad. More than twenty of these Memorandums of Understanding pertain to the CPEC and the related projects.<sup>23</sup> These Memorandums and the speeches by Chinese President Xi Jinping and Prime Minister Nawaz Sharif show that the CPEC does not simply talk of building new roads or upgrading the existing ones to improve the movement of goods and services between the two countries. It also includes projects for public service and infrastructure

development, industrial and energy production units, development of Gwadar port including support facilities and gas pipelines.

The total estimated value of various projects along the CPEC is around \$ 46 billion. Some of the amount spent on these projects will be Chinese grant. A large part of it will be investment by Chinese private and public sector companies and these companies will be allowed to take their profits out of Pakistan under Pakistani regulations. Some economic assistance will be in the form of concessional loans, mainly from Chinese banks to Chinese companies for specific projects. These projects will take three to fifteen years to complete. Chinese engineers, technicians and labour will come to Pakistan for completion of these projects. The Pakistan's Army (principally the Frontier Works Organisation) and civilian personnel will also be working on these projects.

There are three routes of the CPEC after it enters Khyber-Pakhtunkhwa from the Khunjerab Pass and Gilgit-Baltistan. The first (Western) route suggests that the CPEC will enter Balochistan via Dera Ismail Khan to Zhob, Qila Saifullah, Quetta, Kalat, Punjgur, Turbet and Gwadar. The second (Central) route goes from Dera Ismail Khan to Dera Ghazi Khan and onwards to Dera Murad Jamali, Khuzdar, Punjgur, Turbet to Gwadar. The third route (Eastern) enters the Punjab province from Khyber Pakhtunkhwa, going through Lahore, Multan and Sukkur, from there it takes the traditional highway to enter Balochistan, passing through Khuzdar, Punjgur, Turbet and Gwadar. An alternate route is to go from Sukkur to Karachi and from there take the coastal highway to Gwadar.<sup>24</sup>

Pakistan's federal government and the major political parties met on May 28, 2015 to discuss these routes. They agreed to build the first route on a priority basis which is the shortest of the three routes.<sup>25</sup> This route passes through very underdeveloped areas that have security problems. However, road building and infrastructure development in these areas will contribute to their socio-economic development. The third route (Eastern) is already functional, although it requires upgrading.

## **The Way Forward**

Pakistan's leadership describes the CPEC as a game changer for Pakistan and the region. However, the dividends of this project will fully materialise 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.

A strict scrutiny of the performance and quality of work on different projects will be needed. Similarly, safeguards are needed against corruption, pilferage of material and project payouts. Pakistan created a Task Force in July 2013 to deal with the aforementioned issues. In April 2015, Prime Minister Nawaz Sharif created the Prime Minister's Delivery Unit (PMDU) with his spokesman Musaddik Malik as its head to monitor the implementation of the projects under the CPEC.<sup>26</sup> This seems to have replaced the 2013 Task Force.

The CPEC includes several energy production projects. These are very important for Pakistan as it suffers from acute energy shortages. While pursuing various energy projects, it is important that the cost of energy production is not very high, especially when it comes to alternative sources of energy like coal, wind and solar. If the cost of production is very high, the government of Pakistan will be faced with the problem of selling electricity at an exceeding high rate to public. If it decides to subsidise the cost of energy production, it will accentuate its economic problems.

Pakistan will have to give more attention to controlling internal violence and terrorism. The terrorists groups are opposed to the projects for socio-economic development, especially Gwadar's road connectivity

with the rest of Pakistan, Central Asia and China. They are also expected to obstruct work on road construction, pipelines and electricity transmission lines because economic development and prosperity threatens the agendas of these groups. In the past, some Chinese engineers and workers associated with various projects in Pakistan were attacked, injured and killed by terrorist groups. The Pakistan government has made arrangements for their security in the past.

The Government of Pakistan will have to provide security to Chinese engineers, technicians and labour that will work on the Corridor project in Pakistan. In April 2015, the Pakistan Army announced the establishment of a special security division, headed by a Major General, for providing security to those working on the Corridor project. This special security division comprises nine Army battalions and six wings of paramilitary forces (Rangers and Frontier Corps),<sup>27</sup> numbering around 10,000 personnel. When China's Vice Minister for Security, Dong Haizhou, called on Pakistan's Army Chief, General Raheel Sharif on June 10, 2015, the latter assured the Chinese official that the Pakistan Army had made special arrangements for the security of all Chinese working on the Corridor project.<sup>28</sup> Each project will also have its own security. The Punjab government decided to adopt special security arrangements for foreigners, especially Chinese, in the province.

The on-going efforts by Pakistan's security forces to control terrorism in the tribal areas and elsewhere engenders the hope that this menace will be brought under control which will facilitate the revival of Pakistan's economy and the completion of all China sponsored projects in Pakistan for economic development, industrialisation, energy, infrastructure, bilateral and international trade. It will "ease Pakistan's costly energy crisis while connecting the country's economy with its neighbours on three sides, the east, north and the west."<sup>29</sup> India is the only missing link in the Belt and Road project. It raised objections to the planned construction of the Corridor through Gilgit-Baltistan. Both China and Pakistan have rejected these objections and they are determined to build the CPEC.

The CPEC project transforms Pakistan's geographic location into an asset. Pakistan connects Central Asia, West Asia (Middle East) and

Western China with one another through highways, railways, energy pipelines, electricity transmission lines and trade. All this holds a big promise for Pakistan.

## **Notes and References**

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18. *Dawn* (Lahore), July 6, 2013; Moazzam Husain, "From Gwadar to Kashgar," *ibid.*, July 15, 2013.

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"Enhancing connectivity between China and Pakistan is of great importance to expanding economic and trade cooperation, promoting economic integration, and fostering economic development of the two countries."

"To develop the Long-Term Plan for China-Pakistan Economic Corridor, both sides agreed to set up the Joint Cooperation Committee on the Long-Term Plan for China-Pakistan Economic Corridor, with the National Development and Reform Commission of China and the Planning and Development Ministry of Pakistan as leading ministries, and secretariats established in both ministries. Ministerial officials of both countries held talks in Beijing recently. The Chinese side will dispatch a working group at an early date to Pakistan for further consultations. Both sides agreed to start work on the Long-Term Plan for China-Pakistan Economic Corridor on speedy basis. The plan will mainly include such

areas of cooperation as connectivity construction, economic and technical cooperation, people-to-people and cultural exchanges, and exchanges between local governments and organisations.”

“Both sides agreed that they will focus on the following areas of cooperation in the near future under the framework of the Long-Term Plan for China-Pakistan Economic Corridor: start the China-Pakistan Cross-border Fiber Optic Cable project at an appropriate time, upgrade and realign the Karakoram Highway on fast-track basis, explore cooperation on solar energy and biomass energy, explore construction of industrial parks along the Pakistan-China Economic Corridor, launch at an early date inter-governmental consultations to implement the Digital Television Terrestrial Multimedia Broadcasting (DTMB) in Pakistan, coordinate the commercial operation of TD-LTE in Pakistan, and enhance cooperation in the wireless broadband area.”

“Both sides will support enterprises of the two countries in conducting cooperation on establishment of industrial zones in Gwadar.”

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Concessional Loan for second phase up-gradation of Karakorum Highway (Havelian to Thakot). (7) Chinese governmental concessional loan for Gwadar Port East Bay expressway. (8) Chinese government concessional loan for Gwadar International Airport. (9) Framework Agreement on cooperation on major communications infrastructure project. (10) Pro-Bono projects in the port of Gwadar region. (11) Framework Agreement between NEA and MoPNR on Gwadar-Nawabshah LNG terminal and pipeline project. (12) Financing for Karakoram Highway up-gradation phase-2: Havelian to Thakot, KLM, Gwadar East Bay Expressway, Gwadar International Airport projects. (13) Framework Agreement of Financing Cooperation in implementing the China-Pakistan Economic Corridor. (14) Framework Agreement on the China-Pakistan Economic Corridor Energy Project Cooperation. (15) Provision of concessional loan for Karachi-Lahore Motorway (Multan to Sukkur). (16) Framework Agreement on Joint Feasibility Study for up-gradation of MLI and establishment of Havelian Dry Port of Pakistan Railways. (17) Establishment of China-Pakistan Marine Research Centre. (18) Commercial contract on Lahore Orange Line Metro Train Project. (19) Agreement on financing for Lahore Orange Line Metro Train Project. (20) Cooperation Agreement for Matyari-Lahore and Matyari (Port Qasim)-Faisalabad Transmission and Transformation Project.

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