ISSUE BRIEF

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CPEC AND CHINA-US WAR OF WORDS

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)

An extraordinary three-way exchange between China, Pakistan and the United States has taken place on China-Pakistan Economic Corridor (CPEC) during the third week of November, 2019. It has been a direct China-US war of words with each side highlighting strengths of its economic support to developing countries, and development model. Pakistan, meanwhile, has put forward facts related to CPEC and reiterated that the project remains open to participation from third-countries and foreign companies.

First, Ms. Alice Wells, Principal Deputy Assistant Secretary Bureau of South and Central Asian Affairs, criticized extensive Chinese economic cooperation under the CPEC framework, with Pakistan highlighting risks of debt trap and absence of transparency in projects awarded to Chinese-state owned enterprises.[1] She directly referred to "expensive" proposed costs of up-gradation of Pakistan's main railway line from Karachi to Peshawar project (ML-I) and recently completed Sukkur-Multan Motorway (M-5). She contrasted Chinese mode of investment through state-owned companies with the US business model of promoting trade and investment through private companies with technology transfer to developing countries. For Ms. Wells, the debate over models of development is really about "sovereignty and the freedom that nations can expect" and the US calls for a development framework rooted in "good governance, long term capacity building, and

[1] Remarks by Ambassador Alice Wells, *Wilson Center*, November 21, 2019,https://www.state.gov/a-conversation-with-ambassador-alice-wells-on-the-china-pakistan-economic-corridor/

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market policies". Ms. Wells remarks are a potential signal to Islamabad to adopt a go-slow policy on CPEC.

Responding to Ms. Wells, Ambassador Yao Jing, Chinese envoy in Islamabad refuted her concerns and stated that standard international business practices are being followed in bidding and construction of CPEC projects.[2] He categorically denied any potential debt risk to Pakistan arising from Chinese-financing of infrastructure projects in Pakistan. He went on to say that, "China never forces other countries to pay debts", while "Western financial institutions are the biggest creditors of Pakistan". He underlined that the principles governing economic cooperation are "mutual respect and win-win cooperation", while CPEC follows "extensive consultation, joint contribution and shared benefits".

This unprecedented exchange led to a vigorous debate in Pakistan. Mr. Asad Umar, Federal Minister of Planning, responding to concerns raised by Ms. Wells, stated that Pakistan's debt profile owing to CPEC is manageable as the increase in past six years has been under 10 per cent.[3] He underlined that Pakistan continues to engage Beijing in a constructive dialogue over CPEC and third-party cooperation. Across the political spectrum, PTI government and opposition led by PML-N have reiterated broad political consensus for deep strategic and economic partnership with China.

These development show that CPEC is gradually becoming another venue of China-US competition. Under Trump administration, Washington has directly opposed Belt and Road Initiative (BRI),[4] but it had not criticized CPEC in such a direct manner. As Pakistan experienced an economic slowdown, CPEC projects had also slowed. Earlier in November 2019 the Joint Coordination Committee (JCC), the overarching body of CPEC, met and both sides agreed to set a new direction for future projects, mostly in industrial cooperation, agriculture, affordable housing and minerals.[5] Prime Minister Imran Khan also brought in Mr. Asad Umar as Federal Minister for Planning, Development and Reform, and in-charge of CPEC portfolio from Pakistan's side.[6]

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2 Ambassador Yao Jing's Speech at the 5th CPEC Media Forum, November 22, 2019, http://pk.chineseembassy.org/eng/zbgx/t1718338.htm

3 "'Pakistan's relations with China will never fray': Asad Umar responds to US concerns over CPEC", *DAWN,* November 23, 2019, https://www.dawn.com/news/1518417

4 Nectar Gan& Robert Delaney, "United States under Donald Trump is veering away from China's belt and road". *South China Morning Post,* April 25, 2019, https://www.scmp.com/news/china/article/3007504/united-states-under-trump-veering-away-chinas-belt-and-road

5 Khaleeq Kiani, "Pakistan seeks $9bn Chinese loan for ML-1, commits to border fencing", *DAWN*, November 6, 2019, https://www.dawn.com/news/1515210/pakistan-seeks-9bn-chinese-loan-for-ml-1-commits-to-border-fencing

6 "Asad Umar takes oath as planning minister", *DAWN*, November 20, 2019https://www.dawn.com/news/1517655

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Washington needs to recognize that CPEC is not only beneficial for China, but also for Pakistan and the three billion people across Asia, Africa and Europe. CPEC has been important for Pakistan in four respects. First, CPEC was commenced when Pakistan was experiencing crippling electricity shortages, which had an adverse impact on Pakistan's economic development. Second, during those years, neither American nor other western companies or countries came forward to help address Pakistan's energy crisis. Third, by resolving Pakistan's energy crisis and addressing infrastructure gaps, the first phase of CPEC has laid the foundations of long-term economic stability of Pakistan. Fourth, Pakistan and China are now looking at expanding the scope of CPEC cooperation to include agriculture and socio-economic development in the second phase. This indicates that CPEC is here to stay for the long-haul.

China has earned goodwill in Pakistan through its wide-ranging cooperation and support at critical times. While advancing that cooperation, Islamabad should also continue to collaborate in economic projects with Western countries in CPEC through Third-Party Participation framework. Pakistan's policy objective hence is: to insulate CPEC from broader China-US competition. If CPEC becomes embroiled in controversies, only Pakistan will be the net loser as a once-in-a-generation opportunity for long-term economic development will be lost.

CPEC is a joint project of Pakistan and China. The debate on merits of different projects and policy frameworks related to it is a bilateral discussion between Islamabad and Beijing. It needs to be a constructive dialogue with the goal to improve policies, address bottlenecks and protect Pakistani interests without putting undue burden on Pakistan's financial and economic health. Any public external effort to influence this conversation will only muddy the waters and generate unnecessary controversies and skewing parameters of policy dialogue in a single direction.

Finally, Ms. Wells, in her remarks mentioned that US has put forward vision of "free and open" Indo-Pacific region. Curiously, she is the first US official to talk about Pakistan and Indo-Pacific together. Earlier American policy statements and documents had not mentioned Pakistan as part of the Indo-Pacific region, as referred to in Department of Defense strategy report[7] and Department of State Annual Report on Indo-Pacific[8]. By offering Pakistan an alternate economic cooperation model, Washington is suggesting to Islamabad that an alternative exists if it aligns with the broader Indo-

[7] "Indo-Pacific Strategy Report", Department of Defense, June 1, 2019, https://media.defense.gov/2019/Jul/01/2002152311/-1/-1/1/DEPARTMENT-OF-DEFENSE-INDO-PACIFIC-STRATEGY-REPORT-2019.PDF

[8] "Free and Open Indo-Pacific: Advancing a Shared Vision", Department of State, November 4, 2019, https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf

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Pacific strategy. At the very least, the US will expect Pakistan to lessen its dependence on China and open avenues for collaboration with the West.

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