

## CPEC, A Game Changer but whose: An Economic Reality Check

Muhammad Zia-ur-  
Rehman\*

Yasmine Muhammad  
Javaid Iqbal†

Muhammad  
Shoab Malik‡

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### Abstract

*You will arrive at a destination after 10, 20 or 30 years from now, but where? That's is the critical inquiry/question. And the answer could be of two-fold; a well-defined destination, or an ill-defined (chaotic) destination. It's obvious, that definitely everyone would like to arrive at a well-defined one. The same rule applies to the mega project of CPEC. No doubt, CPEC is a great and mega project with the volume greater than any project launched in Pakistan since 1947. It seems to benefit Pakistan and China from various perspectives, that's why it's named as a game-changer but the point of concern is for whose. This question needs to be answered not only comprehensively but also partially especially by Pakistani side of leadership and strategists. This is essential for the future survival of Pakistan as a country and Pakistanis as a nation. The current research analyzes the grey areas of concern from the Pakistani perspective by putting the four factual checks; strategic, economic, cultural and security on the mega project of CPEC. The paper further, in detail presents a solution-oriented strategic point of view with appropriate recommendations to be adopted in order to cultivate the fruits of the project effectively and efficiently.*

**Key Words:** CEPC, Strategic Viability, Economic Viability, Security Perspective, Challenges.

**JEL Classification:** M16, B17.

### Introduction

CPEC an epic of game theory to tackle, national level, regional and even at global level, with the significant interests of the players around, seems to be the war of the Titans and the endless game of gaining power and influence. We see Indian warships roaming in the South China Sea and correspondingly now we see Chinese warships too in the Indian Ocean. To achieve an economic strength regional and global players are actively trying to increase the influence in the marked oceanic territory and one may consider CPEC as one of the strategic outcomes of this all big game. Here Pakistan seems happy that this project is going to benefit its territorial boundaries magnificently but in a bigger picture from the

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\* Assistant professor, National Defence University, Islamabad, Pakistan.

Email: [drziaemail@gmail.com](mailto:drziaemail@gmail.com)

† Faculty of Contemporary Studies National Defence University, Islamabad, Pakistan.

‡ Assistant Professor, Department of Pakistan Studies, National University of Modern Languages Islamabad, Pakistan

bird's eye view, it's a contingency plan or one of the means to tackle India and exert influence and expand the hegemony in over the natural resources and strategic places around.

To keep the wheel running for the world's 2<sup>nd</sup> largest economy, China needs a nonstop supply of natural resources to run its factories for the production of goods. The hubs for such supplies are located in the Middle East and the Central Asian States. As strategically planned, this would not only elevate the status of the country but also the living standards of its population specifically the western part of China. The involvement of other actors in the South China Sea rings a bell for an alternative plan to address the zero-sum game.

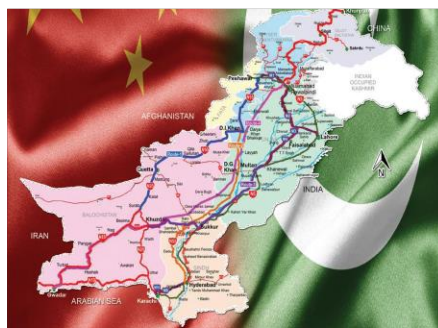
As predicted, the 21<sup>st</sup> century is the rise of Asia Century with most of the economic activities is to be generated in this very region of the world. China, very aptly identifying the window of opportunity, announced a One Belt One Road Initiative (OBOR) with an important constituted part of CPEC as its flagship. This is considered to be one of the most significant landmarks in the history of Pakistan and China cordial relationships. The president of China revealed 46 bans \$ investment for the comprehensive economic and strategic development. The coin of CPEC was establishing a new eon of economic development with the other side of the coin brings internal cultural, security and economic challenges, which can become the stones of the path of development, yet to be returned and addressed. Within CPEC, the most significant project so the project of Gwadar, and as the initial as well as the end point, Gwadar is the golden bird strategically located near the Persian Gulf close to the Strait of Hormuz from where 40 % of the world oil is transported. Here, the Chinese have very aptly already put their influence and strategically managed to deal with Pakistan.

Additionally, if we look at the distribution of share and benefits, the major shareholder would undoubtedly be the People's Republic of China. Hence it's quoted that China earns a star status in the growth-share matrix of CPEC. A commendable question is where Pakistan is in this portfolio besides having only an ideal geostrategic position, exploited by the foreign international as well s regional powers for their own benefit and strategic future outcomes. Has Pakistan sketched any long term guidelines, roadmaps or action plans to bargain with the situation and get the best out of its developmental uprising? Up till now, there seems none, and that's is the alarming situation which lets many intellectuals, and geopolitical thinkers to ponder upon with a lot of apprehensions.

Fig. 1: Economic Corridor; Roads, Rails, Ports, energy, Special Economic Zones.

## **A Review of the Existing Scenario**

CPEC - China Pakistan Economic Corridor a pinnacle of the trilogy for the race of world trade, energy security, and Power. The state of China is rising peacefully by becoming the world's largest economy via trade transactions. To cater such requirements the energy resources are fulfilled using the trade of the South- China Sea. 80 % of the transportation of oil and gas resources is taking place from the South – China Sea. The growing interest of other global key players in the South – China



Sea envisioned a contingency plan for China to maintain its status of the world's largest economy. 8

There is a need to understand the big game; the foreseen challenges arising with CPEC include a 46 bn\$ investment however currently China is engaged with a 100bn \$ trade with India, the prime rival of Pakistan. So, it should not be considered as only friendship, but its trade, business, and influence. This element cannot be overruled as the difference in investment varies. 3

Despite the Geo-Strategic location of Pakistan it true that Pakistan has still not been able to cash the situation effectively. Pakistan has not set guidelines and signed memorandums with China on trends of profit sharing and resource allocation clearly and at equal grounds. This chapter goes unveiled, which may cause a disturbance in the future, once the project goes functional. Regional and internal security challenges in Pakistan hinders the idea of the smooth operation of the project. Afghanistan struggling for its race of stabilization lies right next to Pakistan. American military bases within the state and Indian influence and militant activities are causing a continuous wave of destabilization in the country with its repercussion waves to travel to Pakistan as well.

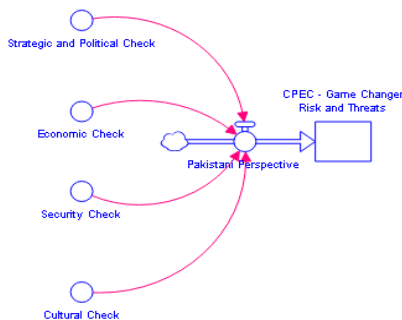
Pakistan is facing internal security challenges. Meticulous operations of Zrb- e-Azb and operation Rad-ul-fassad have produced fruitful results in creating favorable conditions in Pakistan. However, the Balochistan insurgency with India being an active player needs attention. Side by side the security challenges the challenges of political divide also exist. There is a trust deficit among the parties and provinces in Pakistan which are linked in this project. Grievances arise on the agenda of dividends and allocation of funds for developmental projects. Certain parties also highlight the fact that CPEC might convert the local population into minorities.

Pakistan currently does not occupy the required number of skilled labor for the smooth operation of this venture. The employment opportunities generated in light of CPEC need labor force at the shaw level to construct roads, railways, bridges, dams, optical fiber pipelines and many other developmental projects linked to CPEC success. No reforms have been taken so far to meet the upcoming labor requirement. If one shed away the emotional shadow of friendship and gives an objective look, one can see that it may be serving some foreign people and community as they have more semi-skilled and skilled workforce as compare to Pakistan, thus generating jobs for others and serving their purpose and vision, at Pakistani land, which may not be considered a wise and appropriate strategy.

## **The Dynamics of the Game**

Within OBOR, CPEC can be considered a Cash Cow for China, which has been marketed as simultaneously significant for Pakistan as well. It opens multiple avenues that foster economic trade and integration between, South and Central Asian states. However, on the other hand, this may turn out to be a double-edged sword if the challenges of political polity and insurgency are not met timely. CPEC is a flagship of OBOR – one belt one road initiative with the prime constructs of “Silk route economic belt” and “oceangoing”. This will act as a fate changer a win-win situation for both major contributors, Pakistan and China. Strengthening the Sina – Pak relations and trade transactions CPEC has a portfolio of 46 billion \$ with the web of roads, railway tracks, dams, energy resources pipelines, industrial zones, and many other mega developmental projects. Keeping the highlighted

angles in focus CPEC is a harbinger of change for both partners where the major advantage pie goes to China and Pakistan left with its crumbs. For Chinese, it seems to be of good worth, as the existing distance is measured as 17 thousand km which would be reduced to 22 - 25 hundred km approx. It's a huge opportunity that should be cultivated in the light of Pakistani Strategic vision, otherwise, serving the vision of some other country, may not make a sensible ground for future prospects.



**Fig. 2:** Main Theme “CPEC the Game Changer Risk & Challenges for Pakistan

**A Critical Analytic View through the lenses of four checks: strategic, economic, cultural and security parameters.**

## Strategic Check

### Power Dynamics

China is currently having 80 % of its trade activities through the South China Sea. With the intrusion of key global economic players in the South China Sea rings an alarming bell for Chinese as this could hamper the process of trade activities. The need of the hour is to plan a contingency solution to cater to the situation and CPEC is the strategic Brain Child. The Chinese strength at the Pacific Ocean and now their influence on the Indian Ocean via CPEC will make them the major power contributor in Asia.

Asia is named as the “Market of the Future “and China is the 2<sup>nd</sup> largest economy and world's largest population this nexus will shift the global power dynamics of the future. Where does Pakistan's strategic check lie? Is Pakistan taking active strategic measures to cater to future power dynamics or is merely acting as a unit of the supply chain?

### *Shorter Trade Route – what’s the justification?*

Does the shorter distance make the western route economically more desirable? To answer this question, we have to go back to the very basic concept of Economic Corridor by making a quick reference to an Asian Development Bank report titled ”Operationalizing Economic Corridors in Central Asia” which states that that Economic corridor promotes organization of economic activities to create jobs, increase productivity, strengthen economic clusters, and contribute to economic development of the country, as distinct from a transport corridor, which ensures connectivity (within the country, within the region, and with outside the region).

As per the laws of physics, it’s always easier and more viable to have transport

through water route as compared to land route, therefore, this may not be a very strong logic that it serves the purpose of easy transport.

**Table 1. Districts along CPEC: (19 district)  
Gwadar Seaport Interest**

Province name	S. No	District Name
Gilgit-Baltistan	1	Hunza-nagar
	2	Gilgit
	3	Diamer
Khyber Pakhtunkhwa	1	Kohistan
	2	Battagram
	3	Mansehra
	4	Abbottabad
	5	Haripur
Punjab	1	Attock
	2	Mianwali
	3	Sargodha
	4	Layyah
	5	Dg khan
	6	Rajanpur
Balochistan	1	Derabhugti
	2	Khuzdar
	3	Gwadar
Sindh	4	Punjgar
	1	Jacobabad

Chinese main interest is the Gwadar seaport. They already have conducted a feasibility analysis and drafted action plans on what they want to achieve. Whereas Pakistan on the other hand though in need to do parallel, is in a recessive position.

### **Trust Deficit**

The project of CPEC has brought with itself a multi-fold series of developmental projects and investment opportunities. The ambiguity in the allocation of funds and the distribution of resources is creating a trust deficit among provinces – government and provinces – provinces. Differences are also highlighted in the Gilgit – Baltistan region.

### **Losing the Trust of International Players**

In a multi-polar world order – Pakistan may be going away and losing the friendship and support of the international powers like the US and allies and thus another hand, the enemies are free to cash the opportunities and use such powers against Pakistan.

### **Agreements and Trade imbalance**

Agreements between the two states are not on an equal basis to seek a win-win situation.

Beyond a network of roads and pipelines, Pakistan is giving China access to Indian Ocean, Central Asia, and Middle Eastern states. Where Pakistan is not benefiting from this Project on equal grounds.

### **Ambiguity of funding**

Will the government of Pakistan safeguard its interests? We not only need short term benefits but also long and strategic interests. Around 75% to 80% of the projects are going to be installed on commercial terms, and Pakistan has to repay the amount with interest. The anticipated financial projections state a guaranteed profit from 17-34%. Indeed a costly investment. Secondly, the loan which would be given there would more than 6 percent in return. We need to know what are the clear inflows and outflows in total digits to have a clear picture. Ambiguity in funding and financial ratios needs to vanish and clarity is required.

### **Economic Check**

#### **Economic Stability**

CPEC is meant to ensure socio-economic rejuvenation as well as political stabilization. It's claimed that after CPEC Pakistan will be back on economic development but it doesn't seem very hopeful. It seems that it would be only networking at its best but how to get benefits and return, Pakistani Govt needs to establish a strategic vision and viable plan.

#### **Imports and Exports Balance Challenge**

We already see, made in China all across the Pakistani Market and with the advent of CPEC project there will a greater influx of Chinese products in Pakistani market. Now the question of the matter is will there be something "Made in Pakistan". Would this be any help to local Pakistani manufacturer? What would be the impact of trade balance between China and Pakistan?

The already stable market of China may dominate over the staggering manufacturing market of Pakistan through bulk manufacturing and Economies of Scale.

#### **Electricity Production**

Assessing the means of production of electricity in our neighboring country India one can see that India produces solar energy with one unit at a cost of 2.97 Indian rupees, on the contrary, Pakistan produces electricity using coal with one unit 8.5 Pakistan rupees. Additionally, it seems that almost, 1200 acres of agricultural land in Sahiwal is criminally wasted to establish electricity generation power plant again by using coal which is certainly an expensive medium having ramifications not viable for a longer period of time.

#### **Labor Demand Controversy:**

The employment opportunities generated through this project will require a bulk of skilled labor. Pakistan in comparison to China has limited numbers of skilled labor available. Pakistan needs to be proactive in producing poly- technicians to cater to labor demands. If the demand is not met timely the window of opportunity will be taken over by existing available Chinese skilled labor.

## Security Check

### Control of Natural Resources (Oil, Gas, Minerals) and land

One analysis on the situation shows that the loans are taken by Pakistani Govt. are touching 90 billion dollars in just a few years – how would we pay it back? CEPC is a golden opportunity but Pakistan needs to plan it well to harness the best outcomes from it. Substantiating the viewpoint, the former president of Pakistan Gen. R. Pervez Musharaff showed his apprehensions on the project; he was of the opinion that the loans and debt markup to GDP ratio is not appropriate for a country to have future prosperous perspective.

Pakistan may be in great trouble after knowing the reality of inequality: in retrospection of the case of *“Southern deep-sea port of Hambantota”*. As per the agreement, the port is leased for 99 years to China Merchant port holdings with maximum shares. Similarly Tajikistan – China land dispute where the Tajikistan Government traded 1000 thousand square km area in return of the debt. Therefore, no doubt, on friendship but certain elements supported but history cannot be overruled. On objective grounds, one may ask this question, that how Pakistan would repay and how Pakistan would get benefit out of this mega project. On the other hand, if we look at the internal aspects, we see that no proper intelligent management is done and then Govt. of Pakistan is in agreement to return the debt with massive markups.

If the pages of history are viewed, one may extract lessons from the experience with foreigners including Chinese. Saindak Copper-Gold project started in 1995, with not so fruitful experience, leaving Pakistani Govt. in the loss. A similar sort of experience was to be expected with the project named Magic mountains: The Reko Diq gold and copper mining project. Furthermore, such ambiguities also exist and many vocally objective oriented voices also put their support to the point that the clarity is still required.

## Cultural Check

### Tourism destruction

Development projects not conducted properly or left incomplete lead to the destruction of tourism rather tourism development. It is considered that on coal power projects there would be a huge investment for electricity generation, but when one sees around the globe, the reality check says that the world is moving away while Pakistanis are bringing in this smoky dusty culture of damaging health and environment.

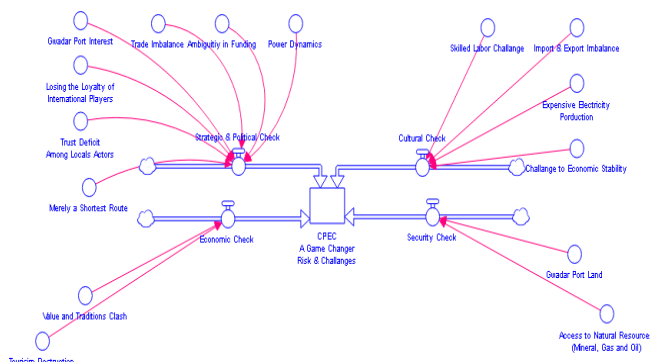


Fig 3: CPEC – A Reality Check

## **A Reality Check on Future – An Auxiliary Check**

### **Debt and debt to GDP ratio**

The total investment of CPEC is \$46bn with 2 major components: 11 bn and 35b. The first component is an investment where the second is classified as a loan. What if Pakistan is unable to pay the debt: sugar-coated pills – all such projects have very high-interest rates. Banks give 7-8 percent at max return but the government of Pakistan has guaranteed interest the rate of 17 percent which is very high and this would be putting the economy down. This seems the establishment of hegemony on the area by giving debts and loans and then getting the influence implemented.

What sort of financing we are going to have, it's not still clear, return on equity and return on investment, we guaranteed a 27 percent return.

This may also shut down Pakistani local factories one by one. Pakistan as a country is already flooded by Chinese goods and products, and it seems that it's going to be a trodden path for so many other benefits.

### **Vision but whose!**

No nation has ever come to develop some other nation or country or build the future prospects for other nations. Therefore, it's the need of the hour that Pakistanis must have their own vision, mission, goals and objectives and their strategies to meet the future requirements.

BRI belt and road initiative – it's neither good nor bad. It will act in our favor if we play the game on intelligent grounds and it may turn opposite if we simply accept the order and don't consider country benefit with self-own vision and objectives and directions.

### **Strategy but whose!**

It is a perplexing factor for the government and the opposition since this problem is inches away from making CPEC the next big “Kalabagh dam debate” if it is not taken care of. Chinese calculated and set the vision and started projecting - but where is Pakistani vision, planning, and projection what we want to achieve, nowhere but just following an other's vision. Human economic history shows that other countries can never change the game of others and change fate. Pakistan has to come up with its own strategic, financial, economic, and political action plan. What Pakistanis need and what Chinese need – we need electricity and China needs minerals, oil, and power influence. We need to put our house in order and China needs to exert influence in the area as power and tackle India.

## **Conclusion**

The need of the hour is to think that CPEC when materialized enforcing aspects of Pakistani perspectives highlighted above then it can serve the purpose of economic development. If let idol and visionary strategy is not crafted and implemented then this project has the tendency to become a double-edged sword. The investment that is poured in the project is rather a loan with very high interest which may not support the economy but further deteriorate it. When we look at the production of cheap electricity it would not be cheap rather an expensive medium when compared globally. As far as the other aspects are concerned, we may see that the agriculture land destroyed for coal plants, which doesn't



seem a wise strategy. Rather, it seems like a criminal act. Additionally, if there is no clarity in funds distribution the internal political tug of war will continue. This may lead to another Kalabagh dam. If the internal matters are not resolved and the strategies based on a country's vision are not developed, then the external forces may get more benefit by enslaving the regional inhabitant just like East India Company.

## **Recommendations**

On the bases of the above circumstances and the reality checks, any sensible thinker and planner may come to the point that it is somewhat late, but still it is the right time to bargain when this mega project is in its process, though we are to some extent late, still the project is in its launching phases. In order to make this dream a reality in a real sense, this idea does not require a verbal cohesion by all the political parties and provinces but also practical cohesion with the national development strategies. Only in this way, this may be beneficial for the up gradation and development of Pakistan in a real sense, otherwise, it may be more of controversial half excavated leftover structures with the destruction around them on the landscape of beautiful Pakistan.

- As there is confusion around the facts and figures of the project, which creates the element of trust deficit in the minds of the masses. Putting first things first the government must eradicate the ambiguity by laying out a detailed plan of CPEC with its terms and conditions in front of the nation through parliamentary debates, print, and electronic media.
- The China Pak Economic Corridor (CPEC) must have a mirror China – Pak Education Corridor.
- The difference of opinion between federal and provincial and federating and non-federating units must be discussed and resolved openly. If then some lacunas still remain they must be dissolved in the name of rational and national interest.

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