

China and Pakistan Relations via the China-Pakistan Economic Corridor (CPEC)

Author: Lieutenant Colonel Youngsuk Lee, Republic of Korea Army, CSAG CCJ5

The opinions and conclusions expressed herein are those of a number of international officers within the Combined Strategic Analysis Group (CSAG) and do not necessarily reflect the views of United States Central Command, nor of the nations represented within the CSAG or any other governmental agency.

Key Points

- CPEC's main purpose is economic cooperation between China and Pakistan, but it also supports political and strategic goals.
- CPEC's effects can be evaluated through a multi-sectoral approach, including economic, strategic, and security perspectives.
- CPEC may provide both positive and negative consequences, but it is likely to favor China by expanding its influence and leverage in CENTCOM AOR.

Introduction / Overview

After decades of robust diplomatic and military relations, CPEC is China and Pakistan's first large-scale attempt to bolster economic ties.¹ International analysts have differing opinions regarding CPEC. Some assess this project as not just an economic cooperation plan to improve both countries' infrastructure and trade, but as part of China's grand strategic scheme to be the premier Great Power. The CPEC stirs controversy because analysts struggle to predict the full scope of the project's impacts on China and Pakistan. However, the CPEC is undoubtedly one of the largest combined projects to provide not only economic advantages, but also generates a socio and geopolitical impact in South Asia.

Genesis and General CPEC Information

Most countries form bilateral or multilateral agreements to develop and boost their economic situation. An important outcome of these agreements is economic corridors (EC). ECs are instruments for promoting economic growth and sustainable development. The driver for developing these new EC's was the launch of the Belt and Road Initiative (BRI), a large-scale campaign launched by Chinese President Xi Jinping's government to promote multi-mode connectivity between Asia and Europe as well as other world regions. Currently, the most prominent EC is the CPEC.² Officials in China regard CPEC as the flagship project of BRI. CPEC includes a collection of infrastructure projects currently under construction throughout Pakistan. Chinese and Pakistani officials say the purpose of CPEC is to strengthen trade between the western Chinese city of Kashgar and

¹ Arif Rafiq. "The China-Pakistan Economic Corridor, barriers and impact." *United States Institute of Peace*, Oct 2017. p.5.

² Siegfried O. Wolf. *The China-Pakistan Economic Corridor of the Belt and Road Initiative* (Contemporary South Asian Studies, Springer. March 2019), p.v. (Preface and acknowledgement)

Pakistan's Arabian Sea port of Gwadar, and to boost economic growth within Pakistan and China's landlocked Xingjiang region.³ Plans for a corridor stretching from the Chinese western border to Pakistan's deep-water ports on the Arabian Sea dates back to the 1950s and was motivated by the construction of the Karakoram Highway beginning in 1959. The Chinese rekindled interest in Pakistan's deep-water harbor at Gwadar in 2002. Construction at Gwadar port was completed in 2006. Gwadar Port expansion then ceased due to political and security instability in Pakistan. In 2013, Chinese and Pakistani leaders decided to enhance mutual connectivity and signed a MOU on long-term economic cooperation between the two countries. In November 2014, the Chinese government announced its intention to finance Chinese companies as part of its \$45.6 billion energy and infrastructure effort in Pakistan. In April 2015, China President Xi Jinping visited Pakistan and signed an agreement to commence work. This grand project has four phases: 1) Early Harvest project completed in 2018; 2) Short-term project completed by 2020; 3) Medium-term project completed by 2025; and 4) Long-term project completed by 2030.⁴

China's Motivation

This paper analyzes both countries' economic and security motivations. Since the CPEC is an EC, the paper will address each stakeholder country's economic, strategic, and security position.

• Economic Dimension

China wants to develop a new and stable export market during the U.S. trade dispute. China has maintained close ties with Pakistan for decades; particularly economic relations. Pakistan has great economic potential with the world's 5th largest population, 24th largest Purchasing Power Parity (PPP). Pakistan was identified by British economist Jim O'Neill as one of eleven countries with a high potential to become one of the world's most significant economies in the 21st century.⁵ In addition, Pakistan is one of the 'youngest' nations in the world. Sixty-four percent of Pakistan's population is below the age of 30 while 29% is between the ages of 15 and 29 years.⁶ In this regard, both China and Pakistan anticipate increased trade cooperation. Further diversification of trade partners and industrial goods through CPEC projects is likely to improve the transportation network and infrastructure.

• Strategic and Security Dimension

CPEC is likely to provide China significant strategic and security benefits. China's engagement in the CPEC helps mitigate the "Malacca Dilemma." The term coined by former Chinese President Hu Jintao refers to the over-reliance on the Malacca Strait, where 80% of Chinese energy needs pass enroute from the Middle East and Angola.⁷ Energy security, especially oil supply, has become a big concern for China, because of its tremendous oil consumption, while the U.S. has energy independence aided by shale gas technology innovation. More than 30% of the world's seaborne trade and up to 80% of China's energy supply (80% of crude oil and much of China's natural gas imports)⁸ passes through the Malacca Strait (a 500 NM narrow waterway between the Indian Ocean

³ Arif Rafiq. "The China-Pakistan Economic Corridor, barriers and impact." United States Institute of Peace. Oct 2017. p.7.

⁴ *Ibid.* p.9.

⁵ Mahan Fatima, "An overview of Pakistan's economy", *The Nation*, <https://nation.com.pk/01-Jul-2019/an-overview-of-pakistan-s-economy> (accessed March 13, 2020)

⁶ Asma Kundi, "Pakistan has currently largest percentage of young people in its history: report", *DAWN*, <https://www.dawn.com/news/1405197> (accessed March 16, 2020)

⁷ Quora, Web site, <https://www.quora.com/What-is-the-Malacca-Dilemma> (accessed March 13, 2020)

⁸ Matthew Johnson, "China's International Partnership: Pakistan, CPEC, and Central Asia", *Global Risk Insight*, August 18, 2019, <https://globalriskinsights.com/2019/08/china-pakistan-cpec-central-asia/> (accessed March 13, 2020)

and South China Sea).⁹ For these reasons, China views obtaining a stable alternative route for energy will alleviate its reliance on this narrow and congested waterway. Achieving this as a critical and strategic objective for China. Gwadar port provides China with a shorter alternative land-and-sea gateway to the Middle East and eastern Africa. Some experts suggest China may see Gwadar port as a future strategic naval base and logistics hub. A Gwadar base could link to other port facilities encircling the Indo-Pacific region appears as long-term strategic plan, though both China and Pakistan deny any such plan exists.¹⁰

Pakistan's Motivation

Pakistan is certain CPEC is the most important measure to escape its economic crisis and expects the projects will further develop energy and transportation infrastructure. Regarding CPEC, Pakistan's government vision is stated as, "to improve the lives of people of Pakistan and China by building an economic corridor promoting bilateral connectivity, construction, explore potential bilateral investment, economic and trade, logistics and people to people contact for regional connectivity."¹¹

• Economic Dimension

Pakistan seeks to overcome significant economic difficulties including stagnation, widening trade deficit, and rising inflation, etc. Thus, Pakistan expects the trade opportunities opened by CPEC will reverse these problems. Specifically, Pakistan believes CPEC will boost domestic economic growth, increase trade and foreign investment, create more jobs, modernize industrial infrastructure, and develop rural areas to boost agricultural production - all important domains of Pakistan's economy. Of vital importance is a CPEC project focused on alleviating Pakistan's deep and complex energy production problems. Pakistan has suffered from energy deficiency since its inception in 1947. Therefore, Pakistan believes developing energy security is vital to overcome chronic power shortages and economic challenges, and to improve quality of life.¹²

• Strategic and Security Dimension

Pakistan's government seeks to achieve stability by improving domestic security conditions, and increase political legitimacy through economic growth that uplift socio-economic conditions among the citizenry.¹³ Pakistan expects CPEC to improve not only its economic development, but also directly and indirectly enhance security.

⁹ B.A. Hamaz, "Alleviating China's Malacca dilemma", *Institute for Security & Development Policy*, <http://isdpeu.eu/alleviating-chinas-malacca-dilemma/> (accessed March 13, 2020)

¹⁰ The Diplomat. November 19, 2019. "No, Pakistan's Gwadar Port is Not a Chinese Naval Base (Just yet)." <https://thediplomat.com/2019/11/no-pakistans-gwadar-port-is-not-a-chinese-naval-base-just-yet/>

¹¹ CPEC, China Pakistan Economic Corridor, Government of Pakistan Web site, <http://cpec.gov.pk/vision-mission/3> (accessed of March 13, 2020)

¹² Over 140 million Pakistanis (nearly 67% of the population) either have no access to the power grid or suffer over 12 hours of load-shedding daily. Pakistanis who do not have access to the grid are often poorer than those on the grid. Meanwhile, household electricity consumption has grown at an average annual rate of 10% yearly. The total spend on lighting by families living off-grid is \$2.3 billion per year for items like candles and kerosene., "7 facts about Pakistan's energy crisis", *DAWN*, Aug 5, 2016, <https://www.dawn.com/news/1275116> (accessed March 13, 2020)

¹³ *Ibid.* p.90.

- Reducing Pakistan's dependence on the west (especially the U.S.) and deepening of China relations.

Pakistan has required external economic and military assistance since its founding in 1947. It has received significant development assistance and loans from KSA, UAE, the EU and IMF, etc. Pakistan also relies on U.S. financial and military aid.¹⁴ Over the past several years, such aid has decreased because the U.S. and some other western countries argue Pakistan sponsors terrorist organizations and provides safe haven for them. Thus, Pakistan may seek to reduce its western dependency through CPEC and diversify its foreign investment portfolio. China is willing to develop closer ties in multi-sectoral cooperation with Pakistan. China has border issues with India in the Kashmir region and seeks to counter India's growing regional influence. China and Pakistan share a broad vision and both will leverage CPEC to achieve common strategic and security objectives.

- Improving internal security situation and political stability

Pakistan is making substantial efforts to improve its internal security with a particular focus on economic development. However, there are still internal security threats by domestic terrorist groups particularly in Baluchistan province. The Gwadar port project, underway in Baluchistan, is one of the largest CPEC projects, but has progressed much slower than projects in Punjab and Sindh.

- New positioning at the international stage and elevating Pakistan's Image

Pakistan's image suffers from the following: 1) terrorist organization connections; 2) religious extremism fostered through Madrassas; 3) military control over politics; 4) long-lasting tension with India; 5) nuclear proliferation; and 6) human rights issues. With these perceptions aggregated, some critics believe Pakistan is an isolated state that lacks transparency and credibility within the international community. For example, the international organization (IO) Financial Action Task Force (FATF) has declared it will transition Pakistan from the FATF gray list to the blacklist unless Pakistan implements greater efforts to cut money laundering and suspicious ties with terrorist groups. If Pakistan is unable to satisfy FATF's recommendations, the country could face severe diplomatic and financial consequences including an uncertain fate of the ongoing \$6 billion IMF bailout.¹⁵ To mitigate actions by IOs, Pakistan plans on leveraging close ties with China and utilize China's international influence to improve Pakistan's reputation and image.¹⁶

Opportunities and challenges

• Opportunities

CPEC's first opportunity is economic development through regional connectivity. As stated above, CPEC's main concept is creating new trade routes from western China to southwestern Pakistan. China and Pakistan anticipate a major ripple effect through regional connectivity on all economic cooperation domains.

The CPEC second opportunity relates to socio-economic development. Many Pakistani experts and officials believe that CPEC will have enormous social impact on all Pakistan's provinces and districts in three dimensions

¹⁴ Pakistan became the 4th largest recipient of the US aid after Israel, Afghanistan and Egypt. Washington provided both economic and military aid to Pakistan from 1951 to 2011 worth \$67 billion., US aid to Pakistan over the years: A timeline, *THE TIMES OF INDIA*, <https://timesofindia.indiatimes.com/india/us-aid-to-pakistan-over-the-years-a-timeline/articleshow/62333641.cms> (accessed March 13, 2020)

¹⁵ DAWN, "FATF requirements", <https://www.dawn.com/news/1527151/fatf-requirements> (accessed March 17, 2020)

¹⁶ *Ibid.* p.91.

of welfare: education, health, and housing. Experts suggest CPEC will support achieving around five percent social welfare growth in Pakistan through 2020, and manifest the shared dream of unprecedented prosperity for the region.¹⁷

The third opportunity is that CPEC will create deeper geopolitical and strategic relations between China and Pakistan. Despite official statements claiming CPEC is a pure economic endeavor, the corridor also includes strong geopolitical, strategic, and security-related dimensions.¹⁸ China and Pakistan have conducted joint military drills for decades and China is the largest arms supplier to Pakistan (China sold Pakistan \$6.4 billion in weapons from 2014 to 2018).¹⁹

• **Challenges**

Some in the U.S. and elsewhere are skeptical about China's true CPEC objectives and perceive CPEC negatively.²⁰ One common negative perception is that CPEC's benefits heavily favor of China. This imbalance may trigger stagnation of ongoing CPEC projects, particularly if Pakistan openly questions China's proposed terms regarding CPEC assistance. Despite a slight improvement in Pakistan's economic growth in 2017 and 2018, growing fiscal and external imbalances of widening trade deficits and decreasing international remittances have eroded Pakistan's recent hard-earned gains in restoring macroeconomic stability. Additionally, Pakistan drew down foreign exchange reserves to fill the financial gap. The subsequent lack of foreign exchange reserves impacted the country's opportunities to invest in crucial sectors and hampered its capacity to innovate.²¹

Skeptics also view China's BRI and CPEC as a "debt trap."²² CPEC's multi-billion-dollar projects financed by China's capital would prove burdensome for Pakistan as Chinese loan repayments become due. Alice Wells, a senior U.S. diplomat, expressed her concerns over CPEC's cost, Pakistan debt, lack of transparency, and job creation realities. She claimed some CPEC projects are highly overpriced. She further stated CPEC is not aid, but instead it is a loan and other forms of financing that is non-concessional with profit guarantees for Chinese state-owned enterprises.²³ Such benefits to China will have a toll on Pakistan's economy, especially when the bulk of payments start to come due in the next four to six years.

Geo-politically, CPEC may instigate a new power competition between India and China-Pakistan in the South and Central Asia region. CPEC, especially the Gwadar project, makes India uncomfortable with fears of encirclement by China and its rival nation Pakistan. Thus, India has cooperated with Iran to counter the Gwadar strategic plan. This included the Chabahar port project. Chabahar port is in southeastern Iran, close to Gwadar port. The port is partly intended to provide an alternative trade route between India and Afghanistan, as it is 800

¹⁷ Pakistan OBSERVER, "CPEC: Social impact", <https://pakobserver.net/cpec-social-impact/> (accessed March 17, 2020)

¹⁸ *Ibid.* p.308.

¹⁹ Adomas Abromaitis, "Russia, India, Pakistan: A Love Triangle-OpEd", *Eurasia review news & analysis*, <https://www.eurasiareview.com/05122019-russia-india-pakistan-a-love-triangle-oped/> (accessed March 17, 2020)

²⁰ U.S Department of STATE, "A conversation with Ambassador Alice Wells on the China-Pakistan Economic Corridor", The Wilson Center Washington, DC(November 21, 2019), <https://www.state.gov/a-conversation-with-ambassador-alice-wells-on-the-china-pakistan-economic-corridor/> (accessed March 22, 2020)

²¹ Siegfried O. Wolf, "The China-Pakistan Economic Corridor of the Belt and Road Initiative", *Contemporary South Asian Studies*, Springer, March 2019, p.73.(Economic and Social dimensions)

²² Dr. James M. Dorsey, "Is China Engaging in Debt Trap Diplomacy?", *The BEGIN SADAT CENTER FOR STRATEGIC STUDIES*, <https://besacenter.org/perspectives-papers/china-debt-trap-diplomacy/> (accessed April 16, 2020)

²³ A conversation with ambassador Alice Wells on the China-Pakistan Economic Corridor at the Wilson center, Washington, D.C, on November 21, 2019, <https://www.state.gov/a-converstion-with-ambassador-alice-wells-on-the-china-pakistan-economic-corridor/>

kilometers closer to the border of Afghanistan than Pakistan's Karachi port.²⁴ Furthermore, this port is strategically important to connect India, Iran, Afghanistan, and Central Asia. U.S. and western nations' Iran sanctions have prevented this project from being implemented as planned. However, CPEC projects could cause competition or confrontation if stakeholders like India, Iran, and Afghanistan fear CPEC threatens their security or other national interests.

Outlook

CPEC is a controversial, long-term plan, and there are many challenges China and Pakistan must overcome. However, through CPEC, bilateral interaction will develop deeper relationships on the economic domain and the security sector. Regarding international relations, specific mechanisms for cooperation, such as CPEC, help further the relationship and achieve the countries' mutual objectives. As stated on the Pakistan government's CPEC website, CPEC is intended to mitigate many current or future problems through consulting, various levels of organizations' interaction, and engaging the full spectrum of communication.²⁵ As a result, CPEC could provide an opportunity to enhance the two countries' interactions in different domains as a mechanism for both to pursue their national interests. Furthermore, since Pakistan and China share long and continuous ties, they know each other well and have shared the same position regarding various issues such as conflicts with India.

Conclusion

CPEC is not yet complete and its impact to China and Pakistan is still uncertain. Currently, Pakistan views CPEC as a game changing opportunity more than a potential poisonous apple. Pakistan needs more reliable partners to enhance its capabilities and reduce dependency on western (specifically U.S.) allies. So far, CPEC provides the best option and Pakistan is focusing its resources into CPEC projects. CPEC is also critical for China's long-term strategic plan. China's rising as a world power is not just an ambition or dream any more, but a realistic outcome. China officially declared its so-called "Chinese Dream" to be the number one power in the world by 2049.²⁶ It has been implementing geopolitical strategic projects in many places. As a result, China has increased its influence in Central and South Asia and Africa despite criticism of China's neo-colonial role. Its unprecedented economic expansion now exerts a gravitational pull on the world economy, gathering emerging markets in its orbit.²⁷ Despite varying perspectives over China's global approach, much of it is succeeding. Clearly, China is no longer a country to be underestimated or ignored in terms of economic or military power.

Recommendations for the US/USCENTCOM

- Maintain cooperative relations with Pakistan (diplomatic, military, and economic) to support regional stability, anti-terrorism operations, economic development, and Afghanistan peace process. Constant pressure or sanctions on Pakistan may push it to depend more on China.
- Facilitate and encourage a peaceful resolution between India and Pakistan. Pakistan's security instability could deepen relations and dependence with China.

²⁴ Khesraw Omid Farooq, "Chabahar Port: A step toward connectivity for India and Afghanistan", *The DIPLOMAT*, <https://thediplomat.com/2019/07/chabahar-port-a-step-toward-connectivity-for-india-and-afghanistan/> (accessed April 16, 2020)

²⁵ CPEC, China Pakistan Economic Corridor, Government of Pakistan Web site, <http://cpec.gov.pk/> (accessed April 17, 2020)

²⁶ Robert Lawrence Kuhn, "Xi Jinping's Chinese Dream", *The New York Times*, <https://www.nytimes.com/2013/06/05/opinion/global/xi-jinpings-chinese-dream.html> (accessed April 16, 2020)

²⁷ Daniel Arays, "China's Grand Strategy", *Forbes*, <https://www.forbes.com/sites/danielaraya/2019/01/14/chinas-grand-strategy/#54f7453e1f18> (accessed April 16, 2020)

- Monitor CPEC progress and encourage Pakistan to maintain transparency and focus on CPEC's original purpose and goal (economic development), to check China's excessive influence over Pakistan.
- Reciprocate Pakistani diplomatic and economic outreach to restore the estranged relationship. Encourage Pakistan and Afghanistan to strengthen their relationship and ties (Iran has become Afghanistan's largest trade partner by maritime domain, and this could lead Iran's excessive influence over Afghanistan).