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## THE CHINA PAKISTAN ECONOMIC CORRIDOR: AN EXAMINATION OF THE BENEFITS, IMPLICATIONS AND CHALLENGES FACING PAKISTAN

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**JCSP 44**

***Exercise Solo Flight***

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OF THE BENEFITS, IMPLICATIONS AND CHALLENGES FACING  
PAKISTAN**

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## THE CHINA PAKISTAN ECONOMIC CORRIDOR: AN EXAMINATION OF THE BENEFITS, IMPLICATIONS AND CHALLENGES FACING PAKISTAN

### Introduction

The idea of a China Pakistan Economic Corridor (CPEC) was revealed by the Chinese Premier Li Keqiang in May 2013.<sup>1</sup> This was followed by the formal announcement and signing of agreements in 2015 during President Xi Jinping's visit to Pakistan.<sup>2</sup> The proposed economic corridor will connect Gwadar Port in Pakistan to the city of Kashgar in China through a network of roads, railways, and oil and gas pipelines.<sup>3</sup> Agreements include Chinese investment in Pakistan of up to US\$62 billion.<sup>4</sup> The beginning of 2018 marked the completion of the *Early Harvest Phase* of CPEC which will now be followed by industrial expansion, agriculture sector cooperation, and the timely completion of Gwadar projects.<sup>5</sup>

This essay will analyze CPEC within the context of the Chinese "Belt-Road Initiative" (BRI).<sup>6</sup> After, briefly explaining the background of the initiative, the essay will highlight the Chinese motivations and strategy behind the project, identifying where and how CPEC fits into this strategy. Regional implications of the project will be identified

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<sup>1</sup>Mehmood Hussain, Sumara Mehmood, and Noman Saeed, "SWOT Analysis of the China- Pakistan Economic Corridor (CPEC) 1," *Quarterly Journal of Chinese Studies* 5, no. 2 (2017): 42.

<sup>2</sup>Jane Perlez, "Xi Jinping Heads to Pakistan, Bearing Billions in Infrastructure Aid," *The New York Times*, 19 April 2015. <https://www.nytimes.com/2015/04/20/world/asia/chinas-president-heads-to-pakistan-with-billions-in-infrastructure-aid.html>.

<sup>3</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 42.

<sup>4</sup>*Ibid.*

<sup>5</sup>Editorial, *Pakistan Today*, 21 October 2017. <http://www.cpecinfo.com/cpec-news-detail?id=NDMwMg==>.

<sup>6</sup>Lehman Brown International Accountants, *The Belt and Road Initiative* (Beijing, 2017), 1. <https://www.lehmanbrown.com/insights-newsletter/belt-road-initiative/>. The "BRI comprises of the land based 'Silk Road Economic Belt' and the '21<sup>st</sup> Century Maritime Silk Road'. Together these will connect more than 65 countries, involve over 62% population of the world" and cater for approximately 35% trade across the world. The BRI will comprise of a network of railways, roads, and ports along with telecommunications, energy, education and healthcare facilities.

with particular focus on the domestic and foreign challenges for Pakistan during the development and post-establishment phases of the project. As a methodology of analyzing the dividends of the Chinese strategy of economic expansion using the BRI, the discussion will focus on the land and maritime aspects of CPEC, highlighting how it will secure the economic and security interests of China and Pakistan in the region.<sup>7</sup>

### **China Pakistan Economic Corridor (CPEC)**

The BRI comprises six economic corridors spanning across Asia, Europe, and Africa.<sup>8</sup> Expanding Chinese trade across the world, BRI will form the backbone to Beijing's economy.<sup>9</sup> Below, figure 1 shows the six economic corridors. Figure 2 highlights the projects included in BRI.<sup>10</sup> CPEC is the flagship project which gives China an access to the Arabian Sea and is at the centre of China's strategy behind the BRI.<sup>11</sup> Spreading from Kashgar to Gwadar, CPEC will connect the "Silk Road Economic Belt" to the "21<sup>st</sup> Century Maritime Silk Road".<sup>12</sup> These corridors are collectively called the 'One Belt One Road' or BRI.<sup>13</sup> The Gwadar deep-sea port is central to CPEC with China investing billions into its development.<sup>14</sup> Projects include; transforming Gwadar into an

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<sup>7</sup>*Ibid.* The BRI includes six international corridors which include; "(1) The China-Mongolia-Russia economic corridor, (2) The new Eurasia land Bridge, (3) China-Indochina Peninsular Economic Corridor, (4) CPEC, (5) Bangladesh-China-India-Myanmar Economic Corridor, (6) China-Central Asia-West Asia economic corridor."

<sup>8</sup>*Ibid.* The BRI will connect 65 countries, 40% of global trade and 62% of the world population.

<sup>9</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 54-55.

<sup>10</sup>Lehman Brown, *The Belt and Road Initiative . . .*, 3. According to the Chinese President Xi Jinping, "as of January 2017, over 100 countries have responded positively to the BRI, while different cooperation agreements have been signed with more than 40 countries."

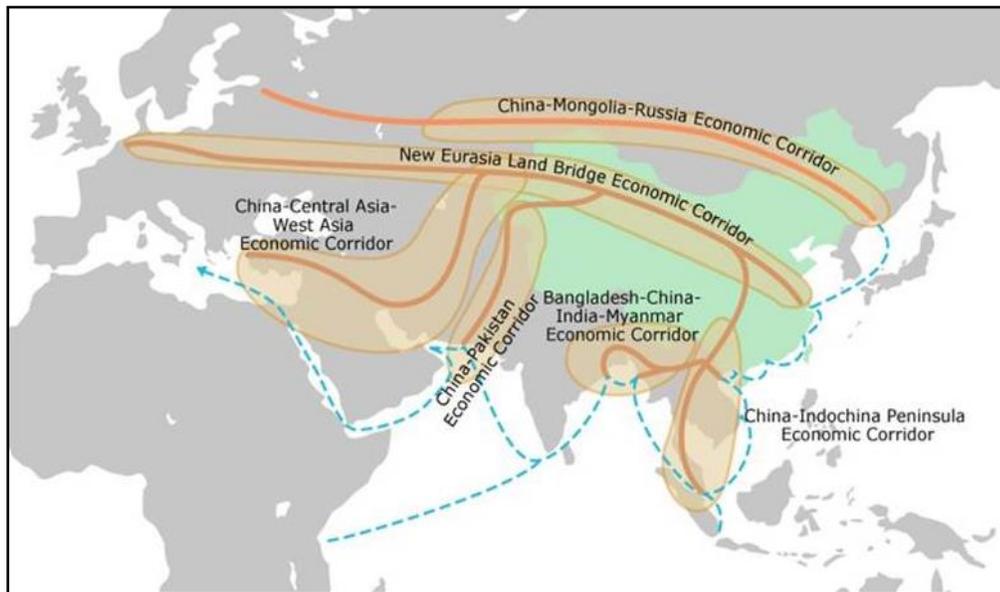
<sup>11</sup>Majid Mahmood, "China – Pakistan Economic Corridor: The Geo-Strategic Dimension and Challenges," *CISS Insight: Quarterly News & Views* (Spring 2016): 58, <http://ciss.org.pk/wp-content/uploads/2016/02/Paper-5-I.-2-3-V.-3.pdf>.

<sup>12</sup>Lehman Brown, *The Belt and Road Initiative . . .*, 3.

<sup>13</sup>Ali Haider Saleem, "CPEC and Balochistan: Prospects of Socio-political Stability," *Quarterly Journal Institute of Strategic Studies Islamabad* 37, no. 2 (Winter 2017): 119, [http://issi.org.pk/wp-content/uploads/2018/01/7-SS\\_Ali\\_Haider\\_Saleem\\_No-4\\_2017.pdf](http://issi.org.pk/wp-content/uploads/2018/01/7-SS_Ali_Haider_Saleem_No-4_2017.pdf).

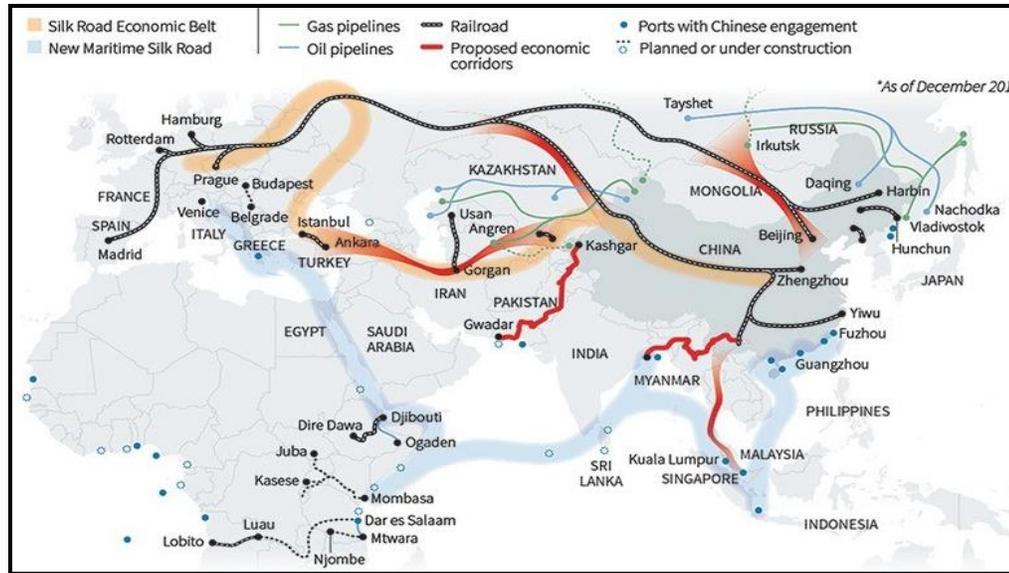
<sup>14</sup>Lehman Brown, *The Belt and Road Initiative . . .*, 3. The port is administratively managed by the Gwadar Port Authority and has been operationally handed over to "China Overseas Port Holding Company (COPHC)" under a 43 year lease agreement.

oil city with petroleum refining zones, hubs for mining, advanced manufacturing, food processing, agriculture, international airport, residential projects, and a Gwadar-Kashgar oil pipeline supporting 17% of China's oil imports.<sup>15</sup>



**Figure 1 – The BRI: Six Economic Corridors Spanning Asia, Europe, and Africa**  
 Source: Lehman Brown International Accountants, *The Belt and Road Initiative* (Beijing, 2017), 1. <https://www.lehmanbrown.com/insights-newsletter/belt-road-initiative/>.

<sup>15</sup>*Ibid.* “The conduit would provide a variety of world class transport services such as modern dry-port infrastructure, freight management, trucking, border terminals, customs clearance and an efficient logistical chain which would help expand regional trade.”



**Figure 2 – Projects Subsumed under China’s BRI**

Source: Mercator Institute for China Studies, “The Belt and Road Initiative,” <https://www.lehmanbrown.com/insights-newsletter/belt-road-initiative/>.

It is important to understand the Chinese motives behind BRI and where CPEC fits into that strategy. Subsequent discussion will identify the growing Chinese energy requirement; briefly explain their plan to secure their hydrocarbon import sources, and highlight their need of secure delivery and transportation of these energy resources.

### Strategy behind CPEC Initiative

The authoritarian rule of the Chinese Communist Party (CCP) rests largely on promise of a sustained economic growth.<sup>16</sup> To ensure its export-oriented economy does not suffer an industrial overcapacity, the CCP is investing heavily in BRI.<sup>17</sup> It is focused on growing the Chinese economy and industry which has a huge energy requirement to sustain this growth.

<sup>16</sup>Asia and the Pacific Policy Studies, “How Does China-Pakistan Economic Corridor Show the Limitations of China’s ‘One Belt One Road’ Model,” last modified 14 February 2018, <https://onlinelibrary.wiley.com/doi/abs/10.1002/app5.224>.

<sup>17</sup>*Ibid.*

During the 1980s, China was registered as an oil exporting country, but its rapid industrial expansion and economic growth in the post-cold war period converted it into an oil importing country (figure 3).<sup>18</sup> Day-by-day this energy requirement grew to surpass the domestic production leading to a significant spike in the oil imports. According to the US Energy Information Administration, “China will import over 66% of its total crude oil by 2020 and 72% by 2040 as energy demand in China is expected to increase faster than domestic crude production.”<sup>19</sup> China’s long-term energy strategy to ensure an uninterrupted energy supply to its industries, involves diversifying its oil import sources to secure this supply from any geopolitical uncertainties.<sup>20</sup> To secure the critical transportation hubs, supply lines, and shorten the shipping routes, China is constructing new ports, roads, and rail infrastructure, while upgrading the existing ones.<sup>21</sup> Gwadar Port is a crucial link in China’s CPEC strategy to expand its crude oil imports from the Persian Gulf and the Middle East.<sup>22</sup>

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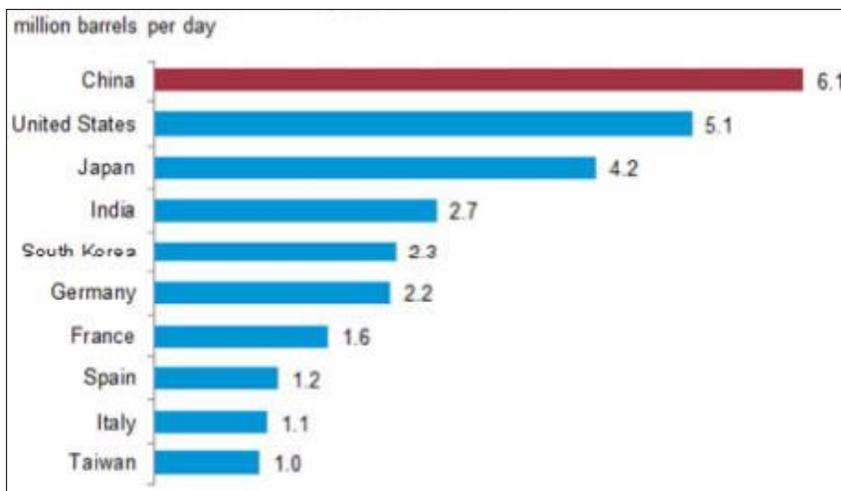
<sup>18</sup>Inayat Kalim, "China Pakistan Economic Corridor – A Geo-Economic Masterstroke of China", *South Asian Studies* 32, no. 2 (2017): 464.

<sup>19</sup>Energy Information Administration, China: International energy data and analysis . . .

<sup>20</sup>Kalim, China Pakistan Economic Corridor – A Geo-Economic . . ., 462. China has financial deals for importing oil from “Saudia Arabia, Kazakhstan, Venezuela, Brazil, Ecuador, Bolivia, Angola, Ghana, Libya, and Iran. The security of its energy resources implies security of ports, pipelines, and areas for energy transportation.”

<sup>21</sup>*Ibid.*, 464.

<sup>22</sup>*Ibid.*



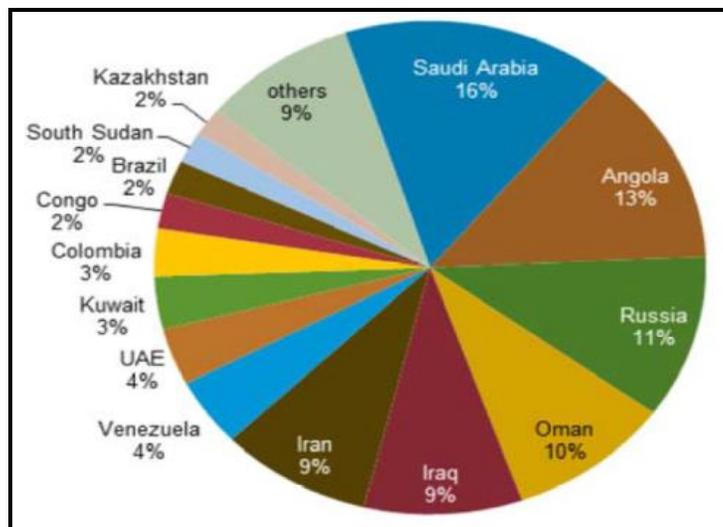
**Figure 3 – Comparison of World’s Top Ten Annual Net Oil Importers**  
 Source: Energy Information Administration, “China: International energy data and analysis,” last accessed 5 April 2018,  
<https://www.eia.gov/beta/international/country.cfm?iso=CHN>.

### **Where does CPEC Fit into the Chinese Strategy?**

The Persian Gulf has 62% of the world’s oil and approximately 40% of the global gas reserves, making it one of the most strategic regions in the world.<sup>23</sup> In addition to the huge oil imports from the Persian Gulf region, the abundant energy reserves in the Middle East and their associated low cost of exploitation has made them a lucrative source of investment for China.<sup>24</sup> Figure 4 shows major sources of China’s crude oil imports.

<sup>23</sup>*Ibid.*, 465. Saudi Arabia and Iran are the predominant exporters of oil to China in the Persian Gulf.

<sup>24</sup>*Ibid.*



**Figure 4-China's Oil Imports by Source, 2014**

Source: Energy Information Administration, China: International Energy Data and Analysis," last accessed 5 April 2018,  
<https://www.eia.gov/beta/international/country.cfm?iso=CHN>.

China's dependence on hydrocarbon and rising energy requirements has pushed it to safeguard its vital supply of oil, about 85% of which passes through the Indian Ocean to the Chinese Pacific Ocean Ports.<sup>25</sup> Beijing considers the narrow transport sea lines of communication (SLOC) around Malacca as a critical vulnerability that could be exploited by its adversaries.<sup>26</sup> Any blockage of the *Malacca Strait* would lead to a severe impact to the Chinese economy.<sup>27</sup> Through CPEC, China will decrease this potential vulnerability to any disruption (i.e., closure of Malacca strait), create a shorter alternative supply route and maintain presence in the Indian Ocean to observe Indian and US naval activities in

<sup>25</sup>Abraham Denmark and Nirav Patel, "China's Arrival: A Strategic Framework for a Global Relationship," *Centre for a New American Security*, (Autumn 2009): 49,  
[https://lbj.utexas.edu/sites/default/files/file/news/CNAS%20China%27s%20Arrival\\_Final%20Report-3.pdf](https://lbj.utexas.edu/sites/default/files/file/news/CNAS%20China%27s%20Arrival_Final%20Report-3.pdf).

<sup>26</sup>You Ji, "Dealing with the Malacca Dilemma: China's Effort to Protect its Energy Supply," *Strategic Analysis* 31, no. 3 (2007): 467.

<sup>27</sup>*Ibid.* As such, Beijing considers safeguarded energy transportation, crucial to its national security.

the region.<sup>28</sup> CPEC also provides an immense logistical benefit by reducing the transportation distance from 16,000 kms to only 2,500 kms between the Persian Gulf and China's industrial mainland.<sup>29</sup> This reduced distance would also facilitate the Chinese business and economic activity across the globe.

## **IMPACT OF CPEC ON CHINA, PAKISTAN, AND THE REGION**

Economic corridors (ECs) create domestic, regional, and global value chains that connect economic zones.<sup>30</sup> An EC is not merely a passage for sharing services, transit of goods, and people, but also functions as a hub for high tech industries and export oriented zones that result in multi-sectoral spillover effects.<sup>31</sup> To understand impact of CPEC on China, Pakistan and the region, it is prudent to analyze the multifarious benefits accrued by various states through these projects.

### **Benefits of CPEC for Pakistan**

From a geo-strategic perspective, the location of Pakistan at the juncture of "Central and West Asia, the Persian Gulf, and the Middle East" is significant for regional connectivity, which CPEC capitalizes upon.<sup>32</sup> It consists of several projects related to infrastructure, energy, trade, financial cooperation, agriculture, healthcare, educational linkages, tourism, and clean drinking water etcetera.<sup>33</sup> Considering its immense

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<sup>28</sup>Kalim, China Pakistan Economic Corridor – A Geo-Economic . . . , 467.

<sup>29</sup>Senge H. Sering, *Expansion of the Karakoram Corridor: Implications and Prospects* (New Delhi: Lancers Books, 2012), 6. "The Shanghai port is almost 16,000 km far from the industrial zone of China and trade through sea takes months and costs heavily in terms of taxes and duties. Gwadar port is a hot waters port and can be used whole year and is closer to China just at a distance of 2,500 km and 1,500 km from Kashgar economic zone from Chinese border."

<sup>30</sup>Mario Esteban, "The China-Pakistan Corridor: A Transit, Economic or Development Corridor?" *Elanco Royal Institute ARI 53/2016* (Spring 2016): 69, [http://www.realinstitutoelcano.org/wps/portal/web/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development](http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development).

<sup>31</sup>*Ibid.* Unlike transit corridors, ECs are specifically designed to stimulate economic development.

<sup>32</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 44.

<sup>33</sup>*Ibid.*

dividends, Prime Minister Nawaz Sharif referred to CPEC as a “game changer” for Pakistan and the region as a whole.<sup>34</sup>

The project will generate thousands of new jobs, encourage foreign investment, and spark economic activity, which had been seriously affected in the past decade due to the volatile security situation.<sup>35</sup> CPEC will add to and improve the logistic infrastructure in Pakistan and address the existing energy deficit by adding roughly 17,000 MW of electricity to the national grid.<sup>36</sup> Travel and transportation will be significantly improved allowing quick movement across the country.<sup>37</sup> Approximately 36% of CPEC funding will go towards improvement of infrastructure, transport, and communication.<sup>38</sup> At completion, CPEC has the potential to transform Pakistan into an emerging economic power with modern technological prowess and industrialization.<sup>39</sup>

### **Significance of Gwadar Port**

Located at the juncture of international oil trade routes and sea shipping, the Gwadar Port connects three regions – Central Asia, West Asia, and South Asia.<sup>40</sup> Inaugurated in 2007, the Gwadar Port is already operational for commercial shipping.<sup>41</sup> The Port will enable Pakistan to monitor the SLOCs originating from the Strait of

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<sup>34</sup>Esteban, *The China-Pakistan Corridor: a transit, economic . . .*, 63. It is not just one road or rail project but is a comprehensive undertaking that spreads all over Pakistan from South to North.

<sup>35</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 45.

<sup>36</sup>*Ibid.*, 43.

<sup>37</sup>Sering, *Expansion of the Karakoram Corridor . . .*, 12.

<sup>38</sup>Esteban, *The China-Pakistan Corridor: a transit, economic . . .*, 63. The improved connectivity will create new development opportunities for Pakistan since the existing deficiencies in transport sector cost 4 – 6 percent of GDP every year.

<sup>39</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 45.

<sup>40</sup>Ms Portia B. Conrad, "China's Access to Gwadar Port: Strategic Implications and Options for India," *Maritime Affairs: Journal of the National Maritime Foundation of India* 13, no. 1 (2017): 56.

<sup>41</sup>Institute of Strategic Studies Islamabad, “CPEC: Gwadar Port Becomes Operational for Container Vessels,” last accessed 23 April 2018, [http://issi.org.pk/wp-content/uploads/2018/03/IB\\_Neelum\\_March\\_27\\_2018.pdf](http://issi.org.pk/wp-content/uploads/2018/03/IB_Neelum_March_27_2018.pdf). On 7 March, 2018 first commercial shipment was sent from Gwadar to Dubai’s Jebel Ali Port in UAE. A commercial cargo ship will leave for different countries each week allowing traders from Pakistan and Central Asia to sell products across the globe.

Hormuz and the oil-rich Persian Gulf.<sup>42</sup> It will provide strategic leverage to Pakistan vis-à-vis India, as the port is far from Indian reach as compared to the other main ports of Karachi and Qasim.<sup>43</sup> It will also pave the way for greater cooperation between Pakistan's Navy and the People's Liberation Army (PLA) Navy.<sup>44</sup>

Gwadar will increase cooperation between Pakistan and other oil and energy-rich countries in the region (e.g., Central Asian States). Besides being a corridor for trade, the port could potentially generate at least two million jobs in Balochistan alone.<sup>45</sup> In addition, the projects associated with Gwadar in Balochistan would improve the living conditions of the local populace by upgradation of schools and hospitals, particularly in and around Gwadar, development of the Gwadar Smart Port City, travel convenience through construction of expressways, and establishment of power plants.<sup>46</sup> It would strengthen Pakistan's economy by increasing trade, tourism, hotel industry, and state revenue.<sup>47</sup>

### **Benefits of CPEC for China**

China's main interest in developing CPEC is to diversify its oil imports, safeguard its oil supply routes, while consolidating its relationship between the two countries through large-scale collaborative economic development projects.<sup>48</sup> The project will provide China with the shortest and safest route to the Indian Ocean while opening a new

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<sup>42</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications* . . . , 56. The port is situated 605 kms "east of the world's biggest energy choke point – Straits of Hormuz. Nearly 20% of the world's traded oil and 77 percent headed towards Asia – Pacific pass through the Straits every day."

<sup>43</sup>*Ibid.*

<sup>44</sup>Institute of Strategic Studies Islamabad, "Gwadar: Balance in Transition," last modified 13 March 2018, <http://www.issi.org.pk/report-book-launch-on-gwadar-balance-in-transition/>.

<sup>45</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications* . . . , 56.

<sup>46</sup>Institute of Strategic Studies Islamabad, *Gwadar: Balance in Transition* . . . . Balochistan ranks second amongst all the provinces in its share of CPEC related investment.

<sup>47</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications* . . . , 56.

<sup>48</sup>Ziad Haider, "Baluchis, Beijing, and Pakistan's Gwadar Port." *Georgetown Journal of International Affairs* 6, no. 1 (2005): 98.

energy corridor in the Middle East and beyond.<sup>49</sup> Through CPEC, China would drastically cut down the distance to the nearest port for its westernmost provinces assisting its trade, commerce, and energy imports.<sup>50</sup> Strategically, through a listening post in Gwadar, the PLA Navy can better monitor the Asia-Pacific region and can divert the crude oil supplies from the potential choke points such as Malacca strait to an overland route.<sup>51</sup>

### **Regional Benefits of CPEC**

Asia has the highest number of landlocked countries that have difficult and expensive access to the sea.<sup>52</sup> Gwadar bears great significance for such regional states e.g., Turkmenistan and Kazakhstan possess large volumes of oil and gas, but being landlocked nations cannot benefit from their natural resources.<sup>53</sup> Projects to transport oil and gas from these countries through pipelines to Gwadar and subsequently to the rest of the world are now underway.<sup>54</sup> Tajikistan has also officially shown its interest in CPEC.<sup>55</sup> While energy import projects from Tajikistan (i.e., Central Asia South Asia (CASA-1000)) are already under development, it is attempting inclusion into the Quadrilateral Traffic in Transit Agreement (QTTA).<sup>56</sup> China has revived the QTTA to further tap the

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<sup>49</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 43. The short route to the Indian Ocean will facilitate Chinese trade and commerce, oil and gas import, and naval activities.

<sup>50</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications . . .*, 56. China's western province Kashgar is 4,500 kms away "from the Shanghai port, whereas the Gwadar Port is only 2,800 km away" from it.

<sup>51</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 44.

<sup>52</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications . . .*, 56.

<sup>53</sup>*Ibid.*

<sup>54</sup>*Ibid.* Turkmenistan, Afghanistan, Pakistan, India (TAPI) pipeline is already under construction and is likely to complete by 2020. It would link Turkmenistan to sea through the Gwadar port.

<sup>55</sup>Institute of Strategic Studies Islamabad, "Delegation from the Republic of Tajikistan," last modified 6 April 2018, <http://www.issi.org.pk/report-in-house-meeting-with-delegation-from-the-republic-of-tajikistan/>.

<sup>56</sup>Zafaq Bhutta, "Tajikistan to Join Pakistan Road Link bypassing Afghanistan," *The Express Tribune*, 24 February 2017. Through the CASA-1000 project, Pakistan will import 1300 MW of electricity from Tajikistan and Kyrgyzstan during summer months of May – September. The QTTA is a "deal between

potential of CPEC.<sup>57</sup> The QTTA, if materialized, will provide safe passage to traders from both Pakistan and Tajikistan while entirely bypassing Afghanistan.<sup>58</sup>

Through an offer of tax-free investment and trade, Gwadar is also attracting large foreign investment.<sup>59</sup> Iran has expressed its strong interest and willingness to join the project.<sup>60</sup> Numerous international companies have shown interest in infrastructure and industry development in the area.<sup>61</sup> Apart from bilateral connectivity, CPEC will also integrate Iran, Afghanistan, India, and the Central Asian Republics.<sup>62</sup>

## **CHALLENGES FOR PAKISTAN**

To fully benefit from CPEC, it is important for Pakistan to identify and address the challenges it confronts in development and post-completion phase of the project. Some of the major challenges include the domestic security situation, weak governance, ethnic strife, corruption and associated lack of transparency in managing funds, lack of consensus amongst provinces on proposed routes and location of various economic zones, geographical obstacles, and weakness of the Gwadar Port with regard to generating potential economic incentives.<sup>63</sup>

### **Creation of a Stable and Secure Environment within Pakistan**

Economic development hinges on stable, secure, and conducive environment within a country. Post 9/11, Pakistan has been combating insurgency, terrorism,

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China, Pakistan, Kyrgyzstan and Kazakhstan for facilitating transit traffic and trade.” It is a land route which can link these countries through road and rail networks while bypassing Afghanistan.

<sup>57</sup>*Ibid.*

<sup>58</sup>*Ibid.*

<sup>59</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications . . .*, 56.

<sup>60</sup>Institute of Strategic Studies Islamabad, “70 Years of Pakistan-Iran Relations and Future Prospects,” last modified 12 March 2018, <http://issi.org.pk/report-public-talk-on-70-years-of-pakistan-iran-relations-and-future-prospects/>.

<sup>61</sup>Conrad, *China's Access to Gwadar Port: Strategic Implications . . .*, 56. “Shell wants to set up a mega oil refinery in the area, and the UAE has committed to invest US\$ 30 billion, with a further understanding of US\$ 60 billion to build hotels, resorts and recreation centers in Gwadar.”

<sup>62</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 45.

<sup>63</sup>*Ibid.*, 42.

feudalism, and secessionist groups that had created instability within the country deflecting any foreign investment.<sup>64</sup> The arc of militancy comprising numerous terrorist and separatist groups stretched from Xinjiang in China to Gwadar in Pakistan.<sup>65</sup> Through a deliberate whole-of-government effort including successful military operations, terrorist hideouts within Pakistan have been destroyed, state institutions have started functioning and a state of normalcy is returning to the areas previously infested by terrorists.<sup>66</sup> To capitalize on the gains of these successes, a country-wide comprehensive counterterrorism operation called “Zarb-e-Azab” was launched in 2013 under a new “National Action Plan”.<sup>67</sup> Despite these successes, security of Chinese and other foreign engineers working in Pakistan remains a matter of concern. As an additional safety measure, Pakistan has raised a “Special Security Division” to safeguard the 3,000 km long EC and the foreign engineers.<sup>68</sup>

### **Socio-Political Stability in Balochistan Province**

Success of CPEC is largely dependent on the socio-political stability in Balochistan. Considering the significance and magnitude of development in the area, an understanding of the operating environment in Balochistan is necessary. Although the security threat related to terrorist movements, hideouts, and actions has largely been dealt with, nevertheless, few challenges still remain and merit further focus. Non-inclusive policies by the state, fragmented political structure, negligence of national leadership to

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<sup>64</sup>*Ibid.*, 46.

<sup>65</sup>*Ibid.*, 47.

<sup>66</sup>Mateen Haider, “Operations to Continue till Pakistan is Terror Free, says General Raheel,” *Dawn*, 3 July 2015. <https://www.dawn.com/news/1192103>.

<sup>67</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 46. Nationwide intelligence based operations are being conducted to identify and apprehend the terrorist remnants hiding amongst the population along with their supporters, sympathizers, and financiers.

<sup>68</sup>Mahmood, *China – Pakistan Economic Corridor . . .*, 60. The special security division would comprise approx. 15,000 troops. It would also assist in preventing the occasional targeting of Chinese nationals working in Pakistan.

address the concerns of the local populace has kept the province under developed.<sup>69</sup> Despite being the largest province with abundant natural resources, the province is the least developed in the entire country, which has led to numerous local uprisings in the past.<sup>70</sup> Corruption, poverty, unemployment, vast resource extraction, and limited resource sharing by the Federal Government have been identified as the main contributors behind local discontent.<sup>71</sup> While the government initiatives like the “Khushhal Balochistan Project”, special reforms to alleviate poverty, and financial incentives have significantly addressed the local concerns, CPEC, if executed correctly, will be instrumental in further consolidating these efforts.<sup>72</sup>

Various speculations also exist over planned routes of CPEC and less share of Balochistan in the project.<sup>73</sup> While release of CPEC’s long-term plan (LTP) has addressed the issue significantly, the minimum information sharing policy by the government has created some public mistrust particularly in Balochistan.<sup>74</sup> Concrete

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<sup>69</sup>Saleem, *CPEC and Balochistan* . . . , 120.

<sup>70</sup>*Ibid.*, 121. Balochistan contributes over 40% to the country’s energy requirement in the form of coal, natural gas, and electricity.

<sup>71</sup>*Ibid.*, 122.

<sup>72</sup>*Ibid.*, 123; Muhammad Zafar, “Army chief launches major initiative for Balochistan,” *The Express Tribune*, 8 May 2018. <https://tribune.com.pk/story/1566367/1-coas-launches-khushhal-balochistan-project-quetta/>. Since 2002, the developments in Gwadar alone have spurred significant economic activity in the province. The establishment of Special Economic Zones, improved connectivity through road and rail networks, construction of schools and hospitals, and creation of job opportunities have addressed the issue significantly. Khushhal Balochistan Project is “aimed at enduring stability through socioeconomic development and security in the province.”

<sup>73</sup>Hassan Khawar, “CPEC: Western Route and Balochistan,” *The Express Tribune*, 13 March 2018. <https://tribune.com.pk/story/1658041/6-cpec-western-route-balochistan/>. There are three main routes of the CPEC i.e., Eastern, Central and the Western routes. The Western route running across the KP and Balochistan provinces has largely been the subject of debate. The Western route is divided into four parts, two have been completed and two are under development.

<sup>74</sup>*Ibid.* The LTP has clarified that Balochistan ranks overall second amongst all provinces in the CPEC related investment and that Balochistan in general and Gwadar in particular is linchpin of the CPEC. It also highlights the construction of additional highways linking Quetta, Khuzdar and remaining major cities in Balochistan with Gwadar and the remaining provincial economic zones in the country. Some of these projects have already been completed reducing the initial travel time of two days from Quetta to Gwadar to only eight hours.

efforts by the federal government are essential to remove such speculations since a peaceful and prosperous Balochistan is essential to CPEC's success.

The ethno-sectarian fault lines are also fragile in Balochistan resulting in random conflicts.<sup>75</sup> Lastly, disturbances caused by various criminal elements still occur occasionally in Balochistan along the Pakistan-Iran border.<sup>76</sup> Both countries are cooperating to ensure better border management mechanisms to address such issues.<sup>77</sup>

### **Economic and Institutional Challenges**

Notwithstanding its massive prospective dividends, few unhealthy trends have also surfaced from this multibillion dollar investment in Pakistan.<sup>78</sup> Institutional laxities such as lack of transparency, corruption, and flawed policy-making have become major challenges. There exists a debate that Beijing has successfully struck deals that favour Chinese contractors at the expense of Pakistan's investors.<sup>79</sup> Chinese businessmen have a history of bribing government officials in African states such as Chad and Uganda to gain contracts.<sup>80</sup> A handful of government officials running the entire project in Pakistan have often given in to the Chinese demands, asking local organizations to accommodate the Chinese firms, which has led to similar accusations of bribery and resentment amongst different institutions.<sup>81</sup>

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<sup>75</sup>K.Iqbal, "CPEC and the Baluchistan Factor," *The Nation*, 25 May 2015. <https://nation.com.pk/25-May-2015/cpec-and-the-baluchistan-factor>. Various conflicts based on the Shia-Sunni divide and Baloch ethnicity sometimes occur in Balochistan.

<sup>76</sup>Institute of Strategic Studies Islamabad, *70 Years of Pakistan-Iran Relations* . . .

<sup>77</sup>*Ibid.*

<sup>78</sup>Asia and the Pacific Policy Studies, *How Does China-Pakistan Economic* . . .

<sup>79</sup>*Ibid.* Chinese contractors will receive tax exemptions for various CPEC related imports from China which will place the local investors in Pakistan at a disadvantage.

<sup>80</sup>Mohammad Zargham and Eric Beech, "U.S. Charges Two with Bribing African Officials for China Energy Firm," *Reuters*, 20 November 2017. <https://www.reuters.com/article/us-usa-china-corruption/u-s-charges-two-with-bribing-african-officials-for-china-energy-firm-idUSKBN1DK2Q6>.

<sup>81</sup>*Ibid.* For example the local government has repeatedly pressurized the National Electric Power Regulatory Authority to adjust to the high tariff price demanded by the Chinese firms. This will result in higher prices for the consumers.

Despite release of CPEC's long-term plan, the transparency question on project management and funds utilization still remains.<sup>82</sup> There is strong requirement of a long-term policy that supports the national institutions, local investors, and ensures CPEC related investment does not strain Pakistan's institutions and economy in the long-run.

### **Geographical and Meteorological Challenges**

Obstacles like mountainous terrain, heavy snowfall, and landslides pose a major challenge to functioning of CPEC. The Karakoram Highway, joining northern Pakistan to China, passes through the Himalayas and remains closed for all traffic at the Khunjab Pass (15,000 ft) due to snow from December to April.<sup>83</sup> Keeping the Karakoram Highway functional during winter is a major challenge. The Gwadar-Kashgar Pipeline also requires expertise to overcome the technical issues associated with operating in mountainous terrain.<sup>84</sup>

### **Impact of Regional Geopolitics**

The success of CPEC is also closely interlinked with the regional geopolitics in South-Asia. India's stance on the project in particular and the stabilisation of Afghanistan are the major regional concerns. In 2015, Indian Prime Minister Narendra Modi criticised the project as "unacceptable" based mainly on reservations related to the projects crossing Gilgit-Baltistan, declaring it part of the disputed territory of Kashmir.<sup>85</sup> India is also sceptical about the implications of China's access to Indian Ocean and how it might

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<sup>82</sup>Editorial, *Dawn*, 14 July 2017. <https://www.dawn.com/news/1345181>. A small group of government officials are finalizing all the deals on behalf of the country. The nature of funding (the amount of grants, commercial, and soft loans), number of projects, and the type of investment etcetera are not being made public in true sense. Apart from the public, numerous state institutions are also asking for the details to generate clarity and transparency but are mostly being kept in the dark.

<sup>83</sup>Hussain, Mehmood, and Saeed, *SWOT Analysis of the China- Pakistan . . .*, 51.

<sup>84</sup>Lehman Brown, *The Belt and Road Initiative . . .*, 3.

<sup>85</sup>Esteban, *The China-Pakistan Corridor: a transit, economic . . .*, 65.

affect its security and strategic interests.<sup>86</sup> Several quarters in Pakistan believe that such misgivings have even led to cooperation between Indian security agencies and the criminal networks in Pakistan, especially in wake of the arrest in Balochistan of an Indian officer of the Research and Analysis Wing in 2016.<sup>87</sup>

Another regional challenge is that of Iran feeling concerned over Gwadar being a rival to its Chabahar port. Pakistan is making efforts to alleviate these concerns through deliberate discussions and by reassuring Tehran that the Chabahar and Gwadar ports will complement rather than compete with each other.<sup>88</sup> Although both states have declared these as sister ports, tangible areas of complementarity and inter-operability have yet to be identified.<sup>89</sup>

Pakistan also has concerns over the Iran-India deal on Iranian “Shahid Beheshti Port”, which allows India to equip and operate two berths in the Chabahar Port.<sup>90</sup> In addition to such concerns, success of the Gwadar and Chabahar Ports (figure 5) is also dependent on stability in Afghanistan.<sup>91</sup> If Kabul remains unable to ensure a safe passage for goods in transit from the regional states, trade is not likely to surge, thereby negating the purpose of these ports.<sup>92</sup> This also explains the Chinese decision to participate in a

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<sup>86</sup>*Ibid.*, 65-66.

<sup>87</sup>*Ibid.*, 66.

<sup>88</sup>Institute of Strategic Studies Islamabad, *Gwadar: Balance in Transition* . . .

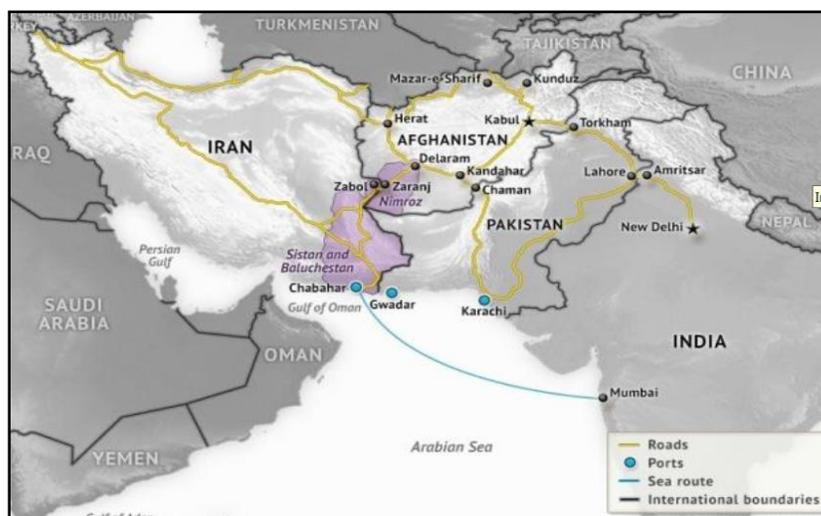
<sup>89</sup>Institute of Strategic Studies Islamabad, *70 Years of Pakistan-Iran Relations* . . .

<sup>90</sup>Institute of Strategic Studies Islamabad, “Indian Access to Chabahar and Duqm: Challenges for Pakistan,” last modified 16 March 2018, <http://issi.org.pk/issue-brief-on-indian-access-to-chabahar-and-duqm-challenges-for-pakistan/>. The deal allows India to fulfill its strategic purposes, and also caters its economic and energy needs. The Chabahar port is located on top of Farzad gas field in the Parsi block. Through this deal, India will be able to carry out trade with Iran at a one day travel time (27 hours) while avoiding Pakistan’s coast.

<sup>91</sup>*Ibid.*

<sup>92</sup>*Ibid.*

“joint effort with the governments of the US, Pakistan, and Afghanistan to revive the Afghan peace process.”<sup>93</sup>



**Figure 5 – Location of Gwadar Port and Iranian Chabahar Port**

Source: Institute of Strategic Studies Islamabad, “*Indian Access to Chabahar and Duqm*,” <http://issi.org.pk/issue-brief-on-indian-access-to-chabahar-and-duqm-challenges-for-pakistan/>.

The massive economic and development prospects of CPEC are contingent to its actual implementation, which faces serious obstacles. The scope of the paper does not allow deliberation on all these challenges; however, a few significant ones have been covered in the discussion. The issues confronting Pakistan merit deliberate efforts and careful policy planning. Institutional improvements, social development initiatives, control over corruption, and better state infrastructure to cope with these challenges are necessary requirements for stability and efficient management of foreign investment. The government of Pakistan must remember that despite its numerous benefits, CPEC is not a stand-alone remedy to all its problems, but is an opportunity to augment its state and

<sup>93</sup>Esteban, *The China-Pakistan Corridor: a transit, economic . . .*, 67.

nation building efforts.<sup>94</sup> Without addressing these challenges CPEC will not yield the desired productivity and might become just a transit corridor to accomplish Chinese strategic goals with limited output for Pakistan.

### **Conclusion**

The CPEC has opened up vast opportunities for accelerated development not just for Pakistan but for the entire region. Through CPEC, Beijing will secure its energy requirements and expand socio-economic development of its masses by improving connection with the rest of the world.<sup>95</sup> The project provides excellent opportunities to improve the security situation and to spur economic growth in Pakistan and its neighboring countries. Therefore, it is not surprising that all the regional countries are expressing interest to become a part of this venture. To achieve the full potential of CPEC, it is important for Pakistan to address the numerous challenges as highlighted in the discussion. It must be realized that infrastructure development alone cannot support the long-term progress perceived through CPEC and would merit adequate policy measures. A mere transit corridor for Chinese goods would have no potential for socio-economic development in Pakistan. Islamabad has finally turned a page in terms of terrorism and regional integration and the Chinese investment is a way of sending that message. It is the right time for Pakistan to formulate a comprehensive plan to address the existing challenges, take measures to encourage foreign investment, and formulate a long-term policy to benefit from this lucrative venture.

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<sup>94</sup>Saleem, *CPEC and Balochistan* . . . , 132.

<sup>95</sup>Saleem, *CPEC and Balochistan* . . . , 118.

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