Gwadar International Airport

CPEC: Unfulfilled Promise

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The China-Pakistan Economic Corridor (CPEC), launched in 2015 under China's Belt and Road Initiative (BRI), stands as a cornerstone of the enduring Pakistan-China partnership. More than just an infrastructure project, CPEC symbolizes deep economic, cultural, and strategic cooperation between the two nations. As we mark a decade of CPEC, there is much to celebrate in terms of progress and development. However, the journey ahead remains crucial in realizing its full potential. To discuss the achievements of the past ten years and the government's vision for the next phase—CPEC 2.0—we are honored to have with us Federal Minister for Planning, Development & Special Initiatives, Mr. Ahsan Iqbal, who will share his insights on maximizing the corridor's long-term benefits for Pakistan.

CPEC OVERVIEW

The CPEC framework launched in 2014 and subsequent additions to it make it the biggest economic opportunity to come Pakistan's way in decades. CPEC includes infrastructure loans to link Pakistan and China, including a sea port and airport in the south in Gwadar, Balochistan; freeways all the way up to Khunjerab Pass in the north in Gilgit-Baltistan (GB) at the Chinese border; and the upgrading of Pakistan's main railway line from Karachi, Sindh to Peshawar, Khyber-Pakhtunkhwa (KP). A second component covers investment in power plans to help it overcome its long-standing electricity shortage. The third major component includes the establishment of nine Special Economic Zones nationally through Chinese investment. There are other miscellaneous components such as a railway line in Lahore, Punjab, tourism infrastructure etc. (GOP, 2017). Finally, there has also been much talk about the involvement of other countries in CPEC, such as Iran, Turkey, Afghanistan, Central Asia and Gulf states (Sakeena, 2022). CPEC was initially projected to cost US$46 billion from 2015 to 2030, of which 71 percent was to be invested in energy, 4 percent in the Gwadar port, 8 percent in rail, 13 percent in road links and 4% in other miscellaneous projects (McCartney, 2018). The amount was later increased to $62 billion in 2017[1].

This scope and size of CPEC gave it the potential to lead an infrastructure-led transformational economic change in Pakistan like that produced in many countries earlier such as UK, USA, Germany, India and Mexico (McCartney, 2018). The close proximity to, major investment by and deepening of economic linkages with a global

[1] Salman Siddiqui, "CPEC Investment Pushed from $55b to $62b," Express Tribune, April 4, 2017, <https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/

economic superpower enhanced CPEC' potential in the same way as close ties with USA provided the opportunity for economic development in East Asian countries. The potential included financial, managerial and technical inputs from China into Pakistan's governance, infrastructure and industry; sub-contractual, imitation, skills acquisition and spin-off linkages with China's industries; and becoming part of and contributing to China's huge trade with countries to its west (Khan, 2022). Given Pakistan's development challenges, the key end expectations from these CPEC inputs were as follows: i) Rapid industrial and exports growth, ii) Creation of employment[2], and iii) Equitable growth to overcome regional disparities, and iv) Environmental sustainability given climate change challenges. However, the fact that such faraway countries were able to develop much more rapidly through their ties with USA than countries like Mexico, Turkey and East Europe that were neighbors to USA and European Union also highlighted the importance of the economic, political and managerial capacities of the recipient country in transforming the opportunity into reality.

EMERGING PROBLEMS

Ten years later today, this lack of capacity has clearly undermined the transformational potential of CPEC. A number of factors have contributed to this outcome. The most important factors have been the failure of successive Pakistani governments to develop a strategic and dynamic vision, mobilize adequate capacities to implement it and undertake deep-seated reforms to remove bottlenecks. From its inception, the project has lacked a clear vision and sequencing. Thus, there was not one integrated CPEC but actually two unconnected ones. The actual China Pakistan Economic Corridor, consisting of mainly loans and smaller grants for port, road and railway linkages between Pakistan and China, was only 25% of the total. The China Pakistan Electricity Cooperation consisting of investment in power plants was 75% of the total which could only contribute to the economic corridor if they fed old and new SEZ industries whose outputs traveled on the corridor to China or Gwadar port along with Chinese exports to the west. However, neither of that has happened much. The Gwadar port and SEZs, which carried the most potential in terms of upgrading Pakistan's industry and exports, are still largely inactive. This means that there is little export earnings from CPEC to compensate for the heavy machinery and other imports, profit repatriation and loan repayments, thus aggravating Pakistan's balance of payment situation. The power plants have created jobs and reduce power shortages but are expensive for consumers in comparison to regional South Asian electricity rates; are environmentally damaging due to the heavy use of coal in many plants; and have provided little compensating export earnings. The freeways have made travel easier but not added economic value or exports earnings to pay off the foreign loans.

China's shifting plans and calculations and inadequate investment have aggravated the situation. While it is widely reported that China sees CPEC as the crown jewel and role model of its larger One Road, One Belt (OBOR) strategy, its actual plans and investments have lagged far behind. In hindsight, it is unclear whether it really saw the Gwadar-Khunjerab corridor as an immediate alternative route for any significant proportion of its westwards trade or more as a Plan B in case its main sea trading routes through the Malacca Strait got blocked by the US or tensions with its neighbors. Clearly, sea transportation is often cheaper and even faster than land and rail routes. In the case of Gwadar—Khunjerab route, these costs and time issues are further exacerbated by the mountainous nature of Khunjerab pass which remains closed for several weeks during winter. China's plans to shift part of its industry to Pakistan as its labor costs increase have been hampered by Pakistan's failure to overcome its security issues and bureaucratic inertia and fast-track Chinese investments in SEZ and the presence of other better destination countries such as Vietnam which provide better security, infrastructure and speed. China and Pakistan are each other's only all-weather friends and both countries have varying conflicts from almost all their other neighbors. However, against this background, Chinese aid to Pakistan is far smaller than USA's aid to its most strategic allies in Europe, East Asia and Middle-east whom the USA provided huge amounts of aid, investment, technology and open access to its large markets, running large trade deficits with them for long. In contrast, Pakistan faces much disadvantage in accessing Chinese markets for its export under the China-Pakistan trade agreements and runs consistent large trade deficits (Chaudhry, et. Al., 2017).

Internal complaints from smaller provinces about their inadequate share in CPEC have further compounded its smooth implementation. The federal government of Nawaz Sharif billed the CPEC as benefitting the whole of Pakistan. However, this was questioned by the leaders of the socio-economically backward Balochistan and KP Provinces and GB region. There are also tensions between the decentralizing provisions in the 2010 18th Amendment to the Pakistan Constitution and the centralized nature of the CPEC, driven partially by the demands of the Chinese government for one central authority to deal with and rapid

[2] CPEC was seen to have a potential to create a total of 1.2 million direct jobs through its initially agreed projects (Rashid, et. al, CPEC Working Papers #21.

implementation. The Council of Common Interests (CCI) is the key Pakistani state institution for settling disputes between the provinces and the federal government, including on electricity, railways, ports, national planning, and national economic coordination. However, the absence of discussion on the CPEC there is revealed by repeated provincial calls to give the CCI a more central role in CPEC issues The initial plan for the CPEC roads network prioritized the less developed provinces, Balochistan and KP, since travel through these regions would also significantly shorten the route from Gwadar to the Karakoram Highway. However, priority was later given to road networks that were already well developed and lay in Sindh and Punjab, partly due to Chinese insistence to use existing ones and partly since Pakistan's larger two parties had roots in these provinces (Adeney and Boni, 2020). Similarly, of the initial total $35 billion investment in power projects, more than 60% was in Punjab and Sindh, none in GB, which ironically provides Pakistan actual access to China on the economic corridor, and Balochistan being the only backward region with a high share. Balochistan, KP, and GB have repeatedly raised concerns about the employment opportunities for the people in the area given the lower proportion of CPEC projects being in these areas and the fact that employment in the projects even in these areas may go to outsiders, e.g., in Gwadar (Ahmed, et. Al, 2018).

The security situation in Pakistan has also affected CPEC progress, with militants bent on disrupting CPEC. Multiple attacks on the CPEC-related projects have not only slowed down the pace of the project but have killed several Chinese workers and led to China suspending work on several occasions. The Balochistan Liberation Army (BLA) has conducted a series of attacks, including on the Chinese Consulate located in Karachi in 2018, Pearl Continental Hotel in Gwadar in 2019, Pakistan Stock Exchange in 2020 and Besham, KP attack[3] in 2024 that killed five Chinese workers (Khan, 2022). Twenty Chinese citizens have been killed in terrorist attacks in Pakistan since 2021[4].

Key CPEC components have also faced opposition from USA, India and IMF. Indian policymakers see the CPEC as China's strategy to encircle India. Indian concern over the CPEC route also relate to the location of some CPEC projects in Pakistani administered parts of Kashmir (Khan, 2022). USA sees the CPEC as China's strategy to achieve domination in South Asia and dismantle US global leadership there. The IMF has objected to the establishment of SEZs and has made Pakistan agree to not establishing new SEZs[5].

CONCLUSIONS

In 10 years, China has pumped in more $32 billion in CPEC but Pakistan is much worse off economically now than in 2015. This is not mainly because of CPEC but due to the series of economic crises that Pakistan has faced in this period: in 2018 due to current account deficit, 2020 due to Covid-19 and 2022-23 due to current account deficit. Of these, the 2018 one was mainly caused by large CPEC-related imports. These multiple crises have also slowed progress on CPEC and make it difficult to gauge CPEC's true contribution to Pakistan's economy in ten years. While CPEC has certainly created jobs and reduce electricity shortages, it has clearly not had the transformational major impact that Pakistan expected. Meanwhile, it has increased pressures on the current account deficit, increased tensions between the center and provinces and heightened terrorist attacks. The most critical reason for CPEC's failure to create transformational impact was the lack of a clear vision and proper sequencing, with insufficient progress in ten years on the two most critical components that could have created such impact: Gwadar port and SEZs. There has also been no major investment by other countries in CPEC activities so far.

This analysis highlights a number of key steps for Pakistan for the future. Firstly, it may be advisable for it to scale back expectations and marketing about what CPEC can achieve for Pakistan. Given China's current outlook, it seems unlikely that it would agree to a major expansion of CPEC. This was confirmed by the lack of any significant new investment plans unveiled during the 5-days Presidential visit to China by the Pakistani President. Both sides must come to the same page on the future of CPEC. The critical area where Pakistan must focus is on SEZs where China has strong experience. Pakistan must overcome bureaucratic hurdles in the way of the expansion of SEZs planned and provide a credible plan to China to rekindle its interest in investing in them, while also overcoming IMF objections to SEZs. Secondly, it must adopt a more strategic framework for future CPEC planning which simultaneously looks at employment, exports and industrial growth; regional inequity issues; environmental sustainability; and current account impact of future activities. Finally, it must focus on undertaking deep economic reforms to attract not only lumpy foreign investment from rich states like China and Gulf states but also local and foreign private investment in key industries that can help it upgrade its industry and exports.

[3] https://www.aljazeera.com/news/2024/3/26/five-chinese-nationals-killed-in-suicide-bomb-attack-in-pakistan-police

[4] https://www.pakistantoday.com.pk/2024/12/10/20-chinese-citizens-killed-34-injured-in-14-terrorist-attacks-since-year-2021-official/

[5] https://tribune.com.pk/story/2495112/govt-accepts-imf-bar-on-new-sezs

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