

THOUGHT LEADERSHIP BRIEF

KEY POINTS

- ▶ The China–Pakistan Economic Corridor (CPEC) is a key component of the Belt and Road Initiative (BRI) through which China aims to connect East Asia with Europe through connected land and sea routes.
- ▶ Defenders of the CPEC argue that it is a ‘game changer’ that will transform Pakistan’s struggling economy.
- ▶ Critics of the CPEC describe it as a modern-day New East India Company, implying that its purpose, and likely effect, is to turn Pakistan into a Chinese client state.
- ▶ Neither of these extreme views is accurate; Pakistan should be able to benefit from attractive features of the CPEC while mitigating the disadvantages.

China-Pakistan Economic Corridor - Tightrope or Boulevard to Prosperity?

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Issue

While China finds itself ever more deeply embroiled in a trade war initiated by the United States, the world’s second-largest economy is busy launching a major global trade project that has come to be known as the Belt and Road Initiative (BRI). The BRI is designed to link East Asia with Europe through a series of overland and sea routes, passing through the Middle East along the way. Launched officially in 2013, the BRI’s major components include the 21st Century Maritime Silk Road and the

longest segment, the New Eurasia Land Bridge Economic Corridor, but the component that China has called the ‘flagship’ BRI project is the China–Pakistan Economic Corridor (CPEC). The CPEC connects western China directly to the new Silk Road Belt, and China characterizes it as the culmination of nearly 70 years of warm relations between the two countries, as Pakistan was the first country to recognize Communist China’s government.

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Pakistan's economy has struggled in the twenty-first century, as foreign investment has waxed and waned in response to the West's "war on terror" in Iraq and Afghanistan. The killing of Osama bin Laden, the leader of Al Qaeda, in Pakistan discouraged foreign investors once again, so it was only natural that Pakistan saw the 2013 launch of the CPEC as an opportunity to improve its economic fortunes at the same time that China was eager to initiate the BRI.

The CPEC has, however, generated considerable controversy. Those who view the CPEC favorably from the Pakistani point of view agree with China that it will be a 'game changer' for Pakistan's economy, stimulating industrial and technological development and boosting Pakistani firms up the global value chain. Others take the opposite view, seeing ominous signs in the design of the CPEC that China will use the project like a 'New East India Company', a reference to the British organization that oversaw its rise as a colonial power. On this view, Pakistan is likely to become a client state of China, unable to free itself from massive foreign debt and subject to exploitation for China's own military and political purposes. The question that this brief addresses

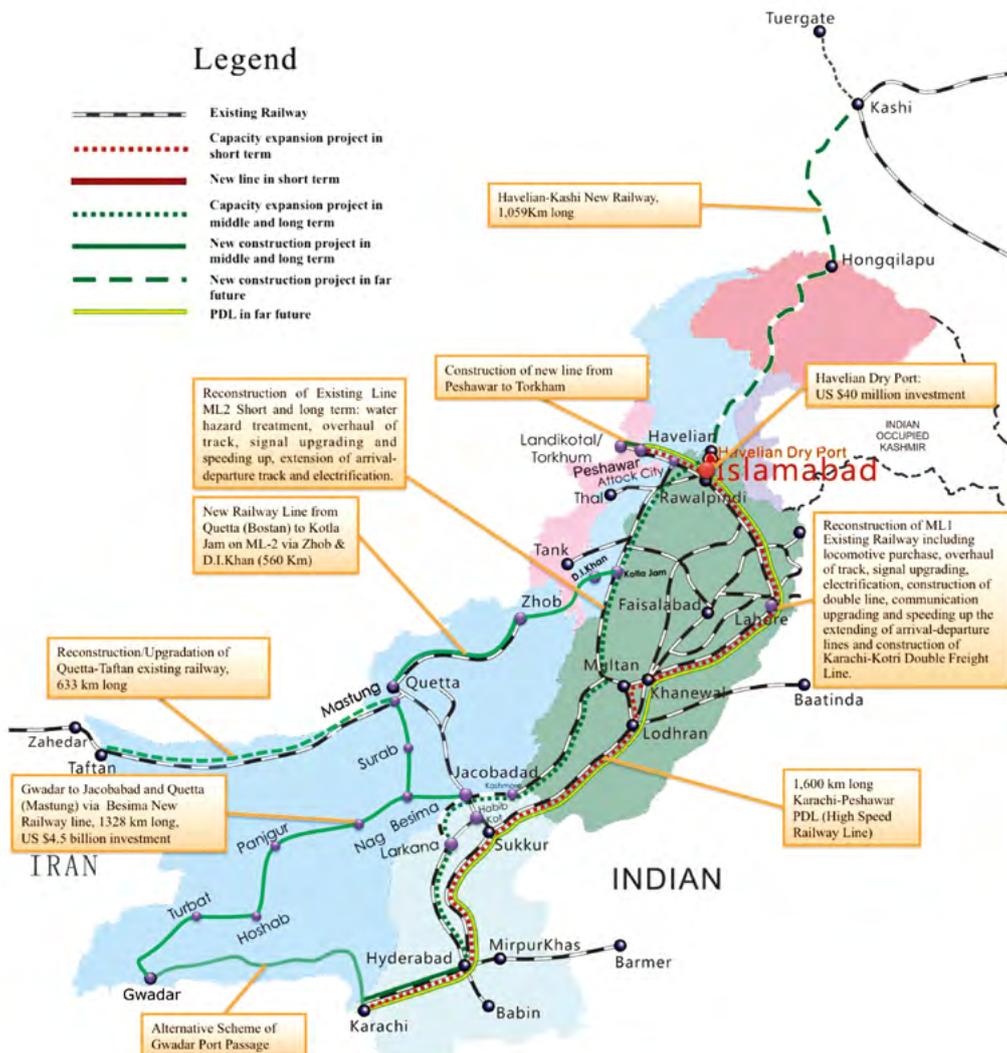
is, therefore, whether the CPEC is a positive game changer for Pakistan or a New East India Company.

Assessment

To address this question, we conducted a study that used a combination of documentary research and interviews with individuals representing key stakeholder groups that are involved in or likely to be affected directly by the CPEC (citation). We assessed the competing claims regarding the CPEC to see how much truth we could find in the game-changer versus client-state arguments.

We discovered three layers of arguments supporting the view that the CPEC could be a game-changer for Pakistan's economy: energy-based, economic, and social. We also found three layers of arguments supporting the view that the CPEC will make Pakistan a Chinese client state: military, economic, and social. These arguments are summarized below.

Figure 1. Railways Network of CPEC



source: cpec.gov.pk

Economic development in Pakistan has been slowed by difficulties delivering reliable energy across all areas of the country. Power outages occur frequently, especially in areas located far from urban centers. The CPEC has included no fewer than nine completed energy-related projects with more to come, which should go far towards alleviating Pakistan's energy shortages. The CPEC also seems likely to stimulate many sectors of Pakistan's economy (including banking, automobiles, insurance, and refineries) and, perhaps more importantly, help it catch up in technological development. Among the indicators of the CPEC's potential to boost Pakistan's economy is that since it began the Karachi Stock Exchange has experienced rapid growth, doubling in value between 2013 and 2018. Finally, the CPEC will open new avenues for cross-border cultural and social exchange, but more importantly generate jobs to employ Pakistan's relatively young population, transforming idle youth into productive members of society and thereby reducing crime rates. For the period from 2015-18, Pakistani estimates show creation of 40,000 direct jobs in six critical infrastructure projects. The Chinese embassy in Pakistan has given a figure of 75,000 direct jobs created for Pakistani nationals over the same period, but that figure combines jobs in power as well as infrastructure projects (with no breakdown given between the two). Finally, China is also investing in Pakistan in ways that improve social welfare by building schools and medical facilities. All told, those who tout the benefits of CPEC for Pakistan can make a fairly strong case.

Now consider what some see as the dark side of this initiative for Pakistan. The argument is that the CPEC has been conceived to support China's strategic interests in the region while also leveraging considerable economic advantages to make it a largely one-sided proposition.

First, China's designs on Pakistan may have more to do with enhancing its already strong military presence than with boosting Pakistan's standing in the world. A critical element of this argument is the Pakistani port of Gwadar, which China has marked for development into a major seaport that gives it much easier access to the Strait of Hormuz through which much of China's oil imports pass. The plan is to turn Gwadar from a minor fishing village into a bustling city of some 2 million people, but many worry that China's ultimate goal is to create a naval base from which to launch military operations when necessary, or at least to assert its presence aggressively in South Asia and the Middle East. Second, it is argued that opening Pakistani markets to Chinese firms—reflecting a balance of trade that heavily favors China over

Pakistan—will expose Pakistani industries to technologically and organizationally superior Chinese firms that will flood Pakistani markets with Chinese goods while creating few opportunities for Pakistani industries to export to China. Finally, if the hoped-for economic benefits of the CPEC for Pakistan do not materialize, much of the potential for positive social change will be lost. Moreover, it seems likely that China has much more to gain from a social and political standpoint through this initiative as it struggles to develop its Western provinces while containing unrest among the Muslim Uyghur community. China has already made goodwill gestures to the less discontented Muslim Hui minority, so the CPEC provides it with an opportunity to demonstrate its tolerance of Islam even as it strives to stifle dissent among the Uyghurs. Whether all this means that the CPEC will operate like a New East India Company remains to be seen, but skeptics of this massive project can muster their own strong arguments to make their case. Our interviews revealed both sides: We found skepticism for CPEC stemming predominantly from the business community (in sectors such as light manufacturing, pharmaceuticals, textiles, as well as office bearers in the Karachi Chamber of Commerce and Industry) as well as certain academics. On the other hand, our interviews also revealed support for CPEC from government ministers (i.e. the Minister of State for Investment, Minister of Labor and Industries, and Minister of Science and Technology) as well as government bureaucrats at various levels—specifically, in departments of Planning, Development and Reform, Finance, Commerce and Industries.

Figure 2. Highways Network of CPEC



source: cpec.gov.pk

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Recommendations

The above arguments that the CPEC will be either a game changer for Pakistan or turn it into a client state of China may seem compelling but, in our research, we found good reason to doubt that either of these extreme views will prove true. Although China can leverage major economic and military advantages while it implements the CPEC, Pakistan need not passively accept whatever fate China's efforts consign it to. Instead, Pakistan must control what it can control, and in so doing it stands a good chance of benefiting from the CPEC even if the initiative does not make it a formidable global power on par with major developed countries.

The key to understanding this point is to view the CPEC as part socio-economic development plan and part stratagem. Both China and Pakistan will face challenges as they work to implement the plan, so China must manage risks and Pakistan must closely monitor how elements of the plan are implemented.

Pakistan can benefit from the CPEC if it takes advantage of assistance from China in building its own capacity for sustainable economic growth, but it should not count on China to support these efforts to any great

extent. After all, the CPEC may eventually bring in nearly US\$ 100 billion in investments, so Pakistani industries must absorb industrial knowledge and technology to enable their firms to compete with Chinese firms. To the extent they succeed, Pakistan will enjoy stronger economic growth and development.

Finally, China may be considerably more powerful than Pakistan, but the latter is a large country in its own right with a strong military and common interests with China as rivals of India. This makes it very unlikely that China can dominate Pakistan so thoroughly that it will have become a client state when the CPEC is fully implemented. China may well hope to leverage its advantages to benefit from the CPEC, but its interests may be served best by leaving Pakistan a strong but independent partner.

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