

CPEC

Reality versus Hype

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The China-Pakistan Economic Corridor (CPEC), China's vision to channelise its financial outreach as well as its strategic and political influence, has secured tremendous attention in the international community since its launch in 2013. Symbolic of the close relationship between Pakistan and China, the initiative will undeniably influence regional and geopolitical equations within the countries of South Asia and Eurasia.¹

The debates on strategic impact and tangible deliverables under CPEC are a dominant part of Pakistani media and academic discourse, with numerous events held to promote CPEC. There are also various arguments over the alignment of the economic corridor in Pakistan with regional differences, the sustainability of the projects, as well as the employment generation potential for local communities.

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1 This corridor connecting Arabian Sea /Indian Ocean with Western China provides trade and economic opportunities for many Central Asian and South Asian countries to compete for markets in Europe and Africa.

From the Chinese perspective, the consolidation of political power after the 19th National Congress of the Communist Party of China under President Xi Jinping will only increase the prominence of flagship initiatives like CPEC as part of the Belt and Road Initiative (BRI)² in the 21st century. CPEC is designed to promote the China-Pakistan strategic relationship in Asia, but will increase the list of differences between India and China. China's role in South Asia and the Indian Ocean Region (IOR) is a major Indian concern and CPEC further promotes an expanding Chinese dominance in the area, as well as military cooperation between China and other countries in the region.

Diplomatic negotiations for CPEC started in May 2013, after the handover of the Gwadar Port to China during the visit of Chinese Premier Li Keqiang to Pakistan. Both sides signed the Memorandum of Understanding (MoU) on the long term plan for CPEC. Chinese Premier Li Keqiang highlighted the focus on construction of connectivity projects, power generation and energy development under CPEC. A Joint Cooperation Committee (JCC) was set up under the National Development and Reform Commission (NDRC) of China and the Development Ministry of Pakistan to oversee CPEC.³

2 The project envisaged by China's President Xi Jinping for economic integration of Eurasia through belts, roads and other infrastructure projects. The network of roads, railway tracks, oil and gas pipelines, fiber optics for communication, dams, ports, airports and economic zones. Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Religious for Regional Integration", *Arts and Social Sciences Journal*, Volume 4, Issue 4, 2016, <https://www.omicsonline.org/open-access/china-pakistan-economic-corridor-prospects-and-challenges-for-regionalintegration-2151-6200-1000204.pdf>.

3 "China to help end Pak energy crisis: Li", *The News International*, May 23, 2013, <https://www.thenews.com.pk/archive/print/630655-china-to-help-end-pak-energy-crisis-li>.

In April 2015, both the countries signed 51 agreements and Memorandums of Understanding (MoUs) for cooperation in different fields as part of the USD 45 billion CPEC. Agreements worth USD 28 billion were for initiating ‘early harvest’ projects, while the remaining USD 17 billion are for later phases.⁴ In addition, China approved another USD 8.5 billion as added investment in Pakistan’s railways to upgrade tracks and signaling (USD 4.5 billion) and Liquefied Natural Gas (LNG) terminal (USD 4 billion), increasing the project cost to USD 53.5 billion.⁵ In April 2017, China approved additional financing for establishment of industrial zones, raising the overall cost of CPEC to USD 62 billion.⁶ The entire investment for CPEC projects comes from China.⁷ However, estimates of the total value of CPEC vary according to the inclusion and exclusion of various projects. Some infrastructure projects were considered and later dropped as part of CPEC. These include five, mostly thermal power projects, with a combined capacity of 3470 MW: Muzaffargarh Coal Power Project (1,320MW), Salt Range Mine Mouth Power Project (300MW), Gaddani Power Park (1,320MW), Sunnec Wind Farm (50MW), and Chichoki Mallian Combined-cycle Power Plant (525MW).

4 “Pak-China trade volume to be taken to \$20 bn”, *The News.cn*, April 21, 2015, <https://www.thenews.com.pk/print/12110-pak-china-trade-volume-to-be-taken-to-20-bn>.

5 Karin Strohecker, “Pakistan says China to make extra \$8.5 billion investments in rail, energy”, *Reuters*, November 23, 2017, https://in.reuters.com/article/us-pakistan-economy-cpec-idINKBN13I1XR?utm_source=Facebook&utm_medium=Social.

6 Salman Siddiqui, “CPEC investment pushed from \$55b to \$62b”, *The Tribune*, April 12, 2017, <https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/>.

7 “CPEC to be completed in three phases till 2030: Ahsan”, *Radio Pakistan*, March 31, 2018, <http://www.radio.gov.pk/31-03-2018/cpec-to-be-completed-in-three-phases-till-2030-ahsan>.

These were considered technically unfeasible and therefore, removed from CPEC projects in February 2017.⁸

CPEC will be executed in three phases. In the first phase, 12 energy projects generating 5000 MegaWatt (MW) of electricity were to be completed over the 2017-18 period. The medium-term projects would be completed by 2025, while the long-term projects of CPEC would be completed by the year 2030.⁹ However, as reported on March 31, 2018, Pakistan's Interior Minister, Ahsan Iqbal has already announced the revision of the deadline for the first phase to 2020, adding that USD 35 billion are to be invested in the power sector out of a total of USD 46 billion allocated for the CPEC projects in the first phase.¹⁰ China will finance the larger part of CPEC through soft loans, grants, commercial loans and private equity investment. CPEC energy projects are funded with Foreign Direct Investment (FDI) by Chinese firms and commercial loans at the rate of six to seven percent from Chinese banks. The transportation projects' finance is provided by the Chinese Government and the state-owned Chinese banks mostly as concessional loans at 2 to 2.4 percent of interest rate.¹¹

The Long Term Plan (LTP)¹² prepared by China Development Bank includes provisions for financial guarantees

8 Fawad Yousafzai, "Pakistan, China drop 5 CPEC energy projects" *The Nation*, May 19, 2017, <https://nation.com.pk/19-May-2017/pakistan-china-drop-5-cpec-energy-projects>.

9 "12 energy projects under CPEC to be completed by 2017-18", *The Express Tribune*, January 18, 2017, <https://tribune.com.pk/story/1298608/early-harvest-12-energy-projects-cpec-completed-2017-18/>.

10 Dr Ahmad Rashid Malik, "Propaganda on CPEC's debts", *The Nation*, January 11, 2018, <https://nation.com.pk/11-Jan-2018/propaganda-on-cpec-s-debts>.

11 Nasir Jamal, "The cost of CPEC", *Dawn*, March 12, 2017, <https://www.dawn.com/news/1320028>.

12 Khurram Husain, "Exclusive: CPEC master plan revealed", *Dawn*, June 21, 2017, <https://www.dawn.com/news/1333101>.

for credit enhancement support in the funding of infrastructure projects, increases in supporting capacity, and protection of the interests of creditors of CPEC. The measures suggested by China Development Bank will protect the investments of Chinese investors and promote their interests. The LTP states that China's maximum annual direct investment in Pakistan is expected to be around USD 1 billion. Pakistan's ceiling for preferential loans should be USD 1 billion, and for non preferential loans no more than USD 1.5 billion per year. However, Pakistan received USD 4.4 billion in first ten months in the financial year (July 2017-April 2018) as bilateral and commercial loans from China.¹³

Increasing the role of Chinese currency, Renminbi (RMB) in the economy of Pakistan is a major objective of CPEC.¹⁴ The LTP published on CPEC's official website¹⁵ on December 18, 2017, jointly by Ministry of Planning, Development and Reform, Government of Pakistan and National Development and Reform Commission (NDRC), People's Republic of China, lacks complete information on the projects and does not include recommendations of the China Developmental Bank's conditionalities related to the projects' finances. The document provides no information on reaching of targets or goals under CPEC, working of the bidding system, terms of the project, employment policies, and the measures to preserve and protect heritage, ecology, wildlife and local livelihoods. Prior to CPEC, various developmental and economic investment

13 Mehtab Haider, "Pak loan reliance on China increases manifold", *The News*, May 29, 2018, <https://www.thenews.com.pk/print/322674-pak-loan-reliance-on-china-increases-manifold>.

14 Khurram Husain, "Exclusive: CPEC master plan revealed", *Dawn*, June 21, 2017, <https://www.dawn.com/news/1333101>.

15 CPEC, "Long Term Plan for China Pakistan Economic Corridor", *CPEC*, Government of Pakistan, December 18, 2017, <http://cpec.gov.pk/long-term-plan-cpec>.

documents, including International Monetary Fund (IMF) agreements, were open for public viewing in Pakistan.¹⁶ The absence of comprehensive details of CPEC projects and their financing patterns creates ambiguity and even the projected value at USD 62 billion is uncertain.

EXPECTATIONS AND PROSPECTS

China’s global image has changed after four decades of rapid economic growth with massive infrastructure and industrial development in the fields of transportation, energy generation, irrigation and urbanisation. China’s economic growth led to millions of its population emerging from poverty. According to a January, 2018 report, 55.6 million people were brought out of from poverty in China in just the three years between 2014 and 2016.¹⁷ China’s export-oriented growth model has increased prosperity and foreign exchange reserves, the latter by nearly four times in twelve years (2005-2017), as reflected in the People’s Bank of China data of the foreign exchange reserves from 2005 to 2017:

TABLE 1- CHINA’S FOREIGN EXCHANGE RESERVES (2005-17)

Year	Foreign Exchange Reserves of China (in Trillion USD)
2005	0.81
2006	1.06

16 Mischele Ijaz, “Growth, not development: The China-Pakistan Economic Corridor”, *Daily Times*, June 13, 2018, <https://dailytimes.com.pk/253077/growth-not-development-the-china-pakistan-economic-corridor/>.

17 “China’s plans to eliminate poverty by 2020” Economist Intelligence Unit, January 5, 2018, <http://country.eiu.com/article.aspx?articleid=536285437&Country=China&topic=Economy>.

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2007	1.52
2008	1.94
2009	2.39
2010	2.84
2011	3.18
2012	3.31
2013	3.82
2014	3.84
2015	3.33
2016	3.01
2017	3.13

*Source: State Administration of Foreign Exchanges, Government of China*¹⁸

Chinese foreign exchange reserves increased almost five times from 800 billion USD to 3.84 trillion USD over 2005-2014. Chinese President Xi Jinping described the new economic growth period as the “new normal” in May 2014, with sustained medium to high growth rates, the development of BRI and promotion of innovation.¹⁹ China’s economic power with substantial foreign exchange reserves created conditions for launching of flagship programs such as the Silk

18 The Scale of China’s Foreign Exchange Reserves(1950-2017), State Administration of Foreign Exchanges, Government of China, May 7, 2018, http://www.safe.gov.cn/wps/portal/!ut/p/c5/04_SB8K8xLL-M9MSSzPy8xBz9CP0os3gPZXdnX293QwP30FAnA8_AEB-c3C1NjIxMjA6B8JE55dzMDA r r D Q f b h V h F s j F c e b D 5 I - 3 g A H c D T Q 9 _ P I z 0 3 V L 8 i N M M g M S F c E A P 5 j f w o ! / d 1 3 / d 3 / L 2 d j Q S E v U U t 3 Q S 9 Z Q n Z 3 L z Z f S E N E Q 0 1 L R z E w T 0 8 5 R T B J N k E I U 1 N - D R z N M T D Q ! / ? W C M _ G L O B A L _ C O N T E X T = / w p s / w c m / c o n n e c t / s a f e _ w e b _ s t o r e / s t a t e + a d m i n i s t r a t i o n + o f + f o r e i g n + e x c h a n g e / d a t a + a n d + s t a t i s t i c s / f o r e x + r e s e r v e s / f o r e i g n + e x c h a n g e + r e s e r v e s / b b 4 3 5 3 8 0 4 c 4 2 0 b f 6 a a 0 a a e f d 3 f d - 7 c 3 d c .

19 “Xi Jinping’s ‘new normal’ with Chinese characteristics”, *South China Morning Post*, May 14, 2014, <http://www.scmp.com/business/global-economy/article/1511855/xi-jinpings-new-normal-chinese-characteristics>.

Road Economic Belt and 21st Century Maritime Silk Road.²⁰ The CPEC project was also announced around the same time, in May 2013.

The Chinese interest in the development of infrastructure projects in countries like Pakistan as part of CPEC is meant to provide economic opportunities for its own enterprises and skilled labor from China under the ‘new normal’ economic growth conditions.

Chinese President Xi Jinping highlighted the Gwadar Port, energy, infrastructure development and industrial cooperation as part of CPEC to promote pragmatic cooperation leading to the distribution of fruits to the people of Pakistan and other countries. The significance of strengthening mutual assistance and deepening strategic cooperation with frequent exchanges of high-level visits and meetings were highlighted by Jinping in his official message on CPEC.²¹ CPEC is considered as a solution to many issues, including the stagnant economy, terrorism, energy shortages and poor infrastructure in Pakistan. The requirement of foreign investment in Pakistan’s economy is to be addressed through CPEC with technological and economic assistance from China, resulting in a fiscal boom

20 Chinese President Xi Jinping announced Silk Road Economic Belt in September 2013, on a visit to Kazakhstan. While, 21st century Maritime Silk Road was announced by Xi Jinping during a visit to Indonesia in October 2013. The six corridors identified for Silk Road Economic Belt are New Eurasian Land Bridge; China-Mongolia-Russia; China-Central Asia- West Asia; the China- Indochina Peninsula Corridor; the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Corridor. While, Maritime Silk Road specifies two routes – one to the ports in Mediterranean and another to the South Pacific. Veysel Tekdal, “China’s Belt and Road Initiative: at the crossroads of challenges and ambitions”, *Pacific Review*, 2018, Volume 31, Issue 3, pp. 373-374.

21 “Official Message Mr. Xi Jinping, President of China” *CPEC*, Government of Pakistan, <http://cpec.gov.pk/messages/2>.

and job opportunities for Pakistani citizens. The integration of China with South Asia, Central Asia and West Asia through Gwadar Port is not just an economic but significantly strategic initiative, intended to provide energy security for China and strategic security for Pakistan, purportedly resulting in 'win-win cooperation'.

China's assistance and participation in the development of Pakistan's infrastructure has been a principal feature of their diplomatic relations of more than 50 years. Infrastructure projects like the Karakoram Highway and Gwadar Deep Sea Port; technological projects such as the Chashma Power Plants and massive mechanical and electrical complexes, display extensive 'cooperation' between both countries. The bilateral relations with neighboring countries are significant as the foundation for China's global role.²²

There is active cooperation on security issues between China and Pakistan as well. In 2014, the then Chinese Ambassador to Pakistan, Sun Weidong highlighted the sharing of "weal and woe" in security issues. China endorsed Pakistan's position on the formulation and implementation of counter-terrorism strategy based on Pakistan's perceived 'national conditions'. China's security cooperation and 'joint fight' against terrorist forces in Pakistan are ostensibly intended to promote regional peace and security.²³

22 "The Five Principles of Peaceful Coexistence--The time-tested guideline of China's policy with neighbours", *Ministry of Foreign Affairs, The People's Republic of China*, July 30, 2014, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbdt_665378/t1179045.shtml.

23 China: her development will definitely benefit Pakistan, *Ministry of Foreign Affairs, the People's Republic of China*, August 28, 2014, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbdt_665378/t1186201.shtml.

China has utilised the trilateral dialogue process with Pakistan and Afghanistan to promote its counter-terrorism and BRI agenda. The first trilateral dialogue involving foreign ministers of China, Pakistan, and Afghanistan, was held on December 26, 2017, in Beijing. The three countries agreed to 'fight terrorism of all kinds' and promote connectivity under BRI, and called for the Afghan Taliban to join the peace process in Afghanistan on this trilateral platform.²⁴ China had also conducted meetings with Taliban representatives on the security conditions in Afghanistan in 2016. Taliban officials claimed of having 'good terms' with a few countries including China. A group of four states, Afghanistan, Pakistan, United States and China tried to restart the peace process in 2016.²⁵

The bilateral trade between China and Pakistan hugely favours China with an augmenting trade surplus between 2005 and 2012 (Table.2). The trade surplus has almost tripled for China, even while Pakistani exports have increased nearly four times from 0.8 billion USD in 2005 to 3.14 billion USD in 2012. Meanwhile, Pakistan's trade deficit increased to USD 12.7 billion in 2017.²⁶ China's trade surplus with Pakistan has increased nearly five times from 2.6 billion USD in 2005 to 12.7 billion USD in 2017. These trade imbalances in favour of China will inevitably create multiple difficulties for Pakistan's economy. Pakistan has imported goods worth USD 5.6 billion

24 Joint Press Release of the 1st China-Afghanistan-Pakistan Foreign Ministers' Dialogue, *Ministry of Foreign Affairs, The People's Republic of China*, December 26, 2017, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1522147.shtml.

25 Afghan Taliban delegation visits China to discuss unrest: sources, *Reuters*, July 30, 2016, <https://www.reuters.com/article/us-afghanistan-taliban-china-idUSKCN10A09H>.

26 "China agrees to accommodate Pakistan's concerns on FTA", *Dawn*, February 9, 2018, <https://www.dawn.com/news/1388207>.

in January 2018.²⁷ The country's foreign exchange reserves stood at USD 10.3 billion in June 2018²⁸ and further declined to USD 8.089 billion on October 12, 2018.²⁹ However, Pakistan imported goods worth USD 4.4 billion in September, 2018.³⁰ These foreign exchange reserves are not enough to cover two months of imports. The shortage of foreign exchange reserves will create a balance of payment crisis for Pakistan. The debt repayment of CPEC loans for Pakistan will be around USD 1.5-1.9 billion in 2019 and increasing to USD 3-3.5 billion in 2020.³¹ Debt repayments and the trade deficit could lead to a cyclical debt trap.³²

TABLE. 2 CHINA-PAKISTAN BILATERAL TRADE (2005-2012)
(UNIT: BILLION USD)

Year	Total Trade	China's Exports to Pakistan	China's Imports from Pakistan	China's trade surplus
2005	4.26	3.43	.83	2.6

27 Shahbaz Rana, "Pakistan endures historic high import bill of \$5.6b in January", *The Express Tribune*, February 10, 2018, <https://tribune.com.pk/story/1630951/2-pakistan-endures-historic-high-import-bill-5-6b-january/>.

28 Shahbaz Rana, "Pakistan's foreign borrowing surges to \$10b in 11 months", *The Express Tribune*, June 26, 2018, <https://tribune.com.pk/story/1742368/2-pakistans-foreign-borrowing-surges-10b-11-months>.

29 "Foreign Exchange: SBP's reserves fall \$219m, stand at \$ 8.1b", *The Express Tribune*, October 18, 2018, <https://tribune.com.pk/story/1828791/2-foreign-exchange-sbps-reserves-fall-219m-stand-8-1b/>.

30 "Balance of Trade improves by 9.16 percent in September 2018", *MG Link News*, October 10, 2018, <https://mettisglobal.news/balance-of-trade-improves-by-9-16-percent-in-september-2018/>.

31 Hu Weijia, "China's loans to Pakistan should drive economic development, lift debt payment ability", *Global Times*, May 27, 2018, <http://www.globaltimes.cn/content/1104333.shtml>.

32 Bilateral Investment Treaty, *MINISTRY OF COMMERCE, PRC*, March 31, 2016, <http://english.mofcom.gov.cn/article/bilateralchanges/201603/20160301287079.shtml>.

2006	5.25	4.24	1.01	3.23
2007	6.54	5.43	1.11	4.32
2008	6.98	5.98	1.01	4.97
2009	6.78	5.52	1.26	4.26
2010	8.66	6.93	1.72	5.20
2011	10.56	8.44	2.12	6.31
2012	12.41	9.27	3.14	6.13

Source: Website of the Chinese Embassy to Pakistan³³

Significantly, CPEC construction has resulted in many Chinese nationals working and living in Pakistan.³⁴ A total of 5,824 Chinese nationals were working in the country in December 2012.³⁵ By December 2017, their number had increased upto 30,000.³⁶ CPEC construction has increased the employment opportunities for Chinese nationals, but the terrorist threat has the potential to directly impact on bilateral relations. In June 2017, Pakistani President Mamnoon Hussain stated that the protection of Chinese working in Pakistan was a ‘top most priority’ for the Government and added that 15,000

33 The website of Economic and Commercial Counselor of Chinese Embassy in Pakistan: Brief of China-Pakistan Bilateral Economic & Trade Cooperation in 2012, <http://pk.mofcom.gov.cn/article/zxhz/hzjj/201304/20130400082535.shtml>.

34 China: her development will definitely benefit Pakistan, *Ministry of Foreign Affairs, the People’s Republic of China*, August 28, 2014, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbd_665378/t1186201.shtml.

35 China-Pakistan friendship embracing the future, *Economic & Commercial Counselor’s Office of the Embassy of the PRC in the Islamic Republic of Pakistan*, January 12, 2012, <http://pk.mofcom.gov.cn/article/zxhz/>.

36 Liu Zhen, Kinling Lo and Mimi Lao, “China’s embassy in Pakistan warns of ‘series of terror attacks soon’ on its nationals” *South China Morning Post*, December 8, 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2123483/chinese-pakistan-warned-be-alert-potential-terror>.

military personnel had already been deployed to safeguard Chinese nationals working on energy and infrastructure projects in the country.³⁷

The Joint Statement issued during the signing of the Memorandum of Understanding (MoU) highlighted the friendly relations between both the two states. China acknowledged Pakistan's consistent endorsement of issues related to China's 'core interests'.³⁸ The Statement asserted that the nature of bilateral relations helped both the countries to understand and include their mutual concerns/ threats in their policy planning and reiterated China's firm commitment towards Pakistan's efforts to uphold its independence, sovereignty and territorial integrity. China also appreciated the Pakistan's 'sacrifices' in the fight against global terrorism.³⁹ Under flagship initiatives such as CPEC, institutional mechanisms like working groups and joint coordination committees have been created and China's state-owned enterprises and private investors have been encouraged to invest in Pakistan.⁴⁰ Chinese Ambassador to Pakistan, Yao Jing claimed that 22 of the total 43 'early harvest projects' worth around USD19 billion were under

37 "Pakistan deploys force of 15000 to protect Chinese nationals", *South China Morning Post*, June 25, 2017, <http://www.scmp.com/news/china/diplomacy-defence/article/2099922/pakistan-deploys-force-15000-protect-chinese-nationals>.

38 Some Chinese scholars agree that China should assert and defend its core interests in a global order, which is not facilitating China's rise as a global power. Jinghen Zhen, Yuefan Xiao and Shaun Breslin, "Securing China's core interests: the state of the debate in China" *International Affairs*, Volume 91, Issue 2, p.246.

39 Joint Statement between the People's Republic of China and the Islamic Republic of Pakistan on "Deepening China-Pakistan Strategic and Economic Cooperation", *Ministry of Foreign Affairs, the People's Republic of China*, February 19, 2014, www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1130297.shtml.

40 Ibid.

construction or completed, and that 70,000 jobs had been generated for Pakistan by April 2018.⁴¹

The visible benefits to China under the CPEC initiative include decrease of distance and efficient systems for supplies; rapid development of China's backward Xinjiang and North-Western regions; alternate and short route to West Asian and African markets from China via Gwadar Port; Chinese interests in Pakistan's energy sector and mineral resources and Gwadar Port development with modern infrastructure, among others.⁴² Gwadar provides easy access from China to the Arabian Sea and offers Chinese cargo direct access to the Indian Ocean Region (IOR), avoiding the Malacca Straits and reducing the 12,000 kilometers distance to just 3,000 kilometers. The initial pilot cargo was dispatched from Gwadar in November 2016 to Africa, Europe, and West Asia. Moreover, China can also launch naval expeditions from Gwadar in IOR and dominate the Persian Sea from Gwadar.⁴³ In the present scenario, China has maintained a distance from regional and global religious conflicts and maintains friendly diplomatic relations with the majority of Islamic countries. China is not a primary victim or target of global religious terrorism and has not presented itself as a threat to any nation on the basis of religion.⁴⁴

41 Iron brothers Forged Model of State-to-State Relation, Embassy of the People's Republic of China in the Islamic Republic of Pakistan, April 10, 2014, <http://pk.chineseembassy.org/eng/zbqx/t1551303.htm>.

42 Maqbool Ahmad Awan, "CPEC's Repercussions: A Harbinger of Success and Prosperity in South Asia; An Analysis", *Pakistan Vision*, Volume 18, No 2, p.240.

43 Khuram Iqbal, "Securing CPEC: Challenges, Responses and Outcomes" in Alessandro Arduino and Xue Gong (eds.), *Securing the Belt and Road Initiative*, Palgrave Macmillan, 2018, pp.197- 215.

44 Xu Yihua and Zou Lei, "Geo-religion and China's Foreign Strategy", in Shao Binhong (ed.) *China in the World: A Survey of Chinese Perspectives on International Politics and Economics*, Brill nv, Leiden, 2015, pp.167-185.

During his visit to China in 2006, then Pakistan President General Pervez Musharraf initially proposed the development of two ‘corridors’, the ‘energy corridor’ and ‘trade corridor’, connecting China and Pakistan with railways and energy pipelines. Pakistan handed over the operations and the necessary infrastructure development of Gwadar Port to China in 2013.⁴⁵ The construction of the Karakoram Highway (KKH) is a joint upgradation project connecting China with South Asia.⁴⁶ Pakistan’s target is to become a high middle-income country with a per capita GDP of USD 4,200 by 2025 under its ‘CPEC Vision 2025’. The project envisages the potential to transform Pakistan into the hub of business and trade in Asia, even as it sees Xinjiang reaching out to markets in Europe and Asia.⁴⁷

The Long Term Plan (LTP)⁴⁸ signed between China and Pakistan for the future development of CPEC during the 2017-2030 timeframe has identified Kashgar, Atushi, Tumshuq, Shule, Shufu, Akto, Tashkurgam Tajik, Gilgit, Peshawar, Peshawar, Dera Ismail Khan, Lahore, Multan, Quetta, Sukkur,

45 Deepen Mutually Beneficial Cooperation and Promote Common Development, *Ministry of Foreign Affairs, the People’s Republic of China*, November 26, 2014, http://www.fmprc.gov.cn/mfa_eng/wjwb_663304/zygy_663314/gyhd_663338/t1214750.shtml.

46 Official Message- Mr. MASOOD KHALID, Pakistani Ambassador to China, CPEC, <http://cpec.gov.pk/messages/6>.

47 Official Message-PROF AHSAN IQBAL, Minister of Planning, Development & Reforms - Pakistan, CPEC, <http://cpec.gov.pk/messages/7>.

48 “LTP is a Chinese government document finalized in December 2015 by the National Development and Reform Commission (NDRC) and the China Development Bank. The LTP in its original form is more than 250 pages long; a greatly abridged version of only 36 pages was released to the public in December 2017, simply to stave off growing criticism about a lack of transparency – secrecy, even – in CPEC-related matters”. Aasim Sajjar Akhtar, “The China–Pakistan Economic Corridor”, *Monthly Review*, June 1, 2018, <https://monthlyreview.org/2018/06/01/the-china-pakistan-economic-corridor/>.

Hyderabad, Karachi, and Gwadar as major CPEC in both countries. The connectivity between Lahore and Peshawar, Quetta and Sukkur, and Karachi and Gwadar are the ‘three axes’ in the projected future CPEC road map.⁴⁹

The energy shortages in Pakistan are also to be addressed with the construction of multiple power generation plants. Around 17,000 MW of electricity worth around USD 34 billion, is to be generated by power projects under CPEC. Again, the development of optical cable networks linking the two countries is intended to improve communication networks. The Gwadar seaport offers a potential naval base for Pakistan,⁵⁰ part of a joint security mechanism between the two countries. This security cooperation is intended to address the problems both of Pakistan and China’s Xinjiang region, especially as these have been conceptualized in the wake of the September 2001 attacks in the US. The project seeks to Sino-Pakistan naval collaboration, particularly in joint exercises and training against piracy on the Open Seas. Power dominance dynamics in the Indian Ocean compel Pakistan and China to draw close in a naval alliance, with Gwadar Port potentially being developed as a naval base in the future.⁵¹

Some of Pakistan’s objectives with regard to CPEC are to build infrastructure, to improve the transportation and industrial sectors, eradicate terrorism through economic progress, sustenance and expansion of the Gwadar Port project, and the

49 Government of Pakistan, Ministry of Planning , Development and Reform, Long Term Plan (LTP) for CPEC (2017-2030) www.cpec.gov.pk.

50 Sajid Hussain and Muhammad Ayaz Khan, “CPEC: A Roadmap of Region’s”, *FWU Journal of Social Sciences*, Winter 2017, Volume 11 , No 2, pp. 51-59.

51 Ibid.

promotion of military cooperation with China.⁵² The Chinese capital as part of CPEC is expected increase Pakistan's GDP by 15 percent.⁵³

THREATS AND CONCERNS

The menace of terrorism and activities of various Baloch insurgent formations are potential threats to CPEC in Pakistan. The stability of Afghanistan is also a critical factor in the implementation of China's related flagship initiative on BRI and Xinjiang, and will have significant impact on China-Pakistan relations.⁵⁴ The security of Chinese working in CPEC projects is another urgent concern. In June 2017, two Chinese citizens who were teaching Mandarin, were abducted by terrorists in Quetta, Balochistan, one of the main locations of CPEC component projects. Pakistan subsequently confirmed the killing of the abducted Chinese nationals, even as Islamic State (IS) terrorists claimed the incident. Following this gruesome act, in December 2017, the Chinese Embassy warned Chinese organisations and its nationals working in Pakistan to be alert for potential terror attacks. The alert called for Chinese nationals to stay vigilant, safeguard personal security, avoid crowded palces, and reduce time spent outside in Pakistan.

The high costs of providing security to an expanding workforce of skilled Chinese employed in CPEC projects will further increase the maintenance costs. Nevertheless, in September 2014, the then Chinese Ambassador to India, Le

52 Maqbool Ahmad Awan, "CPEC's Repercussions: A Harbinger of Success and Prosperity in South Asia; An Analysis", *Pakistan Vision*, 2017, Volume 18, No 2, p. 241.

53 Ibid.

54 Liu Zongyi, "Sino-Pakistani friendship raised to new level by Xi's trip" Shanghai Institutes for International Studies (SIIS), April 22, 2015, <http://en.siis.org.cn/Research/EnInfo/2163>.

Yucheng, described Pakistan as a victim of terrorism, along with India and China. He highlighted effective coordination between China and Pakistan against the East Turkistan Islamic Movement (ETIM) and other terrorist forces and asserted that the causes of terrorism were complicated, and that it would take a long process to resolve them. China's domestic concerns in the Xinjiang region, emerging from terrorist threats from ETIM, impact on China's policy towards Pakistan and the development of CPEC. The construction of CPEC has the potential to promote economic growth in Xinjiang region of China and in Pakistan, creating employment opportunities for local communities and addressing the challenges of terrorism. According to a 2013 Joint Statement, both countries consider ETIM as a common threat and stand united in fighting against this group.⁵⁵

There are many concerns that have been raised by civil society and minority groups in Pakistan on various aspects of CPEC. Baloch activists have articulated fears that the increasing number of migrants from other parts of Pakistan will result in a demographic transformation of the region with the implementation of CPEC, even as concerns have been expressed regarding the massive influx of Chinese workers.⁵⁶ According to the report released in December 2016 by the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) Chinese nationals in Balochistan exceed the Baloch

55 "Joint Statement on a Common Vision for Deepening Pakistan-China Strategic Cooperative Partnership in the New Era", *Ministry of Foreign Affairs*, Government of Pakistan, July 5, 2013, <http://mofa.gov.pk/pr-details.php?mm=MTMwMQ>.

56 "Baloch up the ante against China-Pakistan Economic Corridor", *Financial Express*, August 7, 2017, <https://www.financialexpress.com/world-news/baloch-up-the-ante-against-china-pakistan-economic-corridor/797762/>; Sharif Khan, "BLA kills 10 Sindhi labourers in Gwadar", *The Nation*, May 14, 2017, <https://nation.com.pk/14-May-2017/bla-kills-10-sindhi-labourers-in-gwadar>.

population by 2048, engineering a radical demographic transformation. The report estimates the inflow of more than 600,000 Chinese nationals per year into Pakistan under CPEC and related developments.⁵⁷ Similarly, CPEC is looked upon as a threat to the economic, cultural and geographic existence of Sindhi and Balochi populations, and is perceived as a Punjabi expansionist conspiracy to increase hegemony over the provinces of Sindh and Balochistan.⁵⁸ CPEC is widely viewed as yet another state-sponsored effort to rob the Baloch people of their resources in the guise of “development”, causing local resentment.⁵⁹ Protests against CPEC have been organised by various Baloch and Sindhi groups inside and outside Pakistan. There were joint protests organised by Sindhi and Baloch associations in front of the Chinese Embassy in London in January 2018.⁶⁰ China also faces a threat from Uighur militants in the Xinjiang province, against CPEC construction.

Pakistan is committed to setting up a military division headed by a two-star general to ensure security of the projected trade routes, comprising Force Protection Battalions (FPBn). CPEC safety is already monitored by the National Counterterrorism Center at Pabbi in the Nowshera District of

57 Fawad Yousafzai, “Chinese to outnumber Baloch natives by 2048”, *The Nation*, December 29, 2016, <https://nation.com.pk/29-Dec-2016/chinese-to-outnumber-baloch-natives-by-2048>.

58 “Anti-China protests in Sindh to oppose China-Pakistan economic corridor”, *Financial Express*, January 22, 2017, <https://www.financialexpress.com/world-news/anti-china-protests-in-sindh-to-oppose-china-pakistan-economic-corridor/517378/>.

59 Aasim Sajjar Akhtar, “The China–Pakistan Economic Corridor”, *Monthly Review*, June 1, 2018, <https://monthlyreview.org/2018/06/01/the-china-pakistan-economic-corridor/>.

60 Anil Kumar, “Baloch children and women hold protest against CPEC and Pakistan atrocities”, *India Today*, September 30, 2016, <https://www.indiatoday.in/world/story/baloch-protest-cpec-pakistan-atrocities-344212-2016-09-30>.

the Khyber Pakhtunkhwa Province.⁶¹ Similarly, the Pakistan Navy has created a separate force consisting of Pakistan Marines for the security of the Gwadar Port and of Chinese personnel there, Task Force-88. The formation of the special maritime force had been necessitated by the operationalisation of China-Pakistan Economic Corridor, which is likely to lead to a surge in maritime activity at Gwadar, considered to be the nodal point for CPEC and the sea lanes. This has, in turn, amplified the maritime vulnerabilities there. The task force is conceptualized as a force multiplier for overall CPEC security.⁶²

According to February 2018 reports, Pakistani officials, have welcomed the talks between Baloch rebels and Chinese envoys. An un-named official in Islamabad observed, “Ultimately, if there’s peace in Balochistan, that will benefit both of us.” The Chinese Ambassador to Pakistan, Yao Jing has also stated that militants in Balochistan were ‘no longer’ a threat to the economic corridor. One provincial tribal leader confirmed that many young men had been persuaded to lay down their weapons due to assurances of financial benefits: “Today, young men are not getting attracted to join the insurgents as they did some 10 years ago,” adding that “Many people see prosperity” as an outcome of the China-Pakistan corridor.⁶³

On it’s part, Pakistan is also trying to extend cooperation to the Chinese at official level, to ensure proper implementation of

61 Muhammad Tehsin et. al., “CPEC and Sustainable Economic Growth for Pakistan”, *Pakistan Vision*, 2017, Volume 18, Issue 2, pp.102-118.

62 Mehr Tahir, “Vibrant security measures for CPEC”, *Daily Times*, January 31, 2017, <https://dailytimes.com.pk/31709/vibrant-security-measures-for-cpec/>.

63 Farhan Bokhanri and Kiran Stacey, “China woos Pakistan militants to secure Belt and Road projects”, *Financial Times*, February 19, 2018, <https://www.ft.com/content/063ce350-1099-11e8-8cb6-b9ccc4c4dbbb>.

CPEC. The then Pakistan Prime Minister Nawaz Sharif, along with four Chief Ministers, attended China's Belt and Road Summit held on May 14-15, 2017. The attendance of all four provincial Chief Ministers was intended to display national unity on the issue. Significantly, many concerns raised by the provinces regarding regional disparities under the project were said to have been resolved after meetings with Chinese officials.⁶⁴

Provincial differences have emerged on the selection and prioritisation of the Eastern route⁶⁵ under CPEC. The Eastern route will cross only very few areas of Balochistan and Khyber Pukhtunkhwa (KP), and prioritised ostensibly in view of Pakistan's security concerns.⁶⁶

Pakistan's security challenges, particularly emerging from various terrorist formations acting there, or operating in the neighbourhood with Pakistani state support, are a defining factor with regard to the country's capabilities to attract foreign investment, the movement of capital and people, and to promote economic growth. Terrorist and insurgent violence also constitutes a direct obstacle to the efficient execution of infrastructure projects under CPEC. On May 14, 2017,

64 Muhammad Iqbal Chawla, "One Belt One Road Summit 2017 and its Implications for CPEC: An Overview", *South Asian Studies*, Volume 32, Number 2, July-December 2017, pp. 277-284.

65 Eastern Route of CPEC passes through Makran coastal highway, Karachi, Hyderabad, Sukkur, Multan, Lahore, Islamabad, Manshera, Thakot, Raikot to Khunjarab interconnecting all the major cities of Punjab. Most of the Eastern Route will pass through Punjab and Sindh from Karachi to Islamabad. Aftab Alam, "CPEC routes", *Dawn*, November 28, 2016, <https://www.dawn.com/news/1299022>.

66 Sajid Hussain and Muhammad Ayaz Khan, "CPEC: A Roadmap of Region's", *FWU Journal of social Sciences*, Winter 2017, Volume 11, Number 2, pp. 51-59.

for instance, 10 Pakistani nationals were killed by Baloch Liberation Army cadres in Gwador in what is only one of the many attacks against workers.⁶⁷ The South Asia Terrorism Portal (SATP) provides data on province/region wise data of terrorism-related fatalities in Pakistan between 2011 and 2017:

TABLE. 3 – REGION WISE FATALITIES LIST OF PAKISTAN

Year	Balochistan	Sindh	KP	FATA	Punjab
2011	711	1211	1206	3034	137
2012	954	1553	656	2901	104
2013	960	1668	161	1716	81
2014	653	1180	617	2863	180
2015	635	718	268	1882	176
2016	633	271	213	430	244
2017	343	243	391	391	158

Source: *South Asia Terrorism Portal*⁶⁸

SATP data demonstrates that fatalities in Balochistan, Sindh, KP and FATA are consistently and dramatically higher than in Punjab. The high incidence of terrorist-related violence on CPEC’s Western routes⁶⁹ across these troubled provinces, is a major concern for multiple stakeholders in this project.

67 Sharif Khan, “BLA kills 10 Sindhi labourers in Gwadar”, *The Nation*, May 14, 2017, <https://nation.com.pk/14-May-2017/bla-kills-10-sindhi-labourers-in-gwadar>. See also, SATP, “Balochistan Assessment 2013”, 2014, <http://www.satp.org/terrorism-assessment/pakistan-balochistan-2013>.

68 Fatalities in Pakistan Region Wise: 2011-2017, South Asia Terrorism Portal (SATP), http://www.satp.org/satporgtp/countries/pakistan/database/fatalities_regionwise.htm.

69 Western Route of CPEC is the shortest route which starts from Khunjerab in Gilgit-Baltistan, passing through Dera Ismail Khan, Zhob, Quetta, Surab, Hoshab and ends at Gwadar. “Work on CPEC Western Route underway”, *The Nation*, August 7, 2017, <https://nation.com.pk/07-Aug-2017/work-on-pec-western-route-underway>.

China and Pakistan have agreed to a four-layered security plan⁷⁰ to guard the 3,000 kilometer-long economic corridor. Significantly, 32,000 security personnel are already deployed to provide security to 14,321 Chinese workers in Pakistan. Pakistan has also raised a Special Security Division (SSD)⁷¹ with nine infantry divisions, estimated around 13,700 personnel, and six civilian armed forces, for the protection of the CPEC projects.

THE PROGRESS OF CPEC PROJECTS

The major energy projects under CPEC that have already been completed include one 1320 MW Coal Power plant each at Port Qasim, Karachi, and Sahiwal, Punjab. Another two 1320 MW Thermal power plants are planned in the Thar Block of Sindh, and at Hub in the Lasbela District of Balochistan. The 1000 MW Quaid-e-Azam Solar Park is planned in Bahawalpur, Punjab. The Kohala Hydel Project in Pakistan occupied Kashmir (PoK) projected capacity of 1100 MW and Suki Kinari Hydropower Station in Khyber Pakhtunkhwa with capacity of 870 MW are major hydro electric projects

70 “This security plan will include a new security policy to provide security to nearly 210 small and medium projects of CPEC. Nearly 500 Chinese security personnel are part of the plan for increasing capacities of Pakistani security personnel guarding CPEC. According to this plan, Balochistan province will have more security personnel to safeguard CPEC projects and personnel”. Zahid Gishkori, “Economic corridor: Pakistan, China agree on four-layer security”, *The Express Tribune*, November 1, 2015, <https://tribune.com.pk/story/983033/economic-corridor-pakistan-china-agree-on-four-layer-security/>.

71 The Special Security Division (SSD) will have 13, 700 personnel to secure CPEC projects and provide protection to Chinese workers. Retired army personnel will be hired for SSD to secure CPEC. “Special Security Division established to secure CPEC” , *The Express Tribune*, January 22, 2017, <https://tribune.com.pk/story/1303428/special-security-division-established-secure-cpec/>.

planned under CPEC. A total of six coal-fired power plants are to generate a capacity of 7920 MW.⁷²

Five energy projects out of total 21 listed on the official CPEC website have been completed and are operational. Four are under construction. Two major thermal power plants are operational and generating 2640 MW electricity. In both these projects, the primary energy input is coal. Energy generation from renewable sources like solar, wind or hydro constitutes a very small element under CPEC.

Thermal power plants located in Port Qasim (Sindh) and Sahiwal (Punjab) operate on imported coal. Having been constructed using dated Chinese technology, the power plants are raising significant environmental concerns and questions about their long-term sustainability and profitability. There are also multiple concerns over the pattern of finance provided by the Chinese for these coal-fired power plants. Pakistan has guaranteed up to a 34.49⁷³ per cent annual profit on equity invested in the thermal projects and loans have been obtained at a six per cent rate of interest, which increases to 13 per cent with the inclusion of insurance costs. The assured return on equity for coal-fired power plants was between 27.2 to 34.49 percent,⁷⁴ double the standard of 17 per cent rates at the upper end. The tariff for thermal power plants averaged Pakistani Rupees (PKR) 8.3 per unit in CPEC thermal power plants, though energy experts argue that the actual tariff was far higher than this projected average.⁷⁵

72 CPEC-Energy Priority Projects, *CPEC*, <http://cpec.gov.pk/energy>.

73 Farrukh Saleem, "Capital suggestion", *The News*, October 8, 2017, <https://www.thenews.com.pk/print/235350-CPEC>.

74 Ibid.

75 Shahbaz Rana, "Windfall for Chinese on coal fired projects", *The Express Tribune*, February 12, 2017, <https://tribune.com.pk/story/1327172/windfall-chinese-coal-fired-projects/>.

CPEC infrastructure projects include both road and rail networks. According to the official CPEC website, a total of five highway projects totalling 968 kilometers, with an estimated cost of USD 5,341 million, are planned. However, only two highway projects covering 512 kilometres, which include Karakoram Highway Phase II (Thakot- Havelian Section -120 kilometers) and Peshawar-Karachi Motorway (Multan-Sukkur Section- 392 kilometers) with a projected cost of USD 4,346 million, are currently under construction, and three railway projects with an estimated costs USD 8,172 million are planned, but are still at the documentation stage, with construction yet to commence.⁷⁶ CPEC also envisions construction and upgradation of highways in Pakistan across various routes over thousands of kilometers. However, only the Multan-Sukkur section on CPEC's Eastern route is yet under construction.

Future CPEC projects at Gwadar also include the construction of an expressway, international airport, the development of a free zone, friendship hospital, technical and vocational institute, development of Gwadar university, etc. The construction of the Gwadar East-Bay Expreeway, with an estimated cost of USD 140.6 million, is currently underway.⁷⁷ Significant projects related to Gwadar seaport still need administrative approval. However, the Lahore Orange Line Metro, part of CPEC, is scheduled to be completed within 2018. The trial run for the Lahore Metro was conducted in February 2018 for a distance of 12 kilometers.⁷⁸ The feasibility studies for Special Economic Zones (SEZ's) have been conducted

76 CPEC Infrastructure Projects , CPEC, <http://cpec.gov.pk/infrastructure>.

77 CPEC Gwader Projects , CPEC, <http://cpec.gov.pk/gwader>.

78 "Orange Line Metro train runs on trial basis in Lahore", *The News International*, March 5, 2018, <https://tribune.com.pk/story/1651248/1-orange-line-metro-train-track-partially-completed/>.

and shared by Pakistan with China. Land has been acquired for one SEZ project under CPEC.⁷⁹ Some CPEC projects in Gwadar are in the construction stage, while some are still in documentation stage.

Significantly, the extension of deadlines to complete CPEC's first phase and increasing variations in the cost of component project, highlight the bottlenecks and difficulties that are already hobbling the execution of various projects on schedule. According to Pakistan's Interior Minister, the revised deadline for completion of the first phase of CPEC has been pushed to 2020,⁸⁰ from the originally planned 2017.⁸¹ Further, on August 19, 2016, the decision of Lahore High Court to suspend the construction works on the USD 1.6 billion Orange Line Metro (OLMT) at 11 historical sites in Lahore city, which is a part of CPEC, was set aside by Supreme Court of Pakistan in December 2017. The initial deadline to complete this project was 25 December, 2017⁸² and the project is only now set to resume. Such difficulties resulted in extended deadlines and delays in the Lahore Metro project.

Pakistan's Federal Cabinet members have also raised the issue of the absence of the agricultural sector as part of CPEC, which was admitted by the Interior Minister, Ahsan Iqbal in

79 CPEC Special Economic Zones, CPEC, <http://cpec.gov.pk/special-economic-zones-projects>.

80 "CPEC to be completed in three phases till 2030: Ahsan", *Radio Pakistan*, March 31, 2018, <http://www.radio.gov.pk/31-03-2018/cpec-to-be-completed-in-three-phases-till-2030-ahsan>.

81 "12 energy projects under CPEC to be completed by 2017-18", *The Express Tribune*, January 18, 2017, <https://tribune.com.pk/story/1298608/early-harvest-12-energy-projects-cpec-completed-2017-18/>.

82 "SC gives green signal to Lahore's Orange Line Train project", *Dunya News*, December 9, 2017, <http://dunyanews.tv/en/Pakistan/418095-SC-gives-green-signal-to-Lahore%E2%80%99s-Orange-Line-Train-project>.

April 2018.⁸³ Similarly, Pakistan’s water crisis has not been addressed under CPEC, and there is no project in the first phase to ease Pakistan’s future water concerns.⁸⁴ The monopoly enjoyed by Chinese companies and Pakistan Government curbs on participation of local Pakistani firms has increased CPEC costs and also militates against the basic rights of Pakistani companies.⁸⁵ The tough financial terms imposed by China to finance the USD 14 billion Diamer-Basha Dam resulted in Pakistan’s decision to delink the project from CPEC.⁸⁶ China has also delayed finance to three infrastructure projects –the 210 kilometer Dera Ismail Khan-Zhob Road; the 110 kilometer Khuzdar-Basima Road; and the 136 kilometer portion remaining of the Karakoram Highway (KKH) from Raikot to Thakot, after Pakistani media reported corruption issues in CPEC projects in December 2017.⁸⁷ These projects will have new sets of guidelines for finance, after China has established a new institution –China Aid. The concessional loans financed by China will be transferred from it’s Ministry of Commerce to China Aid.⁸⁸ The problem of corruption charges and institutional changes have created issues for many CPEC projects.

83 Amir Wasim, “Absence of agriculture projects from CPEC worries ministers”, *Dawn*, April 4, 2018, <https://www.dawn.com/news/1399447>.

84 Syed Zeeshyan Haider, “The great game changer?”, *Daily Times*, April 10, 2018, <https://dailytimes.com.pk/226004/the-great-game-changer/>.

85 Usman Hanif, “Pakistan’s agriculture productivity among the lowest in the world”, *The Express Tribune*, January 24, 2018, <https://tribune.com.pk/story/1616347/2-pakistans-agriculture-productivity-among-lowest-world/>.

86 Omar Farooq Khan, “China halts funding CPEC-related projects under shadow of corruption”, *The Times of India*, December 5, 2017, <https://timesofindia.indiatimes.com/world/china/china-halts-funding-cpec-related-projects-under-shadow-of-corruption/articleshow/61936975.cms>.

87 Syed Irfan Raza, “Three CPEC projects hit snags as China mulls new financing rules”, *Dawn*, December 5, 2017, <https://www.dawn.com/news/1374532>.

88 Shahbaz Rana, “China gives fresh assurance on CPEC financing”, *The Express Tribune*, May 22, 2018, , <https://tribune.com.pk/story/1715909/1-china-gives-fresh-assurance-cpec-financing/>.

Significantly, Japan had offered to finance Pakistan at rates cheaper than China for infrastructure creation as part of CPEC. However, Pakistan was forced to reject Japan's offer after facing Chinese resistance.⁸⁹ 75 percent of Pakistan's loan during 2013-2018 have been for budgetary support and increasing foreign exchange reserves. High debt levels are consuming over 30 percent of the Pakistan Government budget on account of debt servicing cost.⁹⁰ Pakistan's total debt stands at USD 91.8 billion and is expected to reach upto USD 144 billion in next five years (2018-2023).⁹¹ Pakistan's economy will have to face tough economic conditions going forward, to manage the balance of payments crisis and increasing debt levels.

THE INDIAN RESPONSE

The Indian Government has consistently opposed CPEC, particularly with regard to projects located in Pakistan Occupied Kashmir (PoK), parts of Jammu and Kashmir (J&K) that Pakistan has illegally controlled since 1947. CPEC disregards Indian concerns over sovereignty and territorial integrity, according to the Ministry of External Affairs.⁹² India has also urged China to engage in meaningful dialogue

89 Zafar Butta, "Pakistan turns down cheaper loan offer from Japan", *The Express Tribune*, February 18, 2018, <https://tribune.com.pk/story/1637886/2-pakistan-turns-cheaper-loan-offer-japan/>.

90 Shahbaz Rana, "Pakistan's foreign borrowing surges to \$10b in 11 months", *The Express Tribune*, June 26, 2018, <https://tribune.com.pk/story/1742368/2-pakistans-foreign-borrowing-surges-10b-11-months/>.

91 Mehtab Haider, "Pak loan reliance on China increases manifold", May 29, 2018, *The News International*, <https://www.thenews.com.pk/print/322674-pak-loan-reliance-on-china-increases-manifold>.

92 Official Spokesperson's response to a query on participation of India in OBOR/BRI Forum, Ministry of External Affairs, Government of India, May 13, 2017, www.mea.gov.in/media-briefings.htm?dtl/28463/Official_Spokespersons_response_to_a_query_on_participation_of_India_in_OBORBRI_Forum.

regarding the BRI.⁹³ India was one of the few countries in South Asia to boycott the Belt and Road Summit hosted by China in May 2017. While India and China are founding members in infrastructure investment banks like the Asian Infrastructure Investment Bank (AIIB), India has strong reservations regarding CPEC, apart from its problems with BRI.⁹⁴

The Indian Government has emphasised connectivity within global norms of good governance, rule of law, openness, transparency and equality. Crucially, infrastructure projects should not create an unsustainable debt burden for local communities, neglect concerns of ecological and environmental preservation and conservation standards, transparency, transfer of knowledge, skill and of technologies to the target country, and has expressed strong concerns regarding neglect of these considerations with regard to the CPEC and BRI projects.

In an alternative thrust, India has sought to promote connectivity across the region through ‘Trilateral Highway’ and multi-modal linkages with Myanmar and Bangladesh, as well as through the development of the Chabahar Port in Iran, partly in response to the challenges created by CPEC.⁹⁵ Making India’s position on CPEC clear to the international community, Defence Minister Nirmala Sitharaman noted at the VIIth Moscow Conference on International Security on April 2, 2018, that there was a need to work towards increasing areas of convergence, and to reduce differences in a multi-polar world.

93 Ibid.

94 “China will not push India on BRI: Vice foreign minister”, *The Times of India*, April 28, 2018, <https://timesofindia.indiatimes.com/india/china-will-not-push-india-on-bri-vice-foreign-minister/articleshow/63952474.cms>.

95 Official Spokesperson’s response to a query on participation of India in OBOR/BRI Forum, Ministry of External Affairs, Government of India, May 13, 2017, www.mea.gov.in/media-briefings.htm?dtl/28463/Official_Spokespersons_response_to_a_query_on_participation_of_India_in_OBORBRI_Forum.

She emphasised that there was no scope for expansionism, one-sided approaches, or for beggar-thy-neighbour policies.⁹⁶

China has tried to negotiate with India on various issues relating to CPEC and BRI. On April 28, 2018, China's Vice Foreign Minister Kong Xuanyou stated, "As for whether India accepts the expression Belt and Road (BRI includes CPEC), I think it is not important and China will not be too hard on it".⁹⁷

Seetharaman's statement on a multi-polar world can be linked to China's infrastructure initiatives in various countries, which are facing opposition from determined sections of society. The opposition to China-led infrastructure projects has been articulated in countries like Sri Lanka and Malaysia, apart from Pakistan. In Sri Lanka, January 2017 saw popular protests at Hambantota against the pattern of Chinese investment, leading to a Chinese takeover of the Port.⁹⁸ Similarly, in May 2018, Prime Minister Mahathir Mohamad of Malaysia stated that that he would seek to renegotiate the 'unequal treaties' of the East Coast Railway Project in Malaysia with the Chinese.⁹⁹

In February 2018, India has secured access to the Duqm Port in Oman for military use and logistical support, as part of its strategy to counter Chinese influence and activities in the

96 "RM'S address at 'VII Moscow Conference on International Security", *Ministry of Defence*, Press Information Bureau, April 5, 2018, <http://pib.nic.in/newsite/erecontent.aspx?reid=178424>.

97 China will not push India on BRI: Vice foreign minister, *The Times of India*, April 28, 2018, <https://timesofindia.indiatimes.com/india/china-will-not-push-india-on-bri-vice-foreign-minister/articleshow/63952474.cms>.

98 "Sri Lanka protest over Chinese investment turns ugly", *BBC*, January 7, 2017, <https://www.bbc.com/news/world-asia-38541673>.

99 Anisha Shukry and Kyuunghree Park, "Malaysia Scraps Multibillion-Dollar High-Speed Rail Project to Singapore", *Bloomberg*, May 28, 2018, <https://www.bloomberg.com/news/articles/2018-05-28/mahathir-to-scrap-malaysia-singapore-high-speed-rail-project>.

region. This port is strategically located, in close proximity to the Chabahar port in Iran, overlooking the Arabian Sea and the Indian Ocean.¹⁰⁰ Moreover, the first consignment of wheat assistance to Afghanistan from India via Chabahar Port was delivered in November 2017.¹⁰¹ India and Afghanistan also established an Air Freight Corridor from Delhi to Kabul, when the first flight transported cargo on June 18, 2017.¹⁰² As reported on June 16, 2017, Indian Ministry of External Affairs (MEA) Spokesperson Gopal Baglay had disclosed that the cargo service would use Pakistani airspace as a civil cargo plane and standard operating procedures, as stipulated, would be followed by flight operators.¹⁰³

TANGIBLES AND STRATEGIC CONCERNS

CPEC is expected to further increase strategic competition between India and China in both Central and West Asia, regions abundant in energy and mineral resources. China is developing alternate routes to transport energy resources and cargo through CPEC, while India is still searching for options to improve connectivity across Eurasia. Moreover, Chinese

100 Shubhajit Roy, “India gets access to strategic Oman port Duqm for military use, Chabahar-Gwadar in sight”, *Indian Express*, February 13, 2018, <http://indianexpress.com/article/india/india-gets-access-to-strategic-oman-port-for-military-use-chabahar-gwadar-in-sight-5061573/>.

101 “India’s first consignment of wheat assistance to Afghanistan”, *Economic Times*, November 1, 2017, <https://economictimes.indiatimes.com/news/politics-and-nation/indias-first-consignment-of-wheat-assistance-to-afghanistan/articleshow/61425395.cms>.

102 “India and Afghanistan establish Direct Air Freight Corridor”, *Ministry of External Affairs*, Government of India, June 19, 2017, http://mea.gov.in/press-releases.htm?dtl/28546/India_and_Afghanistan_establish_Direct_Air_Freight_Corridor.

103 IANS, “India, Afghanistan to operate dedicated air cargo link, flights will use Pakistani airspace”, *Firstpost*, June 16, 2017, <https://www.firstpost.com/india/india-afghanistan-to-operate-dedicated-air-cargo-link-flights-will-use-pakistani-airspace-3702739.html>.

diplomacy to engage various terror groups like the Afghan Taliban and BLA is expected to amplify Chinese interference and influence in domestic issues within the region. China's diplomatic engagement with terror organisations could have unpredictable results for both Pakistan and the region at large.

CPEC's development in Pakistan also creates long-term strategic concerns, such as the transformation of Gwadar into a naval base for both China and Pakistan, against India. The military uses of CPEC projects and infrastructure in Pakistan will augment the threat to India. India may seek to design and plan infrastructure and connectivity projects, creating local employment and economic growth for other countries, such as Iran, Afghanistan and Myanmar. India's counter to CPEC demands financial and technological capabilities to execute various infrastructure projects across IOR. The promotion of clean and green energy in Pakistan's neighborhood, including Afghanistan, also has the potential to initiate new narratives on energy projects, in contrast to CPEC's environmentally destructive approach.

The tangibles from CPEC's massive infrastructure projects overwhelmingly favour China's interests, promote Chinese companies and firms, increasing Chinese exports, capturing markets for Chinese goods, and forcing long term deals in Pakistan, all in favour of China. On its part, Pakistan is receiving capital for developing infrastructure as part of CPEC, but on terms that are likely force it into a crippling debt trap that will eventually result in the transfer of assets and a creeping erosion of sovereignty. China's rising influence in Pakistan, moreover, will create challenges for India's foreign policy.