

China Pakistan Economic Corridor: Demands, Dividends and Directions

Saeed Shafqat
Saba Shahid



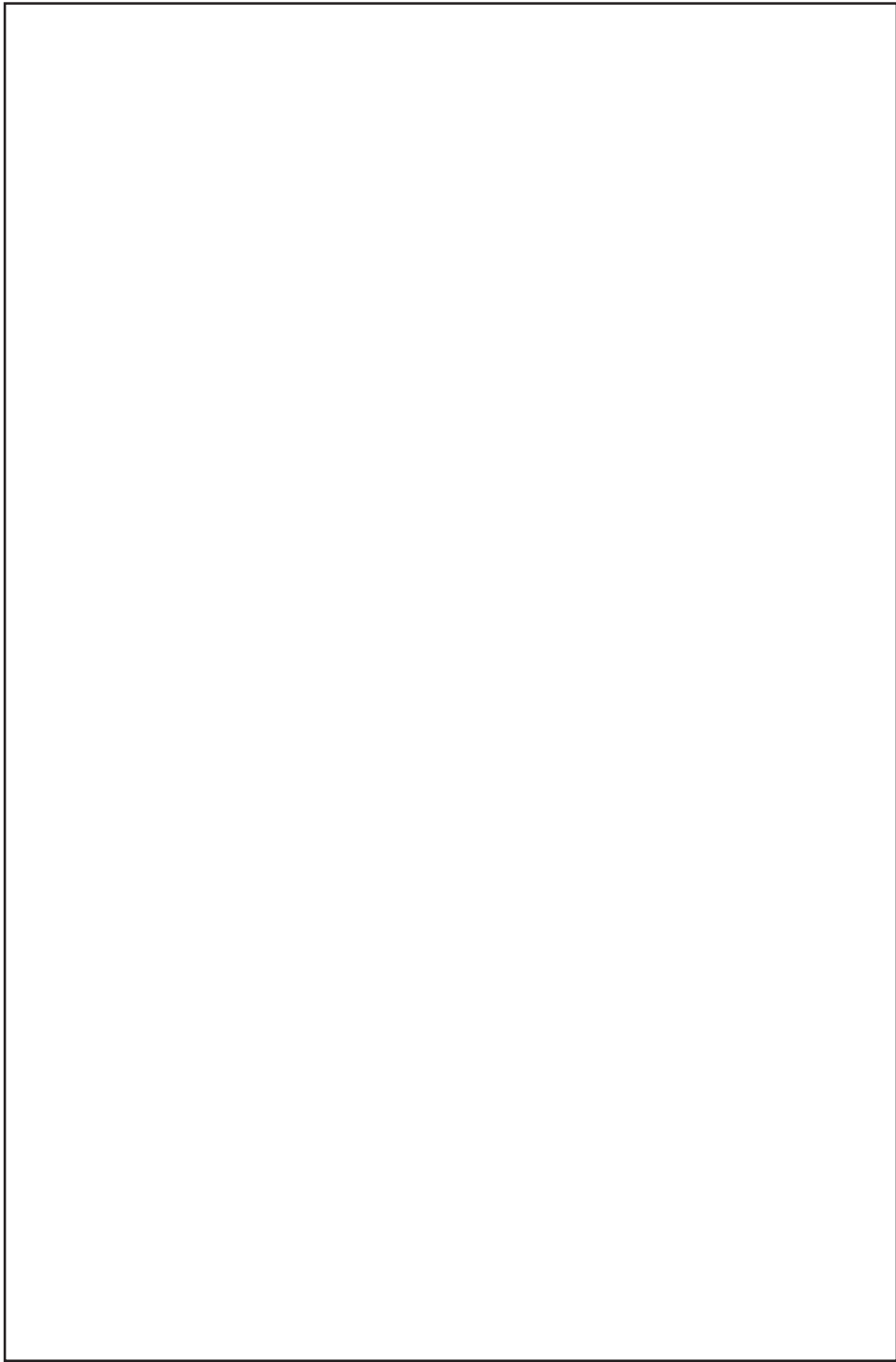
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AND GOVERNANCE



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Forman Christian College (A Chartered University) Lahore



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LIST OF ACRONYMS

APTTA	Afghanistan-Pakistan Transit Trade Agreement
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
BLA	Balochistan Liberation Army
BNP	Balochistan National Party
CPARP	China-Pakistan Asia Research Program
CPEC	China Pakistan Economic Corridor
CPSC	China Pakistan Study Centre
DIG	Deputy Inspector General
EPA	Environmental Protection Agency
ETIM	East Turkestan Islamic Movement
FATA	Federally Administered Tribal Areas
FTA	Free Trade Agreement
FWO	Frontier Works Organization
GB	Gilgit Baltistan
GDP	Gross Domestic Product
GWT	Global War on Terror
ICT	Information and Communications Technology
IMF	International Monetary Fund
IP	Intellectual Property
KCIP	KP-China Investment Plan
KKH	Karakoram Highway
KP	Khyber Pakhtunkhwa
LTP	Long-Term Plan
NESPAK	National Engineering Services Pakistan
NSTC	North-South Trade Corridor
OICCI	Overseas Investors Chamber of Commerce and Industry
PTI	Pakistan Tehreek-e-Insaf
PBC	Pakistan Business Council
PMLN	Pakistan Muslim League-Nawaz

PPP	Pakistan Peoples Party
QTTA	Quadrilateral Traffic in Transit Agreement
R&D	Research and Development
SAFTA	South Asian Free Trade Area
SCO	Shanghai Cooperation Organization
SEZ	Special Economic Zone
SIPRI	Stockholm International Peace Research Institute (SIPRI)
SPU	Special Protection Unit
SDGs	Sustainable Development Goals
TTFA	Transit Transport Framework Agreement
UN	United Nations
WEF	World Economic Forum

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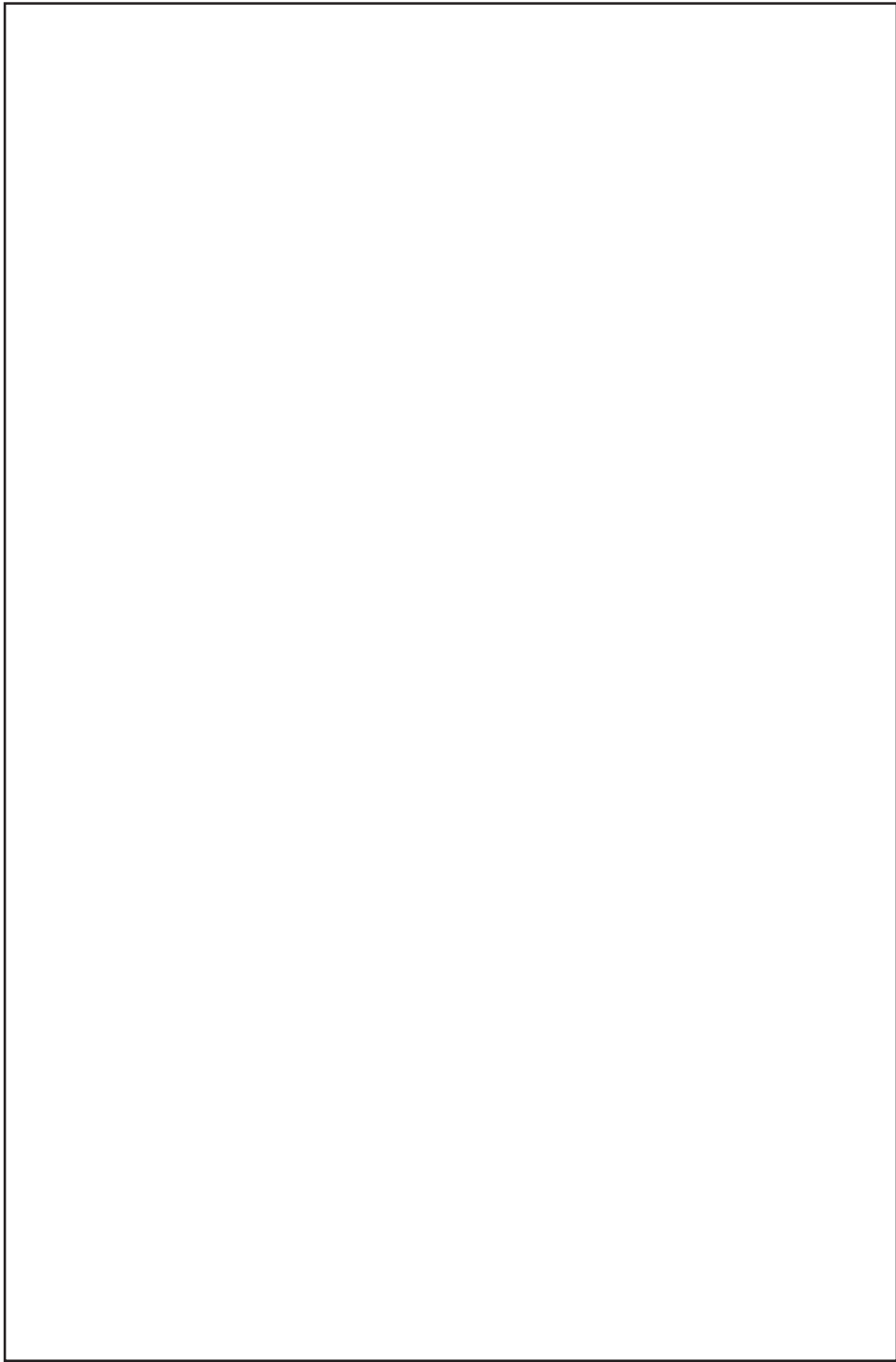
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PREFACE

This Monograph is the Sixth of the series that the Centre for Public Policy and Governance (CPPG) has been publishing since 2009. It gives me pleasure to share that for the past four years, we have been working on China-Pakistan relations slowly but consistently. In November 2012, courtesy of Dr. Charles Ramsey, who was then *Executive Assistant to the Rector (Special Projects) Faculty of Religious Studies (subsequently also joined CPPG)*, I was introduced to Dr. Adam Webb, who was visiting from the Johns Hopkins University, Centre for Chinese and American Studies, at Nanjing University. We invited him to the Centre in 2013 and began to converse on the possibility of holding a conference at Nanjing University on China-Pakistan relations in the broader context of China's Rise and Changing Dynamics of Global Politics. In early 2014, we agreed on a tentative conference theme, "The New Silk Web in the 21st Century: Global Landscapes Among the West, China, and Southwest Asia." The expectation was to bring together twenty-five scholars from the proposed regions. Now, the hard task was to band together a few scholars, who would be willing to write a paper for the conference. I approached several colleagues at universities in Lahore and finally, we were able to form a small group comprising of Professor Sajjad Naseer, Lahore School of Economics, Dr. Hasan Karrar, Lahore University of Management Sciences (LUMS), and Dr. Charles Ramsey, Raheemul-Haque and myself from the Forman Christian College- A Chartered University (FCCU). We all participated in the Conference in Nanjing, that took place from 7-9 November 2014 and the University did compile proceedings of the Conference. Over the years we have maintained contact and this has helped us create a China Cell at the CPPG.

In the past four years, I have had several opportunities to participate and present papers at the China-Middle East Conferences that took place in Qatar (2016) and Shanghai (2017). For this I am thankful to Dr. James Tebbe, Rector, FCCU for supporting our research endeavors and allowing me to participate in these

conferences. In Qatar, I got to know Professor Tugrul Keskin, who is jointly at Maltepe University, Turkey and Shanghai University, China and has been a source of inspiration in encouraging research on China and the larger Muslim World.

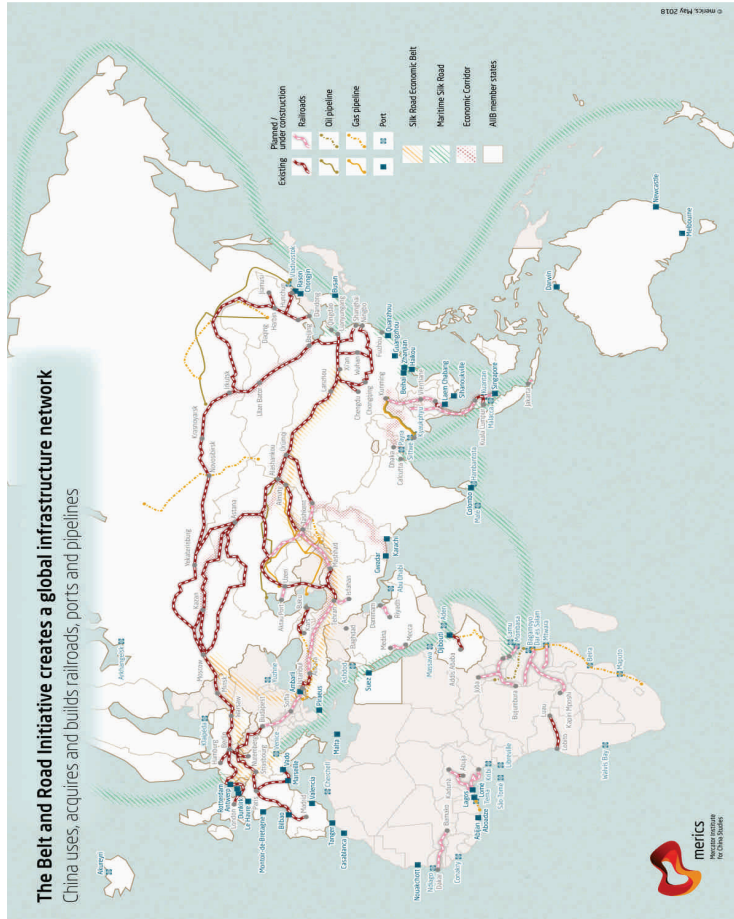
The One Belt, One Road project launched in 2013 (now renamed Belt and Road Initiative (BRI)), has catalyzed research on China. This not only redefined geopolitics but also changed the meaning of geo-economics. This has been an incentive for me to complete and get my research on China's Rise published¹. It has also helped me to focus on the China Pakistan Economic Corridor (CPEC). Earlier this year my colleague Saba Shahid, Research Associate at the CPPG, and I also got an opportunity to share parts of this study at a conference in Lahore on: "The Great Transformation? The China-Pakistan Economic Corridor and Culture, Economy and Society in Pakistan", jointly organized by LUMS and the University of Nottingham.

This current research, *CPEC: Demands, Dividends and Directions*, has been in progress for over a year and is still an ongoing study. More than me, Saba has worked diligently, dedicatedly and with a sense of purpose. Our effort has been to provide an academic and evidence-based analysis and assessment of the CPEC, including challenges of conducting research on the subject. To what degree we have succeeded in this, we leave it to the readers, interested scholars and policy makers. This draft has gone through several changes and reviews. I want to gratefully acknowledge the detailed comments and feedback we received from Dr. Sikandar Hayat, Dean Faculty of Social Sciences FCCU, Dr. Faran S. Naru, Assistant Professor, CPPG and Mr. Abdul Wajid Rana, former Federal Secretary, Government of Pakistan. Their comments helped us revise and improve the quality and content of our work. We also gratefully acknowledge the support of all our colleagues and support staff and librarians at the FCC Resource Centre, Mohammad Naveed, Hunny Javed and Haseeb Asim our student Intern for their invaluable assistance. However, any errors of facts and interpretation are the sole responsibility of the authors.

Saeed Shafqat, Professor & Founding Director
Saba Shahid, Research Associate
August 31st 2018

1. Saeed Shafqat, "China's Rise: How Is It Impacting the Gulf, Iran, Pakistan and Beyond?" *Asian Journal of Middle Eastern and Islamic Studies Vol. 11, No. 1, 2017. Pp 15-36.*

Figure 1 China's Belt and Road Initiative has global reach



Source: <https://www.merics.org/en/china-mapping/silk-road-initiative>

CHAPTER ONE

Introduction

“Pakistanis have the most favorable view of China after China itself.” –Pew Research Center 2013

This study maintains that the Belt and Road Initiative (BRI) (*previously One Belt One Road*) has three essential components; first, it **links development with security**; fundamental economic drivers, such as trade and infrastructure investment are inextricably linked to political stability and peace. Second, the BRI **promotes cultural and educational exchanges as manifestations of its developmental strategy**. Third, it **envisions regional connectivity and economic interdependence as catalysts** of the development and security nexus. The BRI is an ambitious initiative that covers around 65 countries, 4.4 billion people and 40 percent of the global GDP.¹ Given the inherent risk and venturesome characteristic of the plan, China has designed the BRI in a manner that addresses the cultural sensitivities, economic needs and security concerns of participant states. In addition to factors such as the production and exchange of knowledge, innovation and technological growth, trade and transportation costs, China recognizes that security acts as a pivotal determinant of the geography of development. By adding an element of security to the equation, China’s revival of the ancient Silk Road into the modern BRI redefines the parameters of traditional geo-economics and international relations.

In effect, China’s Belt and Road Initiative is gaining global recognition and legitimacy. For instance, in April 2017, the UN’s Social and Economic Council held a workshop with Chinese experts titled “*The Belt and Road Initiative: Progress and Future Cooperation - Dialogue between the United Nations and Chinese*

experts". The aim was to explore how this initiative intersects with the UN 2030 Agenda and the Sustainable Development Goals (SDGs). Chinese and UN experts noted that it was in line with 17 SDGs and 169 targets as the initiative focuses on five categories of the SDGs namely, people, planet, prosperity, peace and partnership.²

It is worth noting that the BRI is not Asia-centric. Its global reach extends as far as Western Europe including the United Kingdom, where a 1.7 billion pound project was initiated in the capital's Royal Albert Dock last year. The project is spearheaded by the Chinese firm ABP and is meant to facilitate trade and business access of Asian firms to Europe. The role of Chinese firms in the uplift of western powers, including that of the UK post-Brexit is a significant emerging trend. Such developments also indicate how participating in China's development strategy is almost inevitable for most countries looking to regain momentum in international markets, given the scope, scale and volume of Asian investment overseas³ (*see Figure 1*).

The China Pakistan Economic Corridor (CPEC) is one of the pivotal components of China's high profile BRI. facilitating connectivity, China promotes a vision where a 'win-win' situation of mutual benefits can be achieved. Invoking a 2000 year old history that China shares with Central Asia, Eurasia and other parts of the world, President Xi Jinping has been persistent in conveying that the BRI, including the CPEC, aims to revive regional connectivity through, infrastructure development, trade and investment in industry from which development dividends can be shared across the world. Openness and inclusive growth thus form core principles of this 'project of the 21st Century' while any skepticism over the geo-strategic ambitions of the BRI have categorically been rejected by the Chinese leadership. Yet, some academia, policy experts, ThinkTanks and social activists in the Western world and Asia remain suspicious.

Given this thrust, the BRI has generated a lively discourse on how geo-economics could have a symbiosis with geopolitics. It has revived and energized the salience of geo-economics in the sense that China is not challenging the existing neo-liberal international economic order; it is clamoring for legitimate space in it and is seeking 'integration.' However, two US based scholars, Xinyuan

Dai and Duu Renn, caution that integration has its limits, as China is not 'embedded' in the international institutional order (for instance in organizations such as the World Bank, and sharing rights in the International Monetary Fund-IMF). Others contend that with acceptance and participation in the neo-liberal economic order, China should assume greater responsibility in maintaining peace and stability internationally. The BRI, particularly the CPEC, is China's response to that challenge. It manifests a paradoxical global trend that on the one side socio-economic integration is making territorial boundaries and the notions of national sovereignty irrelevant and yet on the other side, nation-states are asserting to regain national sovereignty ('Brexit', 'America First'). Despite the ongoing debate, China's BRI has come a long way from being just an 'idea' to manifesting itself in tangible physical investments across the globe. Infrastructure projects worth over 4.5 bn US\$ have already been completed in countries including Hungary, Iran, Kazakhstan, Pakistan, Sri Lanka, Cambodia, Indonesia and South Korea. Additionally, projects are already under construction in Bangladesh and Laos, amounting to over 7 bn US\$ while Israel, Mongolia, Turkey and Ukraine are at various stages of BRI projects, the investment in these four countries being collectively worth more than 28.4 bn US\$.⁴ China is also investing in infrastructure development in the UK and Poland suggesting that the scale of its Belt and Road Initiative really does cover the entire globe from East to West. The fact that the BRI also embodies intangible forms of global connectivity is apparent in China's ability to attract more traditional US-supporters into trade deals and other forms of economic cooperation (this is being jolted under President Trump's recent tariffs and trade war). Countries such as the Philippines, Laos, Malaysia, Cambodia and Australia for instance have witnessed a clear shift in increased trade with China as opposed to the US.⁵ Pakistan too has gradually been aligning its foreign policy with that of China, particularly as the Trump era comes into full fruition, connecting its economy with that of the emerging superpower.

The CPEC offers Pakistan an opportunity for both economic and human development. Projects in the CPEC are estimated to be between 46 to 62 billion US\$, around 17 per cent of the country's total GDP. Through the CPEC, a network of road and communications infrastructure will be developed spanning over 3000 km from the city of Kashgar in China to Pakistan's south-western most tip, Gwadar. It will augment the geo-strategic location of Pakistan in the Persian Gulf and also in the

Arabian Sea, connecting and providing China access to the rest of South Asia, the Middle East and Africa. In addition to infrastructure development, there are three key elements to the CPEC: the development of the Gwadar port, investments in the energy sector and the creation of industrial zones, both in western China at close proximity to Pakistan and within Pakistan as well.⁶

1.1 Central Arguments and Objectives

This study has four broad objectives, first it evaluates if infrastructure investment as entailed in the CPEC is likely to promote internal harmony in a pluralistic society and whether it can pave the way for inclusive economic growth and development. It will argue that reconciling provincial interests and building political consensus is imperative for Pakistan to fully capitalize on the development opportunities offered through the CPEC. Second, it looks at how terrorism and security threats may restrain the optimum development potential of CPEC. It articulates the need to strengthen security and curb terrorism in order to create an enabling investment climate, not only for incoming Chinese investment but to attract international economic activity to Pakistan. Third, it evaluates how the CPEC can promote regional connectivity and enhance development. It attempts to provide a detailed analysis of the various projects being initiated under the umbrella of the CPEC and assesses their geographic distribution. This demands focus on overcoming chronic Indo-Pak tensions for greater regional cooperation. It argues that diffusing tensions and engaging with each other will not only generate greater economic exchange between the two countries, but is important in particular for Pakistan to retain its geo-strategic significance vis-à-vis China. Included in this is the need to understand the regional significance of Balochistan's Makran Coast and the pivotal position of Gwadar as a gateway to the Persian Gulf and the Arabian Sea. Finally this study assesses the economic, educational, cultural and strategic potentialities of CPEC. The authors maintain that in order to ensure Pakistan's local economies are not hurt; trade with China must be negotiated in a manner that safeguards the interests of local producers and businesses.

The central argument of this study is that Pakistan will be able to benefit from these opportunities if policies surrounding the CPEC

are transparent, evidence-based and participatory and are backed by a deep and clear understanding of local conditions. Pakistan will need to charter negotiations with China on the CPEC in a manner that boosts trade in the country, provides Pakistanis an opportunity for technical learning, enhances investment and development, deepens people to people contacts and creates employment. It is in this context that this study will examine and evaluate the demands, dividends, risks and opportunities that the CPEC offers.

1.2 Literature on CPEC: Assumptions and Perspectives

Given Pakistan's politico-economic infirmities including perceptions about security and a volatile regional strategic environment that contrasts to China's prudent and vigorous determination to launch the BRI, the CPEC has evoked vociferous response from local, regional and international scholars and policy makers. Pakistani scholars and opinion leaders tend to be divided on the CPEC initiative. While academic, data-driven studies are scant, a variety of journalistic articles see the initiative in terms of black and white, good and bad, pro and con. For convenience and conceptual clarity we can divide this literature into three typologies; CPEC Enthusiasts, CPEC Opponents; and CPEC Reformers.

The CPEC Enthusiasts are primarily Pakistani political leaders belonging to the former ruling party (PML-N), government officials and journalists, who claim and built the narrative that the CPEC is a 'game changer.' They advocate and plead with missionary zeal (however lacking concrete evidence) that it is a harbinger of peace and development for Pakistan. Any critique or concerns of transparency, protecting interests of smaller provinces or the need for environmental impact assessments is equated with conspiracy against the Pakistan-China friendship. Commentators in favor argue that the Chinese mega-plan goes beyond politics and, through an eventual trickle-down effect, will help alleviate the livelihood of people across the country.⁷ In their logic, infrastructure investments are the key to economic progress. They see it as an opportunity for Pakistan to join the bandwagon of international economic growth, where integration in the global network of production and consumption is necessary for development. Over the five years of the CPEC's development, greater attention now has been devoted

to appease skepticism that the Pakistani side is unprepared or that a neoliberal model of opening up the economy to foreign markets will come at the cost of the country's human development.

A report by the Ministry of Planning, Development and Reform for instance attempts to assure the public that CPEC goals and objectives are in complete harmony with the country's own development agenda, that people centric growth is at the core of the project's design and that the BRI flagship project will be equitable across the country.⁸ A recent study published by the newly created China –Pakistan Study Centre (CPSC) at the Institute of Strategic Studies, Islamabad expands upon the same theme. Examining, infrastructure development, energy projects and regional connectivity it enthusiastically contends that CPEC is rapidly transforming Pakistan, the region and providing global connectivity to China. However, these messages conveniently skip over any critical appraisal of the projects or any sources that challenge their robustness. The editor of the volume best expresses this sentiment in his claims; “The CPEC project would revolutionize Pakistan as a nerve center economy and transit economy for the Gulf, South Asia, Central Asia, China and for the Eurasian region”.⁹

The CPEC Opponents come in two shades. One group opposes the CPEC because they think it would lead to the exploitation and ‘stealing of Pakistani resources.’ They argue that the CPEC is China's instrument to expropriate Pakistan's economic resources and is likely to lead to cultural, social and political subjugation. They are quick to reject the idea that the CPEC will indeed be a ‘win-win situation for all’ citing the failure of previous agreements to bring the promised economic boost. For instance, they argue that the free trade agreement (FTA) signed between China and Pakistan that called for more favorable tariff rates and a conducive trade and investment policy is in reality highly skewed and tilted towards China. Moreover, they fear that an influx of Chinese goods and services will crowd out local producers and enterprises that will lose out as the CPEC materializes.¹⁰ Dr. Mubashar Hasan, a reputable Pakistani leftist politician, said that the CPEC is an ‘instrument of Chinese imperialism’ and will adversely impact Pakistan's territorial sovereignty. (He spoke at the opening of a bookshop in Lahore in April 2017). Sri Lanka's recent experience has also been a cause

of concern, when in December 2017, unable to pay its debt burden after the construction of the Hambatnota Port; it leased the land for a 99- year period to China Merchant Port Holdings. Total debt to China had amounted to around 8 billion US\$ with an interest rate of 6 percent.¹¹ A few months later, leaders in The Maldives were also cautioning against similar debt concerns, fearful that land would eventually have to be leased to the Chinese. Such events have caused skeptics to highlight issues of territorial sovereignty as a major consideration before allowing Chinese investment to freely flow in.¹²

This theme of ‘dependencia’ portraying the return of a reincarnated ‘East India Company’ was expressively conveyed on the cover of the August 2015 *Herald* magazine, where a caricatured President Xi Jinping cradles a toddler version of Pakistan’s then Premier Nawaz Sharif.¹³ Dr. Qaiser Bengali, a notable Pakistani economist, has also foreshadowed that the CPEC could turn Pakistan into another Greece as it acquires unprecedented loans in the name of CPEC. From this point of view, Pakistan has little to gain in terms of measurable developmental benefits, rather it will play home to China’s export of excess supply of labor and industries that it has competitive advantage in. All the while adding to Pakistan’s already high level of local and external debt—an estimated 73 billion US\$ in 2015.¹⁴

The second group comprises of some who articulate that the CPEC would widen the wedge between Pakistan and India as the thrust of its infrastructure development is North to South and it undermines the prospects of any East-West route, trade, investment and connectivity. These are Pakistani, Indian and international contributors, who advocate that the revival of people-to-people contact and trade and transport connection between India and Pakistan is imperative for peace and development in South Asia. They argue that the BRI and the CPEC, in particular, are China’s instruments to ‘contain’ India and, that in fact, is the real objective behind the CPEC. They also contend that China’s investments of over 14 billion US\$ in Sri Lanka, plans of investing 38 billion US\$ in Bangladesh and 8 billion US\$ in Nepal are part of that larger project of containing India. Of course India perceives China as a rival power and aspires to become a member of the UN Security Council.¹⁵ For India, the CPEC is therefore an extension of China-

India global power rivalry and must be resisted. Fahad Shah a Kashmiri journalist, points out that Indian policy makers believe that China is trying to ‘encircle’ India by cultivating and making bilateral agreements with its smaller neighbors by pursuing infrastructure development and regional connectivity (the string of pearls theory that suggests China’s growing geopolitical and military influence in the Indian Ocean region). He also magnifies three challenges that confront the CPEC. First, he thinks the disputed status of Kashmir and Gilgit-Baltistan can hamper the project.¹⁶ This is an idea reflected in a statement by US Defense Secretary James Mattis as well. At a meeting with the Senate Armed Services Committee, Mattis said, “the One Belt, One Road also goes through disputed territory, and I think that in itself shows the vulnerability of trying to establish that sort of a dictate.” The statement has come at a time where Pakistan and the United States’ relationship is seemingly in a ‘low phase’ and by reinforcing the ‘disputed territory argument’, the CPEC project has once again come under attack.¹⁷ Second, Fahad Shah claims the resentment and resistance towards the CPEC in Gilgit-Baltistan and Balochistan is problematic. According to him, people in these areas feel that they are being denied the benefits that this initiative promises. Finally, he observes that since a part of the CPEC targets Xinjiang (Sinkaing) where the persecuted Uyghurs Muslims are in majority, the project risks irritating an already marginalized segment of Chinese society, which wants ‘separation’ from China and not ‘inter-connectivity’.¹⁸ This leads him to erroneously assert that both Uyghurs and Baloch want separation, while through CPEC, China and Pakistan are striving to suppress separatist movements and are not really promoting infrastructural developments or regional connectivity. China and Pakistan are cognizant of these challenges but do not consider these insurmountable.

The CPEC Reformers, like the authors of this study, are those who argue that the CPEC is in many ways an innovative and credible initiative and China has made great efforts to design it in a manner so that it could contribute towards economic, human and social development in Pakistan. It could also bring about cultural and political transformations leading to greater sociopolitical harmony in the country. However, this demands reform in both the blueprint of the CPEC project and its implementation. If the CPEC and BRI

truly are a mechanism to bring about people-centered development, as proponents claim, then the litmus test of the CPEC would be an evaluation of whether or not local communities are being involved in the process of project development and whether their participation is being promoted in its execution. Evidence suggests that including an element of community-led development is essential for the success of top-down projects such as the CPEC, indicating that ownership from locals is imperative to avoid conflict and adverse spillover effects. Additionally, the overarching framework of the CPEC must adopt transparency on all fronts—legal, political, managerial and financial, and clearly spell out the terms of the forms of monetary assistance. It should also carefully review the environmental impact of the associated projects and assess the potential benefits for the people of Pakistan, in particular vis-à-vis the various ethnic groups and provinces. This entails a critical review of security and strategic dimensions of the CPEC. Some key international and Pakistani academic studies have echoed this understanding. For example, early in 2017, the Stockholm International Peace Research Institute (SIPRI) released a report evaluating China's 'Silk Road Economic Belt' and its security implications in Eurasia.¹⁹ According to its authors, the initiative promises great results in terms of infrastructural development in what have largely remained underserved areas, yet security concerns and anxiety over China's intentions remain key markers of the eventual success of the project. Unlike the analysis emanating from the US, much of which tends to see China as attempting to challenge traditional powers, the report describes China's objectives with the Silk Road Economic Belt as "a convergence and clustering of multiple diplomatic, domestic socioeconomic, financial, geo-economic and geopolitical interests and drivers, as well as pre-existing governmental overtures and proposals."²⁰ From the perspective of many partnering countries within the region, including Pakistan, the Silk Road Economic Belt is just that, a way to engage with China for geopolitical, and socio-economic and financial gains of their own.

The report also however identifies a number of challenges China faces as it demonstrates strategic muscle through inclusive growth, trade, infrastructure development and regional connectivity. In particular with respect to the CPEC, the SIPRI analysis forecasts

heightened conflict in the region, at least in the short term. It correctly observes that without proper reforms, the CPEC could enhance already prevalent corruption and the lack of political transparency in Pakistani institutions.²¹ This reasoning stems from the political volatility of the region and the layers of internal conflict and externally financed proxy wars that Pakistan is confronted with. In Balochistan, separatists and insurgents have for year's contested Chinese involvement in the development of Gwadar, threatening to sabotage projects that are being developed under CPEC. Similarly opponents of the previous ruling party (PML-N) are frequently seen rejecting ideas of 'unity' and 'gains for all' with respect to initiatives like the CPEC, using it conversely to criticize the government's inability to consultatively and efficiently workout development priorities.

In analyzing the objectives behind the BRI, Cheng (2016) argues that the Chinese grand scheme may be considered as a hybrid strategy of economic gains and well-intentioned development targeted towards countries that have growth potential. Accordingly, the development of the Silk Road does not necessarily have to be seen as either pure market-led profit making or 'financial aid' geared towards developing nations. In fact as Cheng argues "foreign aid and profitability may be complementary, with aid creating conditions for trade and investment."²² In this way Chinese investment in countries such as Pakistan may be expected to bring about social uplift through principles of "social responsibility." For several countries associated with the BRI, participation is not optional in this race of survival of the fittest. 'Fitness' here is judged by countries' ability to balance their cooperation between the world's most influential countries, the US and China. Traditional American allies such as the Philippines, Indonesia and even Pakistan, are caught between what the *New York Times* has summarized as "an impossible choice between Chinese wealth and American security", the latter signifying the influence of America over the arms market in Asia.²³ The same article also characterizes China's strategy as aggressive arguing that "Asian leaders know that their economies – and therefore, domestic politics – rely on Beijing, which has shown it will offer investment to friends and economic punishment to those who displease it." However, despite powerful tugs on both ends, most of these countries will attempt to find equilibrium where a clear side does not have to be chosen.²⁴

Pakistan is a vital component of the BRI and has embraced it with full force. Observers have however underscored the need to achieve certain logistical and administrative prerequisites to ensure viability of the Chinese grand scheme. Journalist Nadeem F. Paracha echoes such caution in declaring that the CPEC could in theory initiate virtuous cycles of development through economic growth, greater income, eventual sociopolitical stability, greater investment and tourism to name a few. According to Paracha, this requires change in the attitudes of Pakistanis and demands curbing religious extremism and pressuring the state to withdraw any support/patronage that it has been extending to militant groups in the past. Pakistan needs to rediscover its culture of liberalism and preserve its peaceful and inclusive cultural heritage.²⁵ On the other side, a lack of credible information seems to be a recurring theme in the analysis emanating from local Pakistani sources.

Andrew Small summarizes the most pertinent and perceptive questions surrounding the CPEC as follows, “while many questions and doubts remain, these are now more concerned with “how” rather than “if” the CPEC will happen. What are the debt implications for the Pakistani economy? Will Punjab be the disproportionate beneficiary? What will be the local impact of the projects? Which route will be completed first? Does the government have the capacity to build a set of projects on as grand a scale as the CPEC includes?” Yet, Small argues, these questions relate to the entire BRI and are not exclusive to the CPEC. He thinks that as CPEC is the brainchild of the Chinese, it is their leadership that must address concerns that naturally emanate from pursuing the CPEC, specifically those pertaining to transparency and human development.²⁶ But the CPEC is as much a Pakistani project as it is Chinese. The Pakistani government has taken complete responsibility of defending the project, highlighting its development as a way to overcome the country’s economic troubles. In fact the CPEC is a highly politicized project; the infrastructural and energy sector investments particularly being underscored, which some would argue is an old trick of self-promotion and means to attract votes through ‘shiny’ and ‘visible’ developments.

Nonetheless ‘Reformers’ have been persistent in their demand for more transparency and detailed data around CPEC investments. The *Long Term Plan for CPEC* report cited above is the latest to come out of the government and analysts were keen to see the extent to which this report would narrow data gaps on the CPEC. Unfortunately the report seems to be a repackaging of old information, with marginal new concrete developments to learn from. Wishful thinking and wooing of the public now needs to be backed with clear, coherent details on the project’s objectives and plans of implementation. Providing people with data-driven evidence is not only the government’s responsibility, but in its interest to counter controversy surrounding the CPEC in a successful manner.

In terms of tensions with India, Christian Wagner from the German Institute for International and Security Affairs foresees an optimistic impact of the CPEC. Unlike Fahad Shah, he recognizes that besides strengthening China-Pakistan relations, it could also help diffuse India-Pakistan tensions. Wagner correctly highlights a few steps that Pakistan has taken in this direction. First in 2009, Pakistan gave Gilgit-Baltistan, the status of an autonomous region, which according to the partition plan of 1947 was part of undivided Kashmir—which remains a point of contention between India and Pakistan. Second, after December 2014, albeit reluctantly, Pakistan is showing signs of a change of approach towards terrorist groups. Third, the CPEC could also restrain Pakistani military from adventures like Kargil. Finally, the Chinese hope that the economic dividends of trade, investment and connectivity would help bring more tolerance and peace to the Pakistani society. Thus, Wagner argues, the CPEC can result in a more peaceful region, if properly designed and implemented.²⁷ Extending this argument further, Akber Ali, a Shanghai University scholar, postulates that if Iran and India were to join the CPEC, it could be transformed into IICPEC, giving a new sense of economic and regional connectivity to South Asia, Central Asia, East Asia and the Middle East.²⁸ While at this point, this all may seem far-fetched, if India and Pakistan were to change their attitude and outlook—a regional socio-economic transformation could occur. It is in this spirit of reforming and re-designing the CPEC that we will examine and evaluate the demands, dividends and opportunities that this mega-project offers.

CHAPTER TWO

Understanding the Components of the CPEC

Identifying and explaining the various components of the CPEC is a tedious and complex task because the information is not readily available, is scattered across sources or changes frequently. To fill in these crucial data gaps we have consolidated information from a variety of sources to produce an integrated assessment of CPEC investments; both initiated and proposed, their geographical distribution and their intended development impact.

The most recent *Long Term Plan on CPEC (LTP)* (2017) produced by Pakistan's Ministry of Planning Development and Reform and China's National Development and Reform Commission indicates that the CPEC's spatial layout is characterized by "one belt, three axes and several passages" with a "core zone" and adjoining "radiation zones." The core zone represents 'the belt' and includes from China: Kashgar, Tumshuq city, Atushi city and Akto county in the Kizilsu Kirghiz autonomous region of Xinjiang and in Pakistan, Islamabad, parts of Punjab, Sindh, Khyber Pakhtunkhwa, Azad Jammu and Kashmir and Gilgit Baltistan. "Node cities" Kashgar, Atushi, Tumshuq, Shule, Shufu, Akto, Tashkurgan Tajik, Gilgit, Peshawar, Dera Ismail Khan, Islamabad, Lahore, Multan, Quetta, Sukkur, Hyderabad, Karachi and Gwadar are the cities through which the CPEC corridor will pass. The 'three axes' are horizontal links between Peshawar and Lahore, Quetta and Sukkur, Karachi and Gwadar. The 'several passages' consist of rail and road lines from Islamabad to Karachi and Gwadar. Additionally "key functional zones" will determine the economic activity of the relevant region. The LTP divides these five zones into first, the Xinjiang foreign economic zone, second, the northern border trade logistics and business corridor & ecological reserve, third

the eastern and central plain economic zone, fourth, the western logistics corridor business zone and fifth, the southern coastal logistics business zone.²⁹

As indicated earlier there does not seem to be a single amalgamated resource that indicates all the CPEC projects, their exact location, cost breakdown or financing mix, expected local employment it will generate etc. Because data is spread across various sources, is hard to authenticate and alters frequently on government websites, national level consensus has been hard to achieve and this has lead to unwarranted and avoidable debate and conjecture. Over 60 projects were identified during our research that fall under the CPEC collaboration. Broadly, the government has classified these under “Infrastructure,” “Energy,” “Gwadar” and “Other projects.”³⁰ It is discomfoting to point out that, there is ambiguity and overlap within the same source while project lists are updated and changed, making it hard to track investment. There is also a difference in the information regarding the CPEC on different public sources.³¹ Notably, it is hard to differentiate between those projects that are new and those, which are a repackaging of existing projects. A breakdown of the number of projects is given in Table 1.

Table 1 CPEC Projects: Current and Planned			
Infrastructure	Energy and Energy Actively Promoted Projects	Gawadar	Other
<p>12 PROJECTS 8 Projects (Road and Rail Sector) + 4 Rail Based Mass Transit Projects</p> <p>ROAD</p> <ol style="list-style-type: none"> 1. KKH Phase II (Thakot Havelian) 2. Peshawar-Karachi Motorway (Multan-Sukkur Section) 3. Khuzdar-Basima Road N-30 (110 km) 4. Upgradation of D.I.Khan - Zhob, N-50 Phase-I (210 km) 5. KKH Thakot-Raikot N35 remaining portion (136 Km) <p>RAIL</p> <ol style="list-style-type: none"> 6. Expansion and reconstruction of existing Line ML-1 7. Havelian Dry port (450 M. Twenty-Foot Equivalent Units) 	<p>19 ENERGY PROJECTS</p> <ol style="list-style-type: none"> 1. Port Qasim Electric Company Coal Fired, 2x660, Sindh 2. Suki Kinari Hydropower Station, Naran, KP 3. Sahiwal 2x660MW Coal-fired Power Plant, Punjab 4. Engro Thar 4x330MW Coal-fired, Thar, Sindh a. TEL 1x330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh, Pakistan b. ThalNova 1x330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh 	<p>12 PROJECTS</p> <ol style="list-style-type: none"> 1. East-Bay Expressway 2. Gawadar International Airport 3. Construction of Breakwaters 4. Dredging of berthing areas & channels 5. Infrastructure Development for Free Zone & EPZs, Gawadar 6. Necessary facilities of fresh water treatment, water supply and distribution 7. Pak-China Friendship Hospital at Gawadar 8. Technical and Vocational Institute at Gawadar 9. Gawadar smart port city master plan 	<p>3 PROJECTS</p> <ol style="list-style-type: none"> 1. Cross-Border Optical Fiber Cable 2. Digital Terrestrial Multimedia Broadcast 3. Early Warning System (EWS) Pakistan Meteorological Department.

<p>8. Capacity Development of Pakistan Railways RAIL BASED MASS TRANSIT PROJECTS</p> <p>9. Karachi Circular Railway</p> <p>10. Greater Peshawar Region Mass Transit</p> <p>11. Quetta Mass Transit</p> <p>12. Orange Line – Lahore</p>	<p>Pakistan</p> <p>c. Surface mine in Block II of Thar Coal field, 6.5 million ton per annum (mtpa), Thar Sindh</p> <p>5. Hydro China Dawood 50MW Wind Farm (Gharo, Thatta)</p> <p>6. 300MW Imported Coal Based Power Project at Gwadar, Pakistan</p> <p>7. Quaid-e-Azam 1000MW Solar Park, Bahawalpur, Punjab</p> <p>8. UEP 100MW wind Farm, Jhimpir, Sindh</p> <p>9. Sachal 50MW Wind Farm, Jhimpir, Sindh</p> <p>10. SSRL Thar Coal Block-I 7.8 mtpa & SEC Mine Mouth Power Plant (2×660MW)</p> <p>11. Karot Hydropower Station, AJK & Punjab</p>	<p>10. Bao Steel Park, petrochemicals, stainless steel and other industries in Gwadar</p> <p>11. Development of Gwadar University (Social Sector)</p> <p>12. Gwadar Livelihood Project: Upgradation and development of fishing, boat making and maintenance services to protect local population</p>	
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	<p>12. Three Gorges Second Wind Power Project and Three Gorges Third Wind Power Project</p> <p>13. CPHGC 1,320MW Coal-fired Power Plant, Hub, Balochistan</p> <p>14. Matiari to Lahore ± 660kV HVDC Transmission Line Project and Matiari to Faisalabad Transmission line</p> <p>15. Thar mine mouth oracle, Thar Sindh</p> <p>ENERGY CTIVELY PROMOTED PROJECTS</p> <p>16.Kohala Hydrel Project, AJK</p> <p>17.Rahimyar Khan imported fuel Power Plant 1320 MW</p> <p>18. Cacho 50 MW Wind Power Project</p>		
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	19. Western Energy (Pvt.) Ltd. 50 MW Wind Power Project		
	CPEC POTENTIAL PROJECTS		
	20. Phandar Hydropwer Station		
	21. Gilgit KIU Hydropower.		

The CPEC projects have been divided into short-term, medium-term and long-term to be completed by 2020, 2025 and 2030 respectively.³² Earlier accounts predicted that energy projects alone take up around 61 per cent of CPEC investment, with ‘early harvest’ projects estimated to generate around 10,400 MW of energy.³³ More recent studies suggest that 27,000 MW will be added to the national grid thanks to investments in more diverse solar, wind, gas, hydro and coal projects. This is more than enough to overcome Pakistan’s energy shortage estimated at 5 to 7,000 MW.³⁴ On the other hand, infrastructure, communications and transportation projects will account for 36 per cent of the CPEC funding.³⁵ Furthermore, recently the government has classified several other projects as; “New Provincial Projects”, “Proposed Special Economic Zones (SEZs)” and “Social Sector Development Projects”. For details see Table 2.³⁶

Table 2: Additional projects part of the CPEC

New Provincial Projects	Proposed Special Economic Zones	Social Sector Development Projects
<p>6 PROJECTS</p> <ol style="list-style-type: none"> 1. Ketī Bunder Sea Port Development Project 2. Naukundi-Mashkel-Panjgur Road Project connecting with M-8 and N-85 3. Chitral CPEC link road from Gilgit, Shandor, Chitral to Chakdara 4. Mirpur – Muzaffarabad -Manshera Road Construction for connectivity with CPEC route 5. Quetta Water Supply Scheme from Pat feeder Canal, Balochistan 6. Iron Ore Mining, Processing & Steel Mills complex at Chiniot, Punjab 	<p>9. SEZ PROJECTS</p> <ol style="list-style-type: none"> 1. Rashakai Economic Zone, M-1, Nowshera (areas of focus fruit/Food/ Packaging/ Textile Stitching/ Knitting) 2. China Special Economic Zone Dhabeji (industrial area of focus to be determined) 3. Bostan Industrial Zone (possible areas of focus: Fruit Processing, Agriculture machinery, Pharmaceutical, Motor Bikes Assembly, Chromites, Cooking Oil, Ceramic industries, Ice and Cold storage, Electric Appliance, Halal Food Industry) 	<p>4 AREAS OF FOCUS</p> <ol style="list-style-type: none"> 1. People to People exchanges (use of media, objective to understand each others' culture) 2. Transfer of Knowledge in different sectors (promotes interactive learning in various sectors of the economy) 3. Set up a Pakistan Academy of Social Sciences 4. Transfer of knowledge in education sector through consortium of business schools.

	<ol style="list-style-type: none">4. Allama Iqbal Industrial City (M3) Faisalabad (Type of industries: Textile, steel, pharmaceuticals, engineering, chemicals, food processing, plastics, agriculture implements etc.)5. ICT Model Industrial Zone, Islamabad6. Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi7. Special Economic Zone of mixed industries at Mirpur, AJK8. Mohmand Marble City9. Moqpondass SEZ Gilgit-Baltistan (Areas of focus: Marble / Granite, Iron Ore Processing, Fruit Processing, Steel Industry, Mineral Processing Unit, Leather Industry)	
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It is pertinent to note that Table 1 and Table 2 are based on the most recent information available³⁷ on the government's official CPEC webpage, which has been altered, edited or re-classified under various headings. Ascertaining consistent transparency of the projects list will help build credibility and will allow more informed analyses. (To view an older version of the CPEC Projects indicated by the government please see Annex 1). It is confusing that official data as published on government websites does not indicate all the projects that the government is initiating under the CPEC. The table above is a summary of those projects that are mentioned on the CPEC website. Other projects have been announced but not presented on official sources while others remain indefinite.

For instance, released data regarding the Special Economic Zones (SEZ) gives a blurred picture of the purpose of these SEZs and the role they are meant to play in local economic and social development, although they have been marked as priority areas under the CPEC. While public sources mention the name and location of these projects and that Chinese officials are considering their feasibility, other details have not yet been shared. The SEZ can be a beneficial model of development to pursue, as by definition these zones are meant to mitigate institutional, organizational and infrastructural hurdles that hurt investment by creating sheltered hubs of economic activity. Yet, where SEZ models follow a copy-paste design, they are likely to fail because they are unable to address local challenges.

As a result, the SEZ frameworks need to be tailor made to cater to Pakistan's specific investment bottlenecks. These include providing relevant infrastructure, uninterrupted access to power, security and political stability and effective communication with reliable government representatives who can facilitate understanding of business laws and tax policies. The latter is especially problematic in Pakistan, given poor coordination between the federal, provincial and local tiers of governance. Devolved mechanisms of approval are more likely to work as examples from more advanced economies in Hong Kong and San Jose indicate; the greater autonomy a zone's public management has, the more likely the zone will be successful. Tax regimes can be built around specific targets that businesses must meet in order to be eligible for certain concessions.³⁸ SEZs must therefore be designed in ways that incentivize businesses to perform

competitively, innovate and contribute to local development.

It is unclear and hard to figure out how road and rail infrastructural projects will be connected to the three main routes of the CPEC. Similarly, the federal government did try to mollify provincial concerns by assenting that the 'western route' will be given priority, to be completed by 2018. However it seems implausible that focus on highway or road construction will bring the benefits the underdeveloped communities of Balochistan or Khyber Pakhtunkhwa need, particularly in the absence of local employment measures.

It is important to recall that the CPEC goes beyond infrastructure and energy projects in Pakistan. It is one of the six corridors envisioned by the BRI in which China projects development through peace, security and regional connectivity. China has time and again advocated that the BRI vision is one that all its partnering nations should adopt to achieve shared common goals such as; combating global terrorism, curbing inter-state conflict, whereby interconnected economic growth and interactive technological learning can be achieved through international collaboration and cooperation. Similarly reminding partner nation-states to protect and defend their national interest. For example at a recent event Chinese Ambassador to India, Mr. Luo Zhaohui was quoted as saying, "simply put, we always put China first and we deal with problems based on their own merits."³⁹ This needs to be grasped by its partnering countries, including Pakistan as it completes the long-term components of the CPEC.

According to the latest *Long-Term Plan on China-Pakistan Economic Corridor* drafted by the China Development Bank and the National Development Reform Commission of the People's Republic of China, the country's involvement in the Pakistani economy is cross sectoral where the Chinese will be exploring opportunities in a variety of industries in Pakistan; from agriculture and textiles to information and communications technology (*See Table 3 for a summary of potential projects*). China remains a pivotal partner in security and strategic areas, however, its growing support in surveillance and public security needs to be crafted and monitored carefully. Despite the doubt surrounding the veracity of these reports (with some labeling them as "outdated")⁴⁰, these revelations raise serious concerns regarding Pakistani government's handling of

interactions with China. Western commentators are alarmed by such reports and have been quick to describe these events as a “political alliance” between leaders in China and Pakistan asserting that it could threaten democracy in the region.⁴¹

Table 3: Additional Potential Projects under the CPEC –not necessarily indicated in public records⁴²

Project/Initiative	Project description, objectives and possible outcomes
<p><i>“Demonstration Projects” in the Agricultural Sector + Agricultural Investments</i></p>	<ul style="list-style-type: none"> ● Chinese companies will be given agricultural land in order for them to set up best-practices projects that Pakistani enterprises can learn from. Areas of interest include irrigation technology, seed variety and livestock. ● Extensive support from the Chinese government to companies setting up in the agricultural sector including financial help and discounted loans. ● Investments will take place all along the “supply-chain” of agricultural production from seeds and fertilizers to storage and transportation. ● Large-scale investments in the agriculture sector could mean Chinese investors crowd-out local farmers/landowners and their businesses. It could also unsettle Pakistan’s rural economy, which still constitutes for a major segment of national GDP and employment. ● Predictions about Chinese investment in Pakistan’s agriculture also suggest that the aim is to develop China’s Kashgar Prefecture, currently an underdeveloped part of Xinjiang autonomous region.

<p><i>Fibre-optic network/ communication development</i></p>	<ul style="list-style-type: none"> ● Wider reach and better quality Internet connection in addition to the promotion of Chinese culture through media. Technology for terrestrial broadcast of HD television in the form of Digital Television Terrestrial Multimedia Broadcasting (DTMB) will be promoted. ● Can aid in a better understanding of Chinese societal life but will need to be disseminated in a manner that is sensitive to local traditions and customs.
<p><i>Security surveillance and safe cities project</i></p>	<ul style="list-style-type: none"> ● Monitoring and surveillance of urban areas with the use of explosive detectors and scanners. ● The safe city project will be started in Peshawar to be expanded to other major cities. ● Lack of information regarding who will manage the surveillance and take on the responsibility of operating the command centres raises concerns over Pakistan's ability to manage its own law and order situation.
<p><i>Investments in industries already explored by Chinese companies in Pakistan, including telecommunications, mining and minerals and electronics</i></p>	<ul style="list-style-type: none"> ● Chinese enterprises will build on the space provided by existing companies in various sectors such as home electronics, cell-phones and telecommunications. This will provide Pakistani consumers competitive prices and offer greater product variety but can also hurt local companies, especially infant industries. Pakistan is slowly gaining momentum in.

<p><i>Development of special economic zones or industrial parks</i></p>	<ul style="list-style-type: none">● The aim is to provide an enabling environment for industries to flourish in; aided through the right kind of infrastructure development, access to facilities such as water and electricity etc.● Three main zones and their respective areas of development have been indicated:<ol style="list-style-type: none">1. Northwestern and western, referring mostly to Balochistan and KP for the extraction of minerals including gold, diamonds and marble,2. Central zone covering Punjab and parts of Sindh for textiles, cement and household electronics,3. Southern zone incorporates the coastal area around Gawadar up to Karachi and has been identified with potential in petrochemicals, harbor industry and iron and steel in addition to the benefit the area provides for sea trade and oil transportation amongst others.● Pakistan's investment conditions may improve as a result, attracting greater foreign direct investment from other countries as well.● Although there has been information conveying the need for Chinese companies to respect Pakistani culture and improve developmental conditions, insufficient information on aspects such as financing, medium of energy generation, business ownership and proportion of jobs being created for local employment worsen the atmosphere of distrust that exists regarding the CPEC.● CPEC IT Park in Peshawar
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<p><i>Developing Pakistan's tourism industry</i></p>	<ul style="list-style-type: none"> ● Special focus on Pakistan's coastal area and developing tourism around marine-based activities such as the establishment of wildlife sanctuaries, cruise clubs, spas and water sports. ● Promotes visa-free entry for Chinese tourists however no development as such over extending the same for Pakistani wanting to visit China.
<p><i>Social Sector</i></p>	<ul style="list-style-type: none"> ● Establishment of Baltistan University at a cost of approximately Rs. 1769.845 million to accommodate around 2000 students. ● Potential China-Pakistan Joint Research Centre in Earth Sciences ● Establishment of an alliance of International Medical Education between Chinese and Pakistani medical institutions, series of MoUs have been signed.
<p><i>Cultural Exchanges</i></p>	<ul style="list-style-type: none"> ● Setting up "Dosti Channel FM 89" to expand cooperation between the two countries

Pakistan's vulnerability to foreign interference is recognized by the Pakistanis. For example, despite serious differences in the past three years, particularly since the Trump presidency, the strategic alliance with the US has not collapsed and will likely endure. What is significant is that the CPEC has now given new momentum and meaning to Pakistan's foreign relations.

While the Chinese are vigorous and systematic in conveying their vision of how to implement the CPEC, on the Pakistani side details and implementation strategy remains unclear, thus the window of opportunity to negotiate is closing. Pakistani policy makers still need to do their homework and finalize projects in a manner that do not compromise the economic and social wellbeing of its people. Ambiguity, indecisiveness and lack of transparency in decision making of the infrastructure development has led some in the Pakistani media to misleadingly portray China as an "imperialist" power. On the other hand, the government has an

opportunity to channel incoming Chinese investment towards the areas and economic sectors in Pakistan that most need financial and infrastructural resources. This will be crucial to alleviate income and opportunity inequalities that have for so long troubled the country's progress.

2.1 Energy Security through the CPEC

Amongst the most problematic challenges Pakistan's economy faces, is its lingering energy crisis. Estimates suggest that the past few years of energy shortages have resulted in a loss of around 4% to 7% of Pakistan's GDP.⁴³ Pakistan portrays CPEC as resolver of the energy crisis; out of the initial 46 billion US\$ signed for the CPEC (this amount has now increased to 63 billion US\$), more than 75 percent was allocated for the energy sector.⁴⁴ As of now about 19 various energy-related projects have been initiated, combining a variety of generation sources to create a new and more diverse energy mix.

Table 4: Electricity production from various sources, Pakistan (% of total)	
Coal	0.2
Hydroelectric	29.8
Nuclear	4.8
Oil	39.7
Natural gas	25.1
Renewable sources, excluding hydroelectric	0.3
<i>Source: Data compiled from The World Bank, 2017</i>	

If the CPEC contributes towards the resolution of energy crisis that would make electricity affordable for the people as well as could boost much needed economic growth in the country.

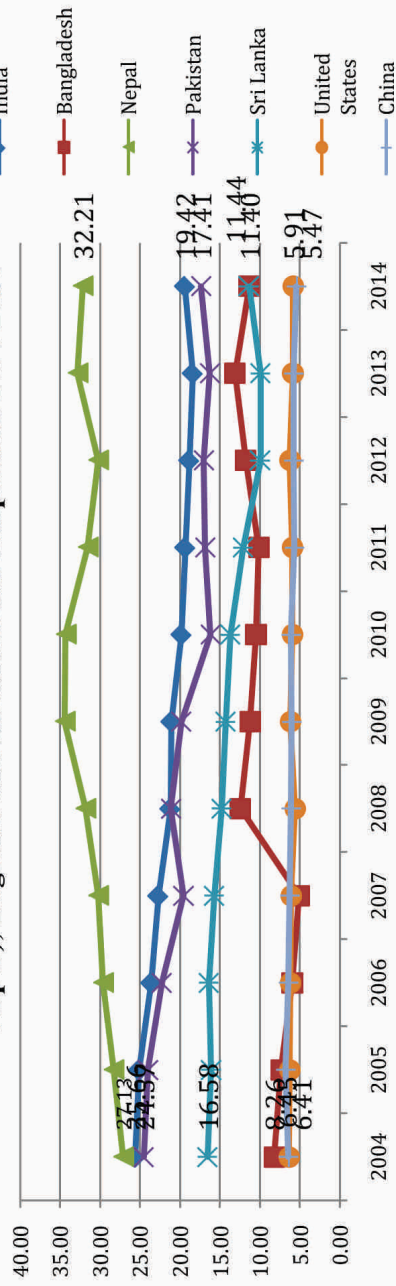
Yet, analysts argue that the potential for energy generation and its sustainability are two different aspects of the problem. Energy generation through the CPEC is only part of the solution to the crisis; in essence the issue is a more complex one, tangled in a web of more chronic obstacles such as corruption, debt or lack of coordination among the various departments of the government. For instance, recent estimates suggest that distribution and transmission losses amount to 20% of total output⁴⁵ (*See Figure 2 for a regional comparison*). Additionally, the sector's poor institutional capacity including mismanagement of equipment and use of dated technology, inefficient revenue, circular debt and weak monitoring and accounting systems are other persistent problems.⁴⁶

But Pakistan's energy crisis doesn't only relate to the generation and use of electricity. Water as a multifaceted development concern is a highly problematic area for the country. In 2015, a report by the IMF indicated that Pakistan's per capita annual water availability had dropped by around 82% since 1947. The country is also ranked amongst the most water scarce in the world, exacerbated with a widening supply and consumption gap.⁴⁷ Pakistan's use of water in cubic meters per unit of GDP, a measure of the water intensity rate, was also the highest in the world that year.⁴⁸ As Pakistan's population rises, its consumption relies on one major source, the Indus water system that is characterized by seasonality conditions that make water availability quite unpredictable.

Pakistan's climatic conditions also range between extremes, making the country vulnerable to natural disasters like floods and droughts. This has serious impacts on sectors such as agriculture, livestock and infrastructure but also on developmental factors such as nutrition, sanitation, housing, migration etc.⁴⁹

Here Gwadar and the province of Balochistan deserve special attention given poor water availability and the centrality of both for CPEC activity. Data indicates that Gwadar's desalinization plant in the Arabian Sea was contributing only 0.2 million gallons of water from the expected 2 million gallons a day. Additionally, the storage capacity of Gwadar's dam has shrunk down by 29 feet since 2005. These deteriorating sources are Gwadar's two main points of water supply.⁵⁰ The issue of water crisis can be partially managed by expanding Pakistan's water storage capacity (i.e. the construction of dams) and through better monitoring such as effective price controls.

Figure 2: Electric power transmission and distribution losses (% of output), Regional and International comparison 2004-2014



Source: Data compiled from The World Bank, 2017

It merits attention that the energy crisis (inclusive of water and electricity shortages) has caught the imagination of the CPEC leadership. Investments to improve water storage and supply or better irrigation mechanisms are being discussed under the aegis of the CPEC. However, it is too soon to tell how fruitful the outcome would be. Nonetheless, there has been focus on the need to promote and adopt greater reliance on renewable energy, while reducing the use of environmentally hazardous sources like coal power. Investment in the construction of water dams has also been highlighted as a solution to the country's water storage crisis.⁵¹ It is timely and appropriate to expand the discussion framework on how the CPEC will go beyond investment in energy infrastructure and address organizational and institutional bottlenecks that have exacerbated the energy crisis for so long.

The good news is that in the energy sector, dividends of CPEC are becoming visible. For example, a report by the IMF in July 2017 indicated that energy shortages had widely been reduced between 2012/13 and 2015/16. In the former period, power shortages amounted to 10 to 12 hours in a day, by the latter period this had been reduced to around two hours a day in industrial areas and an average of six hours in residential areas.⁵² In statistical terms, the investments in energy are likely to add 24 GW to the installed capacity, 8.6 GW of which will be due to the CPEC within the next seven to nine years. The report also estimates that if energy demand will increase at six percent a year and average capacity utilization is 85 percent, than Pakistan's 6 GW deficit recorded in 2016 can be overcome, and in fact, by the end of 2018 a surplus can be achieved (*see Figure 3*).

On the other hand, the report also cautions that the financial feasibility of these new energy projects will depend on correcting for the "loss-making distribution sector"⁵³ which could otherwise further worsen circular debt and fiscal costs. As, we have observed above, the report calls for catalyzing the process of reform, particularly with respect to the management of distribution companies. While, the line losses, metering and collection processes can be improved through enhanced private investments. More importantly, the success will weigh in on the regulatory blueprint of the energy sector and the extent to which it is effectively enforced at all levels of the energy production and distribution chain.⁵⁴

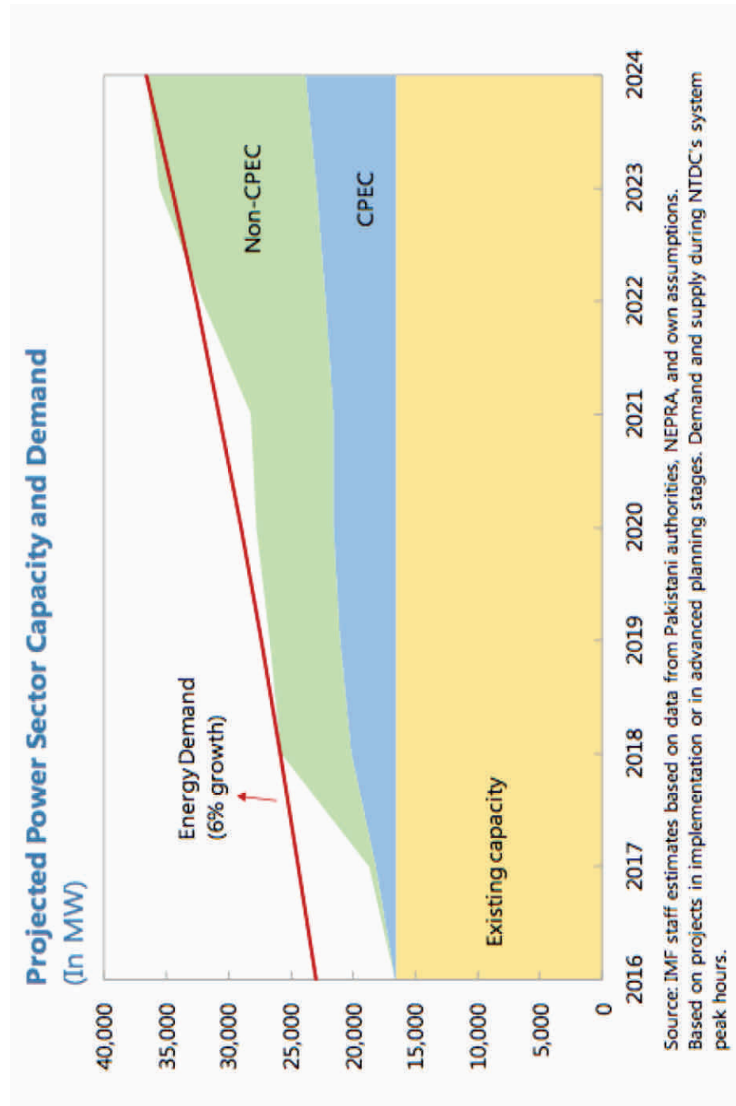


Figure 3 Pakistan's energy shortfall and expected supply

CHAPTER THREE

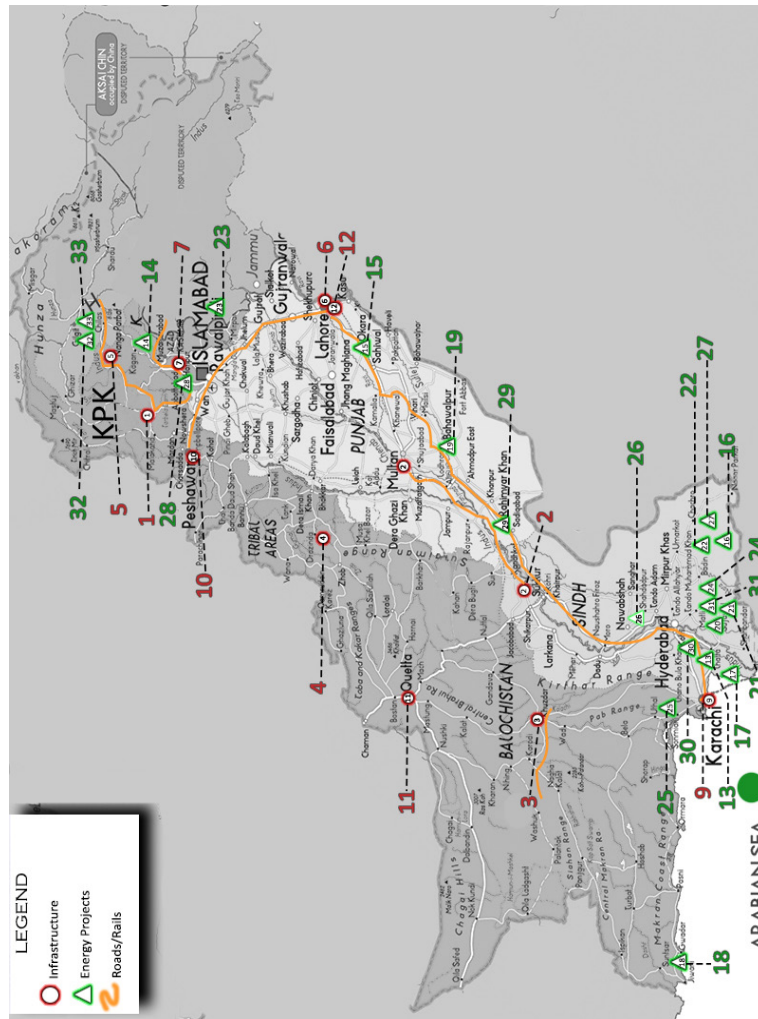
Challenges in Building Political Consensus

As mentioned earlier, transparency and data availability remain two major challenges in fully comprehending and understanding the unfolding of the CPEC. Additionally, there is no one consolidated source where a researcher, analyst or the public can look to for a "detailed" description of the various projects, their location or their funding mechanism. This makes it difficult to objectively assess the opportunities of growth and development that the CPEC offers.

In order to narrow the data gap, the authors have tried to illustrate all the CPEC projects onto a single map, relying primarily on verifiable public sources. Conducting this research has been cumbersome, because data is scattered, hard to authenticate and changes frequently on the official CPEC website. It is equally hard to differentiate between new projects and old ones, or which could even be a repackaging of existing projects. Even whilst using public sources, there is ambiguity and overlap making it hard to track investment. For instance, some projects have been indicated on the maps provided by the CPEC website but do not appear on the list of project details provided by the same source. Three such projects for example relate to the railway sector and include a railway line to be constructed between Gwadar and Quetta, the up-gradation of the Quetta-Taftan railway and a new railway line between Quetta and Kotla Jam. All three have been indicated on official CPEC Railway map, however *do not* show up in the list of infrastructure rail projects by the same website. There are several other such examples.³⁵

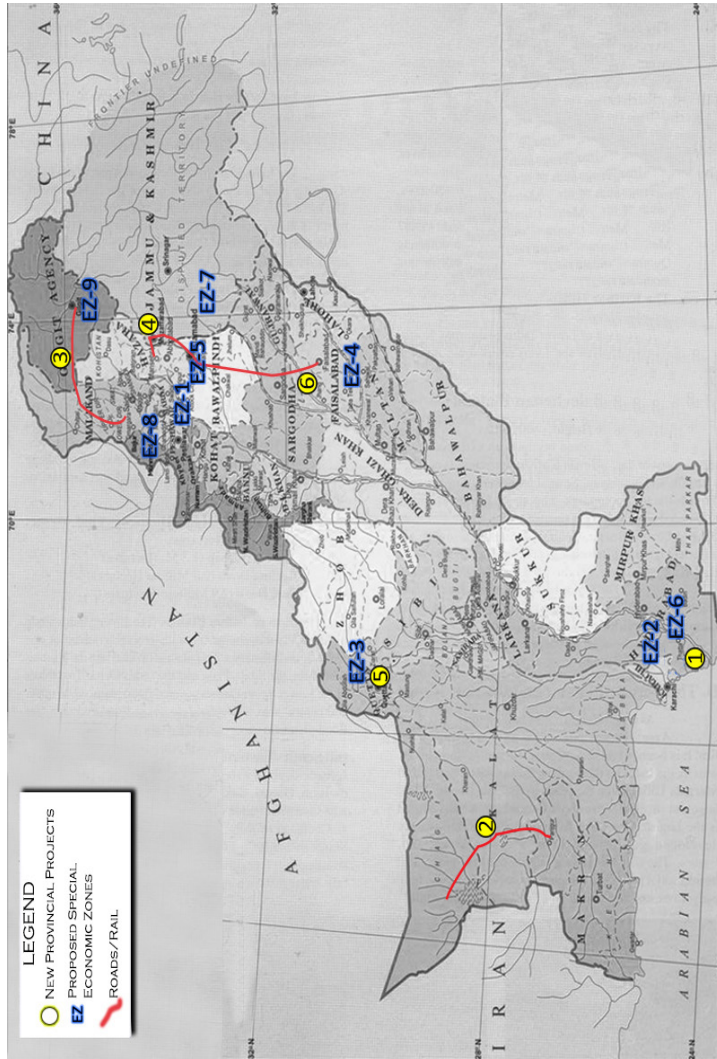
Regardless of these limitations, Maps 1, 2 and 3 indicate the geographic distribution of infrastructure and energy projects being constructed or being considered under the CPEC banner. These maps were illustrated using the project list given on the official CPEC website, and although do not provide optimum level of accuracy, can be used to get a basic understanding of which region is receiving the most in terms of investment for physical projects

MAP 1 CPEC Infrastructure (road and rail) and energy projects across Pakistan



Source: Map of Pakistan from: <https://www.ezilon.com/maps/asia/pakistan-physical-maps.html>
 Authors gratefully acknowledge the technical support Haseeb Asim, intern at the CPPG, provided in developing these maps

MAP 2 CPEC New Provincial Projects (road and rail) and proposed Special Economic Zones across Pakistan



Source: *Map of Pakistan from:* <http://www.maps-of-the-world.net/maps/maps-of-asia/maps-of-pakistan/detailed-administrative-divisions-map-of-pakistan.jpg>

MAP 3 Gwadar projects under the CPEC



Map 1 above summarizes all infrastructure projects including road and rail projects. Energy projects have also been mapped on the same image. Map 2 illustrates all those projects that are categorized by the government as “New Provincial Projects” as well the “Proposed Special Economic Zones.” Map 3 lists all those projects that are earmarked for the region of Gwadar. In the Appendix of the paper, a complete numbered list of projects can be found that correspond to the numbers indicated on the maps.

Through these Maps, we want to highlight two critical points; first, the uneven distribution of resources and levels of development among the federating units of Pakistan. Second based on these maps, and also on the absence of transparent and reliable data, and weak parliamentary practices and party systems, it is evident that building political consensus becomes a challenge.

3.1 Balochistan: Demands and Dividends

Analyzing the current territorial distribution of the projects reveals that, most of the new projects do in fact appear to be concentrated towards the Eastern part of the country, while, energy projects dominate the CPEC investments. Despite government assurances Op-ed writings continuously remind Pakistanis that the Western route is either marginally considered or ignored in the CPEC.⁵⁶ Although Gwadar receives a lot of attention, its relation to the rest of the province’s heartland remains minimal. It needs to be recognized that the success of CPEC hinges on a peaceful, secure and supportive Balochistan. However, meaningfully engaging and reassuring Balochistan on the CPEC remains a political challenge for the federal government.

The political economy of Balochistan presents a paradox: it is rich in natural resources including minerals such as gold, copper and coal, and energy reserves including natural gas, however it is characterized by socio-economic under-development, widespread poverty, low-skilled labor and poor infrastructure, making it a difficult terrain to engage in. Additionally, over the decades, successive governments in Pakistan have not paid adequate attention to the social and economic uplift of the Baloch people. Balochistan has some of the lowest rankings in terms of human development indicators in the country, including the lowest human development index (0.421) and a very low youth development index.⁵⁷ Therefore, there are pockets of

Baloch population, which are riddled with resentment, distrust and perceive any federal developmental initiative with suspicion. This demands better understanding of the Baloch culture and adoption of policies that win their trust and confidence. A recent development that is quite welcome is that political parties from the smaller provinces have banded together and skillfully elected the chairman of the Senate from Balochistan in March 2018. For the first time in the history of Pakistan, a Baloch has been elected chairperson of the country's apex parliamentary institution. This could serve as a good omen for building momentum and consolidating consensus on the CPEC.

Yet, people in Balochistan remain apprehensive that the CPEC could catalyse the process of resource extraction from the province without a fair chance for local development. Much of this apprehension is rooted in the lack of clarity on the 'Western Route' of the corridor. From the maps it is quite apparent that development in the province remains limited. Furthermore a significant proportion of the investment in Balochistan is focused on the development of the port-city of Gwadar, which largely remains managed by Chinese companies or the Pakistani military. Ensuring that the province's rural heartland benefits requires ownership, participation and cooperation of both the provincial government and the Baloch themselves. The Baloch therefore need to be assured about the dividends of development leading to improvements in human resource capacity and quality of life.

The CPEC can also be an opportunity to narrow the development divides the province faces with the rest of the country. This demands addressing the low employment levels and poor quality of work available, especially for the youth of the region. Additionally, a crucial component to secure Balochistan's future will be the management of the widespread security threats it faces, particularly its young population. Statistics suggest that from the youth afflicted by violence in the province, around 80 per cent were first-hand victims.⁵⁸ In our assessment, an important area of CPEC reform framework is to promote greater representation of the Baloch people in the various activities of this project. This demands a vision and action by the federal government to ensure the protection of Baloch interests. This will also allow the federal government to change

perceptions of being ‘Punjab-centric.’ In short, the future of CPEC as potential ‘game changer’ lies in Balochistan.

3.2 Gilgit Baltistan: Demands and Dividends

The Gilgit Baltistan (GB) region, although geographically remote is strategically vital for Pakistan. This region also demands attention as the CPEC could act as a means to appease a somewhat alienated part of the country. GB borders KP in the west, a small part of Wakhan Corridor of Afghanistan in the north, China’s Xinjiang Uyghur Autonomous Region to the northeast, and to the south the Indian held part of Jammu and Kashmir and Pakistani Azad Kashmir. GB was given self-rule in 2009, however India continues to treat it as part of the disputed Jammu and Kashmir territory. India contests any foreign investment or development in the region as violation of its national sovereignty and opposes the passage of the CPEC through the region. Pakistan therefore needs to be more careful and cognizant of the sensitivities and cultural, political and economic demands of the people of GB. The third interim report of the Special Committee of Senate on China-Pakistan Economic Corridor revealed that while around 36 billion US\$ of the CPEC were targeted towards electricity generation in Pakistan, power generation in Gilgit Baltistan remains without any funding whatsoever.⁵⁹ It is true that with the opening up of the Karakoram Highway (KKH) in 1978, the connectivity between GB and the rest of Pakistan has substantially improved but it has yet to provide optimal economic, trade and development benefits to the local people. Similarly, the CPEC offers the potential of hydroelectric power generation through various energy projects but these demand greater planning and consultation with people and policy makers in GB. Any progress in this direction of consultation and consensus building remains murky to say the least. Pakistan needs to be prudent in learning from the experience of the KKH and ensure that CPEC ushers in a new era of sustainable development in GB, missing this opportunity could mean missing the 21st Century.

Gilgit Baltistan is a region that for decades has suffered economic and social marginalization. Its economic and human development indicators have for long been below the Pakistani average. Even though recent trends suggest slight improvements in development indicators⁶⁰, GB’s governance structure, often characterized as

corrupt and unaccountable, has cost the locality several million rupees worth of economic success despite the wealth of natural resources and opportunities provided by the potential for tourism.⁶¹ The severe resource allocation limitations from the federal government combined with lack of empowerment at the local level of government that impedes the region's ability to determine its own policy course. The CPEC offers an opportunity to rectify this institutional imbalance in governance. The CPEC development projects must be designed in a manner that they provide competitive comparative advantage, enhance tourism, business entrepreneurship and prospects of untapped markets to the people of GB.

3.3 KP: Demands and Dividends

The government in the province of Kyber Pakhtunkhwa (KP) has similar expectations, demanding that CPEC related investment in the region go further than just highway construction. ICT infrastructure, railway networks, energy and social sector projects should also be ensured for the province. In fact, if the CPEC infrastructure development is pursued with imagination and commitment, it has the potential to play a substantial role in reducing regional disparities in Pakistan. Economically and politically marginalised territories could benefit in terms of employment generation, basic transport infrastructure and chances for skills up-gradation. chapter six deals with these possibilities in more detail.

3.4 Building Political Consensus: Harmonizing Federal and Provincial Governments

The socio-economic disparities of the federating units, their demands and expectations, make the CPEC an unprecedented opportunity to strengthen the federation of Pakistan. We propound that the CPEC could energize and refurbish the federal character of Pakistan; if the federal government was to engage and assure all the federating units that the project will provide equal opportunities and benefits to all. However, the federal government has been less than forthcoming in consulting and winning the trust of provincial leaders on ensuring the efficacy and equal economic benefits that will come from engaging with China.

The situation is not helped by the fact that the operational

features of Pakistan's federal character are still in a formative phase and evolving. The tension between federal spirit and demands of provincial autonomy has a chequered history, where provinces have complained against lack of authority or engagement in an over-centralised system of decision-making.⁶² Harmonizing provincial demands and interests continues to be a key challenge for civil-military leadership at the federal level. With such high stakes in the collaboration with China, active participation from the provinces in the CPEC is the only way to comfort lower levels of government and the civil society that could otherwise threaten a positive investment climate. If the provinces remain apprehensive and feel excluded from a project with such great economic and strategic potential, and advertised as being indispensable to Pakistan's economic future⁶³, the federal government may fail to accrue local support needed to reassure foreign investors. Analysts have repeatedly attacked the lack of transparency around the project and have demanded greater control and ownership by the government over policies that surround the CPEC. This has fed into controversy and backlash regarding its design and management. The federal government is aware of this but has been slow in engaging with the provincial governments and their concerns. It is only recently, and belatedly, that in the latest *Long-Term Plan for China-Pakistan Economic Corridor (2017-2030)* Mr. Ahsan Iqbal, then Minister for Planning Development and Reform, recognizing that in the provinces political parties continue to differ therefore, he has guardedly stated: "Pakistan is a democratic country where provincial governments are not just autonomous but they come from different political parties. The agreement on the CPEC LTP by all provincial governments is a biggest testimonial to the transparency, national consensus and efficiency on LTP and CPEC."

In the absence of a broad national consensus and inclusionary process, implementing the CPEC will continue to be divisive, will lack transparency and offer suboptimal benefits. The political leadership of Pakistan is seemingly striving to build consensus, but fissures continue to persist and the "common goal" and "shared vision" remain murky. The task was made even more challenging by the political volatility of the previous ruling party, which is embroiled in a number of legal enquiries and corruption charges and face frequent mass protests. Michael Kugelman cautioned that the

removal of Nawaz Sharif from prime minister's office in July 2017 could slow down the progress on CPEC.⁶⁴

Political parties and their leaders are still struggling to manage inter-party strife while, the Pakistani military has demonstrated strong resolve to support the project and remains a pivotal player on the Pakistani side. A separate security force has been created for the protection of Chinese workers in Pakistan. The cost and consequent effects of creating an additional army division have come under criticism. Securing consensus within Pakistan will also mean adopting a transparent and accountable system of project management. Through political consensus, prudently and fairly designed economic dividends for all the federating units could Pakistan ensure the success of CPEC.

Pakistan's political parties are still debating, who initiated the launch of CPEC with China. The PPP claims that it engaged China on the project as early as 2011, while the PML-N asserts that in July 2013, Pakistan and China signed a Memorandum of Understanding that brought to reality the "China Pakistan Economic Corridor" (CPEC). Pakistan's *Vision 2025* document describes this as "*investment and economic cooperation; exploring sectoral cooperation along the Corridor including agriculture, industry, energy and infrastructure, environment; education, research, culture, tourism and media as well as people-to-people cooperation.*"⁶⁵ The current discourse on the CPEC focuses in particular on the infrastructural component mostly, there is very little attention being paid to the other aspects promised by the CPEC, especially the social sectors. How the education or health sectors will be impacted is unclear. Details on the ways in which human capital development can benefit through training or technical learning are also missing. Similarly the government has provided hardly any information on the environmental impact assessments of the infrastructure projects, especially in the port city of Gwadar (where there is significant CPEC activity along a largely untouched coastline). It is a critical question, environmentally, how safe or sustainable are the infrastructural developments under the CPEC? The Pakistan Environment Protection Agency (Pak-EPA) had already opposed the Environmental Impact Assessment of the project, claiming it to be incoherent and lacking sufficient data.⁶⁶ For such a large-scale project that claims to have game-

changing impact on the lives of millions of Pakistanis, it is a matter of serious concern that no clear conclusions were reached whereby the environmental safety and the sustainability of the project was checked, by the Pakistani agencies and their Chinese counterparts.

It is encouraging to note that as progress on the CPEC continues, the political parties have become more pragmatic in their stance on the project. From being skeptical and averse to Chinese investment, questioning its benefit to their province, most political parties are now accepting the CPEC as a preordained part of Pakistan's development route. The government of Shahbaz Sharif in Punjab set this trend and other provinces followed suite. This change has become pronounced in the past year or so. The government in Khyber Pakhtunkhwa led by the *Pakistan Tehreek-e-Insaf* (PTI) for instance, was working directly with Chinese companies, signing MoUs under what has been termed as the "KP China Investment Plan (KCIP)."⁶⁷ A number of public-private initiatives have been signed in the province while the KP government is collaborating with the Frontier Works Organization (FWO) on the implementation of the development projects. Four of these were finalized last year including the establishment of two housing schemes, three hydropower plants in Chitral, a cement plant in Haripur and an Oil Refinery at Karak.⁶⁸ These initiatives are attempts to boost the province's industrialization process while keeping it at par with the economic and demographic changes that are likely to occur as a result of the CPEC.

In Sindh, the PPP government had maintained its support for the CPEC and continues to assert that the project is PPP's brainchild; the party claims that Asif Ali Zardari (then the President) is the principal architect, who built the relationship with Chinese officials that eventually led to the launch of CPEC.⁶⁹ During his tenure President Zardari (2008-2013) met Chinese representatives frequently, including Xi Jinping who was Prime Minister, encouraging Chinese investment in infrastructure and energy sectors. Between May 2011 and May 2013 the Chinese Ministry of Foreign Affairs recorded over 19 meetings between PPP representatives and their Chinese counterparts.⁷⁰ The senior civil servants dealing with China argue that, the concept of CPEC evolved over time and process began when Chinese PM visited Pakistan in 2003 and agreed to finance construction of Gwadar Port. The idea developed through various

project agreements, MOUs and Framework Agreements during high level bilateral visits. Finally, the paper work commenced under the guise of North-South Trade Corridor (NSTC) and a Steering Committee was constituted headed by the Prime Minister in 2004 to work out the detailed components and financing needs. The NSTC Steering committee lost its vigor once the government changed.

However, the PPP has recorded its reservations on two counts; first, it claims that investments and distribution of CPEC projects is skewed in favor of Punjab, second, there has been little consultation on the implementation of these projects. Therefore the PPP has demanded for a more just allocation of water, financial and energy sources for Sindh.⁷¹ It is worth noting that the provincial leaders have been quick in re-positioning and are eager to participate in the CPEC's development, advertising Sindh's natural resources, coastal area and hubs of commercial and economic activity as attractive to foreign investors. A number of CPEC projects have already been initiated including the Thar Coal Project that promises to improve local employment prospects, the establishment of the Dhabeji Special Economic Zone and five wind turbine generators; all of which are set to enhance the province's economic outlook.⁷² Additionally rail and road infrastructure projects of the CPEC have been earmarked for Sindh. (*See Table 2 on CPEC projects*).

Balochistan's political parties, response to CPEC remains fractious and problematic. The PML-N faction of the province has been essentially 'pro-CPEC' guaranteeing the economic, social and political livelihood of the local population.⁷³ However separatist political agents such as the Balochistan Liberation Army (BLA) have been vocal in their opposition to the mega-project. The other smaller provincial political parties, such as Baloch National Party (BNP) have been constricted about the CPEC. The situation in Balochistan is further complicated by the allegations of Indian support for BLA and other separatist forces. The military treats this as threat to territorial integrity and hence it is dealt as insurgency. Balochistan is caught between the geopolitical crossfire, where separatism is linked to Western conspirators or Indian agents. A Baloch commentator has aptly summed up the Baloch predicament, "if the support for the Baloch nationalists would be just to disturb or delay the Chinese advance, then the result for the Baloch as a national entity would

be catastrophic. The net result would be that Balochistan would be converted into a war zone, where civil strife and the great power's tug of war would result in the mincing of the Baloch people."⁷⁴ This demands a careful review and extensive consultation with diverse and competing interests and political parties in Balochistan to ensure successful implementation of CPEC objectives.

From the foregoing analysis, the authors have tried to argue that the federal government needs to be more vigorous and forthcoming in persuading the provinces about the efficacy and dividends of the CPEC. The federal and provincial governments need to act in concert to remove apprehensions and mystery surrounding plans and data and present a coherent view on CPEC projects. For analysts aiming to make sense of the geo-economic and geo-strategic dynamics of the collaboration, this lack of data is a crucial missing element and leads to several concerns;

First, there is a general lack of a consistent and intelligible plan of action that clearly summarizes, one, the exact number of projects taking place through the CPEC, two, their accurate geographic location, and three, their source of funding. To put it bluntly, a credible description of the CPEC infrastructural, energy and social sector projects is missing. A physical demonstration of the proposed networks through clear graphical illustrations can appease discontent over marginalization from the project and convey commitment on behalf of the government to the provinces. Such transparency is necessary not only to avoid the dire costs of malpractice and corruption but also to ensure that the CPEC does not derail the economic and human development rights of those being affected.⁷⁵

Second, there is little discussion over the extent to which the new rail and road projects will build on existing infrastructure. If the new investment will disregard previous transport networks and begin afresh, the government should be able to confront concerns regarding physical resource waste, underutilization of finances or further environmental degradation that are naturally going to follow.

Third, there needs to be a clear indication by the government on how the project routes are going to impact the social, economic, political and environmental well-being of local communities. There needs to be an explanation on 'if' and 'how' existing transport and trade arteries are going to be linked to the CPEC so that local

communities can participate from the economic development the CPEC has to offer. It is equally important to have an understanding about the geography of the various competitive advantages present in Pakistan and how the CPEC routes can be altered to benefit these markets. For instance the third interim report of the Special Committee of Senate on China-Pakistan Economic Corridor points out several flaws surrounding the development of the KKH in light of the increased traffic due to the CPEC. There is ecological damage taking place along the Ataabad Lake in the form of cracks on the lake's embankment as a result of construction work on the KKH. The lake itself is a product of a landslide resulting from the degradation of surrounding mountains or perhaps the blasts that took place during the construction of the highway. Alternatives have been suggested in the form of widening the KKH and also promoting a new route for the CPEC in which Gahkuch, Shandur and Chitral are connected through the Shandur Pass. The Swat Motorway can also be introduced to the CPEC network as a means to connect existing road routes.⁷⁶ Similarly, in the case of Balochistan, a province that has low population density, a dearth of skilled labor coupled with low income levels, worker migration into the province from other parts of the country may prove to further worsen the situation of local labor who would not be able to compete.⁷⁷

Finally, there is considerable ambiguity whether the government has been able to negotiate trade agreements and financing of projects with professional expertise and a sense of clear national purpose. The financing of the projects continues to be debated. Reponding to concerns that Pakistan will be unable to pay back the loans under various CPEC projects; CPEC enthusiasts argue that private investors, rather than the government itself will pay back a major chunk of the total finances coming into Pakistan. The remaining amounts are concessional loans (an estimated 11bn US\$) with an interest rate of maximum 2 per cent/year attached to it. These payments have to be paid back by the year 2043 under the long-term repayment system, once CPEC projects are completed. Estimates suggest that a repayment of around 250 million US\$ will be spread across the next 25 years; a nominal amount compared to previous loan arrangements Pakistan has made with agencies such as the IMF or the World Bank.⁷⁸ Other observers have supported

these arguments, writing that “Pakistan’s balance of payments is not likely to come under substantial stress due to CPEC projects” but that the additional costs incurred due to non-CPEC projects such as the import of natural gas should not be ignored.⁷⁹ One observer has asserted that debt repayment concerns will be of minor significance to the Chinese given the geostrategic position Pakistan holds, particularly in counter balancing India.⁸⁰ Despite the salience of Pakistan's geostrategic position the financing of the CPEC demands a careful technical review, scrutiny and monitoring

During its tenure the PML- N government (2013-2018) has been struggling to remove apprehensions on the CPEC projects, without much success According to the World Economic Forum, indicators such as “state of the economy, political upheaval, and headline-grabbing events like major corruption cases” indicate the level of confidence a particular government enjoys from the public.⁸¹ The 2017 Economic Survey of Pakistan reinforces the same point; “Economic growth in Pakistan has historically remained volatile, lacking a steady growth path and adding to the economic uncertainty about the country’s economic conditions.”⁸² While from 2013 onwards, economic growth has been more stable averaging between 4 to 5 %, the unpredictable economic situation has been a cause of low confidence in the government. Additionally, Pakistan has not been a stranger to “political upheaval and headline grabbing events” like the WEF indicates. In particular since the eruption of the Panama Case and the corruption charges against the PML-N leadership, the scandal had lead to a domino effect in terms of worsening the country’s sociopolitical and economic environment. In July 2017 Prime Minister Nawaz Sharif was disqualified from office and eventually was prohibited from holding the position of party head ultimately he was sentenced to 10 years in jail owing to these legal battles. This crisis of leadership, multiple legal cases and charges of corruption have hurt the reputation of Pakistan. For example, a report by GAN Integrity makes scathing critique of the country’s institutional integrity; it states “Pakistan is unable to guarantee integrity in state bodies and is unable to prevent corruption despite a sound legal framework. The government didn’t implement anti-corruption laws effectively and officials engaged in corruption with impunity.”⁸³

The WEF and Gan reports highlight the significance of trust in government; the more a country believes in its leadership, the higher the level of investment, spending and tax payments can be expected. In turn, governments must show the public, a commitment towards their wellbeing; including spending on health and education and employment generation.⁸⁴

Ironically and alarmingly, Pakistan's perception of pro-poor and equitable governance is divided along regional, income and class categories. In a poll by Gallup Pakistan and Pulse Consultant in November 2017, 30 % of respondents said they were dissatisfied with the ruling PMLN while 42% were satisfied. Responses varied by region with Punjab indicating the most satisfaction (48%), Sindh 35%, Balochistan 29% and KP the least satisfaction with 28%. Satisfaction with the government also indicated a positive relation with income, the lower the income level, the lower and the level of satisfaction with the government.⁸⁵ Such perceptions could be injurious for successful implementation of the CPEC projects. Yet, in July 2018, the General Elections took place in Pakistan whereby the *Pakistan Tehreek-i-Insaf* came to power. This is the party's first time in power. How this party change will impact progress on the CPEC will be a matter of study in the near future. However the new government will need to push for stronger consultation among the federal and provincial governments and effective coordination between different ministries and departments.

Political stability and institutional strength play a crucial role in determining the investment climate of an economy as well. In The Perception and Investment Survey 2017 by the Overseas Investors Chamber of Commerce and Industry, findings indicated that foreign investors faced significant challenges in terms of ease of doing business in Pakistan. An overwhelmingly large proportion of respondents felt poorly about aspects such as "process of fulfilling tax requirements" (49%), "timely settlement of disputes" with provincial and federal organizations (68%), "tax refunds" (83%) and "consistent availability of utilities" (45%). Other aspects fared better with responses marked "good" for indicators like "access to local finance" (70%) and "efficient corporate governance" (46%).⁸⁶

It is evident that the federal government needs to work more vigorously in aligning provincial demands for effective and

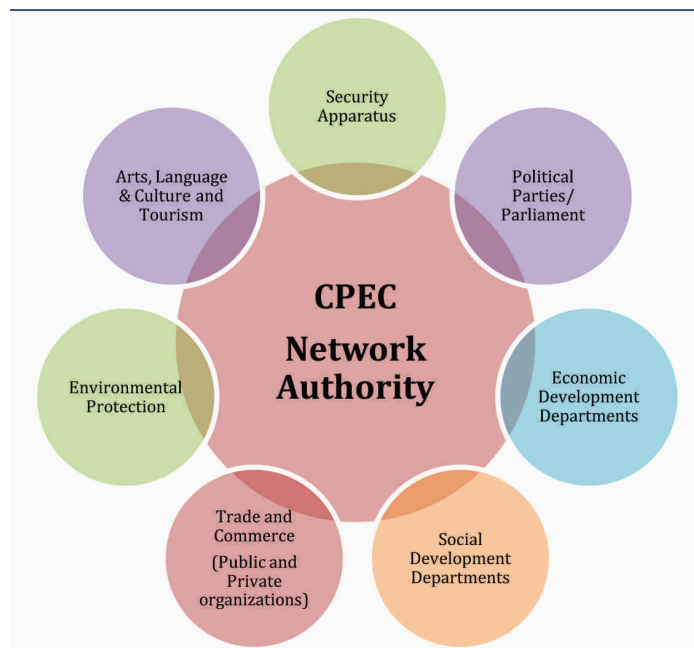
successful implementation of CPEC projects. Fragile and lukewarm consensus and resolve on the part of federal government is likely to perpetuate disillusionment, therefore, this must transform into a dynamic and consultative engagement process. Political consensus and mass support for the CPEC, across the provinces will be pivotal for its success. The current leadership thus faces the fundamental question of how to initiate better conversation and promote support for the CPEC?

The existing CPEC Secretariat in the Planning Commission of Pakistan and another similar set up in the Ministry of Finance are inadequate, disjointed and suffer from inefficiencies of coordination. Similarly, the Ministry of Inter-Provincial Coordination, Federal Interior Ministry and Home Departments also lack mechanisms of effective coordination, monitoring and delivery of services through the CPEC projects. We propose creating an umbrella authority responsible for integrating and coordinating all the multidimensional facets of the project. This umbrella authority can essentially be a 'CPEC Network Authority' that encompasses the political, economic, socio-cultural, and environmental and security facets that can help facilitate the process of project design and implementation, with the mandate of coordination and regulation. The proposed CPEC Network Authority will also be responsible for researching and providing evidence-based policy recommendations on various CPEC projects, minimizing any negative spillovers and identifying opportunities for maximizing development gains. Figure 4 illustrates the interlinked sectors that the CPEC Network Authority will directly or indirectly affect and how such an Authority can help oversee these inter-linkages.

Within each of these sectors is a list of departments and organizations that have technical expertise in their respective fields. This is not an exhaustive list, it is tentative and expandable, for example, with reference to infrastructure development; the Engineering Council of Pakistan, National Engineering Services Pakistan (NESPAK) and the Frontier Works Organization (FWO) have significant capacity in terms of skilled and professional human capital. Similarly, the Planning Commission and Local Area Development Authorities, albeit limited capacity, understand local development needs, and their input can be crucial in bottom-up approaches to adopting CPEC

projects. Likewise provincial Environmental Protection Departments and Provincial Disaster Management Authorities must be included in the process of project design and implementation while R&D should particularly be encouraged in this sector. The Ministry of Heritage and National Integration also has an important role to play in terms of promoting a better understanding of Pakistani arts and culture and marketing this sector for tourism purposes. Finally, trade organizations, both public and private have a pivotal role to play in terms of maximizing the economic benefits of the CPEC.

Figure 4 Proposed CPEC Network Authority



CHAPTER FOUR

Managing Terrorism and Security Threats

Pakistan's threat perceptions have been highly coloured and convoluted by unresolved disputes with India, particularly; the issue of Kashmir. Both, India and Pakistan are nuclear powers and the rivalry is endemic, so one segment of Pakistan's threat syndrome is rooted in this perception and reality. The other set of insecurity is tied to Pakistan's involvement in the two phases of modern Afghan wars (1978-1989) and the Global War on Terrorism (GWT) again originating in Afghanistan—2001 and on going. Pakistan's involvement and management of these threats and wars have added enormously to the rise of religious militancy and extremism within the country. This has ruptured the very fabric of Pakistani society, its culture and politics. Over 70,000 persons have died in terror related acts in Pakistan in the past decade or so. It is only in recent years that domestic sources of terrorism have drawn some attention of the policy makers. The GWT has cost Pakistan billions of dollars since 2001. It is estimated that economic costs amounted to 4.53 billion US\$ in 2014-15 and another 730 million US\$ from "lost export opportunities."⁸⁷ Given this scale of human and economic cost, the civil and military leadership realizes that domestic sources of terrorism must be dismantled and destroyed. This is a precondition for inviting foreign investment, boosting trade and ensuring the CPEC's success.

Suicide bombings and target killings in Karachi and the penetration of terrorist attacks in the relatively safer urban areas of Punjab, further add to the risk associated with bilateral investment projects. Moreover the security situation in Balochistan continues to be a big challenge to national peace in Pakistan. Ethnic violence is strewn across the region, threatening the struggle towards projecting

Pakistan as an investment-friendly country. Baloch separatists continue to persist with the demand that China should not engage in Gwadar.⁸⁸

There has been considerable progress in curbing terrorism and managing the security situation, particularly in Karachi, the Federally Administered Tribal Areas (FATA) and Balochistan. However, the year 2017 was particularly troublesome as a series of deadly terrorist attacks took place across the country. In February 2017, a suicide bomber attacked Mall Road in Lahore, killing around 13⁸⁹, including the deputy inspector general (DIG) of the traffic police. A few days later a shrine in Sehwan, a town in southern Sindh, was targeted resulting in the death of around 88 people.⁹⁰ Less than a week later, the session's court in Charsadda, Khyber Pakhtunkhwa, was attacked where seven people lost their lives.⁹¹ Quetta, Balochistan also witnessed the martyrdom of one of its leading bomb-disposal experts, who was killed during a bomb-diffusion operation. These deadly terrorist attacks, after a relative calm and peace of few months jolted the civilian and military leadership. The terrorist attack at the Mall Road, Lahore, caused anxiety for the Chief Minister heading the PML-N government and roused fears about CPEC related projects in the province and across the country. Under Chief Minister Shabaz Sharif (2013-18) Punjab had been relatively free from terrorism, witnessed the development of several infrastructure projects and more importantly remained better governed compared to other provinces.

The Punjab government had therefore been vigilant to safeguard CPEC projects. According to government representatives in the province, Punjab's anti-security mechanisms follow integrated management and are setting standards for other regions to follow. A senior official from the newly formed CPEC Security Unit in Punjab informed that there were around 25,000 Chinese people working in Pakistan on various projects. In Punjab alone, 11,000 Chinese are working in CPEC-related projects. For their security 7000 Police personnel of CPEC Security Unit were deployed in the province. This number could rise to 11,000 security personnel, equalizing the ratio of security officials in Punjab to Chinese workers to the remarkable number of 1:1. An additional 3000 from the Army Rangers will be deployed for protection. These Security personnel will provide

protection to the Chinese CPEC workers, including their residences, work place and by providing security during transport. In April 2015, Pakistan promised the establishment of 12,000 security personnel for the purpose of ensuring safety surrounding the CPEC;⁹² in October 2017 an additional Special Protection Unit (SPU) under the Gilgit Baltistan Police was announced for CPEC projects in the region.⁹³

Despite appropriate security protocols to ensure the safety of Chinese personnel across the country, language continues to be a major barrier hampering effective communication between the Pakistani officials and Chinese. In Punjab and across Pakistan security officials are being trained through crash courses on learning Chinese language. In the past three years the number of terrorist related incidents have considerably declined, yet terrorism and religious militancy remains a serious governance challenge.

To curb terrorism and ensure safety of CPEC related projects, a deeper engagement with the provincial governments is required. The PML- N government under Prime Minister Nawaz Sharif had made lukewarm efforts to keep provincial governments on board through promoting participation in the international meetings of the Joint Cooperation Committee of the CPEC. Yet, provincial skepticism continues to reappear with regards to designing, development and implementation of this project of immense national significance.

In our assessment, Pakistan will need to overcome the hurdles surrounding the CPEC, by making a paradigm shift from a security state to a development state; this implies pursuit of internal peace and harmony that in turn promotes a culture of internal reform. The recent trend shows that Pakistan can curb terrorism, but to maintain momentum it must prioritize socio-economic reform and building political consensus. China provides a shining example; while pursuing internal socio-economic reform it has sought peace within and abroad, particularly in its neighborhood (India, Myanmar) through skillful and effective diplomacy and smart trade and investment policies to consolidate development. China has also been prudent in upholding the principle of non-interference in others' domestic politics, hesitating that it may be considered as intrusion.⁹⁴ Pakistan would be well advised to learn from the Chinese experience.

To this end, a bottom-up approach can be meaningful in materialising the CPEC. This implies greater reliance and employment of

local labor; the creation of vocational institutes to complement infrastructural developments, and setting up road networks to connect the infrastructurally impoverished rural areas to major highway routes are a few options to consider. Pakistan must coax China for achieving these objectives, else the perception will persist that Chinese are bringing their own labor for designing, monitoring and implementing the CPEC projects. For disrupting, dismantling and defeating terrorism, creating employment opportunities and enhancing skills of local people would serve as an effective tool, making CPEC a 'game changer' for both Pakistan and China.

CHAPTER FIVE

Emergence of India as Global Power and the Challenge of the CPEC

As noted earlier, India perceives the CPEC as a strategic threat and not an economic opportunity. The Modi government that took office in 2014 has been quick to capitalize on India's economic potential and is keen to work with the American leadership in boosting its regional power. India may be struggling with developmental issues such as high absolute poverty rates, poor infrastructure, youth bulge and lack of employment opportunities and gender inequalities and problematic urban governance. Yet, India is also perceived and recognized as another emerging global power. Its economic growth rate has surpassed that of China, with currently the world's seventh largest GDP. In the coming decades India's workforce is being projected as the largest in the world. India has the third biggest military and is the largest buyer of international arms.⁹⁵ From the US strategic perspective, India has immense strategic significance in countering China's rise and in "maintaining a balance of power in Asia."⁹⁶ In this geo-political equation, both have intensified and deepened strategic cooperation portraying the CPEC as threat to mutual interests in the region. In reality to contain China, both India and US have moved swiftly. However, in our assessment India is softening its containment posture towards China. While improving and consolidating strategic partnership with the US, India is now striving to 'neutralize' China rather than 'contain' China as the US aims to do. In other words India would seek Chinese support for its ambitions to become member of the UN Security Council and continued partnership in other forums like ASEAN, SCO, Boao Forum in Asia and other diplomatic fora.

Thus India's perception of the CPEC is that of a strategic challenge

rather than an opportunity for economic trade and connectivity. India apprehends that the CPEC could weaken its strategic position in South Asia, the Middle East and amongst the Central Asian states. In the past few decades India has been actively engaging with the latter, eyeing on the prospects of obtaining natural gas and other mineral resources. It fears that completion of the CPEC would restrict its access to Central Asian states and as a result, has meandered its way through Bangladesh, Vietnam, Sri Lanka and Myanmar, signing energy agreements to make up for provisional energy demands.⁹⁷ India has invested heavily to develop the Chabahar port in Iran and rail link to Afghanistan, as an alternative to Gwadar and the CPEC. This will allow India to transport energy through the Arabian Sea. The Turkmenistan-Afghanistan-Pakistan-India gas pipeline and the International North-South Transport Corridor are other areas. India is working to overcome these perceived challenges posed by the CPEC. This transport corridor provides sea, rail and road links for several participating countries in Central Asia including Russia. Shared electricity plans are also being discussed between Bangladesh, Bhutan, India, and Nepal.⁹⁸ It is therefore imperative for Pakistan and China to reassure India that CPEC could supplement facilitation of India's energy needs and commerce and trade activity and opposing CPEC as strategic challenge, would only perpetuate terrorism and conflict, intensify rivalry and thwart peace and development in South Asia. Whereas the possibility of warming up of China-India relations cannot be ruled out, the visible indications are that Beijing would not abandon Pakistan as China's interest in a stronger Pakistan parallels its own interests. Pakistan plays a role in fighting terrorism, both India and Pakistan have become members of Shanghai Cooperation Organization (SCO); besides economic-cultural cooperation, combating terrorism is its key component. Now, both India and Pakistan are members of the SCO, would the two cooperate in effectively curbing cross border terrorism? What role China could play in reducing qualms and boosting peace between India and Pakistan?

It is equally important for Pakistan to recognize that trade between India and China amounts to around 83 billion US\$, while Pakistan's trade is only around 13 billion US\$, and the CPEC's total investment is around 63 billion US\$, less than Indo-China trade. Here the critical

question is; the way India has been able to build economic ties with China despite its unresolved border disputes, could Pakistan and India also try to manage territorial disputes following Chinese example and pave the way for CPEC as a bridge and opportunity for economic, cultural and educational cooperation?

CHAPTER SIX

Designing a ‘CPEC Trade and Economic Policy’ for Greater Gains for Pakistan

In the foregoing analysis, this study has attempted to identify the challenges and opportunities that the CPEC offers to Pakistan and China. From Pakistan’s point of view, the economic and geostrategic dimensions of the CPEC collaboration are perhaps the most promising for its own development agenda. Indeed, the CPEC does have the potential to be a ‘game changer,’ however benefits will only accrue if the right circumstances are created. The authors of this paper therefore call for reforming the regulatory framework of the CPEC through the legalisation of a comprehensive ‘CPEC Trade and Economic Policy’ that is participatory and inclusive in its approach, multidimensional in its scope and that does not compromise Pakistan’s ability to make self-determining policy decisions. While the government has launched various policy prescriptions on boosting growth and providing an enabling trade environment, these documents have similar assertions as preceding ones.⁹⁹ This chapter attempts to explore some of the challenges and opportunities for designing a broader policy and the key areas of concern that have become evident since the commencement of the CPEC project.

The overall benefits of the projects under the Belt and Road, including the CPEC, will be divided at two levels; first between China and its partnering countries, and then differentially between the various income classes of the investment receiving countries.¹⁰⁰ We argue that Pakistan’s leadership would need to approach negotiations around the CPEC in a manner that maximise gains on both these levels. While the overall terms and conditions of the investment

coming into the country will depend largely on Pakistan's trade and investment policies and effective international diplomacy. This in turn will influence how these benefits are eventually distributed within the country and to what degree the CPEC is able to bring about equality-inducing development.

Understandably, the Chinese and Pakistani governments have presented the CPEC as a 'win-win' proposal of regional development, and this implies the socioeconomic uplift of even the most marginalised. Consequently, ensuring that the initiative is inclusive of the economically remote parts of Pakistan will require that the economic and trade agenda of the CPEC is designed based on principles of transparency and accountability. All negotiations must also ensure financial feasibility, with clear guidelines on how projects will be funded and the timeline according to which these funds will be allocated. Efficient governance of the CPEC also demands that a distinction be made between new initiatives and projects that entail up-gradation/renovation efforts.

If this reformist design of CPEC is pursued it could offer Pakistan the following economic potentialities:

- (1) *Maximising utility from greater regional connectivity and access to international markets while safeguarding local producers/markets*
- (2) *Capitalising on the opportunity to benefit from Chinese expertise in order to expand Pakistan's absorptive capacity and enhance its technological learning (training initiatives for skilled and non-skilled labor, technology adoption in sectors that require it: value added agriculture, manufacturing, retail etc.)*
- (3) *Exercising people-centred development by including human development as a priority in the CPEC policy framework.*

In the following section we offer a critical assessment of Pakistan's progress on the above-mentioned areas of development vis-à-vis the CPEC. This section also identifies areas that require further attention of policy makers for reforming the CPEC policy design framework.

6.1 Intra-Regional Trade: Maximising utility from greater regional connectivity

As the economic corridor develops, an anticipated result is the improved geographic access to new markets Pakistan will enjoy. However geographic proximity is not the only determinant of economic exchange.¹⁰¹ Trade is affected by myriad factors such as tariff rates, trade agreements, trade policies and legislation, local climactic conditions, security and political stability, technological growth and innovation etc. With the CPEC, certain important questions remain as to how Pakistan's economy will benefit in practicality from the trade and transport route's completion. One major point of discussion is how trade patterns between Pakistan and its regional counterparts including China have fared over time and what changes the CPEC is likely to bring to these patterns? Does Pakistan really benefit from the special relationship it shares with China? Do we export enough, and at what rates? Likewise which products from China are allowed into the country and at what rates? Do certain imports hurt indigenous producers (e.g. subsistence fisherman in Gawadar, handicraft producers in Balochistan)? What are we doing to safeguard local product/services/markets at risk of being wiped away by foreign competition? Is there stringent adherence to trade policies and are we setting eligibility criteria for imports? In our assessment this provides Pakistan an opportunity to review the existing trade and economic policies and develop a coherent CPEC Trade and Economic Policy that should be able to address these questions.

One of the greatest promises of the CPEC for Pakistan is that it will transform the country's geostrategic advantage unto geo-economic opportunity in terms of improving regional connectivity, trade and providing access to international markets. Pakistan is signatory to a number of regional agreements (see Table 5)¹⁰², yet it has not been able to maximise their output and outcomes. In addition to these, further the government is also deliberation on additional transport and trade agreements.

Table 5: Pakistan's Major Regional Trade Agreements	
Pakistan's Regional Trade Agreements	Key Objectives
Pak-Afghanistan Transit Trade Agreement (APTTA-2010)	Easier movement of goods between the two countries including enhanced transit facilities for commercial vehicles. There are also provisions about dealing with customs fraud and surveillance the trade of controlled chemical substances. ¹⁰³
SAFTA (2004)	The SAFTA Agreement has been ratified by all SAARC member countries and fundamentally creates a free trade area. Intraregional trade has traditionally lagged in South Asia, compared to other regions in the world. ¹⁰⁴ SAFTA has aimed to improve multilateral trade liberalization in the region. Commentators have however claimed that while the SAFTA has had a positive impact on trade for Pakistan, this impact has been trivial. Institutional barriers, lack of transparency, corruption and territorial disputes have been cited as some reasons for this. ¹⁰⁵
Quadrilateral Traffic in Transit Agreement (Pakistan, Kyrgyzstan, Kazakhstan and China, since 1995) (Tajikistan has applied for inclusion) ¹⁰⁶	Channels significant trade from Central Asia through the Karakoram in Pakistan, especially for those nations wanting to take a detour away from Afghanistan. Through the QTTA trade between Pakistan and Central Asia is facilitated. For instance even with Tajikistan being the last to join, trade with Pakistan has risen from 15 million US\$ in 2011 to 90 million US\$ in 2016. ¹⁰⁷

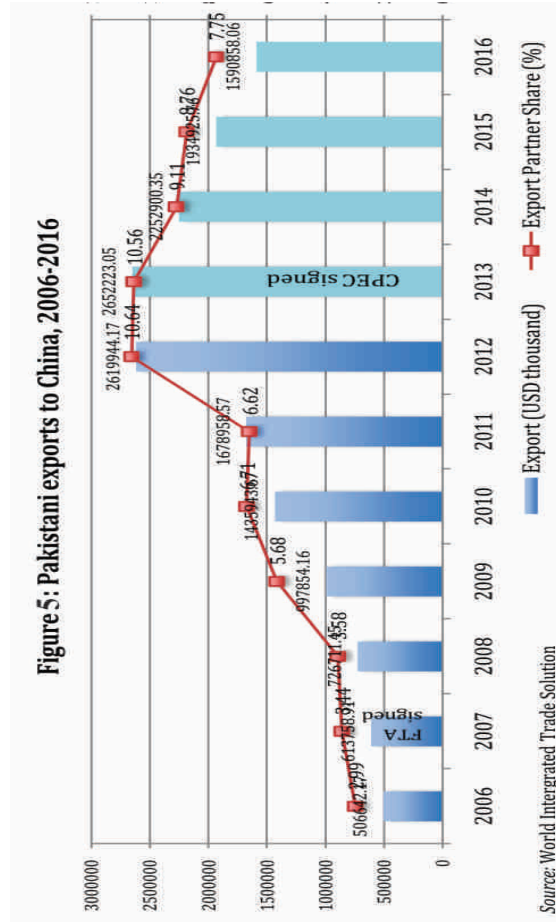
Economic Cooperation Organization 's Transit Transport Framework Agreement (TTFA) (Azerbaijan, Afghanistan, Pakistan, Turkmenistan, Tajikistan, Kyrgyzstan, Kazakhstan, Uzbekistan, Iran and Turkey	Aims to build communication and transport ties between member nations. Facilitates transit of goods and trade between nations.
Bilateral Agreement on Road Transportation between Iran and Pakistan (since 1992)	The Agreement is meant to ease access for transporters carrying goods across roads in both countries. The Pak-Iran Joint Transportation Committee overlooks implementation of the Agreement. This has additionally lead to signing of another Agreement: the Agreement on International Transport of Passengers and Goods was signed in 2008. ¹⁰⁸
Pakistan's Agreements with China	Key Objectives
Series of MoUs for economic, trade and transport development (2001)	These MoUs were diverse ranging from economic and trade cooperation to tourism, energy and transportation sectors. The latter included a transfer of various vehicles and locomotives to the railway sector of Pakistan as well. Additionally a sum of 50 million Yuan was given to the Pakistani government to enhance economic and technical engagement. ¹⁰⁹
Preferential Trade Agreement (2003)	Both countries lowered tariff rates for various goods

Bilateral Agreement between China and Pakistan on International Road Transport (since 2005)	The Agreement outlines the various types of permits given to those traveling to Pakistan from China. Bus service is also provided between Gilgit-Kashgar and Susht-Tashkurgan while one between Islamabad-Kashgar was being considered. ¹¹⁰
Free Trade Agreement between Pakistan and China (since 2006)	Sets tariff rates for both countries, trade increased between China and Pakistan, although Pakistan does not seem to receive the preferential rates other Chinese trading partners do.

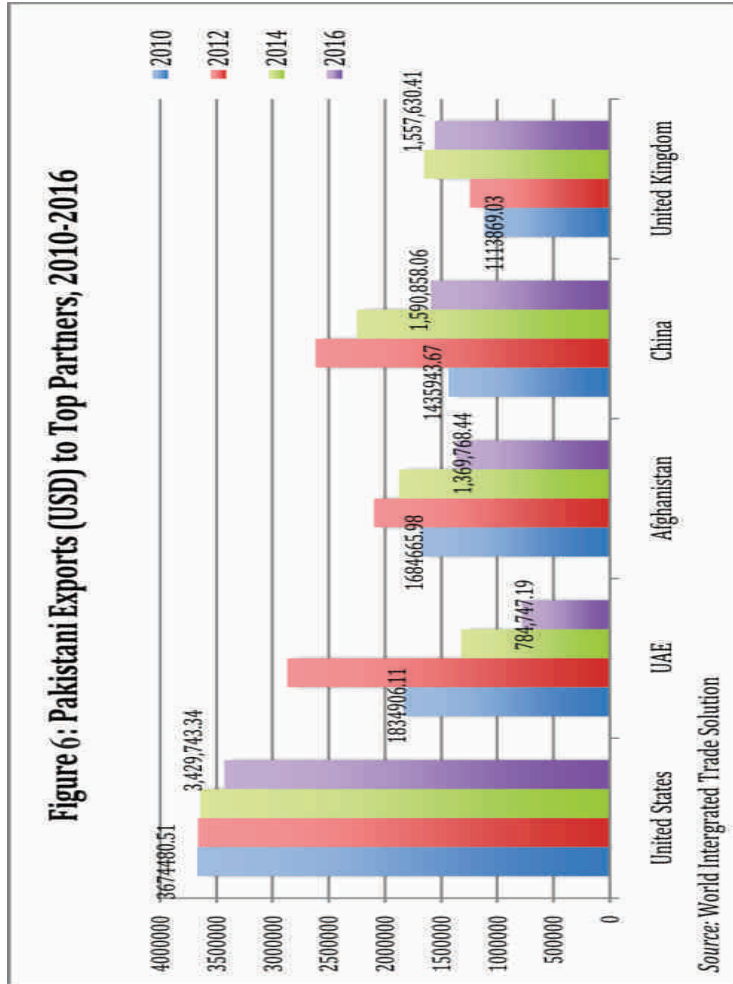
Why has Pakistan not been able to operationalize and benefit from these? This is a cause of concern and many skeptics wonder how the CPEC will be any different. We also need to explore: whether these trade agreements have led to a significant rise in trade between the signatory countries? What goods and services flow the most between the signatory countries? What are the gaps between the trade agreements on paper and how they are actually practiced in terms of economic exchange? Preparing a response to these questions could help policy makers identify loopholes and reform and re-design the CPEC, investment and trade framework. What is pertinent to note is that despite the numerous documents of understanding, land-based trade volumes between Pakistan and China remain insignificant. Out of the total trade between the two countries only one per cent is exercised through land-based infrastructure while 97 per cent occurs through sea and two per cent by air.¹¹¹ The Karakoram Highway (KKH) for instance, functional since 1979, is a mega project collaboration between China and Pakistan. It covers an area of around 1300 km and connecting the Gilgit-Baltistan region of Pakistan to the Chinese province of Xinjiang. For commerce, trade and tourism it remains under utilised for several reasons. First, there are serious geographical and topographical constraints where a seasonality aspect limits its usage. The Khunjerab Pass in the KKH for instance is closed during winter months and trade between China and Pakistan via the route comes to a standstill. Second, trade between the two countries via the KKH has also suffered due to logistical and administrative bottlenecks. For example, transport trucks travelling from Pakistan to China have not been able to make it as far as Kashgar, being stopped at Tashkurgan instead for offloading. Third, Visa issuance has also been a problem for Pakistani transporters causing delays

and monetary costs.¹¹² Fourth and most importantly, supporting services such as adequate banking infrastructure, marketing or road safety mechanisms are poorly managed or insufficient, limiting the full potential of road trade between Pakistan and its neighbouring countries. In such a way “non-tariff barriers”¹¹³ continue to restrict economic exchange between the two countries and for the CPEC to learn from the experience of the KKH, such logistical challenges and administrative inefficiencies would need to be seriously addressed.

Trade between Pakistan and China has not grown substantially, in particular Pakistani exports to China, rather as export data indicates, since 2013 both the value of exports to China and the percentage share of exports to China have witnessed a decline. Figure 5 illustrates this scenario.



Since 2010, the United States has emerged as the top market for Pakistani exports. While in 2014, China has surpassed both the UAE and Afghanistan as the next key recipient of Pakistani exports (see Figure 6). Indeed China has become a major source of Pakistani imports, and from amongst the top five destinations for Pakistani exports.



Conversely though, Pakistan’s contribution to China’s overall trade is insignificant, accounting neither for its top ten importing

source countries nor top ten exporting destination countries.¹¹⁴ In fact the reported trade deficit between the two countries has worsened for Pakistan, increasing from 4 billion US\$ to 9 billion US\$ between 2013 and 2015 respectively.¹¹⁵ Members from the business sector have begun to voice concerns over the impact CPEC facilitated trade with China will have on the “competitiveness of existing domestic industries.”¹¹⁶

Some studies have even pointed out that Pakistan does not receive the same tariff concessions as China’s other trading partners do, leading to questions over the effectiveness of the free trade agreement between the two countries. Pakistan does enjoy preferable tariffs for certain goods such as woven cotton fabrics, however data also suggests that top exports like cotton, rice, fish products and leather goods get much higher tariff rates (ranging from 3.5% to 65%) than some of China’s other trading countries like ASEAN members, which receive nominal to no tariffs for these products (*see Table 6*).¹¹⁷ Many of Pakistan’s top exports to China are not even subject to favourable tariff concessions that many of China’s trading countries are, limiting the volume of trade revenue Pakistan could achieve.

Table 6: Tariff Comparison of Pakistani Exports to China, Selected Products, 2013

Product and HS code	Chinese tariff rates (%)			
	ASEAN	New Zealand	Australia	Pakistan
Cotton Yarn 52051200	0	0	3.9	3.5
Rice other varieties 10063090	20	N/A	N/A	65
Fish, frozen etc. 03033900	0	0	6	8
Prepared leather sheep/lamb 41120000	0	0	4.8	5

Leather prep after tann goat 41131000	0	3.1	8.4	9.8
Woven fabrics of cotton 52081300	0	0	6	0
Dried fruit 08134030	0	0	15	24.2
<i>Source:</i> Pakistan Business Council 2016				

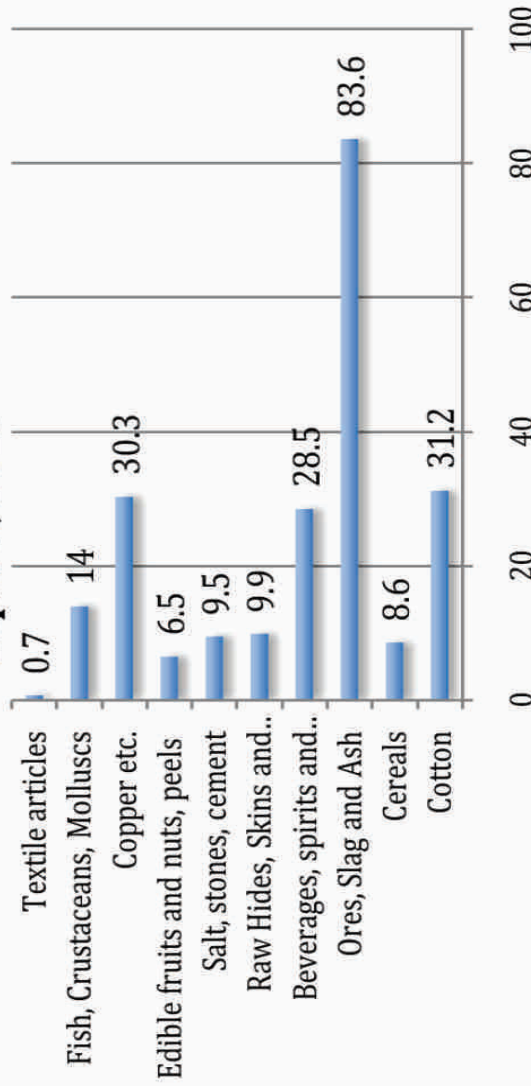
As indicated earlier, China receives a high proportion of Pakistani exports and this “low diversification of export destinations”¹¹⁸ is all the more reason why substantive tariff reductions need to be pushed for under the CPEC’s trade framework. Simultaneously, Pakistani policy makers must remain cognizant of China’s FTA arrangements with other countries. Its FTA with Australia for example could damage Pakistan’s position as the third largest exporter of raw cotton to China. Australia currently ranks as the fourth largest exporter of raw cotton to China and the terms and conditions of their FTA could adversely impact local markets in Pakistan, with local producers experiencing a decline in export demand.¹¹⁹ With such a trade environment, Pakistan’s competitiveness for major export products could be severely challenged.

The mixes of goods and services being exported to China require comprehensive review. A study by the Centre for Research in Economics and Business¹²⁰ reveals that perishable goods and raw materials largely dominate Pakistan’s exports to China and there has been little progress in exporting more sophisticated, higher-value products. Figure 7 summarizes some of Pakistan’s top exports to China and their share in total exports.

The CPEC does promise to bring about significant improvement in Pakistan’s trade balance with China. According to the Pakistan Business Council (PBC) there are over 250 products in which Pakistan has a comparative advantage and advocating for favorable tariff concessions for these goods can be pivotal. In its 2016 report, the PBC outlines four main sectors that Pakistan could work around to improve its trade volume with China. These include: Textiles and Clothing, Hides and Skins, Food Products, Animal and Metals—

sectors mostly categorized as “intermediate” or “semi-finished goods”.¹²¹ The organization determines comparative advantage by using the trade indicator Revealed Comparative Advantage based on establishing export advantage compared to other countries.

Figure 7 : Exports to China as % of Total Exports, 2015



Source: Pakistan Business Council, 2016

The PBC's report also summarizes the products in which Pakistan demonstrates great trade potential by calculating "Indicative Potential Values."¹²² These products include Rice, Cotton, Leather and Fish, which all have a potential export value that surpasses 100 million US\$ each. However, as discussed previously, despite the apparent potential, Pakistan continues to face high tariff rates even though the FTA is in place.

In order to truly build export competitiveness policy makers will need to pay attention to building on the several local markets in which Pakistan has comparative advantage and negotiating more supportive tariff rates. For example, trade in goods that the Northern Pakistan has advantage in such as fresh and dry fruits in Gilgit-Baltistan do not show up as a major exporting good to China, despite the geographic proximity and the presence of the KKH to facilitate land-based trade. Currently these regions transport goods to Islamabad to then be shipped or flown to Pakistan's various export destinations. This process is not only inefficient but also quite expensive when compared to the cost of trading with a region that is located a few hundred kilometres away. Part of the reason behind this may be that China's economic and commercial activity is concentrated towards the east of the country, while the regions neighbouring Pakistan are relatively underdeveloped.

The prospects of opening up of Xinjiang province through CPEC and the incentives it is likely to receive as a special economic zone, could also help Pakistan to re-strategize the economic policy for Gilgit Baltistan. Diversifying its export base and focusing on the same industries Xinjiang is likely to invest in is a possible policy area.. In Xinjiang's Kasghar region, electronics, metallurgy, textiles, logistics, construction materials and renewable energy are the industries China is aiming to boost.¹²³ Marketing its agricultural products while broadening its industrial base can this be helpful. Pakistani policy makers need to pay special attention to Gilgit Baltistan, as it will be the 'entry point' of the CPEC route.

Pakistan has a sizeable and vibrant livestock sector. The CPEC could give unprecedented boost to the Halal meat market as well, benefitting both Pakistan and China. Pakistan could cater to the meat demands of countries that have significant Muslim populations—where the size of Halal food market is estimated to be close to US

\$650 billion and projected to go up to US\$ 1.6 trillion in the next decade or so.¹²⁴ This would not only require determination towards building trade partnerships between Pakistan and countries that will be in easier access due to the CPEC, but will also require rigorous enforcement of production and transportation reforms that adhere to international health and safety regulations and that are subject to Koranic injunctions on Halal food. Additionally enhancing productivity by investing in feedlot fattening farms, disease-free zones and eradication of foot and mouth disease common in livestock farms are immediate areas of reform that the industry could look into prioritizing.¹²⁵

For maximizing benefits that CPEC offers, Pakistan needs to devise a long-term trade diplomacy strategy. Enhancing investment in export-oriented sectors, developing financial and credit markets for exports, diversifying the products mix of exports including the services sector and graduating from specialisation in perishable agricultural products to value added and innovative products, in addition to tackling the energy crisis.¹²⁶

From the foregoing analysis it is obvious that to take advantage of the CPEC potential, leadership in Pakistan would need to pursue reform of the CPEC framework so that it facilitates trade agreements that guarantee Pakistani exports the same concessions that other trading partners of China enjoy. Without negotiating a mechanism that allows local producers to compete on a level playing field with China's other exporting countries, the CPEC will not deliver the advantageous economic returns its proponent's claim will accrue. To ensure that CPEC becomes a 'game changer' fortifying Pakistan's export competitiveness is key to expand the potential benefits it offers. It is equally crucial that policy-makers pay attention to safeguarding local interests when Chinese and regional imports enter the country.

Recent research has shown for example that artisans in Balochistan producing handicrafts have been threatened by cheaper Chinese machine-made varieties. Similarly, the livelihood of fishermen in Gawadar is threatened by the relocation of fish harbors and the dominance of Chinese companies in the area. Likewise, in Gilgit-Baltistan, farmers may have to concede fertile land for CPEC projects in the north.¹²⁷

Here we want to share a note of caution; one of the worrisome trends with reference to Pakistan - is the flooding of Chinese goods into Pakistan's markets - the trader merchant class which is chanting anti-American slogans today could also hymn the same feelings against the Chinese in the future - economic discontent and governance mismanagement could acquire ideological overtones that could disrupt CPEC and the China-Pakistan friendship. The new infrastructural investments also have a substantial potential to impact local land prices, altering the dynamics of who owns the land and how it is used. Estimates suggest rising land values along the new infrastructure routes, with estate companies unfairly skewing prices that will hurt local residents. There are fears that such activity may further disadvantage people like rural farmers or uninformed landowners.

Therefore, careful planning needs to go towards ensuring Pakistani producers and traders are not hurt by an inflow of foreign products. While protectionist policies may have controversial impacts, a stringent review of the profile of goods entering the country is necessary to safeguard local talent and traditional crafts. With the CPEC offering an astounding opportunity for growth, gains for Pakistan can only be maximised if policy-makers negotiate trade-agreements that strengthen the local economy. Pakistan-China partnership is pivotal and has been built on solid foundations of shared national goals and interests. The CPEC must amplify and define even broader terms of strategic, commercial, educational and cultural engagement with China—that deepens and widens the scope of bilateral relations.

Finally, a coherent trade policy with respect to the CPEC demands a thorough consideration of the existing institutions and the role they can play in creating an enabling environment for economic growth in the region. Table 7¹²⁸ summarizes the various organizations involved in trade-related activities in Pakistan and their respective responsibilities. Instead of establishing new parallel structures, a practice that has often resulted in a duplication of efforts in the past, recognizing and involving established frameworks and utilizing their capacity to the advantage of the CPEC is a policy option the leadership should consider.

Table 7: Selected Trade Organizations in Pakistan

Trade Organizations in Pakistan	Role/Responsibilities
Trade Development Authority of Pakistan	Has succeeded the Export Promotion Bureau, administered by the Ministry of Commerce. Manages trade expos, trade delegations, implements trade policies etc. Main aim is to expand Pakistan's exports. ¹²⁹
Trading Corporation of Pakistan	"Trading arm" of the Pakistani Government. Manages the imports of commodities to ensure supply to the population. Manages market by striving for fair pricing, advocating against cartelization and hoarding. Has played a significant role in making Gwadar a functional port. ¹³⁰
Trade Dispute Resolution Organization	Engages with foreign investors to settle disputes and encourages a culture of trust and friendly relations between investors and their Pakistani colleagues. Helps Pakistani traders in international cases of fraud. A department of the Ministry of Commerce. ¹³¹
National Tariff Commission	Aims to assess Pakistan's tariff and trade implications. In charge of dealing with cases of dumping and the imports of commodities that can damage Pakistan's own local industries. ¹³²
Directorate General of Trade Organizations	Another faction of the Ministry of Commerce. Grants registration and licenses to various trading agents and ensures they follow the principles set out in the Trade Organizations Ordinance (2007). Also involved in ensuring equal representation in terms of gender and business sectors in trade organisations across various levels. ¹³³
Pakistan Institute of Trade and Development	Focus on capacity building and research to expand Pakistan's trade, commerce and economic potential. Also provides training to members of the Commerce and Trade Group. ¹³⁴

Intellectual Property Organization of Pakistan	Involved in the registration of trademarks and ensuring intellectual property (IP) rights are safeguarded. Provides awareness on IPs and aims to improve the implementation of IP laws. ¹³⁵
Federation of Pakistan Chambers of Commerce & Industry + Chambers of Commerce & Industry (city-level)	Aims to improve communication of the private sector's concerns and needs to the government all the while aiding the state with the promotion of Pakistan's trade, commerce and economic development. ¹³⁶
Women Chambers of Commerce & Industry (city-level)	Aims to promote the "cause of women in business" and to advocate for a greater understanding of female entrepreneurs and their potential of contribution to the economy. The economic empowerment of women is also on their agenda. ¹³⁷
Chambers of Small Traders and Small Industry	Several of them across various cities, main aim is to promote small traders and businesses, enhance their growth and role in national economic development.
Joint Chambers of Commerce and Industry	Made in conjunction with partnering countries for instance the Pakistan-Afghanistan Joint Chamber of Commerce and Industry and the Pakistan China Joint Chamber of Commerce and Industry. The latter aims to expand economic integration between China and Pakistan and facilitate trade and investment between the two. ¹³⁸
Overseas Investors Chamber of Commerce and Industry (OICCI)	The OICCI helps attract FDI to Pakistan. It acts as a coordinating organization for members that belong to various different countries around the world, The organization also conducts research on business and investment and partakes in policy recommendations for the government. ¹³⁹

A review of the organizations mentioned above reveals that there are already numerous fora, public and private, dealing with trade policy in Pakistan, many of these offshoots of the Ministry of Commerce. While, there is little clarity over a distinction of their

respective responsibilities, the expertise of several of these can be capitalized on to determine the direction the country's trade and foreign investment agenda should follow in light of the CPEC. Their direct understanding of the commercial and industrial potential of Pakistani businesses can also help in developing a bottom-up trade policy for the CPEC. We suggest, the Ministry of Commerce could play a central role in bridging the gap between private enterprises, public companies, trade policy makers and economic planners.

To conclude, while developing a CPEC trade and economic policy at least following four areas must be given priority. First, products that have a high trade potential (calculated through "indicative potential values") need to be marketed and promoted. Their tariff rates need to be accordingly negotiated. Second, industries will need support in expanding their production capacity through incentives and a reduction in red tape. They also require access to uninterrupted and cost-effective energy supply.¹⁴⁰ Three, Chinese imports that are likely to hurt local industries should also be on the agenda for negotiation. A balance needs to be struck between expanding consumer choice and safeguarding vulnerable producers. Finally, as the PBC points out, better data collection and analysis is required to ensure evidence-based policy making. Discrepancies between Chinese data and Pakistani trade data need to be eliminated.¹⁴¹

6.2 Expanding absorptive capacity and technical skills for higher human capital

According to the literature that evaluates the importance of innovation for development¹⁴², building a nation's absorptive capacity, or ability to learn and adopt new technical knowledge, is a major determining factor of that nation's growth or development progress.¹⁴³ In other words, the level of development between countries can differ due to their comparative ability to produce and use knowledge. Developing countries such as Pakistan suffer where there are low levels of technological understanding while those knowledge-producing regions that lie at the frontiers of innovation are able to accumulate the most wealth and achieve the most development gains. Such "technological gaps" can be overcome where countries invest in expanding their human capital and work on acquiring technical knowledge from other regions when they cannot produce their own.

Evidence suggests that interactive learning is an essential part of this process and is enhanced where there is geographical closeness. Following this understanding, the CPEC provides Pakistan an excellent opportunity to take advantage of its proximity to China and Chinese technical expertise.

An essential focus of Pakistan's economic policy of the CPEC should thus involve arrangements that encourage such interaction and work to improve Pakistan's technological development. One way of doing this is to establish training programs in which the Pakistani labor, from professionals to blue-collared workers, engage with Chinese experts on understanding fields such as infrastructure development, civil engineering, finance and accounting, entrepreneurship, project management etc.

Studies also support the role of higher education institutions in enabling technological learning.¹⁴⁴ Pak-China collaboration in terms of educational exchange programs can be seen as an important policy choice as this can promote greater understanding of each other's culture and language, aspects that are necessary to the kind of regional integration the CPEC propounds. Evidence suggests however that Chinese personnel remain quite limited in their interaction with those outside their professional and living quarters. For instance, a recent report points out: "Groups of Chinese investors, bankers, consultants, workforce and diplomats regularly fly into Gwadar daily. From the airport they are escorted under heavy security to the port compound where they attend to their business and remain in their self-sufficient and secure residential quarters. The Chinese live as a closed community in Gwadar primarily due to security concerns. They are self-sufficient in Chefs, kitchen attendants, domestic staff and barely depend on local population support for every day basic amenities."¹⁴⁵ With such little contact and communication with local residents it seems unlikely that people to people contact can be realized or interactive learning achieved. This needs to change, we need to provide hospitality training to our local populations, improve the security environment to a degree that Chinese feel comfortable to travel and engage with people. Additionally, through education and personal conduct we need to indicate a better understanding of Chinese culture, so that it further fosters people-to-people contact. The edifice of the next phase of the CPEC must be built on planned, appropriately designed and conceived cultural and

educational exchange programs between China and Pakistan.

6.3 Promoting people-centred development with the CPEC

A common question that the literature on economic growth has dealt with is the role of infrastructural investments in national income. Whether or not this growth impacts human development is altogether another question. With the China Pakistan Economic Corridor, the growth of the economy once again seems to be taking precedence with the government evoking an essentially neoclassical model of development. Neoclassic fundamentally argue that growth in the economy is achieved where money is allowed to flow to where it is most productive or profitable, enabled through the free-market mechanism, eventually benefiting everyone in a nation through a trickle down effect. Patters of development across the globe have however demonstrated that a completely free-market economy does not necessarily lead prosperity to those in the most need, as economic gains remain suspended at the top tiers of the wealth pyramid. Government intervention is therefore needed to support those agents who lie (workers, industries, sectors, minority communities) at the periphery of economic activity. In other words, a people-centred human development approach is necessary to ensure everyone is able to enjoy quality life.

Again with the context of the CPEC, it is essential to consider what China is doing to ensure that aspects of human development are enshrined in its plans for Pakistan. Even more important is the need for Pakistan's leadership to protect the economic and welfare rights of its people and capitalising on opportunities the CPEC offers for achieving human development in the country. While investment in educational institutions and hospitals has been earmarked under social sector development of the CPEC, these are limited in number. Furthermore, expanding the number of delivery centres does not guarantee quality. Fostering learning programmes on medical service delivery and teaching programs can help Pakistan overcome a major challenge to its human development.

Quality health and education are key components of the human development approach, as is the need to follow a participatory and inclusive approach to policy-making. Ensuring that Pakistanis are part of the economic and social policies being considered under the

CPEC will most likely improve development outcomes. Similarly, employment creation in terms of providing gainful and dignified work will be a determining factor of Pakistan's future success, in particular its growing population with a majority falling under the working age bracket. According to the 2017 National Human Development Report of Pakistan, the CPEC has the ability to absorb a significant proportion of the working class, not only those related to infrastructure development, but also in the services sectors like the tourism industry, transportation services and the banking and financial service sector. The CPEC can also aid in improving worker mobility, allowing them to relocate to areas where higher quality jobs are available.¹⁴⁶ Finally, the CPEC can be leveraged to market cultural handicrafts and souvenirs, festivals and cuisines. Media strategies, advertising campaigns and product/service branding must be invested in to enhance the desirability of local produce.

CHAPTER SEVEN

Pakistan and China: Solidifying Geo-Strategic and Geo-Economic Relations

The underlying principle of Sino-Pakistan friendship has been geo-strategic, as noted earlier, the question remains if the CPEC could transform it into comprehensively geo-economic? We have argued and provided evidence that such a transformation is possible, however, the onus is on Pakistan. Through the BRI and Maritime road, President Xi Jinping has provided an innovative and peaceful vision of global inter-dependence. China has demonstrated that besides becoming the second largest economy, it is also rising as a credible military power. From China's isolation to cautious opening-up and now its rise, Pakistan has been its key partner. China has become the world's second-largest oil consumer and it is well aware of the significance of Pakistan's strategic location on the globe. Pakistan has been and remains, China's "window to the West" as well as to the Indian Ocean.¹⁴⁷ China's increased reliance on Middle Eastern and Iranian oil and gas has made Gwadar pivotal for its economic needs and security concerns – a crucial link as an energy corridor for China. China is helping Pakistan build a deep-water port, namely Gwadar, its geo-strategic significance obvious and 'irritating' for regional and global powers. Gwadar connects not only Pakistani and Chinese hinterland but could serve as global hub for trade, commerce and financial center, thus transforming their relations from geo-strategic to geo-economic. This platform provides an additional transport route to China besides Chabahar of Iran and also paves the way for its influence in the South Asian region. Therefore, the critical question is whether Pakistan is ready to develop Gwadar as the commercial and economic hub of the Gulf states and the Indian Ocean region or would it be content to see Gwadar emerge as a naval base and strategic out-post only? Gwadar

does offer the opportunity of being an economic ‘game changer’, if Pakistan is willing to move in that direction.

Gwadar and its development as a key component of the CPEC symbolizes the importance of China-Pakistan relations that cut across all the dimensions mentioned above. In particular, the up-gradation of Gwadar conforms to China’s policy of linking its security concerns to its overarching development program. The Pakistani port city forms one of the three focal areas of recent Chinese military strategy in addition to the ports of Djibouti and Chabahar. Since 2013, China has cultivated and made significant inroads in the Maldives as well (until 2011 it did not have an embassy in the country and Indian influence was supreme). China’s increased presence would be discomforting for India but then India has been more vigorous in developing its Look East Policy and is also a pivotal player of the ‘Indo- Pacific region’—propounded by the US. While, Maldives, along with Seychelles, Mauritius and Sri Lanka have become an important link to China’s Maritime Silk Road, connecting in the north with Gwadar.¹⁴⁸ Establishing strong maritime cooperation with Pakistan’s navy in Gwadar will deepen strategic ties, but will also help China curb piracy, ensure safety of oil and gas supply and enhance China’s capacity to monitor maritime routes of the Indian Ocean. Strengthening of maritime cooperation between China and Pakistan is a ‘win-win’ for both. First, it would give both countries an edge as significant regional players; playing a key role in the Persian Gulf and Arabian Sea and into Bab El Mandeeb. Second, it gives China a pre-eminent position in the Indian Ocean and in some ways exposes India’s position as the most vulnerable state in the region. Therefore, China and Pakistan need to tread on a careful path to allay Indian fears. Military and strategic rivalry aside, both India and China have deep and growing business interests in the UAE and the Gulf states. Taking cognizance of Qatar, UAE and Saudi Arabia’s conflict, China has adopted a ‘No Enemy’ policy in the region; declaring neutrality and non-interference in the conflict which has been brewing for over a year. While India has also been equally guarded in taking any sides, focusing on the continuity of business relations and protecting its workers in the region. The UAE is home to approximately 2.5 million Indians and the two countries have exchanged a series of investment deals (amounting to around

1 bn US\$). Both China and India are cautious in displaying their military prowess in the Gulf region but are showing vigor in building business connections, highlighting geo-economic transformations rather than geo-strategic intentions. In reality, commercial and strategic interests are becoming increasingly intertwined. This signals that a struggle for having access to and if possible control of strategic choke points in the Gulf, Arabian Sea and Indian Ocean has begun. Pakistani policy makers may find this confluence of commercial and strategic interests instructive for reforming the CPEC framework.

In addition to the CPEC, Pakistan and China have a time-tested record of providing diplomatic and material support to each other in situations of adversity and global crises. Pakistan vigorously supported China's entry into UN Security Council and has refused to participate in criticism regarding its human rights violations. Pakistan also supports the One China policy (recognizing China's inalienable right over Taiwan). Similarly China has been consistent in supporting Pakistan, diplomatically, militarily and economically. In terms of supporting Pakistan's territorial integrity, in 1965 and 1971, China backed Pakistan during its military standoff with India and amidst the conflict surrounding East Pakistan's separation, rejected Bangladesh's membership into the UN until it released Pakistani prisoners of war. In a strategic context, China has helped Pakistan develop its missile capabilities and military prowess through support in equipment and weapons, including ballistic missiles and civilian nuclear reactors, despite western pressure. China has also invested heavily in Pakistan's defense industry and has time and again provided financial relief through various grants and loans.¹⁴⁹ Now, through CPEC China is showing Pakistan a path for economic transformation, however, this channel will develop into a reality if the two are able to develop a shared vision on its broad contours and goals.

Changes in global political and economic environment at times enhance or reduce the geo-strategic significance of a state. Revisions in great power policies also influence in shaping the geo-strategic and economic potential of a state/region. In short in global affairs, geography matters. For example, the global war on terrorism (GWT) center staged Pakistan and Afghanistan in South and Central Asia. On combating GWT, the world witnessed considerable degree of

convergence in US-China policies in the region. However, this began to dither around 2013 as President Xi Jinping announced the launch of the BRI followed by the rise of Modi in India (2014) and Trump in the US (2016). Both the US and India moved swiftly to deepen strategic ties and the US belligerently revived its Containment Policy, presenting alliance with India as bulwark against China. This US posturing has considerably softened the painfully enduring Pakistan-US relationship. However, it is important to recognize that whether the US prolongs its military engagement in Afghanistan or opts to devise an exit strategy, Pakistan would remain an unavoidable ally. This is geopolitical compulsion and to borrow Kaplan's expression 'revenge of geography' and Pakistan in concert with China must devise a strategy to maximize advantage this 'revenge of geography' offers.

China and Pakistan have multiple common interests in Afghanistan, ranging from terrorism, trade, and tourism to securing gas pipelines and people to people flow and connections. On assuming power, President Xi Jinping was quick to visit Afghanistan and reassure President Ashraf Ghani of developing a strategic partnership. As noted above China is sensitive towards USA's presence in Afghanistan. Besides its reservations, Beijing does not want the US to fail or leave Afghanistan in a hurry, as extremist movements of that region will impact China's Xinjiang province directly. Separatist movements are already posing as a challenge to China in this territory. That is why Pakistan's role in combating extremists and terrorists is very important both in Afghanistan as well as across its border with Afghanistan. A stronger Pakistan is in the interest of China and a weaker Pakistan, under threat from the Taliban, can hurt China's domestic interests, especially in the Uyghur territory.

In the past three decades China has emerged, as a prudent, responsible and judicious global power—a reputation it would like to sustain. Pakistan continues to be haunted by its global reputation and international reality demands serious national reflection. The US also seems to have a hardline view of Pakistan especially as the Trump administration's foreign policy begins to take form. For instance, a report by the Hudson Institute, which is favorably disposed towards India, presents Pakistan as having

numerous “safe havens” for terrorist organizations that “threaten vital US national security interests in the region.”¹⁵⁰ The same report recommends Washington to engage with China in a way that pressurizes Pakistan to take stricter action against extremist groups, especially in light of the CPEC projects. President Trump’s “National Security Strategy” issued in December 2017, confirmed concerns that the US is developing a frostier attitude towards Pakistan. The document’s language is accusatory and puts forth a strategy that clearly favors India over Pakistan, declaring that Pakistan is underperforming in its fight against terrorism. While it pragmatically promotes economic integration in the region, the Strategy emphasizes economic investment in Pakistan being conditional on it helping the US achieve its counterterrorism objectives.¹⁵¹ This approach of the US has three sets of implications for Pakistan. First, it undermines and devalues the Pakistani efforts to promote peace and security within Pakistan and in Afghanistan, second, it evokes defiance from Pakistan’s government, and third, it affects Pakistan’s reputation and credibility as a responsible state, regionally and globally. The US too will need to review its foreign policy in dealing with countries that have traditionally provided strategic support. Explicitly provocative statements could be inciting and do more damage than intended. The US under President Trump is facing the brunt of his invasive diplomacy, which is undermining its moral authority as a global power.

Expanding and transforming the China-Pakistan relationship into a comprehensive geo-economic relationship would thus benefit both. There are several additional ways in which they can further expand ties into economic, commercial, educational and cultural collaborations. Successful implementation of the CPEC, under the BRI framework, is perhaps one of the most critical components of the Chinese plan of action. The CPEC’s geo-strategic location requires that both China and Pakistan develop sophisticated diplomatic and foreign policy skills to make the salience of the CPEC understandable to people within the country and across the region. Eradicating terrorist groups on both sides including the

East Turkestan Islamic Movement (ETIM) in China, addressing proxy wars in Balochistan and working towards peace in Afghanistan

and defending Pakistan against Indian threats, are priority areas where further cooperation between China and Pakistan will be needed.¹⁵²

Pakistan has a significant role and position in China's rise in Asia and the world. This decade offers us an opportunity to strive for internal reform, look inwards, promote a culture of peace within and pursue growth and development. Chinese and American interests may have begun to diverge on Pakistan; but our leadership needs to show perseverance, clarity of purpose and commitment to peace to develop a shared vision. China's pragmatic approach towards India in largely static territorial disputes and pushing economic and developmental posture in shaping the future direction of China- Indo relations could serve as a useful model for Pakistan to pursue peace and seek accommodation with India.

CHAPTER EIGHT

Summary Conclusion and Future Directions

In this study we have argued for a more deliberated and evidence-based response to designing policies around the CPEC. While China's objectives and plans of project execution are clear, Pakistan's policies of responding to these opportunities are less so. Political turmoil, party disagreements, security concerns and economic instability continue to act as deterrents to the smooth implementation of the various CPEC proposals. These bottlenecks are not however, insurmountable. As we argue, a reformist approach can help our management of the CPEC so that development gains can be maximized for Pakistan. At the same time policy-makers must be aware of any negative spillovers and ensure mechanisms are in place to minimize these or eradicate them all together. A reformist approach calls for an objective review of potential challenges and opportunities that are likely to result from progress on the CPEC and BRI at large. This requires greater emphasis on policy design before project implementation ensuring participatory, community-led responses to the CPEC. Taking advantage of local resources including local knowledge will be instrumental to the CPEC's success. Its sustainability will be determined by the extent to which Pakistani labour, businesses, industries and public institutions are involved and included in the mega-project's practical evolution. This goes beyond blinkered political preferences and demands long-term planning, goal setting and futuristic vision.

Building political consensus is thus a prerequisite to the CPEC's effective completion. We have outlined the costs of political disharmony and the need for greater cooperation amongst Pakistan's local, provincial and federal tiers of government. Only through

both vertical and horizontal engagement within public offices can we expect a more unified strategy to the CPEC. Additionally, when the government is integrated and allied on all fronts, it will become easier to manage terrorism and security threats.

Regional cooperation is another area of focus that will act as a determining factor of the CPEC's success. The Indo-Pak conflict has been a chronic challenge to overcome; yet there are lessons to be learnt from other regional disputes and diplomacy efforts. China and India's ability to advance economically despite border disputes act as important examples of their economic and strategic diplomacy. Thus fostering greater regional integration and working on the possibility of an East-West route can facilitate economic gains for all countries involved. This can benefit trade between India and Pakistan in particular, where a significant volume of informal trade has been unaccounted for decades.

Political consensus and regional cooperation must be complemented with a clear economic and trade policy of the CPEC that targets human development as its core objective. Such a policy should centre-stage local employment and human capital development vis-à-vis emphasis on Pakistan's comparative advantage and building competitive advantage in industries that indicate potential. Human capital development at all stages of the production cycle must also be prioritized in this policy. Although refraining from advocating for protectionist agendas, Pakistan's local industries must be safeguarded, in particular vulnerable producers and those supporting themselves through various forms of subsistence living.

For the CPEC to become a 'game changer', Pakistan needs to make a paradigm shift from a security state to a development state where pursuit of internal peace and harmony promotes a culture of internal reform. For too long Pakistan has been captive to national security paradigm and this needs to be replaced by a model of peaceful growth and development. A re-assessment and re-evaluation of any policies of supporting, cultivating and in-breeding non-state actors must be given up in the pursuit of internal peace, curbing and dismantling religious extremism, managing cross border violations and promoting cross border cooperation. The prospects of peace internationally focuses

on internal re-orientation, strengthening institutions that make Pakistan a strong and responsible state— China has set an example across the globe of a country that has attained economic growth by securing peace nationally, seeking investment from abroad, mobilizing resources within and by encouraging trade and regional connectivity. Pakistan can learn these lessons of internal reform too.

The CPEC has aroused considerable interest among Pakistanis to have a better understanding of China's culture, its political system, education, and investment and trade policies and in particular its thrust on innovation and modes of infrastructure development. The federal and provincial governments have opened up China Study Centers in a number of public sector universities and in the past few years have also sponsored 'China conferences' in major cities of Pakistan. This is some progress, although the quality and content of research still remains superficial and driven by the government. On the other hand, private initiatives including collaborations between local and international universities have facilitated forums, where some insightful research questions have been raised and diverging perspectives on the CPEC shared. These initiatives provide an opportunity to introduce China specific studies and also explore cooperation and exchange in research and people to people interaction. CPEC resources should therefore be channeled towards the improvement of Pakistan's own factors of production and should facilitate its integration into the global economy as a competitive player.

Future Directions

In this spirit, a deeper understanding of China's goals and our own interests can help develop a shared vision, in a reformed CPEC framework. We submit the following policy recommendations:

- a) We need to create a China-Pakistan Asia Research Program (CPARP) that is academic and evidence based. Such a program can help influence policies in a manner where interactive learning and data-driven research forms

- the foundation of the two countries' collaborations.
- b) Supplementing the CPARP is the need to establish and encourage academic exchanges in partnership with business groups/industry and the government to develop a research, innovation and technology framework. This framework can be reviewed every two years.
 - c) Adopting a two-pronged strategy of international diplomacy; within the Foreign Service of Pakistan, we need to train and develop the expert knowledge of officers on China. The objective will be to establish a small but expert pool, which is fully conversant in Chinese and comprehends the nuances of Chinese diplomacy, commercial laws and business practices. Second, groom and train a young generation of Pakistani experts on China, who study in Chinese and Pakistani universities. Similarly, encourage the younger generation of Chinese to have a deeper understanding of Pakistan's culture, society and economy. The objective has to be to conduct evidence-based policy relevant research to strengthen, expand and consolidate bilateral relations with China.
 - d) Pursue and partner our commercial interests with our strategic interests. This demands patience and planning in order to achieve coinciding goals with China. Likewise we need to strengthen and expand the existing Military-Strategic Programs and tailor these to the needs of Pakistan, whereby technology transfer helps build Pakistan's defense capabilities and strengthens its territorial and political sovereignty.
 - e) Wages and loss of competitiveness could affect the Chinese investment market in the future; China should consider Pakistan to shift such industrial plants where it can take advantage of lower labour costs under the comparative advantage theory. Low-wage countries such as Indonesia and Vietnam have already benefited from this transferal where foreign investors have shifted their industrial plants. For Pakistan to attract such jobs, it will need to improve its security environment and skills and sense of discipline in its manpower. At the same time, Chinese businesses setting

up shop in Pakistan should provide international standards on working conditions including abiding by international labour laws and environment protection laws. Dignified and quality work should be prioritised over the quantity of jobs created. The Sino-Pakistani Free Trade Agreement (FTA), signed in 2006, should be directed to achieve the goals of investment in new areas; therefore it must be updated and revised. Pakistan must be prepared to provide a level-playing field to Chinese investors as should China be able to do the same for Pakistani businesses.

- f) Besides investment in energy, infrastructure and defence, mineral development is a promising area of cooperation. Pakistan has also been gearing itself to attract Chinese investment in agriculture, services, high-end manufacturing, and innovative technologies. The Halal meat industry is another sector worth exploring. Local expectations run high within the business community and one has to see how Chinese private investors would respond to the situation and the extent to which they can contribute towards Pakistan's transformation into a hub of investment in South Asia, the Gulf, and Central Asia in the years ahead.
- g) Culture and Tourism remain underexplored and less appreciated areas between the two countries. Both need to evolve mechanisms, which go beyond existing avenues; to collaborate in promising areas such as film, music, art and culture.
- h) Improving governance and reforming federal, provincial and local bureaucracies in Pakistan by learning from Chinese experience. In the past four decades the Chinese bureaucracy has undergone reform and become an engine of economic growth and social transformation and has demonstrated excellence in managing political order. While it's form of government may be different from that of Pakistan, governance techniques are an area to learn from. Therefore a careful look at the training institutions of Chinese bureaucracy could be edifying.
- i) As noted in this study, the academic and policy community

in Pakistan has a growing concern that CPEC is raising external debt liability and debt servicing which is impacting our Balance of Payments. To address this at the federal level a National Task Force headed by the Prime Minister and comprising of parliamentarians, economists, policy experts, business groups and three secretaries (Finance, EAD and Planning) should be constituted at the earliest—the membership of Task Force should not exceed more than 15 members.

- j) As yet, the Government of Pakistan has focused on energy and infrastructure projects within the CPEC, it is time to initiate and execute the formation of Specialized Economic Zones (SEZ's) as well. To reap the economic dividends that the CPEC offers, Pakistan must align its SEZ's with Economic Corridors in consultation with the federating units, as some of the Economic Corridors do not need infrastructure development. Therefore planning and designing of SEZ's Economic Corridors linkage needs urgent attention.

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APPENDIX

MAP 1

INFRASTRUCTURE

ROAD

1. KKH Phase II (Thakot Havelian) (120 Km)
2. Peshawar-Karachi Motorway (Multan-Sukkur Section) (392 Km)
3. Khuzdar-Basima Road N-30 (110 km)
4. Upgradation of D.I.Khan - Zhob, N-50 Phase-I (210 km)
5. KKH Thakot-Raikot N35 remaining portion (136 Km)

RAIL

6. Expansion and reconstruction of existing Line ML-1
7. Havelian Dry port (450 M. Twenty-Foot Equivalent Units)
8. Capacity Development of Pakistan Railways
9. Karachi Circular Railway
10. Greater Peshawar Region Mass Transit
11. Quetta Mass Transit
12. Orange Line – Lahore

ENERGY

13. Port Qasim Electric Company Coal Fired, 2x660, Sindh
14. Suki Kinari Hydropower Station, Naran, KP
15. Sahiwal 2x660MW Coal-fired Power Plant, Punjab
16. Engro Thar 4x330MW Coal-fired, Thar, Sindh
17. Hydro China Dawood 50MW Wind Farm (Gharo, Thatta)
18. 300MW Imported Coal Based Power Project at Gwadar, Pakistan
19. Quaid-e-Azam 1000MW Solar Park, Bahawalpur, Punjab
20. UEP 100MW wind Farm, Jhimpir, Sindh
21. Sachal 50MW Wind Farm, Jhimpir, Sindh

22. SSRL Thar Coal Block-I 7.8 mtpa & SEC Mine Mouth Power Plant (2×660MW)
23. Karot Hydropower Station, AJK & Punjab
24. Three Gorges Second Wind Power Project/ Three Gorges Third Wind Power Project, Jhampir, Thatta
25. CPHGC 1,320MW Coal-fired Power Plant, Hub, Balochistan
26. Matiari to Lahore ±660kV HVDC Transmission Line Project/ Matiari to Faisalabad Transmission line
27. Thar mine mouth oracle, Thar Sindh

ENERGY ACTIVELY PROMOTED PROJECTS

28. Kohala Hydel Project, AJK
29. Rahimyar Khan imported fuel Power Plant 1320 MW
30. Cacho 50MW Wind Power Project, Sindh
31. Western Energy (Pvt.) Ltd. 50MW Wind Power Project, Jhampir Thatta, Sindh

CPEC POTENTIAL ENERGY PROJECTS

32. Phandar Hydropower Station, 80 MW, GB
33. Gilgit KIU Hydropower, 100MW

MAP 2

CPEC NEW PROVINCIAL PROJECTS

1. Keti Bunder Sea Port Development Project
2. Naukundi-Mashkhel-Panjgur Road Project connecting with M-8 & N-85
3. Chitral CPEC link road from Gilgit, Shandor, Chitral to Chakdara
4. Mirpur – Muzaffarabad - Mansehra Road Construction for connectivity with CPEC route
5. Quetta Water Supply Scheme from Pat feeder Canal, Balochistan
6. Iron Ore Mining, Processing & Steel Mills complex at Chiniot, Punjab

PROPOSED SPECIAL ECONOMIC ZONES

1. Rashakai Economic Zone, M-1, Nowshera
2. China Special Economic Zone Dhabeji

3. Bostan Industrial Zone
4. Allama Iqbal Industrial City (M3), Faisalabad
5. ICT Model Industrial Zone, Islamabad
6. Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi
7. Special Economic Zone at Mirpur
8. Mohmand Marble City
9. Moqpondass SEZ Gilgit-Baltistan

ANNEX I

PREVIOUS VERSION OF PROJECTS GIVEN ON CPEC OFFICIAL WEBSITE (May 2017), This table is based on the information on the information that was available on the government webpage: <http://cpec.gov.pk/>

CPEC INFRASTRUCTURE PROJECTS			
Adapted from http://cpec.gov.pk/infrastructure			
Project Name	Length (KM)	Estimated Cost(US\$ M)	Details
Road			
KKH Phase II (Thakot -Havelian Section)	118	1305	Envisaging Improvement and widening of KKH Section of 440 Km from Raikot to Islamabad. The scope also includes provision of bridges, culverts and other allied facilities. Length: 440km Thakot-Havelian (118) is in early harvest Project category and it is in implementation phase after signing of commercial and financial agreements. Responsibility: Proposing Agency: Ministry of Communications Implementing Agency: National Highway Authority Supervising Agency: Ministry of Communications, Government of Pakistan Contractor: CRBC, CCCC Implementation Modality: EPC Location: Gilgit Baltistan & KPK Financing possibly through GCL. Project Progress Update: Financial agreements signed, Project

Peshawar-Karachi Motorway (Multan-Sukkur Section)	392	2846	<p>ground breaking done, Work commenced, Work in Progress Length: 392km Project Title (Section): Multan – Sukkur: 392 KM Karachi – Peshawar Motorway envisages construction / development of 6-Lane access controlled Motorway having total length of 1,100 Km. The proposed Motorway shall be a tolled facility. It shall originate from Karachi through Motorway M-9 (136 Km) up to Hyderabad. From Hyderabad onwards, the proposed alignment shall follow a virgin alignment for 345 Km up to Sukkur. The Sukkur Multan section, 392 Km essentially follows the Left Bank of River Indus. The Motorway From Multan to Khanewal and Abdul-Hakeem is designated as M-4 (101 Km).</p> <p>Status of Project: Commercial Agreement Signed December, 2015 Commence of Execution 1st quarter 2016, Work in Progress Completion of Early Harvest Project 2017/2018</p> <p>Responsibility: Proposing Agency: Ministry of Communications Implementing Agency: National Highway Authority Supervising Agency: Ministry of Communications, Government of Pakistan</p> <p>Location: Province of Punjab and Sindh Project Progress Update: Financial agreements signed, Project ground breaking done, Work commenced</p>
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Rail Sector Projects			
Expansion and reconstruction existing Line ML-1	1736	3650	<p>Project Title: Rehabilitation & Up-gradation of Karachi-Lahore Peshawar (ML-1) Railway Track (1,736 kms) Rehabilitation/ improvement of existing track that will follow the existing alignment except at locations where sharp curves are to be eased out or eliminated to allow higher speed up to 140 Km/h.</p> <p>Responsibility: Proposing Agency: Ministry of Railways Implementing Agency: Pakistan Railways Supervising Agency: Ministry of Communications, Government of Pakistan Location: Karachi to Peshawar via Hyderabad, Nawabshah, Rohri, Rahimyar Khan, Bahawalpur, Khanewal, Sahiwal, Lahore, Gujrawala, Rawalpindi, Peshawar Financing: Work will be carried out by financing possibly through Chinese Government Concessional Loan (GCL). Work will be awarded through open bidding as per PPRA rules through EPC contract Project Progress Update: PC-1 approval under process</p>

<p>Havelian Dry port (450 M. Twenty-Foot Equivalent Units)</p>		<p>40</p>	<p>Project Title: Construction of Havelian Dry port including cargo-handling facilities. Responsibility: Proposing Agency: Ministry of Railways Implementing Agency: Pakistan Railways Supervising Agency: Ministry of Communications, Government of Pakistan</p> <p>To meet the demand of containerized future freight traffic in connection with Pak-China Economic Corridor, the dry port will be established at Havelian by utilizing the railway land, railhead facilities, high speed / capacity stock, and potential of well established off-dock terminal for handling bonded import / export containers. Pakistan Railway network exist up to Havelian Railway Station situated at more than 680 Kms from Khunjerab (China border). The station is coming on Pak-China economic corridor. Initially it will act as Dry Port / container terminal for goods traffic coming through road from China through KKH. Transshipment arrangement will be provided at Havelian for loading / unloading on railway wagons.</p> <p>Location Havelian, District Haripur, and KPK Financing: Work will be carried out by financing through Chinese Government Concessional Loan (GCL). Work will be awarded through open bidding as per PPRA rules through EPC contract Project Progress Update: PC-1 approval under process</p>
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Gwadar to Jacobabad and Quetta (Mastung) via Besima-New Railway line	1328		4.5 (billion)
Reconstruction Upgradation of Quetta-Taftan existing railway	633		
New line from Quetta (Bostan) to Kotla Jam on ML-2 via Zhob and DI Khan	560		
Reconstruction of existing line ML2 Short and long term; water hazard treatment, overhaul of track, signal upgrading and speeding up, extension of arrival departure track and electrification			

Construction of new line from Peshawar to Torkham			
Havelian-Kashi New Railway	1059		
Karachi-Peshawar PDL (High-Speed Railway Line)	1600		

CPEC GWADAR PROJECTS

<p align="center">East-Bay Expressway</p>	<p align="center">140.60</p>	<p>Currently, Gwadar Deep-Sea Port is connected through a narrow 16 feet wide thoroughfare of Gwadar town at the West-Bay. All the trawlers/trucks loaded with imported shipments pass through this strip causing disruption of normal traffic. The port has not a dedicated wide highway to cater the transporting requirements of the post. The port operationalization, even with the available 3 multi-purpose berths, necessitates construction of the planned East-Bay expressway. This 6-lane expressway along with a provision of 30 meters wide railway corridor shall connect the port with the Mekran Coastal Highway (N-20) through the 2300 acres Free Trade Zone of Gwadar Port. Objective of the Project: Linking Gwadar Port with the main artery of national highway network and smooth logistic transportation of import, export and transit goods. Proposing Agency: Gwadar Port Authority, MoPSExecuting Company/ Sponsors: Contracting company on the basis of EPC Or any Financial Framework Agreement under CPECFinancing: Mix of Chinese Government Concessional Loan and GrantSupervising Agency: Ministry of Ports & Shipping, Government of PakistanProject Progress Update: Work likely to commence in second/ third quarter 2016</p>
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Gwadar International Airport		230.00	<p>Project Description: Construction of New Gwadar International Airport (NGIA), along with allied facilities for new airport that will be capable of handling a combination of ATR 72, Airbus, (A-300), Boeing (B-737) and Boeing (B-747) for domestic as well international routes.</p> <p>Responsibility: Proposing Agency: Aviation Division</p> <p>Location Gurandani, 26 Km east of Gwadar City, Balochistan Province Balochistan</p> <p>Executing Company / Sponsors: Civil Aviation Authority</p> <p>Financing: Chinese Government Grant</p> <p>Project Progress Update: Work likely to commence in third quarter 2016</p>
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Construction of Breakwaters	123.00	<p>During May 2013 operation of Gwadar Port was assigned to China Overseas Ports Holding Company Ltd. (COPHCL) for a period till 2047. Beside the operation of the existing port facilities the operator has to carry out expansion works all along the seashore of Gwadar East Bay constructing additional terminals and port infrastructure. Under the Concession Agreement, however, construction of breakwaters and dredging works are the responsibilities of Gwadar Port Authority. For construction of berthing facilities on the eastern side of the existing multi-purpose terminal (4.200 km), a 1.200-1.500 km long breakwater has to be constructed.</p> <p>Objective of the Project: To facilitate construction of additional terminals at Gwadar Port by its Operator.</p> <p>Available Documents (if any): Hydrographic studies are available.</p> <p>Responsibility: Proposing Agency: Gwadar Port Authority, MoPS</p> <p>Executing Company/Sponsors: Contracting company on the basis of EPC Or any Financial Framework Agreement under CPEC</p> <p>Financing Mix of Chinese Government Concessional Loan& Grant</p> <p>Supervising Agency: Ministry of Ports & Shipping, Government of Pakistan</p> <p>Project Progress Update: Port operations to be enhanced/expedited</p>
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Dredging of berthing areas & channels		27.00	<p>During May 2013 operation of Gwadar Port was assigned to China Overseas Ports Holding Company Ltd. (COPHCL) for a period till 2047. Beside the operation of the existing port facilities the operator has to carry out expansion works all along the seashore of Gwadar East Bay constructing additional terminals and port infrastructure. Under the Concession Agreement, however, construction of breakwaters and dredging works are the responsibilities of Gwadar Port Authority. For construction of Container Terminals on the western and northwestern side (initially 1.200 km & up to maximum 10.00 km) of the existing multi-purpose terminal and second phase terminals on the eastern side (4.200 km), capital dredging works on continual basis and maintenance dredging on continual bases are required.</p> <p>Objective of the Project: To facilitate construction of additional terminals at Gwadar Port by its Operator and for smooth shipments to and from the existing berthing facilities this project is proposed for carrying out capital and maintenance dredging.</p> <p>Available Documents (if any): Hydrographic studies are available.</p> <p>Responsibility:</p> <p>Proposing Agency: Gwadar Port Authority, MoPS Executing Company / Sponsors: Contracting company on the basis of open tendering Or any Financial Framework Agreement under CPEC Financing: Chinese Government Concessional Loan Supervising Agency: Ministry of Ports & Shipping, Government of Pakistan Project Progress Update: Port operations to be enhanced/expedited</p>
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<p>Infrastructure for Free Zone & EPZs port related industries</p>		<p>32</p>	<p>At present following areas have been allocated as free zone and export processing zones in the industrial locations of Gwadar. Pieces of lands have already been earmarked/ acquired for the purpose: --Gwadar port free zone: 2,280 acres --GIEDA industrial zone: 3,000 acres --EPZA export processing zone: 1,000 acres Infrastructure is required to be developed for these industrial zones, for example, access roads, internal roads, water, gas, power, custom facilities, fencing, security, some warehouses, office and other allied infrastructure, etc. Objective of the Project: This project will aim at creating backup port industry for Gwadar Port Responsibility: Proposing Agency: Gwadar Port Authority, MoPS Executing Company / Sponsors: GPA, GIEDA, and EPZA Or any Financial Framework Agreement under CPEC Financing: Chinese Government Concessional Loan Supervising Agency: Ministry of Ports & Shipping, Government of Pakistan and Ministry of Commerce Project Progress Update: Government of Baluchistan evaluate/process SEZ Proposal of Gwadar region</p>
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<p>Necessary Facilities of Fresh Water Treatment and Supply</p>		<p>130</p>	<p>The project is aimed at implementing water supply, distribution system, desalination plant, sewerage collection system and treatment plant as planned in the Master Plan of Gwadar as a mega port city in the medium term (2030) and long-term (2050) scenarios. Objective of the Project: This project will aim at catering future water demand and sewage disposal systems in Gwadar required for Deep Sea Port, its associated industry, and the city itself. Available Documents (if any): Based on initial topographic surveys, economic, and environment studies reports are generated in the Gwadar City Master Plan (2002) with conceptual layouts. Implementing Agency: Gwadar Development Authority Financing: Chinese Government Grant Supervising Agency: P&D Dept. Govt. of Balochistan and Planning, Development, and Reforms Commission Project Progress Update: Framework agreement to be signed, Water supply both from Desalination and dams to be developed</p>
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Hospital at Gwadar		100	<p>Project Title: Hospital at Gwadar (Up-gradation of existing 50 bedded hospital, i.e. Phase-II of GDA Hospital to be named as China-Pakistan Friendship Hospital). This project is proposed for implementation of Phase-II of 50-bedded hospital constructed under GDA Business Plan (Federal PSDP). The hospital is planned on 68 acres of land. One out of six medical blocks (each 50 bedded) and almost 20% of the residential blocks are completed. Under the proposed project remaining medical blocks, nursing and paramedical institutes, medical college, central laboratory, and other allied facilities are to be constructed with supply of medical equipment and machinery. Objective of the Project: This project will aim at creating state-of-the-art medical facility in the port city of Gwadar.</p> <p>Executing Company / Sponsors: Gwadar Development Authority Financing: Chinese Government Grant Supervising Agency: P&D Dept., Government of Balochistan and Planning, Development, and Reforms Commission Project Progress Update: Provision of Equipment of existing 50 bed hospital, Extension of additional 100 beds</p>
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<p>Technical and Vocational Institute at Gwadar</p>		<p>10</p>	<p>Proposing Agency: Gwadar Port Authority Project Title: Pak-China Technical & Vocational Institute at Gwadar People of Gwadar are the main/fundamental stakeholder of Port City of Gwadar. Their participation in operation & management of the deep-sea port, participation in industrial and commercial businesses, and in urbanization processes is key to the all long-term developmental initiatives. This project is proposed to shape and enhance skills of active population of Gwadar to participate in the growth of the Port City. Objective of the Project: This project will aim at creating state-of-the-art vocational and technical training institute in the port city of Gwadar. Executing Company / Sponsors: Gwadar Port Authority Or any Financial Framework Agreement under CPEC Financing: Chinese Government Grant Supervising Agency: Ministry of Ports & Shipping, Government of Pakistan and Planning, Development Project Progress Update: comments on grant application awaited, Proposal being submitted to MOFcom</p>
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CPEC-Energy Priority Projects			
Project Name	MW	Estimated Cost (US\$ M)	Details
Port Qasim Electric Company Coal Fired, 2x660, Sindh	1320	1980	<p>Primary Energy Input: Coal (Imported)</p> <p>Technology: Super Critical</p> <p>Installed Capacity (MW): 1320</p> <p>Province: Sindh</p> <p>Executing Company / Sponsors: Sinohydro Resource Ltd & Al Mirqab</p> <p>Financing: Independent Power Producer (IPP)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency: Private Power and Infrastructure Board (PPIB)</p> <p>Project Progress Update: Financial Closed (FC) achieved, Civil works on site started in January 2016, Mechanical structure work started in March 2016, Expected Commercial Operation Date (COD) first quarter 2018.</p>

Sahiwal 2x660MW Coal-fired Power Plant, Punjab	1320	1600	<p>Primary Energy Input: Coal (Imported) Technology: Super Critical Installed Capacity (MW): 1320 Location Sahiwal Executing Company / Sponsors: Huaneng Shandong Rui Group, China Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Punjab Power Development Board (PPDB) Project Progress Update: Sponsors have started construction from the equity, Civil work is progressing and is in advanced stage, First unit by June 2017, Expected Commercial Operational Date (COD) 2017.</p>
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Engro Thar 4x330MW Coal-fired, Thar, Sindh	1320	2000	<p>Primary Energy Input: Coal (Local) Technology: Sub Critical Installed Capacity (MW): 1320 Location: Thar-Block-II, Sindh Executing Company / Sponsors: China Machinery Engineering Corporation (CMEC) / Engro Power Gen Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Private Power and Infrastructure Board (PPIB) Project Progress Update: Financial Closed (FC) achieved First unit in system by December, 2018 Team mobilized at site Commercial Operation Date (COD) 2018/2019</p>
Surface mine in Block II of Thar Coal field, 6.5 metric ton per annum (mtpa), Thar Sindh		1470	<p>Technology Open Pit Mining Location Thar-Block-II Executing Company / Sponsors: China Machinery Engineering Corporation (CMEC) / Sindh Engro Coal Mining Company (SECMC) Coordinating Ministry: Ministry of Water and Power / Ministry of Petroleum and Natural Resources Supervising Agency: Thar Coal Energy Board (TCEB) Project Progress Update: Financial Closed (FC) achieved Detail Design of mining in process</p>

<p>Gwadar Coal/LNG / Oil Power Project, Gwadar</p>	<p>300</p>	<p>600</p>	<p>Primary Energy Input Coal (Imported) / LNG / Oil Technology To be decided Installed Capacity (MW) 300 Location Gwadar Executing Company / Sponsors: To be decided Financing: To be decided Supervising Agency: Gwadar Port Authority (GPA) / Gwadar Development Authority (GDA) Project Progress Update: Master Plan being considered Components of Gwadar Energy Projects Power Plant Transmission Network Evacuation / Connection with National Grid Summary for installation of LNG / Oil base power plant is under process.</p>
<p>HUBCO coal power plant 1X660 MW, Hub Balochistan</p>	<p>660</p>	<p>970</p>	<p>Primary Energy Input: Coal (Imported) Technology: Super Critical Installed Capacity (MW): 660 Location: Hub Executing Company / Sponsors: Hub-Power Company Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Private Power and Infrastructure Board (PPIB) Project Progress Update: Financial Close Expected by December, 2016 Commercial Operation Date (COD) expected 2018/2019</p>

Rahimyar Khan Coal Power Project, Punjab	1320	1600	<p>Primary Energy Input: Coal (Imported)</p> <p>Technology: Super Critical</p> <p>Installed Capacity (MW) 1320</p> <p>Location Rahimyar Khan, Punjab</p> <p>Executing Company / Sponsors: Shanghai Electric Power Generation, China Machinery Engineering Corporation / Nishat Power Company</p> <p>Financing: Independent Power Producer (IPP)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency: Punjab Power Development Board (PPDB)</p> <p>Project Progress Update: Feasibility in process</p>
SSRL Thar Coal Block 1 - 6.5 metric ton per annum (mpta) Thar, Sindh		1300	<p>Technology: Open Pit Mining</p> <p>Location Thar-Block-I, Sindh</p> <p>Executing Company / Sponsors: Sino-Sindh Resources Limited (SSRL)</p> <p>Coordinating Ministry: Ministry of Water and Power / Ministry of Petroleum and Natural Resources</p> <p>Supervising Agency: TCEB</p> <p>Project Progress Update: Commercial Operation Date (COD) expected 2018 / 2019</p>
SSRL 2×660 MW Mine Mouth Power Plant, Sindh	1320	2000	<p>Primary Energy Input: Coal (Local)</p> <p>Technology: Sub-Critical</p> <p>Installed Capacity (MW) 1320</p> <p>Location: Thar-Block-I, Sindh</p> <p>Executing Company / Sponsors: Sino-Sindh Resources Limited</p> <p>Financing: Independent Power Producer (IPP)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency: Private Power and Infrastructure Board (PPIB)</p> <p>Project Progress Update: Expected Commercial Operation Date (COD) 2018 / 2019</p>

<p>Quaid-e-Azam 1000MW Solar Park, Bahawalpur, Punjab</p>	<p>1000</p>	<p>1350</p>	<p>Primary Energy Input: Solar Technology: PV Solar Installed Capacity (MW): 1000 Tariff: Cost plus Location: Bahawalpur Executing Company / Sponsors: Hanenergy / QA Solar Power Company, Pakistan Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Punjab Power Development Board (PPDB) / Alternative Energy Development Board (AEDB) Project Progress Update: COD of 1st 100MW achieved, 2nd and 3rd 100 MW under testing</p>
<p>Dawood 50MW wind Farm, Bhambore, Sindh</p>	<p>50</p>	<p>125</p>	<p>Primary Energy Input: Wind Technology: Wind Turbine Installed Capacity (MW): 50 Tariff: Upfront Tariff Location: Bhambore, Sindh Executing Company / Sponsors: Hydro China Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Alternative Energy Development Board (AEDB) Project Progress Update: Financial Close (FC) achieved Construction started Commercial Operation Date (COD) September, 2016</p>

UEP 100MW wind Farm, Jhimpir, Sindh	100	250	<p>Primary Energy: Input Wind Technology: Wind Turbine Installed Capacity (MW): 100 Tariff: Upfront Location: Jhimpir, Sindh Executing Company / Sponsors: Hydro China (EPC) Gold Wind China (Supplier) / United Energy Pakistan (Pvt.) Ltd Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: AEDB Project Progress Update: Financial Close (FC) achieved March 2015, Construction started, Commercial Operation Date (COD) September, 2016</p>
Sachal 50MW Wind Farm, Jhimpir, Sindh	50	134	<p>Primary Energy Input: Wind Technology: Wind Turbine Tariff: Cost + Tariff (US cnt/kw 15.8618) Location: Jhimpir, Sindh Executing Company / Sponsors: Hydro China / ArifHabib Corporation Limited Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Alternative Energy Development Board (AEDB) Project Progress Update: Financial Close (FC) achieved, Construction started, Commercial Operation Date (COD) June, 2017</p>

Suki Kinari Hydro power Station, KPK	870	1802	<p>Primary Energy Input: Hydel Technology: Hydel Installed Capacity (MW) 870 Location River Kunhar (a tributary of River Jhelum) Dist. Mansehra, KPK Executing Company / Sponsors: M/s Mott McDonald UK and M/s Coney Blair of France / Al Jomaih Holding company, (LLC) Riyadh, Saudi Arabia, Eden Inc. Berhad, Malaysia Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Private Power and Infrastructure Board (PPIB) Project Progress Update: Supplemental Agreement Approved, Land acquisition in process, Commercial Operation Date (COD) 2020</p>
Karot Hydropower Station, AJK & Punjab	720	1420	<p>Primary Energy Input: Hydel Technology: Hydel Installed Capacity (MW): 720 Location River Jehlum, Province AJK / Punjab Executing Company / Sponsors: M/s SMEC (Australia) / China Three Gorges Corporation (CTGC), M/S Associated Technologies (Pvt) Ltd. Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Private Power and Infrastructure Board (PPIB) Project Progress Update: Land acquisition at advance stage, near to resolution Financial Close (FC) August 2016 Commercial Operation Date (COD) 2020</p>

Matiari to Lahore Transmission line		1500	<p>Technology: ± 660 KW Bipole HCDC with Converter/ Grounding Electrode Stations</p> <p>Project Details: 2000 MW with 10% overloaded capability for 2 hours</p> <p>Location: Matiari to Lahore, Province Sindh and Punjab</p> <p>Executing Company / Sponsors: China Electric Power Equipment and Technology Co.Ltd. (CET) / State Grid</p> <p>Financing: Independent Transmission Company (ITC)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency National Transmission & Despatch Company (NTDC)</p> <p>Project Progress Update Tariff Finalized Commercial Operation Date (COD) expected in 2018 / 2019</p>
Matiari to Faisalabad Transmission line		1500	<p>Technology: ± 660 KW Bipole HCDC with Converter/ Grounding Electrode Stations</p> <p>Project Details: 2000 MW with 10% overloaded capability for 2 hours</p> <p>Location Matiari to Faisalabad, Province Sindh and Punjab</p> <p>Executing Company / Sponsors: China Electric Power Equipment and Technology Co.Ltd. (CET) / State Grid</p> <p>Financing: Independent Transmission Company (ITC)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency: National Transmission & Despatch Company (NTDC)</p> <p>Project Progress Update: Tariff Finalized</p>

CPEC-Energy Actively Promoted Projects			
Project Name	MW	Estimated Cost (US\$ M)	Details
Gaddani Power Park Project (2×660MW)	1320	3960	
Gaddani Power Park Project (Jetty + Infrastructure)		1200	
HUBCO coal power plant 1X660 MW, Hub Balochistan	660	970	<p>Primary Energy Input: Coal (Imported)</p> <p>Technology: Super Critical</p> <p>Installed Capacity (MW): 660</p> <p>Location Hub, Province Baluchistan</p> <p>Executing Company / Sponsors: Hub-Power Company</p> <p>Financing: Independent Power Producer (IPP)</p> <p>Coordinating Ministry: Ministry of Water and Power</p> <p>Supervising Agency: Private Power and Infrastructure Board (PPIB)</p> <p>Project Progress Update: Financial Close Expected by December, 2016</p> <p>COD expected 2018/2019</p> <p>30 Chinese on project site</p>
Kohala Hydel Project, AJK	1100	2397	<p>Project Progress Update: Feasibility Study (stage-1) Tariff Announced by NEPRA</p> <p>Land Acquisition process started</p> <p>Environmental Impact Assessment Study being updated</p> <p>Expected Commercial Operation Date (COD) 2024</p>

Pakistan Wind Farm II 2X50 MW (Jhampir, Thatta, Sindh)	100	150	
Thar mine mouth oracle, Thar Sindh	1320	1300	
Muzaffargarh Coal Power Project, Punjab	1320	1600	Primary Energy Input: Coal (Imported) Technology Sub-Critical Installed Capacity (MW) 1320 Location: Muzaffargarh, Province Punjab Executing Company / Sponsors: To be decided Financing: Independent Power Producer (IPP) Coordinating Ministry: Ministry of Water and Power Supervising Agency: Punjab Power Development Board (PPDB)
CPEC other Projects			
Project Name		Estimated Cost (US\$ M)	Details
Cross Border Optical Fiber Cable		44	Project Progress Update: Ground breaking ceremony performed by the Prime Minister Work commenced Completion of Project December, 2017
Digital Terrestrial Multimedia Broadcast			Project Progress Update: Feasibility report awaited from Ministry information broadcasting and national heritage

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