

China – Pakistan Relations
The China Pakistan Economic Corridor and Beyond
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SYNOPSIS

On the margin of the 2019 UN General Assembly, in a conversation with Pakistan Prime minister Imran Khan held at the Council for Foreign Relations, New York, Richard Haass, the Council's President, pointed Pakistan as being « on the short list of countries receiving most Belt and Road Initiative investments » and therefore addressed Prime Minister Imran Khan with two substantial questions: firstly, will this state of affairs not dramatically exacerbate Pakistan's debt challenge, given the nature of Chinese support ? Furthermore, how does Pakistan claim to retain full sovereignty while inviting China to lead projects on such a scale?

Prime Minister Imran Khan's answer simply outlined the great opportunity that China represents for Pakistan.

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INTRODUCTION

The significance of « going beyond » must be read in the light of three transitions that currently shift our world's dynamics at the global, regional and national level. The global transition shows power shifting from a Northern America (and more broadly Western) monopoly, to leave room for China and India's rise. The way these two new large economies deal with each other shall greatly determine what happens in South Asia: this is in fact where the second transition occurs, as regional competition intensifies. The third shifting takes place within this SAARC region's seven sub-countries (eight, including Afghanistan), which are all facing new internal dynamics and democratic transitions. These three and combined changes set a trajectory for [our] countries to develop. China, who will undoubtedly replace the United States by 2030 as the largest global economy, may also become the first vector of influence in international relations. When celebrating the Popular Republic's 70th anniversary, President Xi Jinping underlined China's « unstoppable » rise that should be dealt with as a matter of fact, thus highlighting such a global ambition.

The BRI as such

Since its announcement in 2013 (and the launch of CPEC in 2015), the Belt and Road Initiative, initially named « One Belt, One Road », has taken off the ground both in terms of scale and magnitude. The project now implicates 68 countries, two-thirds of the world population, 40% of the world's GDP and 3/4th of global energy resources. Its designated purpose, bringing global focus on infrastructure and economic integration, shows unparalleled potential. Becoming the connecting party between all its outreaches, China has created its own opportunity to play a global role within the world's biggest market. In President Xi Jinping's own words, « one community of shared interests represents all possibilities and destiny ». Though Chinese, the BRI will not be monopolized by China as they are pursuing an inclusive strategy to encourage as many countries as possible to join the project, which has been presented during the two global conferences so far held on the matter (in 2017 and in 2019).

The China-Pakistan Economic Corridor

Among the six economic corridors to be launched, CPEC is the only bilateral connection between Pakistan and China as well as a top priority project singled out under the BRI, whose success depends on its effective implementation. Hence a part of the 13th Chinese five-year plan (2016-2020), CPEC, being a cornerstone to the Chinese broad initiative, provides a unique opportunity for Pakistan to boost its strategic and economic position, and a perspective to transform the country into a new regional hub for trade and investment. By the time CPEC is completed in 2050, Pakistan might join the ranks of the top 10 world economies. CPEC covers four economic areas: energy, transportation, infrastructures and industries. China is projecting a straight land corridor through Pakistan down to the Arabian Sea, thus geographically targeting coast areas for half its investments. Compared to South East Asian routes, shipment distances would be reduced by 80%, time and cost by 70%. Three main routes have been designed to cover the eastern, central and western connections of the country; the Gwadar port, in particular, appears as a window from western China to the rest of the world.

BROAD OPPORTUNITIES FOR PAKISTAN

The programmed implementation goes through three phases: From 2015 to 2020, the corridor construction takes shape and begins to launch economic opportunities, social development, basic infrastructure projects. The 2020 – 2025 phase should see more completed industrial and functional economic systems; and by 2030, the corridor will be fully functional. Overall, CPEC is expected to fuel economic growth of Pakistan by adding 2 percentage points of growth by 2020 and another 1.5 percentage point between 2020 and 2030; as well as by creating up to a million new jobs (Chinese companies argue to have already created 70 000).

Should all the projects be successfully implemented, CPEC would present a tremendous opportunity for Pakistan in terms of infrastructure development, energy crisis solving, industrialisation and export promotion. Agriculture, mining, but also public service sectors will be developed, as well as the Gwadar port and city (where special economic zones are targeted). Overall, the project provides opportunities for enhancing human capital and high economic growth. Through the development of new industrial clusters, a sustainable Pakistani economy may go from low GDP growth (4%), to reaching 7 to 8%. Most of the controversies questioning the legitimacy of government investing in these landroutes have now been resolved, with the highlight of « connectivity » as the main buzzword to develop this economic corridor. Railways, but also aviation and naturally the development of the Gwadar port provide Pakistan with ocean outlets and a significant western trade passage. Changes were made and already visible towards transforming Gwadar into a hub having the most modern infrastructure possible (docking, storage, shipping). Gwadar, as a natural and one of the deepest ports in the region (21 meters), is something for the Chinese to take advantage of, as none of the related ports in the area are a match for it.

Special Economic Zones and energy shortages

Five functional zones have been identified under CPEC: the southern Xinjiang zone from Kashgar to Khunjarab (industry, logistics and economic development) ; the Pakistani northern area from Islamabad to Khunjarab (broader logistical general resource operation and ecological conservation) ; and the central Pakistani other zones of economic development. In addition, nine « special economic zones » were approved under CPEC last year by the 6th Joint Cooperation Committee: two in Islamabad, four in Karachi, and one in each of the other three provinces. Railway will be introduced everywhere. Shortages from the previous generation have critically damaged Pakistan's export capacity. Textile represents the largest potential, but major producing areas have been shut down because of energy deficit. Things are already changing thanks to the Chinese focus on the production of energy. For instance, there is a huge water issue in the Gwadar area, as desalination plants that were installed in 2008 (with a capacity of 2 million gallons) never worked to their full capacity for technical reasons. The scale of CPEC will require much more fresh water available for workers and inhabitants. Chinese and Pakistani governments made recent plans to alleviate the water issues by launching several desalination plants that will supply drinking water with a capacity that should raise to 8.8 million gallons a day within eight months.

CHALLENGES AND APPREHENSIONS

As conceived, the CPEC faces serious Indian opposition that questions some of the corridor's legality in terms of sovereignty (the Indian government considers the Gilgit Baltistan area as part of Jammu-Kashmir), which highlights why India has not joined the BRI. Pakistan must also deal with internal efficiency problems as its bureaucracy cannot handle the fast pace that China wants to keep: local workers are not used to work at the Chinese speed. Furthermore, the shortage in human capital incites Chinese companies to bring their own workers, thus creating disappointments for locals who feel unable - particularly on the Gwadar project.

A commonly shared fear among the population is that China might behave "like the East India Company", by exploiting resources, land and people, and cause Pakistani industries that cannot support the competition to close down. Furthermore, Chinese companies in Gwadar area show quite a strong interest in land acquisition, which the Pakistani government remains quite wary about. Lack of transparency always was an issue, as no officials in Pakistan were initially given the contents of any CPEC project. To get the details of their implementation and funding arrangements, the Ministry of Planning constantly needs to reach out to the Chinese embassy. Students also show significant bias (particularly those in social sciences): despite an effort to develop a bilateral « knowledge corridor » and sufficient incentives to study in Chinese universities, young Pakistanis would still rather integrate European or American programmes. This state of affairs would be partly due to the compulsion to learn the Chinese language, but also to cultural conditions that are not appealing to them.

Such general apprehensions could be explained with the necessity to rebalance Pakistan's key economic factors: at the moment, it relies very heavily on import, while the exports are low. The government should look at some of these concerns and pursue a more balanced approach towards the development of the CPEC.

CONCLUSION

Pakistan's growth has slowed down over the past four or five years (the GDP rate currently shifts between 2.5 and 2%). By providing the country with a potential transformation towards sustainable growth economy, CPEC represents an important hope in terms of employment and balanced regional development. Once energy self-sufficient, Pakistan could then export to the rest of the world. Even though the BRI mostly profits China, it also positively reflects on Pakistan that will among others benefit from trickle down and the relocation of Chinese industries. For the CPEC to remain a win-win situation, Pakistan needs to adopt safeguards and prevent these companies to be left free-handed in the exploitation of local labor and market. The Chinese approach and habits towards development are different. The challenge, for Pakistan, is to accept adapting, which will allow the country to develop very needy sectors (cluster industries, energy, tax system, civil service and high education reforms, technical and vocational training programmes). Besides, the flow of investments coming to Pakistan in millions of dollars from China provides an incentive for other foreign investors, such as Qataris and Saudis, who are already showing interest. Since the Independence, the British single line used to be Pakistan's only railway track and it was the Chinese who pointed out the necessity to diversify train connectivity - which Pakistan cannot fund on its own anyway. Their loans should be taken, though with a careful, systematic and wise approach.

THE DISCUSSANT'S OPENING REMARKS

In France and Europe in general, CPEC is seen in a very geopolitic and geoeconomic perspective, which underlines that, beyond the opportunities, the BRI reveals challenges at all accounts (agro-economy, civil service, administrative system, practical social structure).

CPEC embodies the broad BRI in a very tangible way. If the planned agenda succeeds, so would BRI in other parts of the world; but should it encounter difficulties, such as those you pointed out, then they would justify the questioning. Indeed quite a few Europeans are doubtful and question its potential success. The spirit was significantly different between the two general conferences that were held in 2017 then 2019, and tends to be less confident now.

Q&A

The first part of your presentation sounded very Chinese-sided, while the ending underlined important challenges. Still, though validated by the Pakistani government, all projects came from Chinese initiative in the first place: could you comment on the actual Pakistani involvement, how local authority works, and where the junction between both wills lies?

Regarding the chances of CPEC failing and thus drowning the BRI initiative, a tremendous capital was raised, and CPEC is a part of the Chinese 2030 development program. The Chinese government actually started relying on the Pakistani military to implement CPEC projects: 20,000 security forces have been raised to protect development routes and Chinese investments. Once settled, CPEC projects leave very little room for civilians to challenge them. For now, anything that has to do with China is simply supposed to be necessarily good. Nevertheless, CPEC will be revisited because of underlined challenges and civilian pushbacks on the Pakistani side; to their credit, Chinese investors and planners are flexible and willing to adapt their investments to local requirements.

Could you tell us more about CPEC financing arrangements and Chinese firms relocation?

Initially, CPEC's estimated cost was 62 billion dollars (half of which to be invested in infrastructure). This estimation has now gone up to roughly 100 billion dollars. Most of the financing comes from Chinese state-owned companies, that borrow from their government and work with co-partners on the Pakistani side. This money, lent to investors, takes several forms: soft loans, grants, many low-interest loans. The IMF and the World Bank have expressed tremendous concerns regarding Pakistan's ability to repay such loans, which are extended to 4 to 5 years (an extremely short time). Pakistan will start repaying its first loan in 2020.

Relocating companies is part of the Chinese effort to invest in Pakistan and shift some of their industrial activity, which is of high interest for both countries. Some of these companies will be established in special economic zones where, besides cheap labor, they may benefit from tax refunds.

How will the new corridor routes impact the environment?

Excited about CPEC being a game changer, the government used to be blindsided and no evaluation strategy was planned. Studies were ignored. Under construction, the Orange Line of the Lahore metro threatens the historical and cultural site of the Punjab capital. Many people filed lawsuits and asked for compensations which led the government to change rules in order to protect such sites. When the projects then started being evaluated, environmental impact raised such concerns that it has now been made essential for future CPEC projects.

Energy shortage is part of this issue, as several powerplants are highly polluting. Since China has now internally dropped the classical coal fired system, CPEC watchers may blame their use of practices in Pakistan that would not be pursued domestically?

Among the projects undertaken under CPEC, several are indeed coal-fired: Port Qasim, Engro Thar, and Sahiwal which is the most criticized for its polluting impact. But using coal powerplants was actually local idea. The government has taken serious note of this. The Chinese government itself is now committed that their future energy projects shall adhere to international guidelines for clean energy production (if using coal, it will be free of sulfur).

Significant part of China shipping will then be passing through Gwadar; but 20.000 containers require huge infrastructures passing through the highest mountains in the world – most of which are actually losing stability, due to climate change. Are there concerns on the long-term sustainability of such infrastructures, from a geophysical point of view?

The Chinese have a way of saying: « Give us the project and leave it to us ». Their engineers were skilled enough to build the Karakoram highway, a miracle of modern technology, and are considering bullet trains in this instance (from western China all the way to Europe). Pakistan is not willing to extend its control over these specific project implementations.

The fact that 20.000 strong forces need to protect Chinese workers against local risks requires mentioning the rejection of the CPEC by a significant part of the population. Secondly, unemployment has actually grown during the past four years, given that Chinese companies usually come with their own workers and material. That does not show such positive impact on Pakistan's trained or untrained workers.

Pakistan's labor forces are numerous, but unused to working with the Chinese and participating fully at that rhythm. Chinese frustration with local labor hence explains their reliance on their own workers, which is not ideal for anyone as it creates frictions with the local population and becomes an unnecessary burden for the project itself. The whole idea was to bring Chinese technology and use Pakistani labor, but that experiment has not worked. There is a real issue of quickly improving Pakistanis' technical skills. Many opportunities were offered to local forces in training centers. The Chinese consulate was indeed attacked in Karachi. This event, which fortunately resulted in no casualties (the damage would otherwise have been much greater), was seen as an attempt to sabotage the bilateral cooperation and implementation of CPEC projects. While the government is concerned with Chinese projects safety, it seems that the attack was not perpetrated by the locals but planned from the outside.

Is there a clear view on the benefits from taxes and duties paid at the Gwadar port? What does the distribution between Chinese and Pakistani companies look like? Furthermore, is there a strong political pressure coming from powerful countries such as the United

States or India regarding this very strategic aspect of the BRI and, if so, how does the Pakistani government sustain that pressure?

There naturally is a pronounced opposition coming from both Americans and Indians, as part of a larger strategy - should the success of CPEC only be partial, then containing China's rise might be possible. But they would not have the capacity or the will to fully oppose either CPEC/BRI. The Chinese mood is unstoppable. Large number of European countries participate in the BRI, which encourages them to think that tentatives to delegitimise the BRI will fail.

On the Karakoram highway, the only traffic comes from CPEC logistics (no private vehicles are passing through). The border used to be opened but tensions due to mixed marriages involving Pakistani merchants and Uygur women resulted in the road being quickly closed to civilians. Could it re-open?

There were several incidences of fake marriages which, along with other scams, have affected bilateral relations. On numerous occasions, Chinese workers coming as part of the CPEC work force took part part in criminal activities, such as attacking ATM machines. The Pakistani government has now made it mandatory to scrutinise workers' past before they are recruited. The Chinese government itself is reluctant to let Pakistani workers enter the country, Xinjiang in particular, and have become very cautious.



Gwadar Port, Balochistan, Pakistan - 2016