

# CPEC – 10 Years and On

## Policy Brief

*This brief explores the evolution of CPEC, the challenges it has faced, and the importance of creating a stable and conducive environment for its success. This brief is the outcome of a roundtable held at the Institute of Policy Studies, Islamabad, on August 23, 2023. Chairman IPS Khalid Rahman chaired the roundtable. A Chinese delegation from Sichuan University's Institute of South Asian Studies was also present. The speakers included Dr. Zeng Xiangyu, associate professor, Institute of South Asian Studies, Sichuan University, Gao Liang, lecturer, Institute of South Asian Studies, Sichuan University, Ambassador (r) Syed Abrar Hussain, vice chairman IPS, Dr. Syed Tahir Hijazi, member IPS' National Academic Council, and Prof. Dr. Fakhr-ul-Islam, director Research and Academic Outreach IPS.*

### 10 Years of CPEC – An Overview

The China-Pakistan Economic Corridor (CPEC) stands as a testament to the enduring partnership between China and Pakistan. This mega-project, initiated a decade ago in 2013, has made significant strides with \$25.4 billion of direct investment, \$17.55 billion in revenue, and \$2.12 billion in taxes. Its impact on Pakistan is undeniable, evidenced by the creation of more than 192,000 jobs over the past ten years and a promising projection of an additional 500,000 jobs in the coming years. While the monetary investment is impressive, the objective measure of success lies in the livelihoods it improves and the development it makes.

One of the cornerstones of CPEC is the construction of 510 kilometers of road infrastructure, a monumental feat that has not only improved connectivity within Pakistan but also boosted economic activity. Furthermore, through CPEC, Pakistan has added 6,000 megawatts to its power generation capacity, a commendable achievement that significantly addresses energy shortages.

Gwadar Port's operationalization is yet another remarkable achievement. It has transformed from its embryonic stage just six years ago, in 2017, to becoming a focal point of economic development. The investment of 3 billion Chinese yuan in the Gwadar

Free Zone has already attracted 35 businesses from China, heralding a new era of cooperation. These developments have played a pivotal role in increasing Pakistan's annual economic growth rate from 4.5% in 2013 to 6.1% in 2021.

Beyond tangible investments, CPEC has instilled confidence in Pakistan's economic prospects. Investment is not merely financial; it is also about confidence in the future. China and Pakistan have nurtured this confidence, which is vital for long-term investments in any country. This synergy has been a catalyst for change.

### Managing Expectations and Navigating Challenges: A Comprehensive Perspective

CPEC stands as a symbol of collaboration and shared ambitions between China and Pakistan. However, it is imperative to reflect on the journey of CPEC, manage expectations, and address challenges to ensure its continued success. The challenges inherent in such a massive infrastructure project warrant a pragmatic approach. This underscores the importance of celebrating milestones and not undermining progress. The management of expectations is crucial, as unrealistic demands can hinder cooperation and lead to misperceptions.

CPEC did not emerge out of thin air; it has a legacy deeply rooted in mutual trust and continued

connectivity. China and Pakistan have nurtured a relationship built on mutual trust passed down through generations. The connectivity initiatives, such as PIA being the first airline to open China to the world and the engineering feat of Karakoram Highway, laid the foundation for the grand vision of CPEC.

While 2023 marks a decade of CPEC, the milestone dates back to 2013 when the planning phase was initiated between China and Pakistan, with the actual project groundwork commencing in 2015. The two years between 2013 and 2015 marked consultation, discussion, making processes, and related desk work. However, questions arise about whether the planning phase considered all critical factors. The flaws in this phase could have far-reaching consequences, and there is a notable absence of in-depth research on this topic in both China and Pakistan.

CPEC can be viewed as a pilot project within the broader framework of China's Belt and Road Initiative (BRI), encompassing around 140 countries. The ups and downs that CPEC has been facing serve as a valuable learning experience for China for the wider BRI. This is because China, at least then, had been viewing the CPEC as a standalone experience, detached from the BRI, which would ultimately help it envision the challenges and opportunities of BRI as a whole.

CPEC, apart from being a bilateral initiative, had a global significance as well. Therefore, it was naturally going to attract global attention, whether positive or negative. While gauging a prospective global response, the policymakers and researchers in Pakistan and China should have considered that countries like the US and India would create narratives and adopt strategies to make the initiative a failure. This would have helped both countries to better equip themselves with plans to counter this external challenge.

Moreover, the social significance and implications of such an all-encompassing project having dynamic roots and involving many areas on the ground must not have been ignored. The views, motivations, and aspirations of a layman should have been given consideration, and the government of Pakistan, with Chinese assistance, should have strategized how the project could be made all-inclusive.

Another challenge is the slow progress of CPEC projects. This slow progress can provide ammunition to opponents, primarily when the immediate benefits do not manifest. In the case of Gwadar, for instance, where a small population awaits the effects of a long-

term project, this delay creates opportunities for opponents to exploit public sentiments against the project and Pak-China cooperation in general. A sense of urgency and inclusivity is required to address this issue.

The different political cultures of China and Pakistan play a significant role in the execution of CPEC. China's governance model ensures that government directives are swiftly implemented. In contrast, Pakistan's frequent governmental changes and transparency expectations create challenges. Understanding these cultural and political differences and planning accordingly is essential for harmonious cooperation.

Also, the narrative around CPEC, particularly in Pakistan, has often portrayed it as a one-sided gift from China, which is not the reality. The project is a mutual endeavor that is critical for both countries.

The geopolitical context in which the CPEC operates must not be ignored, notably during the Afghan war and international scrutiny of Pakistan. This context creates a security puzzle for both China and Pakistan. The state machinery of both countries needs to keep this context in mind while investigating the masterminds behind attacks on Chinese individuals and assets.

The strategic complexities surrounding CPEC and Pak-China relations are a challenge. For decades, Pakistan had two options: align with the United States, as India currently does, or resist alignment and prioritize public opinion. The evolving dynamics in global relations, such as the changing stance of G7 toward China, demonstrate the complexities of Pakistan's strategic choices.

### **Geopolitical Transformations in South Asia and Implications for CPEC**

The geopolitical landscape of South Asia has undergone discernible changes in recent years, with notable shifts in strategic interests and alliances. The US, primarily through its Indo-Pacific strategy initiated in 2017, has displayed an increasing inclination toward strategic investments within the region. Japan has followed suit, engaging in strategic investments across nations such as Bangladesh and Nepal. These developments underscore the evolving dynamics of international relations in South Asia.

India's strategic approach aligns closely with the US strategy, focusing on excluding both Pakistan and China from regional cooperation and trying to



dominate. India actively promotes initiatives like Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Build Back Better World initiative while seeking to limit Pakistan's participation in regional cooperation platforms such as the Shanghai Cooperation Organization (SCO). This alignment positions the US, India, and Japan as pivotal players in the Indo-Pacific region, united in their efforts to marginalize China and Pakistan.

The collaboration between the US, India, and Japan has created a somewhat hostile and unfriendly environment characterized by strategic maneuvering and the manipulation of public opinion. For instance, the US has been promoting the Millennium Challenge Corporation Compact with Nepal. The initiative outlines the construction of the Nepali portion of a 400kv interconnection with India, increasing the availability and reliability of electricity in Nepal and ultimately contributing to a shifting landscape of influence.

Furthermore, there is evidence of a concerted effort to create a challenging atmosphere for Chinese companies and China as a country. Similar scenarios have unfolded in Sri Lanka and Bangladesh, with implications for the social and strategic environments becoming increasingly antagonistic for China.

### **Need for Inclusivity in CPEC**

In the context of CPEC, these geopolitical transformations hold significant implications. The evolving dynamics in the region, marked by strategic investments, exclusionary strategies, and manipulations of public opinion, signal a more challenging and contentious social and strategic landscape. It is imperative for stakeholders, particularly Pakistan and China, to pay close attention to these developments and adapt their strategies accordingly to navigate the evolving geopolitics of South Asia.

A crucial strategy to counter this antagonistic environment is to make CPEC more inclusive and attractive to other friendly countries. China's vision for CPEC is not one of monopoly. It welcomes diverse investors, including those from Saudi Arabia, Iran, South Korea, and Japan, because encouraging third-party investment is vital for the project's sustainability. However, recent policies have not been conducive, highlighting the need for Pakistan's elite to rethink their approach to industrial development.

In this geopolitical transformation, Afghanistan's potential involvement is an intriguing aspect as improved security conditions create room for third-party participation from the north, a prospect that should be explored. Collaboration with Afghanistan could address regional challenges and enhance economic cooperation.

### **Peace in Afghanistan: Prospects of Regional Cooperation**

The quest for peace in Afghanistan has been elusive, not only for Afghanistan but for the entire region. Afghanistan has endured over four decades of conflict, from the Soviet invasion in the late 1970s to the post-2001 NATO engagement and battles with the Afghan Taliban. However, the recent emergence of a relatively stable situation presents a unique opportunity for the region.

To fully appreciate this opportunity, two critical aspects must be considered: cooperation between regional countries and cooperation through Afghanistan. Several nations, including Iran, Pakistan, China, Russia, Central Asian countries, Turkey, and Gulf states, have vested interests in ensuring stability in Afghanistan.

Chinese companies signed agreements with Afghanistan in 2008 for the development of the Mes Aynak copper mines. Its progress was hampered due to security concerns and allegations of corruption. However, the Taliban takeover renewed hope for the restoration of these agreements, and tangible progress is already being witnessed. Additionally, multiple other agreements are awaiting the right conditions for peace in Afghanistan.

Afghanistan's strategic location as a transit hub connecting Central Asia with South Asia, the Middle East, and Russia is of paramount importance. Numerous regional projects, such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, the Central Asia-South Asia (CASA) 1000 project, and the Trans-Afghanistan Railway, have been awaiting peace in Afghanistan. The time is ripe to advance these projects.

CPEC holds significant relevance for both Afghanistan and Pakistan. In a trilateral meeting between China, Afghanistan, and Pakistan in May 2023, the foreign ministers agreed to extend CPEC

into Afghanistan.<sup>1</sup> The previous Afghan administrations had expressed interest in CPEC, recognizing its potential for regional connectivity and economic development.<sup>2</sup> With Afghanistan sharing a 90-kilometer border with China, the challenging terrain presents an opportunity for direct connectivity with BRI. Moreover, Afghanistan could connect to CPEC via Peshawar, Chaman, and Quetta, effectively linking itself to CPEC routes and the Gwadar Port, thereby reaping the benefits of these opportunities.

One of the primary challenges in this regard is how the international community, particularly regional players, will engage with the new government in Afghanistan. Concerns about human rights issues in Afghanistan have been amplified by the West, potentially to serve its interests. However, it is crucial for regional countries to consider their interests in the context of the opportunity presented by the current stable environment. They should collectively decide to recognize the new government and seize this chance for progress after four decades of turmoil.

The prospect of peace in Afghanistan represents a historic opportunity for regional cooperation and development. It is incumbent upon regional nations to unite and harness the potential benefits of peace, including the advancement of stalled projects, such as TAPI and CASA-1000, as well as the extension of CPEC into Afghanistan. By recognizing the new government and working collaboratively, the region can usher in a new era of stability, connectivity, and prosperity.

### **The Significance of Security and a Peaceful Environment for CPEC**

CPEC's success and sustainability are intricately linked to the security and peaceful environment in the region. Over the past decade, CPEC has made significant progress, but certain aspects require continued attention and analysis.

In its early years, CPEC faced security challenges, partly due to the spillover effects of the ongoing war in Afghanistan. There were suspicions and speculations surrounding the project's safety. However, through the collective efforts of Pakistan's military, maritime security agencies, and coast guards, the security situation significantly improved. Intelligence-sharing mechanisms have been

established between China and Pakistan, further enhancing the security of CPEC.

In this regard, two critical aspects of security must be considered: the security of the CPEC route and the safety of Gwadar Port and the surrounding city. The route, spanning from Gilgit-Baltistan to Hazara, Dera Ismail Khan, Punjab, Sindh, and Balochistan to Gwadar, demands a comprehensive security analysis. Along this route, the regions of Khyber Pakhtunkhwa, Punjab, and Sindh are relatively secure, with no significant insurgent threats. However, the situation along the Coastal Highway in Balochistan presents some complexities and potential threats.

As the second significant aspect of security for CPEC, Gwadar Port, a pivotal component of CPEC, is under the control of Pakistan's maritime security agencies, supplemented by the Special Security Division (SSD). The security measures extend to the city and the surrounding areas. These concerted efforts ensure the safety and functionality of Gwadar Port.

Beyond physical security, the perception of people in the region plays a crucial role. A study conducted in 2021 revealed that a significant portion of the population views CPEC positively. Approximately 53.9% believe the project strengthens Pak-China friendship, while 63% believe it contributes to Pakistan's economic improvement. An overwhelming 80.6% of Pakistanis opined that CPEC provides increased access to global markets. Notably, these perceptions are prevalent even in regions like Khyber Pakhtunkhwa, which have been plagued by terrorism. Such widespread support is a testament to the project's importance and potential to bring prosperity.

While the current security situation is comparatively under control, it is essential to acknowledge the existence of potential threats. International and regional actors have been involved in proxies in some parts of Pakistan. Therefore, both countries must remain vigilant and adapt to evolving security challenges.

The security and peaceful environment for CPEC have significantly improved over the past decade. Collaborative efforts between China and Pakistan, along with the positive perceptions of the Pakistani people, have contributed to its success. However, continued vigilance and proactive measures are

<sup>1</sup> Saima Shabbir, "Islamabad, Beijing reaffirm commitment to extending CPEC project to Afghanistan," *Arab News*, May 8, 2023, <https://www.arabnews.pk/node/2299856/pakistan>

<sup>2</sup> "Afghanistan expresses desire to become part of CPEC," *The Express Tribune*, October 15, 2016, <https://tribune.com.pk/story/1199335/afghanistan-expresses-desire-become-part-cpec>





essential to address potential threats and ensure the continued success of this transformative economic corridor, which stands as a symbol of enduring Pak-China friendship and a catalyst for Pakistan's economic growth.

### **Governance Issues in Pakistan and CPEC**

Managing expectations is a critical aspect of CPEC, a mega-project that holds immense potential for both nations. Initially, CPEC primarily involved building and improving the road network from China to Gwadar and Karachi, with the aim of utilizing the underutilized capacity of Karachi Port. The project focused on four key corridors, including the Western and Eastern corridors, which addressed bottlenecks in the transportation network. A motorway was constructed to enable Chinese cargo to reach Gwadar without entering Abbottabad city. In November 2016, the arrival and departure of a Chinese convoy through the route confirmed that the corridor was ready to be used.<sup>3</sup>

Over time, security issues were addressed, and efforts were made to facilitate Chinese cargo transportation. However, several challenges hindered the progress of CPEC. One significant setback was the halt in China's plans to obtain cheaper oil from the Gulf through a shorter route via Pakistan. Additionally, 103 to 107 projects were planned in different areas, including, for example, infrastructure and energy. They were expected to create approximately 1.9 million jobs in Pakistan. These projects are supposed to be completed by 2030, and 36 have been completed so far. The slow pace of progress was attributed to changes in government, shifts in mindset, and a lack of a permanent structure dedicated to managing CPEC projects.

Investors, motivated primarily by their interests, played a crucial role in CPEC, particularly in the power sector. However, Pakistan faced challenges due to fluctuations in exchange rates. Despite these obstacles, Pakistan initiated solar and wind projects, which hold substantial potential for the future.

Special Economic Zones (SEZs) are a vital component of CPEC, yet progress in establishing them has been sluggish. The initial idea was to relocate industries redundant in China to these SEZs, leveraging Pakistan's lower labor costs and proximity to ports. At

present, four SEZs are under construction, while five are in the pipeline.

CPEC represents a significant opportunity for Pakistan and China, but managing expectations and overcoming challenges are essential for its success. Addressing governance issues, project delays, and infrastructure improvements is crucial.

Furthermore, a stable and conducive environment must be created to attract investors, particularly in SEZs, to fully unlock CPEC's potential for economic growth and cooperation between the two nations. CPEC's journey is marked by lessons learned and the need for long-term commitment to ensure its prosperity.

### **Focus Areas**

CPEC has made significant strides over the past decade, positively impacting Pakistan's economy and infrastructure. However, it is essential to manage expectations and focus on industrialization, policy reforms, and attracting diverse investors to ensure its continued success. Moreover, exploring new dimensions of cooperation and involving neighboring countries like Afghanistan can unlock further potential for regional development. The evolution of CPEC demonstrates the enduring partnership between China and Pakistan and their commitment to mutual growth and prosperity.

In addition to the 1+4 framework, Pakistan and China should consider cooperation in agriculture, water resources management, and climate change. These areas hold the key to addressing grassroots issues, particularly in rural Pakistan. Proper water management can mitigate security risks associated with water scarcity and flooding.

### **Conclusion**

Despite its undeniable importance for Pakistan and China, it is essential to acknowledge that CPEC is still a work in progress, and expectations must be managed. CPEC is generally referred to as the flagship project of China's BRI, emphasizing its significance for BRI's success. Nevertheless, it must not be ignored that the ultimate game-changer is Pakistan itself. While CPEC can provide support, the real transformation lies in Pakistan's ability to manage its expectations and investments wisely. It is not just about funding; it involves policies, security

<sup>3</sup> Muhammad Zafar, "First Chinese trade convoy arrives in Gwadar through CPEC," *The Express Tribune*, November 12, 2016, <https://tribune.com.pk/story/1228780/first-chinese-trade-convoy-arrives-gwadar-cpec>



guarantees, and a conducive environment for private investors.

While significant progress has been made in infrastructure and transportation, industrial development remains a challenge. Encouraging

industry in Pakistan necessitates attractive policies and incentives for private enterprises. It is crucial to differentiate between infrastructure projects and industrial ventures. Businessmen seek profit, and Pakistan's government must offer investment-friendly policies to attract investors.

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