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The Benefits and Risks of the China-Pakistan Economic Corridor

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Summary: The China-Pakistan Economic Corridor is solidifying relations between the two nations but the project faces multiple security and political challenges.

Traditionally, China and Pakistan have cooperated closely at the strategic and political levels. Now the two nations are making efforts to expand their bilateral collaboration economically as well. The construction of the China-Pakistan Economic Corridor (CPEC) is a milestone that signifies this shift.

At its core, the CPEC is a large-scale initiative to build energy, highway, and port infrastructure to deepen economic connections between China and Pakistan. This initiative has been well-received in both countries, although it is not without its problems.¹ Nevertheless, China and Pakistan regard the CPEC as a new source of potential synergy between their respective national development strategies, which may help the two countries translate their close political cooperation into multifaceted economic cooperation, attain mutual benefits, and achieve win-win outcomes. For the economic corridor to reach its potential, however, there are security and political challenges in Pakistan that must be addressed.

China first proposed the corridor project in May 2013. Chinese President Xi Jinping then visited Pakistan in April 2015, and both sides agreed to elevate their relationship to an “all-weather strategic partnership.”² During Xi’s visit, the two countries signed fifty-one agreements at an estimated value of \$46 billion.³

China considers these development initiatives a potential source of stability and prosperity for both countries. From a Chinese perspective, cooperation in the areas of security and economics are closely intertwined, and improvements on one side can improve the other. It is almost as though security and economics are two separate wheels on the same vehicle, and both need to be spinning to move things forward. China believes economic development can strengthen Pakistan’s internal stability, thus reinvigorating the latter’s economy through investment in infrastructure projects as well as the construction of oil and gas pipelines. China hopes this will create a certain level of stability within Pakistan and in turn stabilize China’s western periphery, particularly the province of Xinjiang. The CPEC is now moving into the implementation phase. On May 6, 2016, there was an opening ceremony held in the city of Sukkur in Pakistan’s Sindh Province, as construction began on a section of highway between Sukkur and the city of Multan—it will be part of a network of highways that will connect the cities of Peshawar and Karachi.⁴ This network is a major component of the CPEC’s plans for infrastructure expansion, which highlights the progress the two nations have achieved thus far in the area of transportation. In addition, on November 13, 2016, the first large shipment of Chinese goods went through the port of Gwadar, a flagship CPEC project in Pakistan’s southwestern province of Balochistan.⁵

More broadly, the CPEC has to be understood in the context of China’s strategic interests in East Asia and the way the United States has challenged them. Faced with such difficulties, China hopes it can expand its strategic space by heading west. Pakistan serves as a crucial bridge between China and Central Asia, South Asia, and the Middle East. Security and stability in Pakistan will make it possible for China to exercise greater influence in these regions and to ensure security at home. This is why China is willing to pour vast amounts of resources into the economic corridor—based on the logic of improving security through economic development.

Likewise, Pakistan has realized that no other country places such high strategic importance in its economic relationship with Pakistan as China does. Pakistan also greatly values the economic corridor and views it as mutually beneficial in terms of politics and economic development. According to Pakistan 2025—a blueprint for economic development published in 2014 by Pakistan’s Ministry of Planning, Development, and Reform—Pakistan aims to advance from being a lower-middle-income nation to an upper-middle-income nation by 2025.⁶ To achieve this goal, Pakistan hopes to attract increasing amounts of foreign investment. The country is working to improve its overall economy by constructing energy projects and other forms of infrastructure, to create employment opportunities for its populace, and to improve its governance.

The logic behind this strategy is that fundamentally improving Pakistan’s economy will help alleviate the challenges posed by political extremists, radicals, and jihadists. China and Pakistan share the belief that economic development can help stabilize Pakistan and improve its domestic security situation. However, China also recognizes that the security, political, and cultural risks and uncertainties facing the economic corridor cannot be overlooked.

The first of these risks is terrorism, which has long affected Pakistan's internal security and stability. Although Pakistan has worked hard to strike at religious extremism and terrorist activities, its problems with terrorism have not substantially improved in recent years. Because the CPEC is so important to the Pakistani government, these projects' construction sites and engineering personnel may become targets for religious as well as nationalist extremists. Indeed, there already have been numerous occasions when Chinese engineers working in Pakistan have been attacked or even lost their lives. In May 2016, for instance, engineers in Karachi were attacked by Sindh separatists.⁷ Fortunately, no Chinese personnel were wounded or killed. Then in September, Baloch rebels killed at least two Chinese engineers and injured many others.⁸ Moreover, several large-scale terrorist attacks in Balochistan have killed dozens of people, which shows that the security situation in this province where China has key projects is far from ideal.⁹

The security threat posed by terrorism remains ongoing, despite the economic benefits that the CPEC can offer Pakistan. The corridor aims to enhance the well-being of people throughout the country and bring long-term prosperity and stability. The Pakistani authorities, meanwhile, have promised China they will do everything possible to ensure the safety of Chinese workers.¹⁰ This is a feasible commitment in the short term. However, over time, it will become more difficult for Pakistan to guarantee the security of the CPEC's growing transportation networks, which will require increasing investments of security personnel and material support. It will likely become uncertain in the future whether Pakistan can maintain a strong enough military presence to ensure the security of all these transportation routes.

Second, Pakistan's domestic politics is also important to the CPEC's success. The country's political system has never been particularly stable. Political power oscillates between military and civilian leaders. General Pervez Musharraf's resignation as president in 2008 ended the latest period of military rule, and from that point onward, the military has been pushed from center stage. In the 2013 election, the Pakistan People's Party lost power after the Pakistan Muslim League Nawaz defeated it. The successful completion of this election, as well as the smooth transition of power that ensued, was the first time in Pakistan's history that a civilian government was able to serve out its entire term. This was a sign of improvement for Pakistan's democracy.

On the other hand, Pakistan's traditional political culture, which is almost feudal in nature, also continues to play an important role. Powerful families based in different provinces, such as the Bhuttos and the Sharifs, have typically held political power. Behind the party politics are local interests groups associated with these families.

Various parties within Pakistan have disagreed a lot about how CPEC transportation routes should be mapped out. The competing parties are primarily interested in how the cake should be divided, so to speak. To strengthen its respective standing among the electorate, each of Pakistan's political parties hopes the CPEC will pass through the region it represents, allowing its local community to enjoy the corridor's benefits. In fact, since the initiative was first presented in 2013, the debate over which route the CPEC would follow has caused substantial delays. The construction of the corridor has just begun. It is expected that competition among Pakistan's domestic political groups will continue to affect its future implementation.

Yet the CPEC will not only serve as a roadway that simply connects point A to point B—the initiative is designed to do more. The corridor also aims to facilitate multisectoral economic cooperation in finance, trade, energy, and industry.

Amid a market slowdown and high unemployment rates, Pakistani Prime Minister Nawaz Sharif came back into office in 2013 with the intent of reinvigorating the economy, and he undertook a series of measures to improve Pakistan’s economic prospects.¹¹ One was lowering barriers to foreign investment.¹² As for addressing energy shortages, Pakistan has been making efforts to restructure its energy industry and increase its electricity production. At the same time, the government has worked hard to strengthen investment in infrastructure, has moved forward with tax reforms, and has focused on increasing revenue and reducing expenditures. In addition, the government has adopted other measures to develop its market economy. It has overseen reforms for state-run enterprises and encouraged market privatization.

These measures are already starting to take effect. The country’s GDP is growing at a stronger rate, and the economy is improving.¹³ For the time being, however, it will still remain unclear whether these economic advances can actually alleviate Pakistan’s serious security and stability problems.

Cultural considerations and public relations should be also taken into account when evaluating the CPEC’s prospects for economic success. Ordinary citizens in China and Pakistan are not very familiar with each other. The countries’ leaders have built an all-weather friendship and close political relationship over the years, but this is not yet true of the two societies at large.

As China and Pakistan gradually expand cooperation, there will be an increasing number of Chinese corporations investing in Pakistan. Different cultural practices and ways of thinking could cause misunderstandings, and this could negatively affect CPEC projects. For these corporations to be successful, they will need to understand local cultures, norms, and rules. Having information about and services for doing business in Pakistan is also crucial for Chinese corporations.

China should abandon its traditional way of dealing only with the Pakistani government and instead get in contact with local communities to better accommodate local interests so that more Pakistani people can benefit from the CPEC. China and Pakistan need to strengthen their cultural ties and increase people-to-people interactions. This has already begun, due to the increasing economic activity between the two countries, forcing China to become more informed about the complexities of Pakistani society. The China-Pakistan Economic Corridor Council was founded in 2015 to jointly address the challenges arising in the CPEC projects.¹⁴ The council has opened offices in Beijing and Islamabad respectively, and its purpose is to assist with the implementation of CPEC projects.¹⁵

China and Pakistan have taken positive measures to help set up the CPEC for success. Nevertheless, Pakistan’s domestic situation is still decisive. Until the country’s political and security conditions turn a corner, it will be difficult to judge the corridor’s future prospects. For China, this means neutrality, strategic patience, and caution are needed as the construction of this grand initiative continues.

NOTES

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