Analysis of Determinants for CPEC's Success and Failure: Emerging Challenges and Lessons for Pakistan

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Abstract

The China-Pakistan Economic Corridor (CPEC) has received global attention as the flagship project of the Chinese Belt and Road initiative. While CPEC is considered to be a well-thought and well-crafted initiative, this paper evaluates its possible dividends for Pakistan and scope of regional cooperation. It highlights the urgent need to introduce technological modifications and structural reforms in the trade, industrial and manufacturing sector to help maintain a balanced export-import ratio, alongside minimisation of energy losses, trade and budget deficits. The essence of any Economic Corridor remains unfulfilled if it fails to engage regional neighbours, in this case India, Iran and Afghanistan in the obvious presence of deep-rooted conflicts, fragile security issues and strategic interests. Increased economic interdependence may help reduce the level of anxiety shared by regional neighbours and Pakistan. Growing energy and communication infrastructural needs in the region can also enable a confluence of differing national interests into mutually beneficial grounds of cooperation.

Key words: Economic Corridors, China-Pakistan, Regional Cooperation, Economic Dividends.

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Introduction

China has transformed itself into an economic powerhouse. As the world changes its approach from geostrategic to geoeconomics, China is dedicating its foreign policy to engage countries in its near and extended neighbourhood through economic initiatives. Its major focus is on making effective use of demographic features and resource links to support national economies alongside creation of energy security. Over the years, China has been the biggest supporter of economic rims by connecting countries through transportation infrastructure and port development. The One Belt One Road (OBOR) initiative aims to commence a new era of economic and regional diplomacy by connecting China with its neighbours in Asia and beyond involving more than 60 countries,[1] and roughly covers 70 per cent of the world's population.[2] The proposed projects are a multi-billion dollar investment manoeuvring the enhancement of financial integration, facilitation of connectivity, increased policy coordination at the regional level, alongwith boosting people-to-people contact.

Of the six proposed Corridors,[3] the China-Pakistan Economic Corridor (CPEC) is believed to be one of the shortest and smartest routes as it passes through only one country yet will connect various regional economies together. For instance, the proposed reach CPEC offers extends up to Europe and runs down to East Asia and the Asia-Pacific, if thoroughly implemented.

In Pakistan, CPEC is designed as a passage with nodes of concentrated economic and commercial activities. The establishment of industrial zones, energy and transportation infrastructure would help

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1 Muhammad Saqib Irshad, "One Belt and One Road: Does China-Pakistan Economic Corridor Benefit for Pakistan's Economy?" *Journal of Economics and Sustainable Development* 6, no. 24 (2015): 200-207, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2710352.

2 Jonathan E. Hillman, "OBOR on the Ground: Evaluating China's 'One Belt, One Road' Initiative at the Project Level" (Washington, D.C.: Center for Strategic and International Studies, 2016), https://reconasia.csis.org/analysis/entries/obor-ground/.

3 Editor's Note: The six economic corridors include New Eurasian Land Bridge; China – Mongolia – Russia Corridor; China – Central Asia – West Asia Corridor; China – Indochina Peninsula Corridor; China – Pakistan Economic Corridor; and the Bangladesh – China – India – Myanmar Corridor.

augment economic revival in this country. Gwadar being the most important part of this Corridor is considered an outward opening, connecting China and Pakistan primarily to other regions. A review of its investment potential suggests immense economic prospects such as increase in domestic products, higher industrialisation, energy security, lower trade deficit and employment opportunities as likely outcomes.[4]

As CPEC aims to engage the public and private sector of Pakistan and provide a dedicated land route to regional neighbouring countries for trade activities, this article will attempt to evaluate the overall economic dividends of CPEC for Pakistan and its scope of regional cooperation by exploring the concept of economic corridors as a means to induce greater economic interdependence among regions and sub-regions. Moreover, as CPEC is spread over a span of 17 years, there is need to calculate its share in reviving Pakistan's economy in the long-term alongside a quick review of internal challenges and impediments. The article will also highlight the prospects of cooperation with India, Iran and Afghanistan and the Corridor's potential regional trickle-down effect. Moreover, dynamics of cooperation and elements of incoherence at the regional level will also be briefly discussed.

Strategic Value of Economic Corridors (ECs)

The sub-regions of Asia have the potential to achieve greater economic growth by making best use of their geographical dynamics and resource links. In tandem with economic growth as part of Asia's resurgence, its politico-military strengths have also contributed to the emergence of its leading countries such as China and Japan as global players on an uphill trajectory of development.[5] Development practitioners have highlighted

[4] Hilmayati Safitri, "Economic Corridor Policy, Land Concentration and 'Social Exclusion': Java's Economic Corridor Policy Implementation, Indonesia" (Masters diss., International Institute of Social Studies, The Hague, 2012), quoted in Siegfried O. Wolf, "China-Pakistan Economic Corridor (CPEC) and its Impact on Gilgit-Baltistan" (SADF Focus no. 25, South Asia Democratic Forum, Brussels, 2016), http://sadf.eu/new/wp-content/uploads/2016/11/FOCUS.25.SOW_.CPEC_.pdf.

[5] Subhash Kapila, *The Global Power Shift to Asia: Geostrategic and Geopolitical Implications*, report (Doha: Al Jazeera Centre for Studies, 2012).

the need of a new approach required to make effective use of 'geography' towards the convergence of regional economic integration alongside inclusive growth. It is believed that these potential growth-inducing investments can raise the production potential of integrated geographic and economic areas. However, their cumulative benefits can become evident only if they are modeled intelligently along economic corridors.[6] A working paper series by the Asian Development Bank (ADB) outlines that:

> Economic corridors are not mere transport connections along which people and goods move. Economic corridors are integral to the economic fabric and actors surrounding it. Economic corridors are not generating significant economic benefits in isolation, but rather they have to be analysed as part of integrated economic networks, such as global and regional value chains and production networks.[7]

The idea of ECs emerged at the Eighth Ministerial Meeting of the Greater Mekong Sub-region Economic Cooperation Programme (GMS-ECP) in 1998 when the Programme was halted due to the Asian financial crisis:[8]

> Economic corridors were born to help the area to rise above the difficulties after the crisis. The basic idea is to enliven economic activities along major roads or transport corridors. Concrete examples include the establishments of industrial estates on the borders, and the construction of telecommunication and

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6 Hans-Peter Brunner, "What is Economic Corridor Development and What can it Achieve in Asia's Subregions?" (working paper no. 117, Asian Development Bank, Manila, 2013), https://www.adb.org/sites/default/files/publication/100110/reiwp-117-economic-corridor-development.pdf.

7 Ibid., 1.

8 Editor's Note: The crisis began in Thailand in July 1997 when the country devalued its currency relative to the US dollar, followed soon thereafter by Malaysia, the Philippines and Indonesia. Capital inflows slowed or reversed direction across East Asia, drastically impacting economies in the region, leading to spillover effects in Eastern Europe and Latin America in 1998.

electricity transmission cables, and natural gas pipelines and tourism activities along the corridor.[9]

Corridors developed under the GMS-ECP included major road infrastructures which first aimed to connect the Association of Southeast Asian Nations (ASEAN) countries with China, and then ASEAN-China with South Asia.[10] While analysing the fundamentals of ECs, CPEC can be considered as a case study. CPEC as a pilot project of OBOR is a manifestation of the connection proposed above between China and southern Asia. Infrastructure and communication expansion, establishment of Industrial and Special Economic Zones (SEZs) and energy projects alongside port development constitute the framework of CPEC. As per the characteristics of ECs described above, CPEC would be creating an economic fabric strong enough to integrate Pakistan and its regional neighbours in global and regional value chains and production networks. It also matches the criterion set regarding ECs as economic activities will be more concentrated along the major roads or transport corridors.

The EC approach puts emphasis on the integration of upgraded infrastructure with economic prospects such as trade and investment in an attempt to address the social outcomes associated with increased connectivity.[11] However, the primary challenges associated with the development and regional integration of ECs include bridging divided geographies, development of regional markets, balancing growth and income distribution geographically and uninterrupted movement of economic resources.

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9 Masami Ishida, "Special Economic Zones and Economic Corridors" (paper, Economic Research Institute for ASEAN and East Asia, Jakarta, 2009), http://www.eria.org/ERIA-DP-2009-16.pdf.

10 Ibid., 1.

11 Prabir De and Kavita Iyengar, "Overview: Making the Case for Economic Corridors in South Asia," in *Developing Economic Corridors in South Asia*, ed. Prabir De and Kavita Iyengar (New Delhi: Asian Development Bank, 2014), https://www.adb.org/sites/default/files/publication/162073/developing-economic-corridors.pdf.

The creation of a modern version of the ancient trade route as an Economic Corridor has emerged as a major highlight of China's foreign policy:

> China has emerged as a major exporting power with the 'rest of the world' but as an 'importing power' in Asia. Altering the so-called 'Flying Geese' pattern of export-led industrialisation in Asia, China became an exporter to the West, to North America and Europe, and an importer within Asia – of goods, resources, technology and capital.[12]

An analysis report by the Center for Strategic and International Studies (CSIS) finds that:

> A massive infrastructure push is underway across Asia. The region's infrastructure market could grow by 8 per cent annually over the next decade, rising to nearly 60 per cent of the global total… Meanwhile, the China's OBOR initiative is at the centre of this push. Estimates vary, but all point towards an ambitious endeavour. Geographically, OBOR could span 65 countries responsible for roughly 70 per cent of the world's population. Economically, it could include Chinese investments approaching USD 4 trillion.[13]

The ECs approach supports neo-realism[14] as it reinvigorates the spirit of economic cooperation at the regional level supporting the ambition of greater regional integration by inducing economic interdependence. Strategically, the element of economic cooperation provides an opportunity to countries in sub-region to explore mutual

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[12] Sanjaya Baru, "A New Era of Geo-Economics: Assessing the Interplay of Economic and Political Risk" (paper, IISS Geo-Economics and Strategy Programme, International Institute for Strategic Studies, London, 2012).

[13] Hillman, "OBOR on the Ground: Evaluating China's 'One Belt, One Road' Initiative at the Project Level."

[14] Editor's Note: A school of thought according to Barry Buzan that 'abandoned conservation assumptions about human nature that underpinned classical realism and reasserted the logic of power politics on the firmer foundation of the anarchic structure. It defends the centrality of the state, especially of great powers.' Its success was aided greatly by the onset of the so-called 'Second Cold War' in 1979.

interests, putting aside their issues and conflicts, specifically in the case of South Asia.

CPEC Framework and Determinants of its Success and Failure

CPEC is a large-scale systematic project, largely considered to serve the purpose of comprehensive and substantive cooperation between Pakistan and China. If stated in order of global relevance, the motivations behind China's investment in Pakistan are multifold such as providing economic assistance to a long-time strategic ally, shaping new industrial clusters, balancing regional economic growth, facilitating trade and establishment of links with the countries in the west. According to mutual agreement between both countries, the project promotes a '1+4' pattern of economic cooperation which gives CPEC a central role with Gwadar port, energy, transport infrastructure and industrial cooperation as key features to achieve common goals of development. Alongside cooperation, consensus exists on the importance of social development, elimination of poverty, advancement in science and technology, promotion of tourism and financial services to benefit the citizenry on both sides directly from the enterprise (Table 1). From Early Harvest to short, medium and long-term projects, the emphasis is on developing a road network first and then to position area-specific industrial zones and energy projects along the route. Meanwhile, the subsequent developments at Gwadar will continue to raise its status to an international economic hub.

Table-1
CPEC's Economic and Cumulative Dividends for Pakistan

Economic Advantages	**Cumulative Dividends**
Growth and Employment Opportunities	Implications of Trade
Economic Dividends to Agriculture	Geopolitical Ambitions
National and International Law Policy	Economic Corridor Benefits
Potential Threats and Challenges	Fostering Stability
A New Hope	New Look on Grand Strategy
China's Pakistan Plan	Fostering Stability in Balochistan
Development Strategy	Economic Belt

Source: Syed Irfan Hyder and Tazeen Arsalan "Implications of CPEC on Domestic and Foreign Investment: Lack of Feasibility Studies," in *CPEC: Macro and Micro Economic Dividends for Pakistan and the Region*, ed. Sarah Siddiq Aneel (Islamabad: Islamabad Policy Research Institute, 2017).

Since the project is spread over 17 years (2013-30), there is a need to retrospect certain aspects to infer the economic dividends of this investment. In this regard, this section aims to estimate how the respective project will contribute to national power and development, trade and commercial activities, flow of goods and services, growth of industrial sector, utilisation of communication network, energy supplies and system up-gradation. The key variables addressed in this section are industrial and energy infrastructure, and port development along with opportunities for employment. The section will also deliberate upon areas that need to be addressed either through specific reforms or change in the entire structure.

Industrial Clusters and Special Economic Zones (SEZs)

Despite its huge potential, the downward and unsustainable trend in the economic growth of Pakistan has remained a worrisome element since the 1990s due to the country's high inflation rate, increasing foreign debt and debt servicing, mounting fiscal deficits, unbalanced import-export ratio, low level of human and physical capital, unfavourable environment for investment and political instability.[15] However more recently, according to the ADB:

> Growth accelerated in Pakistan in 2016 on the cumulative impact of the Government's macroeconomic and structural reform programme, improved security, outpacing earlier growth forecasts. Inflation and the current account deficit were lower than expected, while foreign exchange reserves strengthened and the budget deficit shrank and the growth forecast for Pakistan rose to 5.2 per cent for 2017 from the recorded 4.7 per cent in 2016.[16]

Such developments imply that through consistent efforts, national growth can be maintained and sustained. Over the years, Pakistan has been trying to transform itself from an agrarian to an industrial society (albeit significant hurdles), seeing the scope of the sector and elements of development associated with it. According to the Ministry of Finance:

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[15] Zafar Iqbal and Ghulam Mustafa Zahid, "Macroeconomic Determinants of Economic Growth in Pakistan," *The Pakistan Development Review* 37, no. 2 (1998): 125-148, http://www.jstor.org/stable/41260096.

[16] ADB, "Pakistan: Economy" (Manila: Asian Development Bank), accessed October 10, 2017, https://www.adb.org/countries/pakistan/economy.

> In 2016, the industrial sector recorded a remarkable growth of 6.8 per cent against the target of 6.4 per cent - an all-time high in the last eight years.[17]

It should be noted, however, that only a year before, the Pakistan Economic Survey 2014-15, pointed out that the industrial sector registered only a 3.62 per cent increase, not only far below the development targets set at 6.8 per cent, but also lower than the previous year's 4.45 per cent growth.[18]

Despite improved industrial growth in 2016, Pakistan has been facing a significant trade deficit. With a slight reduction in both export and import volume from the previous financial year, Pakistan's trade deficit has worsened in the last few years. The lack of international competitiveness in manufactured goods and dominance of raw materials or semi-processed goods as export items is also considered one of the biggest impediments in the way of industrial growth. Lack of competitive manufactured goods has left Pakistan with no other choice but to import more than it can export, which not only widens the gap between import-export ratios, but also hampers its ability to fully enjoy the economic vitality from regional economic integration.[19] There is a strong need to ensure technological and structural upgradation and transformation of the industrial sector to ensure production of high quality goods for export purposes. Moreover, in an economically globalised world, a developed industrial sector has now become a prerequisite for the economic uplift or revival of any country.

[17] Ministry of Finance, GoP, "Overview of the Economy," in *Pakistan Economic Survey 2015-16* (Government of Pakistan, 2016), http://www.finance.gov.pk/survey/chapters_16/Overview_of_the_Economy.pdf.
[18] Ibid., 176.
[19] Editor's Note: According to data released by the Pakistan Bureau of Statistics in April 2017, Pakistan's trade deficit increased by 38.8 per cent to an all-time high of USD 23.385 billion during the first nine months of the current financial year.

Within the suggested framework of CPEC, industrial clusters and Special Economic Zones (SEZs) are considered crucial backbones as they are expected to accelerate the process of industrialisation in Pakistan.[20] By definition:

> An industrial cluster is a group of interconnected firms of a common industry localised in one geographical region that encourages the social and economic development of the related community; whereas Special Economic Zone (SEZ) is a specific area of the land used to promote industrial growth in a country by providing more lenient economic and tax policies as compared to general economic policies in a country.[21]

The industrial clusters and economic zones allocated under the CPEC framework will be in addition to those already set up in Sialkot, Gujrat, Faisalabad, Multan, Dera Ghazi Khan and Rawalpindi. Furthermore, these zones require foreign capital and investment for construction and are dedicated to produce products of export quality.[22] A major chunk of these zones will be located in remote and backward areas. The project envisions that industrial and agricultural production will be generated in 29 industrial parks and 21 processing zones all over the country during the first phase.[23]

The industrial sector is a key contributor to employment opportunities, export volumes, and sustainable development. Since Pakistan does not have a robust industrial base, despite an increasing

[20] Saima Shafique, "CPEC's Role in the Services Sector: Prospects for Pakistani Entrepreneurs and Workers," in *CPEC: Macro and Micro Economic Dividends for Pakistan and the Region*, ed. Sarah Siddiq Aneel (Islamabad: Islamabad Policy Research Institute, 2017).

[21] Karim Khan and Saba Anwar, "Special Economic Zones (SEZs) and CPEC: Background, Challenges and Strategies" (paper presented at the Annual General Meeting for Pakistan Society of Development Economists, Pakistan Institute of Development Economics, Islamabad, December 13-15, 2016), http://www.pide.org.pk/psde/pdf/AGM32/papers/Special%20Economic%20Zones.pdf.

[22] Ibid.

[23] Ahmad Rashid Malik, "CPEC: Transforming Pakistan's Economy," *Nation*, May 17, 2016, http://nation.com.pk/columns/17-May-2016/cpec-transforming-pakistan-s-economy.

Gross Domestic Product,[24] the Government may be tempted to follow the path of high-speed taxing rather than a real economic take off since fiscal dividends from other sectors are also not strong enough to support a shift in the country's economic milieu.[25]

By making industrial zones production the centre of high quality manufactured goods, Pakistan will be more favourably positioned in the international trade market. A larger percentage of manufactured goods in export portfolio will not only make it more resilient to changes in market demand and price fluctuation, but also more profitable due to a bigger added value.[26]

But the Government still needs to tread carefully and do considerable homework while embarking on this road. Due consideration needs to be given to feasibility studies of allocated zones according to each area's labour force, their expertise and resource richness, equal distribution of zones at the provincial level, transparent and open source blueprints for entrepreneurs to join the enterprise, incentives for investors, and protection of local industry, at the planning stage.[27] Though, these zones require foreign investment, labour force from Pakistan must be trained and utilised. Moreover, indigenous industries must also be engaged in these SEZs in order to inculcate technical and structural innovation. Pakistan's policymakers need to be cognizant that the contribution of SEZs to a country's social and economic development cannot be done in isolation. An effective SEZ strategy requires overcoming multiple overlapping challenges, such as:

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[24] Editor's Note: GDP growth reached 5.28 per cent in 2016-17 which is the highest in ten years according to the Economic Survey (2016-17).

[25] Liang Tong, "CPEC Industrial Zones and China-Pakistan Capacity Cooperation," *Strategic Studies* 34 & 35, no. 4 & 1 (2015): 174-184, http://issi.org.pk/wp-content/uploads/2015/12/Liang-Tong_3435_SS_41_20142015.pdf.

[26] Ibid.

[27] Hyder and Arsalan "Implications of CPEC on Domestic and Foreign Investment: Lack of Feasibility Studies," in *CPEC: Macro and Micro Economic Dividends for Pakistan and the Region*, ed. Sarah Siddiq Aneel (Islamabad: Islamabad Policy Research Institute, 2017).

1. Meshing SEZs with more effective investment promotion agencies.
2. Safeguarding and improving treatment of workers in SEZs.
3. Reinforcing an FDI-SEZ-export strategy with vocational training partnerships.
4. Using SEZs to diversify and upgrade the host export base.
5. Creating backward linkages from foreign investors in SEZs to indigenous firms in the host economy.[28]

Global country narratives of best practices in SEZs illustrate that failure of such zones are often due to:

- lack of a favourable doing-business setting surrounding SEZs (leading to feeble backward integration into the local economy),
- high SEZ wage regulations in comparison to relative productivity,
- lack of infrastructure,
- poor treatment of workers by quasi-monopolistic employers,
- overvalued exchange rates,
- lax environmental standards,
- weak and ineffective investment promotion agencies, and
- weak enforcement of environmental regulations.[29]

The Government of Pakistan (GoP) must use the existing industrial clusters as case studies[30] to ensure smooth functioning of new ones by avoiding the slip ups which led to inefficient working of economic zones in the past. Policymakers need to introduce effective property and land use

[28] Theodore H. Moran, *International Experience with Special Economic Zones (SEZs): Using SEZs to Drive Development in Countries around the World*, report (Johannesburg: Centre for Development and Enterprise, 2011).
[29] Ibid.
[30] For example, Sialkot surgical goods cluster, Gujrat ceramic/pottery industrial cluster, Faisalabad readymade garments manufacturing cluster, Khyber Pakhtunkhwa (KPK) marble cluster, tannery/leather industrial cluster and Gujranwala cluster.

laws, revise labour laws and provide tax relaxation incentives alongside other facilitation and utility services, thus making SEZs lucrative enough to attract the attention of potential investors.

Energy

Around USD 33.7 billion, which constitutes 73 per cent of the entire CPEC investment, has been allocated to the energy sector to ensure unhindered supply and energy security. Pakistan's chronic power losses and shortages of nearly 4,500-5,000 MW cost Pakistan 2-2.5 per cent of its annual GDP. As part of the Corridor's fast-track Early Harvest Projects (EHPs), over 10,400MW of energy generating capacity will be developed between 2018 and 2020. Electricity will primarily be generated by wind, coal, hydel and solar sources. It is assumed that the entire energy spending will contribute 17,000MW of energy to the national grid by 2030.[31] Under this framework, Pakistan would be able to diversify its energy options. For instance, the proposed oil and gas pipelines linking Iran to Gwadar and further to Kashgar in China could be of vital importance in easing the energy issues of Pakistan.

However, there are elements of concern in development of the energy sector such as the utilisation of surplus energy, system upgradation and climate change. For instance, Pakistan's transmission system needs to be upgraded so that it can bear the additional energy load to avoid breakdowns. Pakistan could identify markets in South Asia to export the surplus through energy trade. However, the prospects of such energy cooperation are considered minimal as total intra-regional trade in energy has been less than 5 per cent of the total trade taking place among the South Asian states.[32] Besides, there are transit issues as well impeding the possibility of regional energy trade. Moreover, energy projects included under the CPEC framework are heavily dependent on coal which has a

[31] Aiysha Safdar, "The China-Pakistan Economic Corridor–Its Maritime Dimension and Pakistan Navy," *Strategic Studies* 35, no. 3 (2015): 1-19, http://issi.org.pk/wp-content/uploads/2016/05/Aiysha-Safdar_Vol.35_No.3_20151.pdf.

[32] Sultan Hafeez Rahman, Priyantha D. C. Wijayatunga, Herath Gunatilake and P. N. Fernando, *Energy Trade in South Asia Opportunities and Challenges* (Manila: Asian Development Bank, 2012), 37, https://www.adb.org/sites/default/files/publication/29703/energy-trade-south-asia.pdf.

direct bearing on climate change due to high levels of carbon, methane and nitrogen emissions alongside the presence of toxic mercury and other compounds.[33]

Pakistan has been adversely affected by climate change[34] and establishment of coal-powered plants could exacerbate its vulnerability which must be addressed in the planning stage of this mega project. The sulphur content of coal can be controlled through fuel desulfurisation, its cleaning or substitution with low-sulfur fuels or higher quality ones. However, such processes require proper infrastructural set-up to ensure washing and cleansing processes, requiring more elaborate efforts. The Government must engage environmentalists in this process by taking their expert opinion and procedural input on issues of health safety and climate change.

Development of Port and City

The sea port is an expression of a change (in planning, architecture, technologies), and it is a place where citizens memory is preserved and historical legacy is protected. It is a space for interaction and connectivity between two different systems: land and water.[35]

China's coastal cities (such as Sanya, Beihai, Dalian, Zhuhai, Xiamen, Quingdao, Guangzhou, Shenzhen, Fuzhou, Shanghai, Hangzhou, Nanjing, and Qinhuangdao), after its open policy in 1978, were developed

[33] Daniel A. Lashof, Duncan Delano, Jon Devine, Barbara Finamore, Debbie Hammel, David Hawkins, Allen Hershkowitz, Jack Murphy, JingJing Qian, Patrice Simms and Johanna Wald, "Coal in a Changing Climate" (paper, Natural Resources Defense Council, New York, 2007), https://www.nrdc.org/sites/default/files/coalclimate.pdf.

[34] Aymen Ijaz, "Climate Change and Migration in Pakistan," *Diplomat*, August 22, 2017, https://thediplomat.com/2017/08/climate-change-and-migration-in-pakistan/; Nushmiya Sukhera, "The Perils of Inaction on Climate Change in Pakistan," *Dawn*, March 27, 2017, https://www.dawn.com/news/1322335.

[35] Jacqueline Boulos, "Sustainable Development of Coastal Cities-Proposal of a Modelling Framework to Achieve Sustainable City-Port Connectivity," in "Urban Planning and Architectural Design for Sustainable Development (UPADSD)," eds. Fabio Naselli, Fabio Pollice and Mourad S. Amer, special issue, *Social and Behavioral Sciences* 216 (2016): 974-985.

as 'engines' of its economic growth.[36] From the successful Chinese experience of developing its coastal cities as development and modernisation catalysts, and the recent work by Boulos on a modelling framework to achieve sustainable city-port connectivity,[37] Pakistan can derive lessons to develop the coastal city of Karachi and its adjoining areas in order to ensure growth of its provincial economy and discover opportunities for increased economic interaction at the regional level.

Life in coastal cities that depend on their sea ports varies in terms of economic and environmental effects than other cities.[38]

Therefore, Pakistan needs to make effective use of its open sea and maritime trade in connecting not just its provinces to the global economy, but to ensure that there are principles of sustainable planning and sustainable city-port connectivity in place that can feed into the overall growth of the country's economic landscape. By studying the port development in China, it can be inferred that such growth has a lengthy temporal life spanning 25-30 years. For Instance, the Qingdao Economic & Technological Development Zone was set up in 1984 and by 2003, a total of 1,095 foreign investment enterprises were approved, able to attract foreign investment worth USD 2.61 billion.[39] A similar model must be replicated in Gwadar with expansion of the port, marine industry and tourism. It is estimated that Gwadar and its allied facilities can contribute USD 40 billion to the annual revenue, besides the creation of two million jobs, once it becomes fully developed.[40] The Corridor through Gwadar will provide China the shortest route to access the Middle East and Africa, where various Chinese firms and hundreds of workers are already employed. Moreover, given its strategic location, Gwadar Port alone can

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[36] Editor's Note: This policy prompted more regions of China into the Republic's reform experiment and marked a dramatic shift from self-reliance towards a spatial redistribution of development efforts from the centre to the coast.

[37] Boulos,"Sustainable Development of Coastal Cities-Proposal of a Modelling Framework to Achieve Sustainable City-Port Connectivity."

[38] Ibid.

[39] Salman Shah, "Impact of CPEC on Pakistan's Growth, Employment Opportunities and Fiscal Position" (paper presented at a Conference on CPEC: Macro and Micro Economic Dividends for Pakistan and the Region, Islamabad Policy Research Institute, Islamabad, September 20-21, 2016).

[40] Safdar, "The China-Pakistan Economic Corridor–Its Maritime Dimension and Pakistan Navy."

cater trade starting from Europe which runs down to North East and South East Asia. It is expected that the Corridor would also generate incentives for both state and private enterprises to expand their economic activities in the region alongside creation of jobs in the landlocked Xinjiang region.[41] It is envisioned that Gwadar Port will be developed as a free trade zone on lines similar to Hong Kong or Dubai and later coupled with the Kashgar Economic Development Zone. This proposal has already been approved by China.[42]

Regional Cooperation

ECs are considered a popular component and important toolkit for regional cooperation initiatives. Yet discussion about the development of these corridors tends to be relatively general in scope and difficult to pin down in terms of content and implications. In the past, several corridors have been successfully promoted under the umbrella of regional cooperation in Sub-Sahara Africa and Asia-Pacific region:

> For corridors to be viable, they must make economic sense by encompassing actual or potential economic growth, which requires at the least that the nodes linked by the corridor are substantive centres of economic activity.[43]

Intrinsically, most economic corridors have national-regional duality which implies that the same national corridor can have increasing regional impacts if it reaches across borders.[44] In this way, they become national projects with regional implications. CPEC is no different as it aims to boost the economic potential of Pakistan and provide access to

[41] Shah, "Impact of CPEC on Pakistan's Growth, Employment Opportunities and Fiscal Position."

[42] Alok Ranjan, "The China-Pakistan Economic Corridor: India's Options" (paper no.10, Institute of Chinese Studies, New Delhi, 2015), http://www.icsin.org/uploads/2015/06/05/31e217cf46cab5bd9f15930569843895.pdf.

[43] Pradeep Srivastava, "Regional Corridors Development in Regional Cooperation" (working paper no. 258, Asian Development Bank, Manila, 2011), 9, https://www.adb.org/sites/default/files/publication/28889/ewp-258.pdf.

[44] Ibid., 14.

cross-border markets for trade and commercial activities. Both Pakistan and China, being major stakeholders of the project, have welcomed regional participation, by regarding it as an incentive for regional economies to flourish. There exist opportunities for countries like India, Iran and Afghanistan which can expand their economic activities around the region as discussed below:

India

So far, India has taken a traditional stance over CPEC, associating various claims and concerns of territorial disputes and security issues with the wide-scale developments. Indian Prime Minister Modi's government is continuously resisting the OBOR initiative and CPEC specifically stating that these developments are unacceptable. It has been claimed that the routes of CPEC are passing through Gilgit-Baltistan and Azad Jammu and Kashmir which are disputed territories, thus strongly objecting to the development projects planned for these areas. India also calls the economic venture of CPEC a strategic balancing move to counter Indo-US strategic engagements. In India, the Gwadar Port is seen as a naval base for China's expanding blue water fleet and operations, rather than as a prospective economic hub.[45] Contrary to these views, CPEC has the ability to empower all South Asian Association for Regional Cooperation (SAARC) countries. Moreover, this opposition has come despite India's desire to have a transitory passage from Pakistan for trade with Afghanistan.

It is not just CPEC that is facing extreme opposition, but another corridor route proposed by China - the Bangladesh-China-India-Myanmar Corridor (BCIM-EC) which aims to engage the eastern flank of South Asia – as well. CPEC and BCIM-EC assume significance given their multimodal connectivity, trade and investment in goods and services, energy cooperation, sustainable and human resource development and people-to-people ties in South Asia, extending the broader Asia-Pacific region. Moreover, these developments exhibit the Chinese plan to develop

[45] Daniel S. Markey and James West, "Behind China's Gambit in Pakistan" (brief, Council on Foreign Relations, New York, 2016), http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855.

its landlocked western regions in line with its 'Marching Westwards Policy.'[46] Despite promising to explore the scope of BCIM-EC, there has been little to no progress over the development of this Corridor which forces one to conclude that India is opposing the ambitions of regional integration.

Moreover, it is also believed that India has been sponsoring terrorist activities in Pakistan in order to disrupt the construction of CPEC. These speculations became a reality after the arrest of Kulbhushan Yadav, an Indian spy in Pakistan who confessed that India has designs to destabilise Balochistan and KPK. India believes that through CPEC, China will attain an upper hand in the Arabian Sea which has prompted its rapprochement inside and outside region.[47] India has been engaging various regional stakeholders to find an alternate route for trade activities with Afghanistan and Central Asian Republics in order to bypass CPEC and Pakistan. It must be noted that given the geostrategic location of Pakistan, no regional country can have a sustainable and lucrative bilateral economic deal by circumventing Pakistan:

> India has three options in responding to the Gwadar-Kashgar project: (i) India can continue to grumble and lodge protests which may delay or obstruct the construction of the Corridor, but cannot ultimately stop it. (ii) Alternatively, India can adopt a more constructive approach by reaching out to Pakistan and China to propose trilateral collaboration in the development of the proposed Corridor. (iii) In parallel to the second option, India can reach out to Pakistan and China and propose trilateral collaboration on mega infrastructure projects.[48]

[46] Jisi Wang, *Marching Westwards: The Rebalancing of China's Geostrategy*, report no. 73 (Beijing: Center for International and Strategic Studies, 2012), quoted in Ranjan, "The China-Pakistan Economic Corridor: India's Options."

[47] Safdar, "The China-Pakistan Economic Corridor–Its Maritime Dimension and Pakistan Navy," 14.

[48] C. Raja Mohan, "The Great Game Folio" (Washington, D.C.: Carnegie Endowment for International Peace, 2013), http://carnegieendowment.org/2013/07/10/great-game-folio/ge5v.

Economic interdependence or investment can reduce the level of tension and mistrust Pakistan and India have for each other. In an attempt to boost regional cooperation, Pakistan expects a conciliatory role from India. There are obvious economic advantages that India stands to gain if it becomes part of this enterprise. The most obvious advantage will be upgraded communication infrastructure and easy access to markets in Central Asia and beyond. Progress on such fronts can be helpful in lowering angst in the region. There already exist various transport and economic linkages between India and Pakistan that can be used such as the Ferozpur – Kasur and Fazilka – Sahiwal links for the construction of trans-border 'Joint Industrial Zones' or a 'mini economic corridor.' However, the chances of this appear bleak.[49] For such capitalisation, India will have to put aside its objections to CPEC and policy of aggression against Pakistan.

Afghanistan

CPEC is geostrategically important for Afghanistan, being a landlocked state. Despite weak development indices, Afghanistan has a significant strategic position which makes it a linking point between markets of China, South Asia, Central Asia and the Middle East. This unique geographical feature provides Afghanistan an opportunity to become a direct beneficiary of CPEC, especially since the country does not have a seaport and it depends on Pakistan for its trade by sea. In fact:

> Pakistan is by far Afghanistan's largest trading partner. 49 per cent of its exports go to Pakistan and 34 per cent of its imports come from there. Afghanistan relies on Pakistan for most of its maritime business with other countries. Afghanistan's economy is highly intertwined and in some ways dependent on Pakistan.[50]

Under the framework of CPEC, Pakistan has already pledged construction of the 256 km Peshawar-Kabul motorway which will provide

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[49] Ranjan, "The China-Pakistan Economic Corridor: India's Options," 14.

[50] Syed Ghulam Qadir, "Afghanistan and Iran: On Board CPEC's Lucrative Train," in *CPEC: Macro and Micro Economic Dividends for Pakistan and the Region,* ed. Sarah Siddiq Aneel (Islamabad: Islamabad Policy Research Institute, 2017).

Kabul the opportunity to start its economic activities through the Arabian Sea. Afghanistan will also be connected to CPEC via Chaman through an additional link of the western alignment (which originates from Gwadar, passes through Khuzdar, Zhob, D. I. Khan and reaches Islamabad).[51]

Afghanistan needs to increase its exports and export base. Given the nature of its exports and likely destination regions e.g. Xinjiang, Kabul will be well served to establish a land-based trade route with China to lower import costs and help improve its competiveness.[52]

Given the poor viability of trade through the Wakhan Corridor, Afghanistan has to trade with China either through Tajikistan or Pakistan. Since its trade with Pakistan is substantial as compared to its trade with Tajikistan (1 per cent), Kabul's preferred option should be to trade with China through its southern neighbour.[53]

However, the only factor that impedes the development of Afghanistan as a viable economy is its internal instability and chaotic situation. For development, security is prerequisite and for security, development is a pre-condition. Pakistan wants a peaceful and economically progressive Afghanistan in its neighbourhood, but if it remains unstable, the above mentioned factors could prove to be detrimental to regional economic integration.

Iran

Pakistan's neighbour to the west is Iran – a country more than twice the size of Pakistan in area and less than half its population. CPEC is an opportunity for Pakistan and Iran to expand their scope of cooperation by improving connectivity, developing infrastructure such as gas and oil pipelines:

[51] Khalid Manzoor Butt and Anam Abid Butt, "Impact of CPEC on Regional and Extra-Regional Actors," *Journal of Political Science* XXXIII (2015): 33, http://ps.gcu.edu.pk/wp-content/uploads/2015/02/Butt-Butt.pdf.
[52] Qadir, "Afghanistan and Iran: On Board CPEC's Lucrative Train."
[53] Ibid.

> In 2014, Iranian exports to China were 49 per cent of its total exports, while its imports from China were 45 per cent of its total imports. Given the volume and the share of its trade with China, it is clear that Iran will be well served to have a direct trade route to China. Since most of its exports to China are oil and gas and related products, it is logical for Iran to explore ways to transport them through efficient means such as pipelines.[54]

Pakistan's Gwadar Port and Iran's Chabahar Port can play a key role in enhancing economic ties between these countries.[55] President Rouhani's visit to Islamabad in 2016 set the pace of bilateral relations. The main focus of this visit was the earliest possible materialisation of the Iran-Pakistan (IP) Pipeline. Seeing the potential Iran holds in the energy sector, Pakistan can meet its energy needs by developing energy projects through a trilateral arrangement between Iran, Pakistan and China under the CPEC framework.

Further, projects like rail links planned between Gwadar and Chabahar, a new shipping service, and now with the construction of an airport at Gwadar, an air link between Gwadar to Iranian cities must be explored as soon as possible.[56] Pakistan and Iran should outline a strategy to operationalise the proposed sister-port status of Gwadar and Chabahar in order to enhance connectivity. The proposed Chabahar-Gwadar agreement which includes cooperation on border trade, ferry services, shipping lanes and initiation of Iran-Gwadar flights needs to be executed.

The above sections outline that while avenues for possible regional collaboration are encouraging, they require extraordinary diplomatic efforts to engage stakeholders to find mutual grounds for cooperation.

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[54] Ibid.

[55] Areeba Arif, "CPEC: Prospects for Pak-Iran Economic Relations" (brief, Institute of Strategic Studies Islamabad, Islamabad, 2016), http://issi.org.pk/wp-content/uploads/2016/05/Final-Issue-brief-Areeba-dated-18-5-2016.pdf.

[56] Ibid., 3.

Conclusion

The Economic Corridors under OBOR are a complete package in themselves as they offer concentrated economic activities along the routes, enhancing trade and commercial activities, meeting infrastructural demands and energy requirements. In order to make CPEC a success, there is a need to initiate more multilateral projects and implement the ones already in the pipeline on immediate basis such as the Central Asia-South Asia electricity transmission project (CASA-1000), Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI) and Iran-Pakistan gas pipeline projects. These projects are important as they promote regional integration by encouraging economic interdependence among member states.

Moreover, majority of the sub-regional states in Asia have sea links which must be exploited through the development of ports. Under the framework of CPEC, development of Gwadar Port occupies central position as it diversifies trade options for Pakistan. Similarly, in order to multiply the reach of Gwadar, focus must be on entering agreements with nearby ports of the Gulf Cooperation Council and Middle Eastern countries to enhance trust and reduce the perceptions that see Gwadar as a threat for the Arabian Peninsula. The latter is especially crucial since the real prospects of this project can only come from the industrial clusters and Special Economic Zones as they are the key economic determinants of this project's future direction.

CPEC is a huge investment and its security must be ensured. Pakistan also needs to introduce reforms internally to avoid structural losses and deficits. Reforms are needed to tackle issues of production and dominant use of raw material in the industrial sector, export-import deficit, creating a conducive environment for investment, training a specialised labour force, easing market access and regulatory issues, amongst others. CPEC will not revive Pakistan's economy in a snap, rather it will require both time and space to contribute its share to the national exchequer. It is also not a substitute to governance or internal structural problems of Pakistan, which highlights the need to evaluate and address shortcomings accordingly.■