

China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration

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Abstract

As a flagship of China's One Belt One Road initiative, China Pakistan Economic Corridor (CPEC) is pivotal to China's energy security owing to the growing row in the region of South China Sea among China and other regional and global players. The CPEC could bring economic avenues to Pakistan and can foster regional and cross regional economic and trade integration between South Asia, Central Asia, East Asia and West Asia. However, it is also surrounded by some serious challenges ranging from regional security environment, internal instability to political discontent among various political actors in the Pakistani polity.

Keywords: CPEC; Regional integration; Pakistan; China; Prospects; Challenges

Introduction

The China Pakistan Economic Corridor (hereafter CPEC) is the flagship of China's One Belt One Road (OBOR) initiative envisioned by president Xi Jinping in 2013 for the economic integration of Eurasia through belts and roads and other infrastructure initiatives. The OBOR is part of China's grand strategy of its peaceful rise as a great power on the global stage through financial initiatives of \$ 40 billion Silk Road Fund and the 57 members Asian Infrastructure Investment Bank (AIIB) to generate new growth engines along the New Silk Road with a win-win and cooperative approach [1].

The OBOR has two international trade connections namely the land based 'Silk Road Economic Belt' and oceangoing '21st -Century Maritime Silk Road; the CPEC is the part of the former one. With the former launch of CPEC between China and Pakistan in April 2015 by President Xi Jinping, the CPEC has got a status of "game changer" or "fate changer" and nationalistic fervor in the political, media and public discourses in Pakistan [2]. The multibillion dollar (US\$ 46 bn) CPEC is a network of roads, railway tracks, oil and gas pipelines, fiber optics for communication, dams, ports, airports and economic zones linking the Western part of China to the Gawadar Port in Balochistan, Pakistan running some 3000 km from Xinjiang to Balochistan via Khunjerab Pass in the Northern Parts of Pakistan.

Historically the Sino-Pakistan relations have remained more military- oriented, but it seems that a new beginning has begun to make the relationship more economic oriented focusing on trade, investment and energy cooperation [3]. The CPEC has the potential to further deepen the relationship between China and Pakistan both economically and at public level [4] and can change the geopolitics of South Asia [5] connecting China to the Indian Ocean triggering concerns for India as the latter considers the CPEC, Gwadar Port under the control of China can be turned into a permanent Chinese naval facility in the Indian Ocean though it may not be a reality at least at this stage.

The CPEC is strategically and economically important both for China and Pakistan. It will pave the way for China to access the Middle East and Africa from Gawadar Port, enabling China to access the Indian Ocean and in return China will support development projects in Pakistan to overcome the latter's energy crises and stabilizing its faltering economy. Additionally, the CPEC could serve as the driver for trade and economic integration between China, Pakistan, Iran, India, Afghanistan and the Central Asian States provided the frosty political atmosphere between Pakistan, India and Afghanistan and to some extent Iran gets improved in the near future. Under the CPEC US\$ 10 billion will be spent on infrastructure development alone that could rejuvenate Pakistan's dilapidated communication and infrastructure, overcome energy crisis and could transport trade goods from Pakistan to China, Middle East and cross the regional states and global level [6]. At this stage CPEC seems to be a bilateral initiative between China and Pakistan, however in the long run it has the prospects to be a multilateral project.

Strategic Significance of CPEC

CPEC as pivot to China's economic and energy security

The CPEC connects China directly to the Indian Ocean and the region of the Middle East from the deep Gawadar Port reducing its existing dependence on the South China Sea as the latter is becoming a contested territory between various regional and global actors and can be choked any time by the competing powers in the Asia-Pacific region. The Gawadar port in Balochistan under the Chinese control is only 400 km away from the Strait of Hormuz and is strategically pivot for China in transporting its energy and oil needs from the West Asia reducing its current maritime transportation distance from 12000 km to 3000 km. Accessing the Indian Ocean from the Gwadar Port is inevitable for China as it makes China less vulnerable to its existing Malacca Dilemma and provides the economic security to China to access the West Asia at a time when the Strait of Malacca is increasingly becoming a contested territory among various players including China [3,7].

China currently transports 80% of its oil and energy needs through the Malacca Strait and increasingly feels that its economic and energy security interest in the region are under serious threats due to the escalation of tensions between China and the region and global players in South and East China Sea. This is why China is looking for alternative viable transit routes both economically and security wise; the CPEC is the best choice for China linking it directly to the Indian Ocean via Gwadar Port. Under the US policy of rebalance to Asia the region of Asia-Pacific has got an unprecedented strategic importance for the Obama administration and the recently signed Trans Pacific Treaty between US and its allies testifies it. This rebalance policy of the US in the region of Asia-Pacific involves military, economic and strategic focus to the countries of South East Asia including India in shaping its rebalance of the region including South China Sea and the Indian Ocean [8] causing discomfort for China vis-à-vis its economic interests in the region.

Regional trade and economic integration

Geopolitically Pakistan is the most suitable economic corridor for trade and transit activities providing a gateway to Central Asia, South Asia, East Asia and West Asia. Its role has remained important both during the cold-war and post-cold war era due to its geostrategic location and is neighbor to the rising economies of the region namely China and India. It can act as an important economic geography for regional trade. However, Pakistan failed miserably to take economic advantage of its strategic location and geography in the region. The existing bilateral trade volume between China and Pakistan is miserably low. The CPEC if extended to India will further enhance trade between China, India and Pakistan. Inclusion of India to the CPEC will further enhance the bilateral trade between China and India to new heights.

The CPEC passing through the regions of China and Pakistan bordering many states could be extended to the countries Central Asia, Afghanistan and West Asia and India. The landlocked and resource rich countries of Central Asia have always set their eyes to access regional markets including Pakistan, China, India and the countries of West Asia. Both Afghanistan and Tajikistan have transit agreements; CPEC will provide them the opportunity to transport their goods and market them more competitively to the regional and global market fostering regional economic and trade connectivity.

Similarly, Pakistan has the desire to access the resource rich region of Central Asia via Afghanistan to meet its energy needs and transports goods to Central Asia. The area through which the PCEC passes is at the crossroad of Asia, South Asian and Central Asia. For the greater benefit of the region and regional integration, the CPEC could be extended to Central Asia including Afghanistan and India opening them to the regional and global market. President Xi Jinping has already made a reference to such an arrangement in future during his address to the Pakistani parliament on his first visit to Pakistan in April, 2015. The changing geopolitical environment demands Pakistan to reorient its trade policy to more export oriented and must search for new markets in its neighborhood including India to boost its economy [9] and the CPEC seems to be the best opportunity for Pakistan to expand its trade with the region of South and Central Asia including China and India.

India has had always desired to have transit route to Afghanistan and Central Asia via Pakistan. However, given the political rivalry between India and Pakistan, the later has denied transit route to India through Pakistan. India as an alternative has focused on Chahbahar

Port in Iran to access Afghanistan and Central Asia via Iran reducing its long lasting dependence on Pakistan to access Central Asia. India, Iran and Afghanistan have recently inaugurated the Chahbahar Port under the trilateral frame work signaling bypassing Pakistan for a regional trade connection between the three countries. However, the Chahbahar Port is not likely to be a zero-sum game for Pakistan, Pakistan can also be part of Chahbahar trilateral arrangement and both Gwadar and Chahbahar ports could be linked as regional ports fostering regional trades. The Iranian side has already offered Pakistan to be part of the Chahbahar Port trilateral arrangement and not to consider the port as rival to Gwadar Port [10,11] (Figure 1).

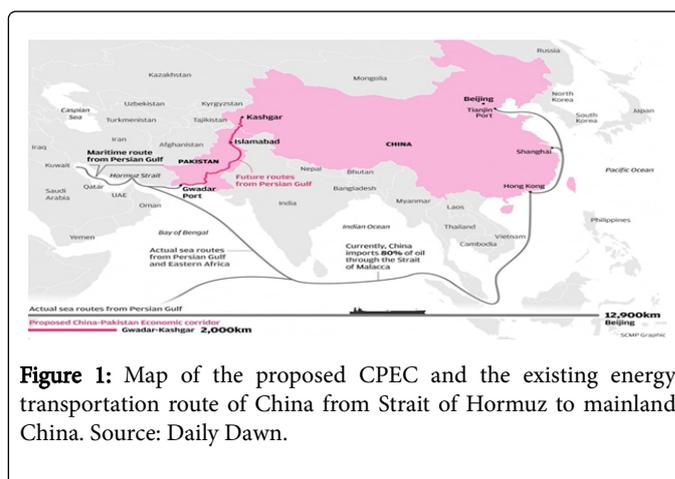


Figure 1: Map of the proposed CPEC and the existing energy transportation route of China from Strait of Hormuz to mainland China. Source: Daily Dawn.

Can CPEC be Transformed into IICPEC?

Can China Pakistan Economic Corridor be transformed into India/ Iran China Pakistan Economic Corridor (IICPEC)? To address this question one has to understand the recent geopolitical and economic developments in the region of South and Central Asia that could foster the regional environment to transform the CPEC into the IICPEC. The TAPI (Turkmenistan, Afghanistan, Pakistan, and India) gas pipeline agreement signed in December 2015 between India, Pakistan, Turkmenistan and Afghanistan signifies the melting of the long existing cold attitude and trust deficit between India and Pakistan and Pakistan and Afghanistan. The concept of TAPI was an old one but did not get materialize due to the political rivalry between the aforementioned states. Under the TAPI framework gas will be transported from Turkmenistan to Afghanistan to Pakistan and further to India. The TAPI agreement is the harbinger that a similar arrangement can be formed to extend the CPEC to Afghanistan, Central Asia and India.

Despite its strategic location and favorable economic geography, Pakistan has very limited trading activity with both its eastern and north- western neighbors- namely India and Afghanistan. India needs a transit route to trade with Afghanistan and Central Asia via Pakistan and Pakistan desires access to the markets of Central Asian States for its energy needs. Pakistan's access to Central Asia is unlikely unless Pakistan allows Afghanistan the transit route to access India. The CPEC seems to be an opportunity for India, Pakistan, Afghanistan and Central Asian States to have North South regional trade connectivity in addition to creating economic avenues for Pakistan [12].

Currently the anathema between India and Pakistan could prevent India to be part of the CPEC. However, India's inclusion to CPEC can be mutually beneficial move for regional cooperation and trust

building that could ultimately be stimulating in resolving political disputes between India, China and Pakistan amicably [13]. Making India's inclusion to the CPEC will be helpful to allay the doubts between the two neighbors namely India and China toward each other's move in the region. The joint security of the CPEC between China, Pakistan and India can usher a new economic beginning in the region and can bring the countries more closely. China has already indicated that CPEC is not a bilateral move, rather a regional and cross regional move.

The lift of the international sanction on Iran has provided yet another opportunity to trade with Iran and to revive the Iran Pakistan India (IPI) gas pipeline- also known as the peace pipeline. India had left the IPI owing to the US pressure and Pakistan faced similar pressure from the US no to go ahead with the IPI. In his recent visit to Pakistan the Iranian President has stated to revive the IPI gas pipeline and India can again join the IPI as the sanctions on Iran have been lifted for international trade. Both IPI and TAPI are important for regional cooperation and trust building between India, Pakistan, Iran and Afghanistan extending the CPEC to both India and Iran in addition to the IPI and TAPI will further boost the regional economic integration and allay any mistrust toward the CPEC both by Iran and India.

The connectivity between the Chabahar Port of Iran and the Gawadar Port and CPEC and Bangladesh China India Myanmar (BCIM) can foster a new economic and trade beginning between the South, West, Central and East Asia. Iran has already shown its interest for such an arrangement between Gawadar Port and Chahbar Port. The connectivity between Gawadar Port and Chahabar Port will further allay the existing feelings of ambivalence between Iran, India and Pakistan vis-à-vis Chahabar Port supported by India and Gawadar Port supported and run by China. In addition to this, the Indian inclusion to CPEC will not provide a justification for India to oppose the project unwarrantedly as India claims that it passes through the disputed territory of Pakistan administered Gilgit-Baltistan.

The region of South Asia has remained the least integrated one in the world despite having potential for accelerating economic growth [14] and is rich in natural resources yet faces the energy crises that affect its economy badly. The regional economic cooperation through CPEC and related regional moves could pave the way for cross border electricity and trade cooperation harnessing complementariness in electricity demand patterns and gains from larger market access by removing the regional trade barriers between India, Pakistan and other states of the region including China [15].

In the lately hosted fifth ministerial conference of Heart of Asia-Istanbul Process (HOA-IP) hosted by Pakistan the participation of the top leaders from Kabul, India, Tehran have vowed to regional security situation particularly Afghanistan and its war torn-economy and ways to strengthen cooperation, security challenges and regional economic ties. The participation of top leadership of Afghanistan in the HOA-IP signals a shift in the region from geopolitics to geo-economics [13]. This conference is a fresh start for greater economic links between Central, South Asia and Iran. By changing the transit route policies between Islamabad and Afghanistan, economic development could be brought not only to these two countries but can also foster trade between Central and South Asia in bringing the electricity and gas from Tajikistan, Uzbekistan and Turkmenistan to the region of South Asia (Wayand, 2016). The HOA-IP shows a commitment of the member countries for a broader economic engagement and CPEC could pave the way for such an engagement.

The CPEC could be catalyst for a regional economic integration if India and Iran also become part of it and that is likely to happen soon as China also desires the Indian and Iranian inclusion in the CPEC for a greater peaceful environment in the region. This is why China's entire trade and commerce policy is based on the peace in its neighborhoods and any quarrels between its neighbors would displease China for its trade and commerce initiative in the region. For this reason China is pleading both India and Pakistan to live peacefully and come closer for trade and economic ventures in the region setting aside their political differences [16]. The recent trilateral agreement between India, Iran and Afghanistan vis-à-vis Chabahar port is yet another harbinger for regional and cross region trade connectivity given the condition that these developments are not taken a zero-sum game in the region of South Asia and West Asia. With the opening of Chabahar port there are strong prospects that the two ports namely Gawadar and Chabahar could be linked to each other to forge regional and cross regional trade among the countries of South, Central, West and East Asia narrowing the existing gap of regional connectivity between these regions.

Challenges to CPEC

Despite its strategic significance both for China and Pakistan, the CPEC is not without challenges. It is surrounded by regional security and political challenges for its smooth execution.

Regional and internal security challenges

Regional security could be the biggest issue to the CPEC as it passes through some of the areas facing the biggest security challenges. The biggest challenge to the CPEC is the regional security environment; specifically the Afghanistan conundrum. China's huge investment in the region is hinged on the peace and stability both in Pakistan, Afghanistan and Western parts of China [4]. This is why China is actively pursuing to bring the Taliban to negotiating table within the quadrilateral framework between China, Pakistan, US and Afghanistan. The security situation in Afghanistan is getting worse day by day and even could be devastating after the withdrawal of NATO forces from Afghanistan as the Taliban have refused to come to the negotiating table initiated by the quadrilateral forum comprising. After the killing of the Mullah Mansoor, the Taliban leader there seems to be few chances that the Taliban could come to the negotiations. Moreover, Pakistan has recently stated that after the killing of the Taliban leader in Pakistan, it cannot guarantee to bring the Taliban to engage in peace talks [17].

With the refusal of talk by the Taliban in their recent statements it seems that it will take time to prevail peace in Afghanistan. Stability in Afghanistan is of utmost importance as the spillover effect can further destabilize the regional security environment, particularly Pakistan and Western parts of China. This could create security issues for the mega projects namely TAPI and CPEC in the region. Within Pakistan the situation is not good equally. The long lasting insurgency in Balochistan and FATA (Federally Administered Tribal Areas) could hinder further to materialize the CPEC.

As Lieven [18] has noted that after the Withdrawal of Western forces from Afghanistan, Pakistan's survival will remain a vital concern for the Western and Chinese interests in the region. On the other hand China is equally worry about the security situation of Afghanistan that could affect the Xingjian province which is an important region for the functioning of the CPEC. Moreover, the antagonistic attitude of the public of Pakistan and India could be a stumbling block in getting the

public support for the Indian inclusion to the CPEC to make it a cross regional move. Pakistan's internal security has improved qualitatively after the military operation against the militants, yet the security phenomenon in Pakistan will remain a challenge to execute mega projects like CPEC smoothly. Although a special security force has been formed to protect the CPEC and related projects, given the porous border between Pakistan and Afghanistan and some difficult terrains through which the CPEC will pass in Pakistan, security will remain a hinge for the success of the CPEC.

Balochistan conundrum

The long existing insurgency in Balochistan can pose constraints to the execution of CPEC and its related projects including the Gawadar Port. The rising insurgency in Balochistan is a challenge to the CPEC as well as to the federation of Pakistan [19] and resolving it is imperative for the secure trade corridor between China and Pakistan. Lately, many non-locals, businesses and multinational companies' personnel have come under attack in the restive Balochistan region. A debate is already going on in the indigenous populace of Balochistan that the CPEC will benefit only the Chinese interest and could convert the local population into a minority [20]. Such feelings of deprivation coupled with foreign involvement in the province as has been claimed by Pakistan recently, can be a serious challenge to CPEC. Addressing the concerns of Baloch people is imperative for the success of the CPEC and that could be done through a sane policy of integrating the least integrated Balochistan and its people in the political process of Pakistan. The political and economic deprivation is one of the major causes of uprising in Balochistan [21] and meeting these deprivations is pertinent for the peace in Balochistan.

The CPEC will also pass through some parts of FATA and in future the extension of CPEC to Afghanistan is linked with the stability in the FATA region of Pakistan. Therefore security of Gawadar and the whole region is a serious concern for China and its interests in Balochistan [22]. In addition to Balochistan issue, the people of Gilgit Balistan are also demanding their part in the CPEC. The region has recently witnessed protests and strikes demanding political and economic rights including a fair share in the CPEC as it is the entry point of CPEC.

Political Discontent in Pakistan

The political controversy among various political parties is yet another challenge to overcome for the smooth functioning of the CPEC in Pakistan. The discontentment is mainly for route selection, dividends and allocations of funds for projects under the CPEC. Although the ruling regime through the APCs (All Party Conferences) has tried to ally the grievances of the provinces mainly of KPK and Balochistan, yet it seems the issue has not been resolved. The political differences over the CPEC among various political parties are deep rooted in the history of political economy of Pakistan where the allocation of resources has always been politicized for political gains. The smaller provinces have concerns over the policies of the federal government where the resources including the federal budget are allocated on the bases of population rather than the backwardness and poverty conditions in the respective federating units. Given the magnitude and scope of the CPEC, Pakistan needs more highly skilled labor to execute various projects of the CPEC. The existing labor skills are not enough to pursue the CPEC and its related projects in Pakistan. The issues pertaining to transparency about CPEC related projects are also on rise. The political parties and other stakeholders have shown

their concerns over the lack of transparency and have demanded that all agreements related to CPEC be made public. However, the concerned ministries are reluctant to make it public which further increases the doubts about the transparency of the project [23-25].

Conclusion

CPEC could foster socio-economic development in Pakistan if materialized timely. It can pave the way for regional economic and trade connectivity and integration between the region of South, Central and East Asia but that needs a change in the existing attitude of India and Pakistan toward more economic and trade relations. The regional economic integration through CPEC could be a harbinger to resolve the political differences through economic cooperation. The states of South Asia, Central Asia and East Asia need more regional economic connection to make the 21st century the Asian century setting aside the perennial political issues to start a new beginning. The CPEC as a flagship of OBOR can be a catalyst to begin regional trade and economic integration. However, some potential threats could hamper the CPEC to be transformed into a reality, namely the worsening security situation in Afghanistan and its spill over to Pakistan, political controversy in Pakistan regarding the selection of routes in various provinces of Pakistan and the trust deficit among certain regional states. In a longer perspective the CPEC can foster an economic community in the entire region of Asia and beyond if its vision is materialized in its true sense.

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