The China-Pakistan Economic Corridor

Economic Rationale and Key Challenges

Zahid Khan

Abstract: The China-Pakistan Economic Corridor (CPEC) offers a massive platform for China and Pakistan to promote regional connectivity, trade growth, and infrastructure development. Pakistan views CPEC not only as an infrastructure and economic development program as well as a key initiative with wide-ranging implications for the country’s domestic economy and social makeup, but also a potential “game changer” in the regional situation. However, this project also faces grave internal and external challenges, such as route controversy, militancy, religious extremism, competing narratives, media propaganda, debt-trap accusation, and synergy of institutions. To make CPEC a sustainable project that benefits Pakistan and the whole of South Asia in the long run, both the Chinese and Pakistani governments need to address these challenges through greater transparency of the CPEC projects, as well as more consultation with all stakeholders involved, so as to ease their concerns about the profound implications of the grand project.

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Keywords: China-Pakistan Economic Corridor (CPEC); infrastructure investment; energy; challenges; India.

The debate on the China-Pakistan Economic Corridor (CPEC) in Pakistan revolves around the political economy of the grand project. Participants of the debate are mostly members of the Pakistani political community—from senior policymakers and seasoned political strategists to astute observers and pundits. This article focuses on the economic rationale behind the political discourse on CPEC to answer three core questions: first, how will CPEC change the socioeconomic structure of Pakistan? Second, what are the domestic and transnational challenges in the way of CPEC’s further progress? And third, what should be done by the Chinese and Pakistani governments to alleviate the fundamental concerns regarding CPEC? Toward this end, it begins by surveying how Pakistani politicians and analysts view and respond to CPEC, then examines the debate over the internal and external challenges faced by this grand project, and concludes by making a few practical policy recommendations on how to build CPEC into a bedrock for regional peace, reform, and prosperity.

Pakistani Rationale Behind CPEC

All the CPEC-related political discourse from the Pakistani perspective revolves around two most frequently used terms: a “flagship project” of the Belt and Road Initiative (BRI) and a potential “game changer” for Pakistan. Regardless of the previous political tensions within Pakistan over a number of concerns, for example, route planning and the amount of investment allotted to each province, there is a substantial political consensus on the allure of CPEC for Pakistan. The current debate among Pakistani politicians, government officials, analysts, and pundits mostly concern the grand project’s economic and diplomatic implications.

Pakistan yearns for closer bilateral cooperation under the rubric of CPEC because Islamabad believes that CPEC is a monumental project for

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1Nawaz Sharif, “CPEC ‘Game-changer’ for Pakistan, ‘Fate-changer’ for Region: PM,” CPEC Summit, Islamabad, August 29, 2016, https://www.pakistanpoint.com/en/story/20491/cpec-game-changer-for-pakistan-fate-changer-for-re.html.
economic development, peace, and prosperity of Pakistan and even the entire region of South Asia. It has brought about positive changes in a country that has been adversely affected since the 9/11 terrorist attacks and has paid a huge price for being engaged in America’s counter-terrorism campaign. More than 10,000 lives were lost in actions against terrorism and, arguably, there is no other country that has suffered from terrorism as much as Pakistan in the past few years. As a result of this deteriorating security situation, Pakistan’s economy has largely stalled as new investors balk at the borders and many existing ones are more than willing to pull out. For more than a decade in the 21st century, Pakistan’s infrastructure received scarce external investment, and poor conditions of its energy and transport facilities became a bottleneck for Pakistan’s economic growth. Power shortages which could last as long as 18 to 20 hours a day were a routine matter. This was Pakistan’s dire reality in 2013 and before.

Against this background, CPEC, first proposed by Chinese Premier Li Keqiang on his visit to Pakistan in May 2013, is regarded as a huge blessing for the country and a key factor in Pakistan’s economic revival. As the world’s geopolitical and geoeconomic center of gravity is moving away from the trans-Atlantic region to the trans-Pacific region, the Pakistani leadership is looking to places other than North America and West Europe for new impetus of economic development — Islamabad knows all too well that two of its immediate neighbors, China and India, are today’s engines of growth. This is a new reality; and aside from jumping on board China’s express train of economic growth, Pakistan has few other options except for the extremely low possibility of aligning itself with India’s initiatives.

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2Ahsan Iqbal, “Pakistani Minister on China’s Economic Corridor,” U.S. Institute of Peace, February 3, 2017, https://www.usip.org/events/pakistani-minister-chinas-economic-corridor-cpec.

3Nawaz Sharif, “China Helped Revive Pak Economy,” China Daily, December 1, 2016, http://www.chinadaily.com.cn/world/2016-12/01/content_27534391.htm.

4Howard Schneider, “Global Engines of Growth Slow as China, India and Other Emerging Economies Cool,” Washington Post, October 8, 2012, https://www.washingtonpost.com/business/economy/global-engines-of-growth-slow-as-china-india-and-other-emerging-economies-cool/2012/10/08/b29ab71c-1180-11e2-a16b-2c110031514a_story.html?noredirect=on&utm_term=.11fc6344c1f6.

5Sherry Rehman, “CPEC: A Momentum for Prosperity,” Dawn News, June 1, 2018, https://www.dawn.com/news/1409514.
In addition, Pakistan’s geographical location at the intersection of three engines of growth — namely, South Asia, China, and Central Asia⁶ — has also given Islamabad a renewed sense of strategic importance in a shifting global landscape. Over the past two or more decades, South Asia has enjoyed an average annual economic growth rate of over 6 percent; China’s growth rate is more than 7 to 8 percent; and Central Asia registers an average growth rate of 5 to 6 percent. Embracing the Belt and Road Initiative in general and CPEC in particular, Islamabad looks forward to the day when it functions as a key link in the regional inter-connectivity among South Asia, China, and Central Asia, which as a whole is home to a three-billion population, almost half of the world’s total.⁷

China and Pakistan have enjoyed very strong historical links going back for generations based on an “all-weather friendship” and mutual trust. Thus, Pakistan is a formal part of China’s grand economic vision under the BRI,⁸ which encompasses more than six economic corridors. The Pakistani government has released a “Vision of 2025” development blueprint outlining seven priority pillar sectors, with the last one being modern infrastructure and regional connectivity. In this light, leveraging Pakistan’s geoeconomic advantage is critical to realizing the “Vision of 2025.” As Federal Minister Ahsan Iqbal put it, “[t]here are four key areas of this vision, famously known as four Es, i.e., economy, energy, extremism, and education.”⁹ For both Beijing and Islamabad, this is a win-win agenda. Based on the two development blueprints and through bilateral concerted efforts, Pakistan is seeking more economic opportunities with China and all other member countries of the BRI through greater regional cooperation and integration.¹⁰

CPEC is viewed as a big boost to the Pakistani economy and regional connectivity.

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⁶Ahmad Rashid Malik in discussion with author on February 13, 2018.
⁷Ahsan Iqbal, “Pakistani Minister on China’s Economic Corridor.”
⁸Sherry Rehman, “CPEC: A Momentum for Prosperity.”
⁹Ahsan Iqbal, “Seminar on CPEC,” Islamia College Peshawar, 2016.
¹⁰Sartaj Aziz, “CPEC Win-Win Project for Pakistan, China: Sartaj,” SDPI Institute, December 6, 2018, https://nation.com.pk/06-Dec-2018/cpec-win-win-project-for-pakistan-china-sartaj.
From Conception to Reality (2013–2016)

The context of CPEC revolves around three realities: first and foremost, a rising Asia where the growth of its economies will benefit a population of more than 3 billion, including a large number of younger generations in South Asia, China, and Central Asia; secondly, the BRI and Pakistan’s “Vision of 2025”; and thirdly, enhanced regional connectivity as the main goal. Under this “flagship project” of the BRI, China is helping with the emergence of a new Pakistan with a new vision of economic development, political stability, and regional peace. Admittedly, Pakistan had long been seen in the West as a haven for terrorist networks. It was not until April 2015 when Chinese President Xi Jinping and then Pakistani Prime Minister Nawaz Sharif signed an agreement, laying a foundation for the mega project of CPEC initially worth $46 billion, that the world began to see Pakistan as a haven for billions of dollars of international and especially Chinese investment. As a headline in the Wall Street Journal claimed, “CPEC draw[s] world attention to Pakistan.” All of a sudden, Pakistan acquired a new identity.

Structurally, CPEC is a long-term project aimed at forming a network of roads, railways, optical fibers, as well as oil and gas pipelines — from Gwadar port to the Kashgar city in the northwestern part of Xinjiang Uygur Autonomous Region of China. It is expected to cover a total distance of approximately 3,000 kilometers. After its proposal by Premier Li Keqiang in May 2013, Beijing and Islamabad agreed on a “1+4” cooperation framework with CPEC as the centerpiece of four priority sectors, namely, energy (coal, hydro, wind, solar, and liquefied natural gas), transport infrastructure (roads, railways, aviation, and data connectivity),

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11Ahsan Iqbal, “CPEC Summit and Expo,” CPEC EXPO, April 23–24, 2018, https://www.youtube.com/watch?v=p5JdgQk0ysU.

12Ibid.

13Hassan Daud Butt, “CPEC Times,” PTV News Islamabad, 2017, http://cpec.gov.pk/videos

14Khalid Masood, “CPEC to Help Boost Energy Export of SCO Members,” Business Recorder, November 3, 2017, https://fp.brecorder.com/2017/11/20171105232485/.
Gwadar port development, and industrial park operation (free economic zones and industrial parks).

Initially, CPEC comprised 51 agreements and memorandums of understanding (MOUs) in which 25 projects are scheduled to be completed roughly between 2018–2020. A specific time frame was also set for various projects, including early harvest projects by 2018, short-term projects by 2020, mid-term projects by 2025, and long-term projects by 2030. The initial investment of $46 billion consisted of $33.79 billion in the energy sector, $5.9 billion for road infrastructure, $3.69 billion for railway construction, $1.6 billion for mass transit in Lahore, $0.66 billion for the Gwadar port development, and $0.04 billion for a Sino-Pak optical fiber project. At this time of writing, funding for CPEC has increased to $62 billion. Moreover, China’s new Maritime Silk Road is expected to link three billion people in Africa, Asia, and Europe for the purpose of trade and economic cooperation. When completed, it will be the shortest route for China’s oil and gas imports from the Gulf region, Africa, and the Middle East, reducing the distance by thousands of kilometers and making the Gwadar port a potentially vital link in China’s supply chain. Gwadar Port is only 400 kilometers away from the Strait of Hormuz; and an airport and a 14-kilometer expressway are under construction, both to further elevate the port’s strategic importance in South Asia.

The CPEC blueprint includes 21 energy-related agreements aiming to increase cooperation on gas, coal, and solar projects to provide 16,400 MW of electricity — roughly equivalent to Pakistan’s current capacity.

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15 Hassan Askari, “The China-Pakistan Economic Corridor: Regional Cooperation and Socio-Economic Development,” *Strategic Studies*, Vol. 34 & 35, No. 4 & 1 (Winter 2014 & Spring 2015).

16 Ibid.

17 Ishrat Hussain, “Dynamics of Economy and Finance Session,” CPEC Summit & Expo Karachi, April 23–24, 2018, https://www.youtube.com/watch?v=4dS2WZkTKEA.

18 Board of Investment official, “China Pakistan Economic Corridor,” BOI, Islamabad, August 5, 2017, http://boi.gov.pk/InfoCenter/CPEC.aspx.

19 Zafar Nawaz Jaspal, “CPEC: Opportunities,” CPEC INFO, October 27, 2016, http://www.cpecinfo.com/news/cpec-opportunities/Njk1.

20 Iqbal, “Pakistani Minister on China’s Economic Corridor.”
Iqbal underscored the importance of steady energy supply for the Pakistani economy as he commented that

*Energy and foreign investment are like oxygen for human life. If a country lacks reliable energy supply, it can’t grow. Over the last two decades, Pakistani industries, agriculture, small- and medium-sized enterprises, and services sectors have all suffered from a crippling shortage of energy supply.*

Similarly, in the last 15 years, road and rail speed have been reduced to 60 to 80 km/h from the average speed of 100 km/h before due to lack of development and maintenance. Currently, Pakistan’s railway cargo system is closed, which puts even more pressure on the road system. More than one billion dollars have been allocated under the CPEC framework to purchase locomotives to restore the full capacity of the road and railway cargo systems; and hopefully, the upgraded systems will be soon operational. In addition, the upgrading and modernization of the rail links between Peshawar to Karachi is now regarded as a priority infrastructure project under CPEC and, when completed, is expected to increase the cargo speed from 80 km/h to 160 km/h.

CPEC promotes power supply and transportation infrastructure development in Pakistan.

Bilateral industrial cooperation includes the Gwadar port development and the construction of nine industrial zones. In December 2017, at a meeting of the Joint Coordination Committee of CPEC in Beijing, China and Pakistan agreed to accelerate the construction of the nine industrial parks which are expected to host more Chinese companies and factories in the future as labor and production costs increase steadily in China. Indeed, as China moves up the global supply and value chains, its appeal over the past decades in the international market for its cheap labor force is waning. As an increasing number of Chinese entrepreneurs and

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21 Ibid.

22 Ahsan Iqbal, “Highlights of 6th JCC Meeting of CPEC in China,” PTV News Islamabad, December 29, 2016, http://cpec.gov.pk/videos.
investors go abroad to seek business opportunities in foreign lands, the Chinese government is making every effort to transform China from a world factory into a global investor and innovator. Chinese businesses are growing in every corner of the world, hiring local talents, exploring local markets, and investing in local industries. China has already relocated much of its industry to Vietnam, Laos, Myanmar, and other countries in the region.

With local and national logistical conditions improved, Islamabad hopes that one day Pakistan will appeal to Chinese and other foreign businesses for its huge market and untapped productive potentials. In fact, Beijing and Islamabad are already working together through a commission which is helping to identify industries that will match the comparative advantages of different regions and thereafter set up joint production units in the nine industrial zones. For instance, Pakistani provinces like Khyber Pakhtunkhwa (KPK) and Baluchistan are full of marble resources, but unfortunately, the present industries extract marble through explosive means, a method that is 200-years-old and highly time-consuming. As a result, 60 to 70 percent of the mineral value is lost in the process. Under the CPEC project, Pakistan can set up modern marble cities and use new extractive technologies to reduce production costs and ensure high mineral value. Bilateral cooperation under CPEC even extends to such areas as agriculture, water-resource management, urban planning and management, and cultural exchange. Thus, CPEC is not only a grand initiative for economic development, but also a catalyst for social progress in Pakistan.

Impact of CPEC on Pakistan’s Economy and Social Makeup

CPEC has an immense positive impact on Pakistan’s economy as well as society. Ahsan Iqbal observed that CPEC is serving as a new driving force behind an economic growth of 2 to 3 percent a year and predicted that “Chinese investment could push Pakistan’s GDP growth rate of above 6% between 2016 to 2018.”\(^{23}\) In its *Prospects Report of Global Economics*, the World Bank revised its forecast for Pakistan’s GDP growth in 2016–2017 to 5.2 percent from 5 percent, which was higher than the previous nine years. It stated that CPEC assisted development in energy and infrastructure and

\(^{23}\)Iqbal, “Pakistani Minister on China’s Economic Corridor.”
boosted agricultural output and external demand for exports, and would push growth to 5.5 percent in the fiscal year ending in June 2018 and 5.8 percent in the fiscal year in June 2019. Ahsan Iqbal further pointed out that with Chinese investment, “[t]he government also managed to bring down the fiscal deficit from 8 percent to 3.6 percent (July-March 2016–2017).” As noted by Sartaj Aziz, former adviser to the Prime Minister and deputy chairman of the CPEC project in Pakistan, “Due to the rapid economic growth in the last few years, the international agencies are presenting an optimistic outlook of the Pakistani economy.” Located at the crossroads of South Asia, China, and Central Asia, Aziz predicted, Pakistan would become a key player in the region and contribute to regional economic growth.

For Pakistan’s younger generation, CPEC indicates brighter job prospects. At a seminar on “CPEC Myths and Realities” at the Fast School Management, Ahsan Iqbal commented that CPEC is a multi-billion-dollar platform for inclusive growth, and would create as many as 85,000 jobs for Pakistani youths. He also pointed out that CPEC infrastructure projects have benefited the steel, cement, and marble industries across the country and created jobs for thousands of Pakistani workers. According to Asim Khan, a spokesman for the Planning and Development Ministry,

More than 30,000 people have so far been employed in different projects under CPEC including 8,000 Chinese workers, ensuring a sustainable blend of the two labor services for essential transfer of skills. The average number of Chinese workers never crossed the figure of 25% of the total employees.

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24 Ibid.
25 Sartaj Aziz, “Low Interest Rates, Improvements in Agriculture, Manufacturing, and Energy Fueling Growth in Pakistan,” in the 33rd Annual General Meeting and Conference of the Pakistan Society of Development Economists, Islamabad, December 12, 2017.
26 Interview with Sartaj Aziz in Islamabad, February 2018.
27 Ahsan Iqbal, “CPEC Project Promises 85,000 Jobs for Youths,” News, April 28, 2017, https://www.thenews.com.pk/print/201134-CPEC-project-promises-85000-jobs-for-youths.
28 Asim Khan, “CPEC Creating Job Opportunities for Locals,” Express Tribune, January 22, 2018, https://tribune.com.pk/story/1614625/1-cpec-creating-job-opportunities-locals/.
Likewise, a planning commission official referred to the International Labor Organization (ILO) which estimated that the sustainability of CPEC will help create around 400,000 jobs, and cited the Applied Economics Research Centre (AERC) which estimated that CPEC is expected to create over 700,000 direct jobs between 2015 and 2030 and add 2 to 2.5 percentage points to the annual economic growth of the country.

Most importantly, CPEC is a great opportunity for Pakistan to alleviate poverty and provide employment opportunities to the locals. According to S.M. Naveed, president of the Pakistan-China Joint Chamber of Commerce and Industry, “9,000 Chinese workers and 90,000 Pakistanis are working together on CPEC-related projects.” It is estimated that by 2030, the monumental project will produce at least 800,000 direct jobs and hundreds of thousands of other indirect job opportunities for Pakistan. In this regard, CPEC will generate a trickle-down effect, gradually benefiting the whole of Pakistani society and significantly improve ordinary Pakistanis’ living standards. That is why CPEC has received much welcome from both the Pakistani government and local governments. For example, as Zamurk Khan Achakzai, leader of the National Party in Baluchistan Assembly, announced, “CPEC will create thousands of jobs for people of Baluchistan province.”

So far, more than 16,000 Pakistani workers and engineers have been hired under the CPEC energy portfolio, in which 5,000 job opportunities have been created by one of the largest power projects known as Port Qasim Coal Power Plant; other major power projects like the Sahiwal Coal

CPEC brings vast job opportunities for Pakistanis.

29Faisal Zahid Malik, “CPEC Projects Create Over 30,000 Jobs,” Pakistan Observer, June 7, 2017, https://pakobserver.ne/cpec-projects-create-30000-jobs/.

30Ibid.

31S. M. Naveed, “China-Pakistan Economic Corridor,” Pakistan-China Joint Chamber of Commerce & Industry Lahore, May 5, 2018, https://www.youtube.com/watch?v=laZ5162DKY.

32Faisal Zahid Malik, “CPEC Projects Create Over 30,000 Jobs.”

33Muhammad Khan Achakzai, “CPEC will Bring Economic Stability,” Express Tribune, June 22, 2017, https://tribune.com.pk/story/1441619/cpec-will-bring-economic-stability-achakzai/.
Power Plant and Zonergy Solar Power have each created 3,000 jobs. Fawad Khalid Khan, a senior engineer working with the China National Electric Engineering Company (CNEEC) as a deputy commercial manager in Pakistan, observed that at least 100,000 jobs will be created over the following years under the power and infrastructure projects of CPEC alone. Zhao Lijian, deputy head of Chinese mission in Pakistan and an adviser for CPEC power projects, further confirmed that China’s huge investment in Pakistan has brought real benefits to residents of Gwadar, once a sleepy fishing town located on the shore of the Arabian Sea next to the Pakistan-Iran border.34

What is worth noting is that around 300 to 500 Pakistani engineers are serving in those energy projects, which would facilitate the transfer of knowledge for diverse energy sectors, allowing Pakistan to develop its own human resources. The other two projects in the energy sector, Sukki Kinari and Karot projects, will generate around 6,000 jobs for Pakistani workers and engineers. As one government official put it, “[A] huge number of Pakistani civil and electrical engineers could grab this opportunity when hydropower projects are under operation.”35

The transport sector is the second major sector in terms of job creation under the CPEC portfolio. It is expected to create as many as 13,000 jobs for local residents. A progress report has shown that around 9,800 Pakistani workers are working in Peshawar-Karachi motorway (Multan-Sukkur section), one of the biggest infrastructure projects under CPEC. Up to now, construction of Phase-2 of the Karakoram Highway (KKH) has accommodated over 2,000 local workers; the orange-line metro has created job opportunities for 956 people; and the fiber optic project has produced 580 jobs. Moreover, the development of the Gwadar free zone project has produced 404 direct jobs and more than 2,000 indirect job opportunities. It is estimated that this project will produce more job opportunities for professional and non-professional local residents when it becomes operational, hosting companies of different industries. As a result, Asian and European economies are increasingly interested in the future economic prospects of Pakistan. For instance, at a conference in Moscow, ministers of transport

34Faisal Zahid Malik, “CPEC Projects Create Over 30,000 Jobs.”
35Ibid.
from Asia and Europe expressed a great interest in how to align their national development plans with the BRI — and CPEC in particular — and how to create a stronger Eurasian axis for future economic cooperation in the region and within the Eurasian landscape.\textsuperscript{36}

CPEC is by no means confined to energy, infrastructure and other economic fields. Before the proposal of CPEC, the Pakistani government under the leadership of the Pakistan Muslim league-Nawaz Sharif (PML-N) had already begun to shift policy priorities on infrastructure, planning, and energy projects. Under the CPEC project, a new joint working group has been established to take the initiative in promoting socioeconomic development in Pakistan, starting from the agricultural sector. As Makhdoom Khusro Bakhtiar, Pakistan’s Minister of Planning, Development and Reform, pointed out, 70\% of the Pakistani population is based on the agriculture sector, but unfortunately, this sector was ignored as a part of the project. We shall sign an agreement of agriculture project with China under the CPEC. Moreover, the areas of livestock, fisheries, value-added chain, etc., are explored in this sector.\textsuperscript{37}

He also mentioned that even if Pakistani export to China reached 1 percent of China’s total import, it would mean $18 billion of Pakistan exports to China, and that Pakistan could benefit greatly from China’s relocation of its $400-billion-worth light engineering, consumer goods, and labor-intensive industries. Apart from Chinese investment, Islamabad is also encouraging the involvement of third parties for foreign direct investment (FDI) projects in Pakistan, of which the construction of the Gwadar port has been a priority, so as to accelerate the operation of the port’s business and trans-shipment activities.

\textsuperscript{36}Iqbal, “Pakistani Minister on China’s Economic Corridor.”

\textsuperscript{37}Khusro Bakhtiar, “Federal Minister Press Talk on CPEC.”
Key Challenges to CPEC

At the initial stage of CPEC, there was serious controversy between Pakistan’s federal government and provinces on which routes to choose for the project. The federal government made a decision on May 28, 2015 that the western route of the corridor would pass through the relatively lesser developed provinces of Baluchistan and Khyber-Pashtun. However, the political parties from KPK and Baluchistan provinces castigated the federal government for ignoring the smaller provinces in the multi-billion-dollar project. Later on, this tension was resolved with a consensus reached between political parties of central and provincial governments.

Although domestic controversy has subsided, terrorism, militancy, and religious extremism remain serious challenges to CPEC. More than 30,000 security forces and civilians have been killed in Pakistan since the 9/11 attacks. When terrorism was in its full swing, China offered the $46 billion CPEC package, which has greatly improved the situation of Pakistan as Islamabad ramped up its counter-terrorism campaigns. Now that peace and stability is being restored in Pakistan and foreign business people and FDI are pouring into the Pakistani economy, the Special Security Division (SSD) has been established by the government with a total strength of 15,000 armed forces, consisting of both military and paramilitary forces, to safeguard CPEC and other joint projects from internal and external security threats. Nevertheless, the continuing India-Pakistan skirmishes, rising religious extremism in some northern regions, as well as the United States’ erratic Middle East policy under the Trump administration, all pose lasting threats to CPEC.

Another challenge has been the bias in coverage of Western and some Pakistani media about China’s BRI, including the CPEC project. Some media reports even release misleading information to strengthen the negative image of these projects. For example, Financial Times published an article entitled “Pakistan Rethinks Its Role in Xi’s Belt & Road Plan” in September 2018, reportedly based on an interview with Abdul Razzak Daud, an adviser to Pakistani Prime Minister Imran Khan. Soon afterwards, Pakistan’s foreign office and Daud himself rejected the news and made it

38 Interview with Ahmad Rashid Malik in Islamabad in February 2018.
clear that it was fake news, a “propaganda-based article.”\textsuperscript{39} Though such fabricated reports are usually proven biased and wrong in the end, they exert a negative impact on the public opinion, especially among those who do not see immediate benefits from CPEC.

Another key challenge for CPEC is the “debt trap” notion attached to China’s BRI and CPEC by many Western politicians, media and academics, which conjectures that China aims to set a “debt trap” for BRI countries in order to exercise growing influence over their politics and national economy. For instance, the \textit{Wall Street Journal} ran an article entitled “China’s Global Building Spree Runs into Trouble in Pakistan” in July 2018, which alleged that

\begin{quote}
There is skepticism about government forecasts that CPEC will boost economic growth from 5.8\% this year \textsuperscript{[2018]} to 7\% by 2023, allowing Pakistan to service its debt. A March IMF report blamed Pakistan’s rising current-account deficit and external debt obligations partly on CPEC, and predicted growth would flatline at 5\% until 2023.\textsuperscript{40}
\end{quote}

In a counter narrative, the Chinese embassy in Islamabad noted that, in fact,

\begin{quote}
[T]he 42\% of foreign-debt of Pakistan is from multilateral financial institutions such as the IMF and World Bank. 18\% of the debt is from the Paris Club. Chinese preferential loans only account for 10\% of [Pakistan’s] whole foreign debt and offer a much lower rate in the form of concessional loans rather than commercial bank loans.\textsuperscript{41}
\end{quote}

Western suspicion and bias toward China remain a key challenge to CPEC.

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\textsuperscript{39}“Pakistan, China Refute Financial Times’ CPEC Report, Resolve to Expand Cooperation,” \textit{Dawn}, September 10, 2018, https://www.dawn.com/news/1432099.

\textsuperscript{40}Jeremy Page and Saeed Shah, “China’s Global Building Spree Runs into Trouble in Pakistan,” \textit{Wall Street Journal}, July 22, 2018, https://www.wsj.com/articles/chinas-global-building-spree-runs-into-trouble-in-pakistan-1532280460.

\textsuperscript{41}“Chinese Embassy Rebuts WSJ Report, Says it Deviates from Facts,” \textit{Pakistan Today}, July 24, 2018, https://profit.pakistantoday.com.pk/2018/07/24/wsj-report-deviated-from-the-facts-chinese-embassy/.
\end{footnotes}
Similarly, in an interview with Xinhua, Syed Hassan Javed, director of the China Study Center at National University of Sciences and Technology of Pakistan, maintained that Pakistan was actually locked in a Western, rather than Chinese, debt trap, and that it was China that had supported Pakistan immensely by helping alleviate its “debt agony” and by enabling it to stabilize its foreign exchange reserves.\(^{42}\) Meanwhile, as Ahsan Iqbal commented in 2017, the ratio of debt to GDP of Pakistan had remained quite flat over the previous years and would very likely come down in the following five years, from 64 percent to 55 percent.\(^{43}\) Thus, China’s investment and loans to Pakistan do not lead to a debt trap, but indeed add to more paranoia and hostility from some in the West.

The final challenge is the potential reaction from India, which considers CPEC as a way for China to expand its strategic presence in the Indian Ocean. Over the past few years, India has been strengthening its influence in the western Indian Ocean to balance against the perceived China threat. According to the United Nations Convention on the Law of the Sea (UNCLOS), India enjoys an exclusive economic zone (EEZ) of 200 nautical miles off its coast and on the continental shelf in the Indian Ocean Region. Nevertheless, China has never violated India’s EEZ rights;\(^{44}\) and China’s activities in Pakistan, including those at Gwadar port, are mainly based on economic rather than geopolitical calculations. Since the very beginning, the Gwadar port and its vicinity have been designed as a trading, trans-shipment, and commercial hub to create a better business environment for other regional and international partners.\(^{45}\) Regardless of such facts, India may remain apprehensive and cautious toward China’s

\(^{42}\)“News Analysis: CPEC not ‘Debt-Trap’ But Development Scheme for Pakistan,” Xinhua News, May 26, 2019, http://www.xinhuanet.com/english/2019-05/26/c_138090449.htm.

\(^{43}\)Ahsan Iqbal, “CPEC and Vision 2025,” Dunya News Channel, February 26, 2017, https://www.youtube.com/watch?v=EsTZS6jr_yY.

\(^{44}\)Iskander Rehman, “India, China, and Differing Conceptions of the Maritime Order,” Brookings Institution, June 2017, https://www.brookings.edu/wp-content/uploads/2017/06/rehman-india_china_and_differing_conceptions_of_the_maritime_order.pdf.

\(^{45}\)Gurmeet Kanwal, “Pakistan’s Gwadar Port: A New Naval base in China’s String of Pearls in the Indo-Pacific,” Center for Strategic and International Studies, April 2, 2018, https://www.csis.org/analysis/pakistan-gwadar-port-new-naval-base-chinas-string-pearls-indo-pacific.
increasing footprints in Pakistan through CPEC and may take diplomatic, economic or other countermeasures.

Conclusion

This article suggests that CPEC is not merely a “flagship project” of China’s BRI focusing on energy supply and infrastructure building, but also a platform for mutual understanding and greater consensus among the Chinese, Pakistani, and international communities at large. Today, the Pakistani economy is in urgent need of concrete reforms to better serve its people; and CPEC will surely help in this regard. However, the many challenges faced by CPEC are also leading to political tensions, exposing social divisions and creating new frustration in Pakistan. Therefore, it is necessary for both the Chinese and Pakistani governments to address those challenges through greater transparency of the CPEC projects, conduct more consultation with all stakeholders including the business community, small provinces, and local opinion-leaders, and ease the concerns that CPEC will ultimately subordinate Pakistan’s interests to those of China’s. Besides, both governments need to make sure that landowners get fair compensation for their losses and create more jobs in CPEC-related projects for local residents, thus making a more compelling case for CPEC among Pakistani skeptics.

CPEC also risks exacerbating tensions between the federal and smaller federal-units — and within provinces — over inequitable resource distribution and economic opportunities. Less developed provinces such as KPK and Baluchistan are naturally frustrated that the route of the economic corridor, industrial parks and economic zones will mostly benefit Punjab, which is already the wealthiest and most politically powerful province of Pakistan. The people of Baluchistan can hardly get direct financial or economic benefits from Gwadar port, which means that local anger is likely to intensify. Likewise, a coal-based power project in Sindh (Tharparkar) is not merely damaging the environment, but also displacing local residents from their homes. Most of those politically sensitive issues have been resolved by the former government, but there is still a vacuum of communication on a few economic and social issues among the central government, provincial
authorities, and local communities. Therefore, the current government under Prime Minister Imran Khan must find a way to settle this issue through more transparent policy formulation. A practical remedy is to engage the business community, landowners, and ordinary public by the country’s local and corporate laws, in particular by the *Land Acquisition Act* of 1894.

Industrial parks are backbones of the Pakistan economy. It is necessary to establish at least one industrial park in each province for the local public to reap full benefits of CPEC. Such diversification of investment is also an important measure to increase Pakistan’s exports. Moreover, CPEC is unlikely to be sustainable if Pakistan’s vast labor force is left out in the cold; the private sector and local entrepreneurs should also be recruited in industrial park development as they are the true driving force behind Pakistan’s long-term economic development and social progress. In a word, local communities’ talents and potential have to be fully tapped if Beijing and Islamabad want CPEC to be regarded as a real blessing for ordinary Pakistanis.

Apart from traditional political and economic challenges, Pakistan, like any other nation, is faced by increasing AI application and worldwide technological progress in the 21st century. Adapting to new business realities is one of the top concerns of the Pakistani government, which should promote the building of a knowledge corridor under CPEC. That will help prepare Pakistan’s economy for increasing competition in a world of constant change.

As CPEC does not exist in a geopolitical vacuum, the Pakistani government needs to redefine its regional policies to stabilize political relationships with its neighbors. In fact, CPEC has roused growing skepticism from India and some other neighboring countries of Pakistan. Thus, it is up to Islamabad to show that New Delhi may also benefit from CPEC progress. Meanwhile, with its growing presence in South Asia and the Indian Ocean, Beijing needs to undertake effective efforts to alleviate the concerns of other regional players about China’s capabilities and intentions through more dialogue, consultation and enhanced cooperation in all fields.