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China – Pakistan Economic Corridor
Reality, Issues and Way Forward

Introduction:

Since 2015, the Chinese-Pakistan economic corridor (CPEC) has been touted by the government of Pakistan as a game changer and solution of all ills for Pakistan. The government engineered hype surrounding CPEC has been consistent and is often equated by official circles to the success story of Pakistan's successfully achieving a nuclear weapon capability. This time it is dubbed as "the economic bomb".

Notwithstanding a premature and controversial hype surrounding CPEC, the plan does reflect the seriousness of Chinese intentions both economic and political. Moreover, CPEC has become nearly a house hold discussion within Pakistan as there exists a generally favorable but uninformed public opinion for the project.

It is important for Dawah carriers to develop a comprehensive understanding of the CPEC debate so that we are better able to guide the Ummah as its honest leaders.

This article will address the following issues regarding CPEC:

a. Origins of China's One Belt One Road (OBOR) vision and its economic sense.

b. What is CPEC all about?

c. What are the risks for Pakistan's economy and politics?

d. How does the broader geopolitics link up with Chinese ambitions?

e. What is the Islamic viewpoint regarding CPEC?

Origin of OBOR and CPEC:

At the end of 2013, Chinese President Xi Jinping announced one of China's most ambitious foreign policy and economic initiatives. He called for the building of a Silk Road Economic Belt and a 21st Century Maritime Silk Road, collectively referred to as One Belt. One Road (OBOR) which has also come to be known as the Belt and Road Initiative. Xi's vision is an ambitious program of infrastructure building to connect China's less-developed border regions with neighboring countries. OBOR is arguably one of the largest development plans in modern history. On land, Beijing aims to connect the country's underdeveloped hinterland to Europe through Central Asia. This route has been dubbed with the Silk Road Economic Belt. The second leg of Xi's plan is to build a 21st Century Maritime Silk Road connecting the fast-growing Southeast Asian region to China's southern provinces through ports and railways.

All levels of the Chinese Government, from the national economic planning agency to provincial universities, are scrambling to get involved in OBOR. Nearly every province in China has developed its own OBOR plan to complement the national blueprint. Major state-owned policy and commercial banks have announced generous funding plans to fulfil President Xi's ambitious vision.

Before the 18th Party Congress in 2013, there were heated debates among Chinese policymakers and scholars about the strategic direction of the country's foreign policy, especially in its neighborhood. In October 2013, Beijing convened an important work conference on what it termed 'peripheral diplomacy'. It was reportedly the first major foreign policy meeting since 2006 and the first-ever meeting on policy towards neighboring countries since the founding of the People's Republic. It was attended by all of the most important players in the Chinese foreign policymaking process, including the entire Standing Committee of the politburo.

At the Peripheral Diplomacy Work Conference, Xi said that China's neighbors had "extremely significant strategic value". He also said that he wanted to improve relations between China and its neighbors, strengthening economic ties and deepening security cooperation. "Maintaining stability in China's neighborhood is the key objective of peripheral diplomacy. We must encourage and participate in the process of regional economic integration, speed up the process of building up infrastructure and connectivity. We must build the Silk Road Economic Belt and 21st Century Maritime Silk Road, creating a new regional economic order." (source?) Xi clearly sees China's considerable economic resources as a key tool in his efforts to maintain regional stability and assert China's leadership in the country's neighborhood.

At a broader strategic level, influential Chinese policymakers and analysts have also argued that OBOR could be used as a strategic tool to counter the US rebalancing to Asia. In 2015, Justin Yifu Lin, an influential policy adviser and a former chief economist at the World Bank, argued President Xi had launched OBOR to counterbalance US policies, such as the pivot and the Trans-Pacific Partnership (TPP). He argued China should use its economic resources including its large foreign reserves and experience in building infrastructure to strengthen its position in the region. One Counsellor at the State Council of the Chinese Government, Tang Min, noted that China and many emerging economies had been locked out of the US led TPP and these countries needed a 'third pole', namely OBOR.

State of Chinese Economy:

OBOR will help China to meet some of its most pressing economic challenges. Of these challenges, three in particular are important in understanding the key aims of OBOR: encouraging regional development in China through better integration with neighboring economies, upgrading Chinese industry while exporting Chinese standards, and addressing the problem of excess capacity.

The regional development aspect of OBOR is perhaps one of China's most important economic policy objectives. The lead coordinating government agency for OBOR is the National Development and Reform Commission, the country's premier economic planning agency. It is likely that Chinese domestic components of OBOR projects will be built before any overseas components for the simple reason that Beijing can enforce its plans much more effectively within its own jurisdiction. However, if the Chinese Government fails to connect its domestic projects with overseas components, OBOR will be little different from other domestic infrastructure programs, greatly diminishing its economic and strategic value.

In 2014, OBOR was officially incorporated into China's national economic development strategy at the Central Economic Work Conference, the annual agenda-setting economic summit for policymakers. Beijing announced three regional development plans; one of which was OBOR. These regional development plans are designed to address the chronic problem of uneven development in China. Inequality between inland western regions and prosperous eastern seaboard states is a huge challenge for the ruling party. For example, the coastal mega-metropolis of Shanghai is five times wealthier than the inland province of Gansu which is part of the old Silk Road. Beijing has tried to close the gap between these provinces.

Since 1999, the Chinese Government has pursued the so-called 'western development strategy' to revitalize chronically underperforming provinces, including the Muslim majority autonomous region of Xinjiang. However, these efforts have produced few tangible results. Despite Beijing's preferential policies, large-scale fiscal injections and state-directed investments, the western provinces' share of China's total GDP increased only marginally from 17.1 per cent in 2000 to 18.7 per cent in 2010.

One acute side effect of heavy state subsidies in these western provinces has been a high concentration of state-owned enterprises and low penetration of private firms. For example, the western regions of Xinjiang, Tibet, Qinghai, and Gansu are the four lowest-ranked provinces on the China Economic Research Institute's Free Market Index. Their average score is 2.67 (0 means no private enterprise and 10 means completely free); the national average is 6.56.

Apart from developing the western region, OBOR is also expected to play an important role in revitalizing economically underperforming provinces in the north-east as well as other poor regions in the southwest, bordering Southeast Asia. In fact, all Chinese provinces are keen to be involved in the national project. Many see it as a golden opportunity to obtain cheap funding and political support for their own infrastructure projects under the banner of OBOR.

China has developed a reputation as the 'world's factory' over the last three decades. In recent years, however, its comparative advantages in manufacturing, such as low labour costs, have begun to disappear. For this reason, the Chinese leadership wants to capture the higher end of the global value chain. To do this, China will need to upgrade its industry. Indeed, this has become one of China's most important domestic economic goals. It is reflected in the "Made in China 2025 strategy" drafted by the Ministry of Industry and Information Technology (MIIT). Its primary goals are to make the country's manufacturing industry more innovation-driven, emphasize quality over quantity, and restructure China's low-cost manufacturing industry.

Problem of Excess Capacity in Chinese economy:

During the global financial crisis, the Chinese Government delivered one of the largest stimulus packages in recent economic history. It saved China (and arguably a host of other countries, including Australia) from recession by sending commodity prices sky-high. Though the stimulus program was effective, one of its lasting side effects was the creation of massive excess capacity in many industrial sectors from steel to cement. In the steel industry, for example, China's annual steel production surged from 512 million tons in 2008 to 803 million tons in 2015. To put that into perspective, the extra 300 million tons are larger than the combined production of the United States and the European Union.

Dealing with the country's excess capacity has become one of the top economic priorities for the Chinese Government. Beijing has described this issue as the sword hanging over its head. Excess capacity will squeeze corporate profits, increase debt levels, and will make the country's financial system more vulnerable. Many state-owned firms in sectors with excess capacity borrowed heavily during the financial crisis. The slowing economy, sluggish international demands, and the supply glut have reduced their profits. Many are struggling to keep their heads above water. These bad loans have put the Chinese banking system under a great deal of stress. The Chinese Government has announced a number of policy measures to address the issue of excess capacity. This has included laying off 1.8 million workers from the steel and coal mining industries. The authorities are also trying to shut down polluting steel mills and blast furnaces.

Hu Huaibang, Chairman of the China Development Bank and the most influential financier of OBOR projects, says one of the most important objectives of OBOR is to help China undergo economic structural reform and upgrade its industries, moving away from the cheap mass manufacturing model:

"On the one hand, we should gradually migrate our low-end manufacturing to other countries and take pressure off industries that suffer from an excess capacity problem. At the same time, we should support competitive industries such as construction engineering, high-speed rail, electricity generation, machinery building and telecommunications moving abroad." (source?)

Moving factories with excess capacity to OBOR countries helps China reduce the supply glut at home while helping less developed countries to build up their industrial bases. In essence, domestic economic liabilities become foreign economic and diplomatic assets. Jin Qi, the Chairman of the Silk Road Fund, a sovereign wealth fund set up in 2014 specifically to provide seed capital for OBOR projects, made this clear during one of her rare public speeches on OBOR.

The summary of discussion is that China, like other colonial powers before it, wants to exploit the resource rich neighborhoods to develop its own under developed western and southern regions. Moreover, China is also facing a problematic transition of its economy.

What is China – Pakistan Economic Corridor?

One of the most important flagship projects of OBOR is the China–Pakistan Economic Corridor which links Kashgar in Xinjiang with the Port of Gwadar in Pakistan's South.

Till date, the concrete economic pact finalized between the government of China and Pakistan regarding CPEC has not been made public. This is consistent with China's statecraft. What we have mostly in public domains are official statements which indicate that CPEC project is a collection of infrastructure projects currently under construction throughout Pakistan, modernizing its rail and road infrastructure and numerous energy projects, and special economic zones. CPEC was initially valued at 46 billion dollars of which, according to official rhetoric, 33 billion dollars investments will go into power sector and remaining 13 billion dollars will be aimed at rail and road networks. These figures have been revised upwards recently.

The CPEC projects will be financed through four sources namely:

a. Concessionary loans

b. Interest based loans

c. Private Consortiums

d. Asian development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB)

However, a recent news story by Pakistan's leading English daily DAWN has created a different perception about CPEC. Based on the original document authored by China's National Development and Reform Commission (NDRC) and China's development bank (CDB) in 2015 titled "**Long Term Plan on China-Pakistan Economic Corridor**", the image of CPEC appears to be contrary to the picture painted by Pakistani officials of massive industrial and transport undertaking, involving power plants and highways. The plan acquires its greatest specificity, and lays out the largest number of projects and plans for their facilitation, mainly in agriculture and mining sector of Pakistan.

Given the developments on the ground and in the light of recent revelations, it is clear that CPEC is mainly about major investments in full cycle of agriculture industry from seeds to live stocks and supply/export of agricultural products under Chinese label through rail and road network in the region. Investments in mining of massive strategic minerals, which Pakistan is blessed with and which will be consumed in Chinese industries in its western provinces, transported via road networks. And investments in Pakistan's energy infrastructure where profits from energy production in Pakistan will be repatriated back to China. Moreover, since the road and rail network of CPEC are linked with China's restive Xinjiang province, the major Chinese focus is the development of a range of industries in Xinjiang that will be fueled by Pakistani raw materials.

Other Chinese provinces too can look into case to case basis as to consume Pakistani resources into their respective provincial industries.

China recognizes the problem of Pakistan's crippled energy and power sector that is generated due to a mixture of circular debts and aging power infrastructure and that, without investing into Pakistan's power sector, China will not be able to run its industries inside Pakistan. So, upgrading Pakistan's power structure is also part of CPEC.

CPEC and the "Malacca Dilemma”:

The Straits of Malacca provide China with its shortest maritime access to Europe, Africa, and the Middle East. Approximately 80% of China’s Middle Eastern energy imports pass through the Straits of Malacca. As the world's biggest oil importer, energy security is a key concern for China while current sea routes used to import Middle Eastern oil are frequently patrolled by the United States' Navy.

In the event that China were to face hostile actions from US and its allies, energy imports through the Straits of Malacca could be halted which, in turn, would paralyze the Chinese economy in a scenario that is frequently referred to as the "Malacca Dilemma." In addition to vulnerabilities faced in the Straits of Malacca region, China is heavily dependent upon sea-routes that pass through the South China Sea, near the disputed Spratly Islands and Paracel Islands, which are currently a source of tension between China, Taiwan, Vietnam, the Philippines, and the United States. The CPEC project will allow Chinese energy imports to circumvent these contentious areas and to find a new artery in the west, and thereby decrease the possibility of confrontation between the United States and China.

In addition, the Indian Navy has recently increased maritime surveillance of the Straits of Malacca region from its base on Great Nicobar Island. India has expressed fears of a Chinese "String of Pearls" encircling it. Were conflict to erupt, India could potentially impede Chinese imports through the straits. Indian maritime surveillance in the Andaman Sea could possibly enhance Chinese interest in Pakistan's Gwadar Port, the Kyaukpyu Port, which is currently being developed in Myanmar by the Chinese government as another alternate route around the Straits of Malacca, will likely be vulnerable to similar advances by the Indian Navy. The proposed Bangladesh-China-India-Myanmar Corridor (BCIM) would also be vulnerable to Indian advances against China in the event of conflict, thereby potentially limiting the BCIM Corridor's usefulness to China's energy security, and thereby increasing Chinese interest in CPEC.

Risks of CPEC for Pakistan:

There are apprehensions regarding the efficiency and economic feasibility of the project. Moreover, Pakistan faces various internal and external political challenges which may hamper the progress of CPEC. Some of the negative implications for Pakistan are as follows which clearly outweigh any potential benefits:

- **Threat to Sovereignty:** CPEC will increase the Chinese clout within Pakistan forcing it to take decisions which will be detrimental to its interests, for example, China has been quietly talking with Pakistani officials to give Gilgit Baltistan a provincial status that will result in accepting status quo on Kashmir issue. China is also setting up a small naval base in Gwader to “safeguard” its investments. China too has shown concerns post 9/11 about US military and intelligence bases in Pakistan and would like to have its own setup to monitor US activities in Pakistan.

- **Risks to Indigenous industry** - China has an established track record of arriving much like a horde of locusts and completely wiping out the local indigenous industry. The floodgates to Pakistan have been opened to the Chinese and it is just a matter of time before Chinese goods do the Walmart-effect on Pakistani industry and destroy what is left of it.

- **Debts and Interest Rates on Payments:** $46 is a mountain of a loan for Pakistan. China is lending Pakistan at a relatively **very high rate of interest**. A nearly bankrupt Pakistan would begin running in to **balance of payment problems** even before any of the projects out of this money completes. Sri Lanka has already stared at a Balance of payment problem and has already begun regretting letting Chinese in to their country. China has already begun arm-twisting Sri Lanka in to giving away territory in the sense that it is asking for a 99-year lease which is as good as giving it away to China.

Interestingly, both Pakistan and China haven’t made public the transit fee Pakistan should get on China bound traffic from Gwader.

- **Price of Electricity:**

One of the promises of the CPEC is that it will provide electricity to Pakistan. No doubt, Chinese investment in power sector will add approximately 10,000 MW electricity in the grid but what no Pakistani official is telling is - at what rate? In India, the cost of electricity generation has come down to as low as *3.46 rupees ($0.0519) per unit.* Compare that with the current Rs 14–16 per unit of Pakistan. And the future may be worse. It is estimated that Pakistan won't be able to keep it under Rs 18 per unit because China will invest in the existing IPPs (Independent Power Producer) and per unit cost should be high to generate lucrative profits. Details of negotiations in this domain are also kept secret.

- **Increased focus on Domestic Security:**

Pakistan needs to provide security to Chinese investment, personnel and work force as part of the terms. The said corridor will be thousands of kilometers of roads running through plains, mountains and deserts. Pakistan has already raised a full division size force to guard the Chinese investment, the roads, and the trucks passing by. This will further increase Pakistan's focus on internal security in an environment where it needs to transit from counter insurgency operations to traditional war fighting mode.

CPEC and US:

US has welcomed Chinese Belt and Road initiative and CPEC as it is aware of both risks and opportunities in the geopolitical domain. American officials sense a political opportunity on working with China to manage regional challenges, like Afghanistan, where US has allowed its puppet regime in Kabul to increase its economic ties with China.

US also has its own vision of silk route trade which emerged before Xi Jing ping's 2013 announcement of OBOR. It remains to be seen how the United States exploits Chinese plans for developing energy resources in Central Asia's Turkmenistan, creating infrastructure in Pakistan, or winning political influence with local governments throughout Asia. Other Asian powers, like India and Russia, are meanwhile seeking to define their own approach to regional integration. While these ambitious projects hold the potential to reshape one of the world's least integrated areas, all must contend with local rivalries, logistical roadblocks, security risks, and political uncertainty.

As then-Deputy Secretary of State, William Burns, outlined in a major 2014 policy address, a centerpiece of the U.S. strategy has been building a regional energy market for Central Asia. More than 1.6 billion consumers in India, Pakistan, and the rest of South Asia are increasingly demanding energy supplies of the kind that Kazakhstan or Turkmenistan with their hydropower and natural gas reserves, are capable of providing.

The proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, which could provide major economic dividends to Afghanistan, has been a focus of U.S. policy. Turkmenistan is home to the world's second-largest deposit of natural gas, and the TAPI would allow it to diversify its exports away from China by delivering energy to India and Pakistan.

A crucial next phase in this regard will be connecting private-sector investment and entrepreneurship in Afghanistan and Pakistan, says former Ambassador Marc Grossman, who served as the U.S. Special Representative to Afghanistan and Pakistan from 2011 to 2012 Grossman points to the potential for export industries like Afghani fruit and Pakistani cement that are currently restricted by trade barriers. India and Iran both are key outlets of energy exports emanating from Central Asia in American plan for silk route which is also one of the reasons why America has encouraged increasing Indian and Iranian ties.

Islamic Viewpoint on CPEC:

What is clear from CPEC agreement is that it is nothing more than a resource grab and an exploitation plan where China in a garb of "Win-Win cooperation" slogans will actually consume Pakistani resources to build its own domestic economy. The dividends for Pakistan's own economy are too little as compared to political and economic costs. More importantly, it is important to understand that the entire capitalist framework, its benchmarks and barometers for measuring economy are flawed.

Islam has laid down extensive rules for International trade as the Khilafah State is not an isolationist state and will develop economic, political and cultural links with other states of the world.

Creating economic, military and political dependency on other states is strictly forbidden in Islam because that gives Kuffar say over state's matters.

The destructive colonialist policies are a constant feature of any government that rules by man-made laws in Pakistan. And the Bajwa-Nawaz regime is no exception, for democracy is the system through which colonial powers ensure the securing of their interests. As such democracy is just a rubber stamp for colonialism and now Chinese colonialism will further our miseries in return for cheap benefits that regime is touting.

The only way for establishing the economic revival of Pakistan on a firm footing is the abolition of democracy and the return of the Khilafah to Muslim lands. The details of the blessings that Islam will bring to the economic life of Muslims are outlined by Hizb ut Tahrir in the vast culture produced by it on Islam's economy.

Under the Khilafah, Islam will uniquely unleash great funds from the economy to fuel agricultural and industrial development without crippling taxation through a radical restructuring of state and public and private ownership amongst other measures. Islam mandates the building of a powerful heavy industrial base, supported by world leading research, to propel the Khilafah in its role as a leading state. Agriculture under the Khilafah was the envy of the world for centuries and will be again as Pakistan will witness a return to the linking of ownership of lands with its practical cultivation which will simultaneously increase rural means of livelihood as well as food security for the Ummah's state. The currency of the state will be established on gold and silver standard again which is the sure footing for the elimination of inflation from its root. And the energy resources will be returned to public ownership so that power is provided readily as well as cheaply. Thus, the Khilafah will demonstrate practically to a world that is crippled by the collapse of corrupt capitalism the truth of the Deen of Islam.

﴿وَابْتَغِ فِيمَا آتَاكَ اللَّهُ الدَّارَ الآخِرَةَ وَلاَ تَنسَ نَصِيبَكَ مِنَ الدُّنْيَا وَأَحْسِنْ كَمَا أَحْسَنَ اللَّهُ إِلَيْكَ وَلاَ تَبْغِ الْفَسَادَ فِي الأَرْضِ إِنَّ اللَّهَ لاَ يُحِبُّ الْمُفْسِدِينَ﴾

"But seek the abode of the Hereafter in that which Allah has given you, and do not neglect your portion of worldly life, and be kind even as Allah has been kind to you, and seek not corruption in the earth. Verily, Allah likes not the Mufsidun (those who are mischief-makers, corrupted)." [Surah Al-Qasas 28: 77]

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