China-Pakistan Economic Corridor: A Flagship and Exemplary Project of the “Belt and Road Initiative”

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Abstract
This paper aimed to provide input towards the question of what exactly constitutes the various aspects of CPEC in regards to project categorization and its potential implications on Pakistan’s economic development. CPEC essentially consists of four key areas, namely infrastructure, energy, industrial co-operation, and the minting of a deep-sea port in Gwadar Balochistan. The funding comprises some of the largest volumes of FDI Pakistan has received in decades, rendering it necessary to assess its potential implications with further examination of CPEC’s role as a niche of the Belt and Road Initiative. This paper aimed to perform a literature review in order to analyze and provide a comprehensive synopsis of the multifaceted distinctions between CPEC projects as well as their potential implications for Pakistan as a whole. The purpose of this study was to study the seven pillars of BRI including CPEC more specifically and uncovering of CPEC’s exact breakdown via compartmentalization of various projects, and a brief look at its exact consequences on the Pakistani economy via a comprehensive literature review. Our results showed that overall, CPEC being a flagship project of BRI fit squarely within the Government of Pakistan’s quest to improve the country’s regional connectivity as a part of the Vision 2025 sequence of programs and reforms. Uninterrupted energy supplies are likely to boost manufacturing output which in turn will benefit from the construction of a transport corridor, with the effects felt far and wide via an increase in induced business activity throughout Pakistan. Moreover, the resultant literature review revealed that multiple industrial sectors and economic clusters in Pakistan are likely to benefit from CPEC projects as a whole seeing as the projects allow for the country to actively develop an entire framework by which to conduct business through the provision of a secure energy and transport corridor, coupled with a massive upgrade in shipping and logistics capability through the construction of a port at Gwadar.

Keywords: China Pakistan Economic Corridor, Belt and Road Initiative, Transport Corridor, Economic Clusters, Secure Energy

Introduction of Belt and Road Initiative:

More than 2000 years ago, China’s imperial envoy Zhang Qian helped to establish the Silk Road, a network of trade routes that linked China to Central Asia and the Arab world. In the 21st Century the Chinese President, Xi Jinping, announced an ambitious plan to re-establish the old Silk Road to connect China with close to 64 countries in 3 continents accounting for 65% of the world population, around 50% of the world GDP (economic aggregation of $21 trillion) and a 29% share in global trade. These countries proposed under the OBOR, comprise a combined GDP of $21 trillion. Given the large outlay of funds and numerous economies involved, the BRI has potential to support economic growth to all the countries that are part of the plan.

The Belt and Road Initiative refers to the Silk Road Economic Belt and 21st Century Maritime Silk Road, a significant development strategy launched by the Chinese government with the intention of promoting economic cooperation among countries along the proposed Belt and Road routes. The Initiative has been designed to enhance the orderly free-flow of economic factors and the efficient allocation of resources. It is also intended to further market integration and create a regional economic co-operation framework of benefit to all.
The National Development and Reform Commission (NDRC) issued its Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road on 28 March 2015. This outlined the framework, key areas of co-operation and co-operation mechanisms with regard to the Belt and Road Initiative.

BRI is a blessing in disguise for the bottlenecks mentioned by USAID in the second decade of the twenty-first century that around 2.6 billion people, mostly located in emerging Africa and Asia, lack access to 24/7 electricity. Moreover, nearly 800 million people worldwide lack access to water, and about 2.5 billion people lack access to the basic sanitation. Approximately 1-1.5 billion people have no reliable phone service facility. Just over 20 percent of people in developing countries have access to the internet. Within this context China’s Belt and Road Initiative is a problem solver. It aims to increase global growth, alleviate poverty and tie billions of people by addressing one of the biggest barriers to economic development - the infrastructure deficit. The BRI is also considered as a bridge to new opportunities. The Belt and Road initiative is set to reinvigorate the seamless flow of capital, goods and services between Asia and the rest of the world, by promoting further market integration and forging new ties among communities.

The Initiative offers global businesses - from multinationals to small- and medium-sized enterprises - unparalleled opportunities to tap into new markets along the Belt and Road and gain deeper access to markets in the Chinese mainland, ASEAN, the Middle East, and Central and Eastern Europe. For developing and emerging economies in these areas, investment and trade accelerate development for the benefit of all. It provides opportunities in 5 key areas:

- Cultural exchange: promoting people to people bond and cooperation,
- Financial integration: enhancing monetary policy coordination and bilateral financial cooperation,
- Trade and investment: facilitating cross border investments,
- Facilities connectivity: building facilities to enable connectivity along the B&R,
- Policy coordination: planning and supporting large scale infrastructure development projects.

China and Pakistan – Iron Brothers and All-Weather Friends

Both China and Pakistan as sovereign states have enjoyed fruitful and mutually beneficial relations with each other for the duration of the prior seven decades. Pakistan remains one of the first states to have recognized the current administration of mainland China as led by its current administration, with official relations having begun in 1951.1 China continues to be a vital accessory to Pakistani interests both domestically and abroad, with vital economic and military aid having served as the fulcrum of the relationship vis-à-vis Pakistan’s strategic location as it straddles the corners of both South Asia and Central Asia. Diplomatic personnel of both states are afforded the most favourable of negotiation platforms when visiting each other. Furthermore, the military establishment of both states collaborate in the realm of ordinance, as signalled by the procuring of the joint-built JF-17 Thunder fighter aircraft and the use of Chinese arms amongst the Pakistani military.2 The primary road artery between Pakistan and China, the Karakoram Highway, is as an example of the level of logistical cooperation both states felicitate to one another. An upwards of 1400 individuals laid down their lives for the completion of said project, with a 140-man Chinese graveyard on the banks of the Gilgit River serving as a reminder of the level of co-operation and sacrifice both Pakistan and China entrust one another with.3

In 2014, the initiation of the China-Pakistan Economic Corridor (CPEC) served as a capstone that exemplified the deep levels of trust between the states, with an upwards of $46 billion USD (later being increased $56 billion).

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billion USD) of funding being earmarked by China for infrastructure development in Pakistan, the components of which include the expansion of Pakistan’s national power grid, road and transport networks, industrial cooperation, and the provision of a central nerve port in Gwadar by which both Chinese and Pakistani exports will flow. CPEC is designed to facilitate Pakistan’s transition into an industrialized, middle-income state while providing a transport corridor by which China can securely move its inelastic imports. An investment of this scale formalizes the Pakistan-China paradigm by providing a fully-fledged economic framework on which to decide and implement policy for both states as opposed to prior backdoor diplomacy.

3. The Seven Pillars of B&RI
   a. The Twenty-First-Century Maritime Silk Road (MSR)
      The MSR allows for connectivity between coastal provinces of China with the South China Sea as well as regions of East Africa where substantial infrastructure-oriented Chinese FDI is present. Its main aims include heightening port operation capabilities, providing provisions for the storage of fuel, as well as railway networks in order to ship cargo with ease. Commodities rendered in China’s industrial heartland to be shipped anywhere within a secure logistical framework. Involved African states include Eritrea, Tanzania, and Kenya.5
   b. The China-Pakistan Economic Corridor (CPEC)
      CPEC is primarily a transport and energy corridor stretching from Kashgar, China to Gwadar, in Pakistan’s Balochistan province. It is meant to expand Pakistan’s electricity generation capacity, render new transport infrastructure, enhance industrial output in Pakistan, and furnish Gwadar as the latter’s primary deep-sea port.5
   c. The China-Mongolia-Russia Economic Corridor (CMREC)
      Import of Russian natural gas is the driver for CMREC, with Mongolia as a middleman in turn gaining access to the Chinese market for its mining exports. Russia is allowed to diversify its exports away from a European market that is subject to occasional diplomatic scuffles. Mongolia, in return, also gains access to far-flung Russian regions such as Vladivostok.6
   d. Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)
      BCIMEC is focused on the provision of high-speed railway that namely benefits the Indian and Bangladeshi hubs of Kolkata and Dhaka respectively. China as a result gains access to the expanding Indian consumer market while also establishing a trade presence in the Bay of Bengal. Bangladesh benefits from increased access to Myanmar for the export of textiles. BCIMEC also consists of pipeline installations designed for the storage and transport of fuel.6
   e. China-Indochina Peninsula Economic Corridor (CICPEC)
      CICPEC is directly oriented towards the engagement of the Chinese market with that of the ASEAN states. Connectivity will be enabled between various hubs in the region such as Shanghai, Ho Chi Minh, Bangkok, and Hong Kong. CICPEC allows ASEAN states an economic framework by which to enforce the mandate of their union.6


f. **China-Central and West Asia Economic Corridor (CCWAEC)**

CCWAEC’s mere essence is the connectivity of Central Asian and Middle-Eastern railway routes. It also aims to serve as a transport route for Central Asian minerals and natural gas to be delivered to China, while allowing Iran to engage in a trade route after years of economic sanctions.\(^7\)


\[\text{http://www.ijmsbr.com/}\]

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g. **The New Eurasian Land Bridge (NELB)**

The NELB is a railway network between China’s industrial regions and mainland Europe in an attempt at staving off reliance on oceanic shipping. The NELB carries the potential to be the most cost-intensive route in due to its provisions for high-speed rail along a massive land area stretching two continents. Funding has been earmarked for the standardization of railway gauge used between China and Europe in order to streamline transport operations.\(^7\)

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CPEC 1+4 Portfolio

CPEC is proving to be a game-changer for Pakistan and the region, and will be a bridge between three engines of growth, - China, South Asia and Central Asia. CPEC, a US $54 billion initiative, has all the vital elements of economic development like -transport, highways, railways, ports, urban metro, industrial parks, information technology, last but not the least energy - considerable part of this is renewable energy. Covering all above CPEC consists of 1+4 portfolio in which 1 is for core CPEC and its four components comprise of energy, Gwadar, infrastructure and industrial cooperation. Also the Long Term Plan (LTP) is included which is based on Joint Cooperation Committees (JCCs) and Joint Working Groups (JWGs).
Figure 3 depicts the CPEC portfolio including energy, infrastructure, Gwadar port and trade and industrial cooperation.

The three phases of CPEC project includes the short term projects 2014-2020 (also known as Early Harvest Projects to be completed by 2017-18) Almost 19 early harvest projects are there comprise of energy and infrastructure projects. Medium term projects are expected to be completed from 2021 to 2025. Whereas, the long term projects is likely to be completed in 2030.

First target to be achieved is by 2020, “The period of market cultivation”. Then the second target is about 2025 which is “expansion and development period” in which processing and manufacturing industries will be developed along the belt. The third target is in 2030 which is “the maturity period” in which most of the free zones and economic zones are being conceived to have their proper manifestation.

The construction of CPEC is a good way to address terrorism for which With the Security has improved significantly and Special Security Division (SSD) of 15,000 professionals has been established. It includes 9,000 defence and 6,000 civil armed forces (CAFs). The SSD is dedicated to all the projects of CPEC; road, rail, Gwadar, energy, optical fibre, SEZs and all others

Out of the total CPEC portfolio 71 percent comprise of Energy component out of which overall electricity transmission is 7 percent, Coal IPPs 41 percent, coal mining 6 percent, hydel power 13 percent, and wind and solar IPPs are 4 percent. The Gwadar consists 2 percent investment out of the total investment mix, The investment in infrastructure comprise of 28 percent out of which 18 percent is for Rail projects and 9 percent for Road projects.
Energy:

So, in this context out of total $60 billion overall portfolio there are 19 energy projects out of which 17 are priority energy projects including Sahiwal project, comprise of $33 billion which are expected to plugin 17045 MW energy, out of which 7000 MW will be supplied in start of 2018. With a total capacity of 1,320 megawatts (MW), the project has two coal-based power plants with the capacity of 660MW each. This is one of the early harvest projects of CPEC, a flagship project of One Belt-One Road Initiative (OBOR). Three energy projects – China Sunec wind power generation, coal-based Salt Range power plant and Zonergy solar farm project – have been shelved. Total installed capacity of the shelved projects was 1250 megawatts while cost estimated at $2227 and IPPs (independent power producers) mode was set for the financing. The details of energy projects are given in annexure 1.

Infrastructure:

The CPEC infrastructure portfolio includes road, rail and optical fiber projects estimating $3 billion, $8.6 billion and $44 million respectively. The infrastructure projects are prioritized to improve the infrastructure. Also the optical fiber connectivity between China (at Khunjrab) and Pakistan (in Islamabad) is expected to provide an additional capacity of ICT connectivity which is estimated to be greater than what we are using in Pakistan as of now. This aforementioned portion of ICT is expected to be completed by the end of December 2017. This has the potential to make Pakistan the hub of research need to be carried out and enterprises need to be established and/or relocated. For the upgradation of railway and mass transit projects the estimated cost is around US$8,200 million and includes development of a dry port at Havelian to harbor cargo in an efficient and timely manner. In order to provide state of the art transport facilities, the two sides have also agreed to work together on mass transit projects in the four provincial capitals namely Karachi, Lahore, Peshawar and Quetta. All provinces have identified their priority projects and the two sides have initiated collaboration on a number of projects, to name a few, development of Keti Bunder Sea Port, Naukundi-Mashkel-Panjgur Road, Quetta Water Supply Scheme, Chitral CPEC Link Road, Mirpur-Mansehra Road and iron ore mining project in Chiniot. These Projects are being managed by respective authorities/agencies and are at different stages of planning and implementation. The details of project are mentioned in annexure 2.

Gwadar:

The Gwadar port is on the shores of the Arabian Sea in Balochistan with Coast line approximately 300 km and 18.2 meters deep. In 1954, the United States Geological Survey (USGS) conducted a report on the coastal line
of Pakistan, which identified Gwadar as an appropriate site for building a sea port without much financial cost. Gwadar was purchased from the Sultanate of Oman in 1958 and included in Pakistan’s territory and the potentials of Gwadar were untapped. In 1993, a technical and financial study was conducted on the construction of Gwadar Port. The first phase of the project was completed in December 2006, which covered building of three multipurpose berths and another related infrastructure. Construction on the second phase of the port began in 2007, and continues to date. Plan of developing Gwadar port is inspired by the DUBAI and Singapore ports which will accommodate the rise in economic activities and trade through sea and has the potential to deal the traffic about 45-65 million tons (in 15 years) up to 300 million tons (in 50 years) whereas the current trade at Qasim, Karachi Port is 67 million tons (Azhar Ahmad, 2015)\(^8\). CPEC Gwadar port consist of 12 projects consisting Gwadar Airport, Economic free zone, hospitals with international standards, technical and vocational institute, Pak China friendship school, and Gwadar smart port city plan, Development of Gwadar University (Social Sector Development) etc.

**Industrial Cooperation:**

The CPEC industrial cooperation between China and Pakistan includes initially nine SEZs to be developed. Zones will be developed in different provinces. The details of these SEZs is mentioned in Anex 3.

![Diagram of CPEC Industrial Zones](image)

**CPEC Long-Term Plan**

While Pakistan may have received a colossal level of foreign direct investment (FDI) in an acute amount of time under the components of CPEC, there is a separate mechanism by which planned and ongoing infrastructural projects are meant to deliver fruitful, long-term gains as CPEC reaches its market realization stage in 2030. The infrastructure due to be delivered will supplement a wide and varied chain of induced improvements within Pakistani economic clusters and sectors that already comprise a hefty chunk of GDP but simultaneously suffer from productivity and quality-control grievances.

Pakistan already enjoys self-sufficiency with regards to foodstuffs as a largely agrarian economy, but much of the processes and technologies by which such harvests are rendered remain woefully lacking in comparison to the sort of logistical templates that farming operations in developed states run off of. While the primary, contemporary focus of CPEC remains on the provision of a secure, modern transport and energy corridor, the agricultural sector stands to gain the most from such amelioration of Pakistan’s internal ability to provide viable cargo transport and uninterrupted power supplies. Increased mechanization, fertilizer production, and

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\(^8\) Dr. Azhar Ahmad, 2015 “Gwadar Port: Potentials and Prospects,” Report, Pakistan Institute for Conflict and Security Studies, Islamabad
and improvements in livestock management alongside the adoption of cold-storage facilities is meant to serve as a template by which the sector may boost productivity and output to record highs, with a transport network to match in terms of the sector’s ability to market, process, and ship such commodities. A complementary chain of warehouse storage mechanisms will also be developed for this specific purpose. Moreover, industrial capacity is designated to hike not only its output as a share of gross GDP but also allow for the technical training and skill procurement of a Pakistani labour force that still mainly dabbles in non-innovative agrarian farming methods. The revamping and return to normalcy of sectors such as textiles, minerals, and mining will not only be provisioned via the establishment of Special Economic Zones (SEZs) but also via the induced interest of local chambers of commerce throughout Pakistan. When the infrastructure exists, not operating business off of it in actuality only serves as a loss to potential commercial activity.9

Another hefty component of the long-term plan for CPEC consists of correcting Pakistan’s internal security and law and order fissures via the use of widespread, city-spanning surveillance technologies. The notion of prevailing internal stability under technology transfers as provided by CPEC further allows for FDI from non-Chinese sources to rise as investor confidence increases alongside a positive reassessment of Pakistan’s credit rating by global financial agencies. Other transfers of technology include novel fibre-optic cables designed to boost the state’s telecommunication capabilities.

Overall, CPEC’s main aim of regional connectivity allows for a long-term vision wherein the industrialization of Pakistan and accompanying modern practices in doing so will be allowed to flourish. The uptick in industrial output, provision of transport networks, and efficient power generation will serve to establish an economic framework for Pakistan that induces massive increases in overall business activity via the country seeing as the means and ease of doing should be rendered as simpler and more efficient cometh 2030.

Conclusion & Way Forward:

The funding provided by CPEC vis-à-vis Chinese-led investment and development banks the largest amount of direct FDI Pakistan has ever received in history, with the volume of financing equaling all FDI inflow into Pakistan since 1970.

This particular paper aimed to perform a literature review in order to analyze and provide a comprehensive synopsis of the multifaceted distinctions between CPEC projects as well as their potential implications for Pakistan as a whole. Following a brief introduction of China-Pakistan diplomatic relations, the seven routes destined for the Belt and Road Initiative, and an alignment of CPEC with the Pakistani government’s Vision 2025 program, the four key components of the project: energy, infrastructure, industrial cooperation, and Gwadar were explored in broad detail.

The resultant literature review revealed that multiple industrial sectors and economic clusters in Pakistan are likely to benefit from CPEC projects as a whole seeing as the projects allow for the country to actively develop an entire framework by which to conduct business through the provision of a secure energy and transport corridor, coupled with a massive upgrade in shipping and logistics capability through the construction of a port at Gwadar.

References:


Annexure 1.
The following 12 energy projects with a total cost of US$ 15,377 million are under implementation through IPP mode:

- 2×660 MW Port Qasim Coal Power Project
- 2×330 MW Engro Powergen Thar Project
- 1,124 MW Kohala Hydropower Plant Project
- 720 MW Karot Hydropower Project
- 870 MW Suki Kinari Hydropower Project
- 1,320 MW Sahiwal Coal Power Project
- 1,320 MW HUBCO Coal Power Project
- 1,320 MW Thar Coal Block-I (Shinghai) Project
- 300 MW Quaid-i-Azam Solar Project
- 50 MW Sachal Wind Power Project
- 50 MW Hydro-China Dawood Wind Power Project
- 99 MW UEP Wind Power Jhimpir Project

Annexure 2.
The major ongoing road transport infrastructure projects are mentioned below:

- Khuzdar-Basima Road N-30, 110 km
- Havelian-Thakot Section of KKH, 120 km
- Orange Line Metro Train Project
- Sukkur-Multan Section, 392 km

Annexure 3.
Nine SEZs notified:

- China Special Economic Zone-Dhaveji (Thatta) located in Sindh
- China Economic Zone, M-2 District Sheikhupura located in Punjab
- Rashakai Economic Zone, M-1 located in KPK
• Bostan Industrial Zone located in Balochistan
• Moqpondass, Gilgit SEZ
• Model ICT Industrial Zone, Islamabad
• Development of Industrial Park on Pakistan Steel Mill, Land in Port Qasim located near Karachi
• Mirpur Industrial Zone, AJK
• Mohmand Marble City Located in FATA.