China Pakistan Economic Corridor: The Problems and barriers faced by Pakistan

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ABSTRACT: This essay seeks to shed light on involved internal and external challenges or problems of China Pakistan Economic Corridor faced by Pakistan (CPEC). Internally, the problems and barriers come economically, socially and environmentally, while the external barriers come mainly about by India and the United State. This critical analysis illustrates many problems and obstacles and show that this is not as an entirely win-win situation as it might seem on paper. On the contrary, it is a continuum of grim challenges.

KEYWORDS: OBOR, CPEC, Pakistan, Problems and Barriers

1. Introduction

China Pakistan Economic Corridor, as one of the most important route in China’s One Belt One Road initiative (OBOR), aims at linking Gwadar port in southwest Pakistan with The Xinjiang Autonomous Region in northwest China, via a network of railways, highways and pipelines. This mega project which comprises investments, loans and grants envisaged in 2013 and launched in April 2015, are always been regard as the boon for Pakistan. Many researches and statistics showed CPEC bring a series of benefit to Pakistan, including the injection of $62 billion to the economy, which take account of 20% of the total GDP of Pakistan, creating at least 80,000 jobs for Pakistan by 2030,relieving the Pakistan’s energy crisis and so on. However, many realistic problems in both internal and external aspect created many uncertainties upon this ambitious project.

2. Internal issues and challenge

In this section, I will critically illustrate the internal problems and barriers that Pakistan is facing in terms of economic, social, political, environmental aspect, for the sake of obtaining the comprehensive analysis toward CPEC.
2.1 Issues from an economic point of view

Although CPEC have always been regard as the boom for Pakistan to pull it out of slump and solve its long-lasted energy shortage problem, its economic issues might make the CPEC less sustainable than expected.

2.1.1 Debt crisis of Pakistan

China's massive investment in CPEC not only ballooning Pakistan's external debt but also its current account. Pakistan's total public external debt stood at $85.4bn in March, a quarter of which was owed to China, and The World Bank Group and the Asian Development Bank account for $14 billion and $11 billion respectively. Nevertheless, The National Bank of Pakistan, using a broader definition, for totals $106 billion. These heavy loans widen the fiscal deficit to an unsustainable level and worsened the country’s debt profile rapidly in a short period with a year. Pakistan’s debt-to-GDP ratio increased astonishingly by 6 percentage to 73 percent of GDP in 2017-18, which fairly beyond the debt sustainability limit of 60 percent of GDP defined under the FRDL Act 2005. Doubtlessly, this is a dangerous signal, which did not appear so worrying in the other BRI-related countries. Center for Global Development found that Pakistan was one of the most debt-distressed countries due to future BRI-related financing out of 23 BRI-related countries that were researched.

Furthermore, the relatively high interest rates being charged by Pakistan’s all-climate partner adding to Pakistan’s risk of debt distress. Unlike the 2 to 2.5 percent concessional rate given to some customers of China Exim Bank, reports manifest that some of Pakistan’s loans interest rates as high as 5 percent.

Though the financial details of the CPEC is still lack of transparency, but many researchers have calculated the figure of $3-3.5bn per year for Pakistan as repayment obligations based on the disclosed information. Take account of Pakistan’s tepid economic growth of 3.3 percent, Pakistan’s government might not able to return these loans.

When government borrowing is not accompanied by enough economic growth and revenue generation to fully repay the debt, it can generate a downward spiral that inevitably ends in the need for debt restructuring or reduction. Domestic spending on infrastructure and social services may be sacrificed in order to service the debt, with the problem compounded when governments borrow additional funds just to meet debt servicing needs. The huge debt pile has been proved enable to forcing some new projects of CPEC slow down. One example to illustrate is the $8.5 billion Mainline-1, a railway modernization project which is part of CPEC Phase-1. According to sources in the Planning Commission of Pakistan, the bureaucracy is reluctant to proceed it because of increased sifting from National Accountability Bureau (NAB), as well as IMF’s restrictions on Pakistan to take more debt. The professor and head of the School of Public Policy at the Pakistan Institute of Development Economics gave an insightful solution to Pakistan’s
current issue, “The current debt servicing burden can be reduced through rescheduling and re-profiling of Chinese loans… ”The reduced debt burden will provide fiscal space to allocate expenditure in order to accelerate the progress on CPEC projects.”

2.1.2 Deficit and reserve crisis of Pakistan

Though Pakistan saw a surge in FDI and other external inflows, its massive imports of Chinese machinery, raw material and services offset these inflows, have even swelled Pakistan's current account deficit. Statistics show Pakistan’s trade deficit with China has tripled over the last five years, reaching around $12 billion in 2017 and total deficit around $37.7 billion in 2018, which is very high than its export rated. Moreover, Chinese imports, in particular, machinery and material for CPEC, generally receive tax-free privileges which would strain Pakistan’s current account deficit as a considerable amount of profits will be repatriated.

The deficit dilemma might be long-lasting, report estimates that CPEC related imports could reach 11 per cent of total projected imports by 2020, equal to just over $5.7 billion, while inflows under the corridor will touch 2.2 per cent of projected GDP in that year. This not also create problem of balance of payment but also reserve crisis—— Pakistan’s foreign exchange reserves are shrinking drastically as much more money flows out of Pakistan. In 2018, reserves have shrunken by $1.2 billion with merely 3 weeks which account for two months worthy current import. Furthermore, the continuously reserve crisis will force Pakistan seek the help from external finance and therefore deepen its debt burden. According to the State Bank of Pakistan, the country borrowed $16 billion from abroad in 2018-19 to maintain currency reserves. About $6.7 billion, or 42% of the total, came from China, and The IMF approved a $6-billion bailout to Pakistan in July. This definitely was an appalling sign, “This is an alarming situation” commented by Muhammad Sohail, CEO of Topline Securities, a Karachi-based advisory firm. Pakistan will continuously face crisis of deficit and currency reserve in the near future, given the authorities cannot recognize that a durable and strong export recovery is key to cope with these problems.

2.1.3 The problems relating to the bilateral trade

Another concern arose is the increase economic connectivity which allow Chinese imports flood into Pakistani domestic market and thus devastate the domestic producer. This concerned is not groundless. The 2005 released China-Pakistan Free Trade Agreements (FTA), which aim to increase economic connectivity have already proved the necessity for Pakistan to negotiate more favorable terms with its all-weather strategic partner as its devastating influence on domestic manufacturers, particularly small and medium-sized enterprises. For instance, a Pakistani industrial company executive who had failed the competition of the Chinese manufacturers and had to shut down his tile manufacturing enterprise
after the FTA be released said, “Chinese manufacturers have captured almost 70 percent of the ceramic tiles market. . . . We cannot compete with them because of our cost of production is much higher.”

It worth to mention that, CPEC also try to strengthen the market presence of the Chinese giant enterprises which they have already established, such as Haier in household appliances, China Mobile and Huawei in telecommunications and China Metallurgical Group Corporation in mining and minerals industry. This dominance of large Chinese enterprise in these key industries might not pose a threat to the Pakistan’s SME but also shake the position of their state-own companies.

In addition, the first draft of the full version of the CPEC long-term plan mainly describes Pakistan as a supplier of low value-added inputs, such as cotton and fabrics, which might push Pakistan in the disadvantageous position of these bilateral agreements.

2.2 Issue from the political point of view

2.2.1 The administrative problems

It worth to mention that, internally, Pakistan is plagued by corruption and administrative inefficiencies. China has raised serious issues over such administrative problem, whereby Federal Board of Revenue (FBR) is said to purposely delaying the tax exemption process of imported equipment, used for CPEC. The poor administrative capacities, serious corruption and lack of transparency of Pakistan, which could significantly delay these multi-million projects and also arise the cost of project implementation. Also, the poor law and order situation and infrastructural problems in Khyber Pakhtunkhwa and Baluchistan, which might hiders the progress of CPEC.

2.2.2 The inharmony among the provinces

Firstly, the repartition of the Chinese investment has sparked a great deal of domestic political inharmony and rivalries between the Provinces and the central government. The suspicion of preferential treatment to Punjab, the richest province among the country and the political stronghold of the Pakistan Muslim League, the governing party headed by Prime Minister Nawaz Sharif——has provoked criticism from the other three smaller provinces of Sindh, Khyber Pakhtunkhwa and Baluchistan. Opposition parties such as the Pakistan Tehrik-i-Insaf (PTI) and Pakistan People’s Party (PPP), which respectively rule Khyber Pakhtunkhwa and Sindh, have repeatedly complained that Punjab benefits most from the allocation of services, industrial parks, and special economic zones and thus deprives the equal access to investment opportunities of other provinces. Particularly the Baluchistan government, which has repeatedly displayed dissatisfaction about the lack of progress on the Western Route of CPEC. They have questioned about their
negligible 2-3% province’s share in the multi-billion projects. Meanwhile, in parliamentary committee meetings, members from both Baluchistan and Khyber Pakhtunkhwa have protested against the lack of groundwork on CPEC in their respective provinces. Generally, in the absence of provincial coordination, several voices suggest that the provinces aligning with the Eastern Route will be the larger beneficiaries of CPEC investments and largely increase the domestic disparity. Prime Minister Nawaz Sharif has already twice chaired an All Parties Conference (APC) to quell provincial grievances and has formed a committee to handle the issues, but it appears to fail. Similarly, there is a little of substance been communicated in the Senate Special Committee meetings to date. The rivalrous atmosphere and great tension among the provinces are the main political barrier toward the progress of CPEC. Researcher Siegfried O. Wolf iterated that Pakistan has tendency of ruining the progressing development projects due to political brawl. One relevant example is Kalabag Dam, which was suspended in 2008 due to the mass protests and strong opposition from Sindh province.

2.3 Issue from the environmental point of view

In contrast to other typical large development projects, which always put more stringent measures on environmental factors, the potential environmental impacts have been ignored in the formulation of this mega-project. Recent studies have warned that, the investment of CPEC will thrust the problems of worsen water, air, and biodiversity upon Pakistan. These environmental concerns come from many causes, but mainly associated with the construction of the energy project and cutting down of trees.

The investment of the energy project compounds the emission of carbon dioxide and smog in Pakistan. For the sake of relieving the desperate energy shortage, the $33 billion worth investment are allocated to 19 energy projects, and three fourths of the newly planned energy will be generated from traditional coal-fired power plants in Baluchistan (Hub and Gwadar coal power plants) provinces, Sindh (Thar-I and Thar-II coal power plants) and Punjab (Sahiwal and Salt Range coal power plants). These traditional coal power plants are the major contributors to greenhouse-gas emissions and smog, which ultimately lead to global warming and acid rain. In the past a few years, the seasonal smog has already engulfed the Punjab and Sindh provinces severely, resulting many fatal road accidents by the extremely low visibility. Furthermore, thought the host of hospital admissions have already resulted due to the poor air quality, the cases of asthma, lung tissue damage, bronchial infection, heart attack and the other cardiovascular and respiratory diseases are expected to grow further in these regions.

Another serious environmental concern of CPEC which Pakistan is facing, is linked with over cutting down trees for the various road networks construction in Pakistan. The CPEC road networks start from Kashgar in the western part of China and end in Pakistan through Gwadar, Baluchistan. More than 54,000 fruit or forest trees have been chopped down in Abbottabad, Nowshera, Lower Dir, Swabi, Mardan, and Malakand districts in merely 2017. After large-scale felling, 7 million...
pounds of CO2 were not absorbed by trees in these districts in 2017. These districts are already suffered by increased temperature, droughts, soil erosion, untimely rains, and glacier melting, the still accumulating greenhouse gases will ultimately lead to extreme flooding and make these districts more vulnerable. Incidentally, Nowshera, Lower Dir, Swabi, Mardan, and Malakand are previously the most vulnerable districts to monsoon flooding.

These environmental problems not only make the residents suffer and pose serious managerial pressure to Pakistan government internally but also drastically reduce the CPEC’s potential benefits.

3. External issues and challenge

There is a serious concern presented by academic and scholarly circles in Pakistan that CPEC would be countered by India and the America. The reasons that Indo-US bilateral relation did not allow the development of China and Pakistan through CPEC is sophisticated.

3.1 Disturb from India

3.1.1 The reasons for India disturbance

There is a serious concern presented by academic and scholarly circles in Pakistan that CPEC would be countered by India and the America. India is having the aims of getting the regional superiority in Southern Asia, but China Pakistan cooperation can pose a direct threat to Indian. CPEC is being considered an ambitious project of China to increase its influence in Indian ocean and Southern Asia which directly counter with Indian ambitions and create strong incentive for India to hamper the project. Similarly, this fear not only India but also America, which regards OBOR and CPEC as one of the biggest threat to “its hegemony and superpower status”.

Firstly, CPEC can bring Chinese technology and expertise in field of energy, agriculture, infrastructure, telecommunication which can both extend Chinese footprint of economic and even political influence in Indian ocean and Southern Asia and therefore doubtlessly weaken Indian control upon this region. Similarly, as the biggest challengers of American Hegemonic Power, America have the same interest to contain and confine the military power and economic expansion as well as political clout of China. This is the foremost reason.

Secondly, the strategic investment to Gwadar port, an extremely crucial port which is the site of more than half of the province’s projects, act as CPEC’s “anchor” that connect Central Asia, South Asia and Middle East and provide shortest passage to China for its exports and imports, might threatening the position of Chabahar Port. This port has been put great value by India as it has the potential to serve as a sound
outlet as well as a capable storage and trans-shipment hub for the oil and gas suppliers from Middle East and Central Asia. India expect Chabahar Port can bring substantial economic interests and even political influences on these regions. For this reason, India have heavily invested in the $500 million on the Port of Chabahar for its extension and development and received operational rights of Chabahar ports from Iran for eighteen months. However, once the Gwadar been fully operationalized, its layout and depth will facilitate the largest ships to dock there, while Chabahar port is short of these advantages. Also, the maximum planned capacity of Chabahar is up to 12 million tons per year while Gwadar’s can reach almost 300 million to 400 million tons. Predictably, the big economic powers such as Russia, UAE(United Arab Emirates), CARs (Central Asia Republics), Afghanistan, Iran, would give preference to Gwadar instead of Chabahar since its cost and natural competitiveness, and expectably, Gwadar could outstrip all of Indian ports that collectively handle approximate 500 million tons a year. This will definitely become a challenge for Chabahar and India to lose its strategic importance, therefore it is impossible that India stand idly for the growing importance of the development of Gwadar port.

Furthermore, the favorable Geo strategic location of the corridor will provide an opportunity to China to keep surveillance over the Indian military activities in the India Ocean closely. This will obviously lost India initiative on military deployment and can be an increasing concern for India take account of the possibility of China-India border dispute military conflicts escalation.

3.1.2 India moves of disputing

Indian RAW(Research and Analysis Wing) and American CIA has continuously funding the militant groups and Sub-Nationalists in all provinces in Pakistan to conduct subversive acts and using terrorist elements within the whole country for the sake of threatening development of the CPEC. It is worth to notice that, India setting an office in Delhi and the allocation of $300 million specific to disrupt the projects associated with CPEC has been showed a clear indication of Indian plans and actions. In the past few years, the militant groups kidnapped and killed many Chinese in Pakistan despite Pakistan’s efforts to provide best possible security, and damaging the business confidence terribly. There is some case of the terrorist activities, to prove these can be a serious external threat for the CPEC.

- In 2016, Nazar Baloch, the head of RAW-backed Baloch Liberation Front (BLF), publicly claimed that he would welcome all assistance from India and promised he would orchestrate further attack toward CPEC. RAW via its proxies has propagated numerous murders of Chinese engineers and worker in Baluchistan for the sake of disjoint China from Pakistan.

- In November 2018, for example, the Chinese consulate in Karachi was attacked by BLA.

- The allies of India, the United States, continues to create and support instability in Pakistan’s Baluchistan province as well. Designedly, for instance, in July 2016,
America added Jamaat-ul Ahrar, a terrorist organization, to its terror list. In order to refuging American strikes, the group go into the porous border region of Pakistan, Baluchistan, the areas which China was eying for their multibillion economic corridor project.

This is why whenever the Washington has targeted terrorist organizations along the Afghanistan-Pakistan border, Pakistan will face even-more-frequent terrorist attacks historically. Once America declared Jamaat-ul-Ahrar a terror group in July, the group’s assaults in Baluchistan proliferated – the group killed 135 people mostly in Quetta in August and September 2016 alone.

In July 2016, because the slow start and Pakistan’s inability to provide adequate security, five projects worth billions were already be abolished. In addition, in 2018, there were over 40 project to be undertaken by the CPEC, and it has been reported that China committed to 30 early harvest projects, of which 16 are under construction; these have been valued at between $10-14 billion. All of this weighs particularly heavy on the heads of Pakistanti government officials who can’t afford any more delays. This is the crux of challenge faced by Pakistan. To put it more plainly, the United States and India has contributed to the upswing in terror and degradation of security in Baluchistan, a key region for CPEC projects, which risk billions over delays and cancellations for the CPEC project. To cope with, the army set-up 10,000-man force for protecting the development projects, and more than 5,000 come from Pakistan Army’s special services group who are specially trained for counterterrorism and security. This become an extra financial burden for the project.

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