CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC):
PROSPECTS AND CHALLENGES FOR REGIONAL INTEGRATION

Akber Ali
Lecturer
Department of Communication Studies
Karakoram International University
Gilgit-Baltistn, Pakistan, 15100.
Email address: akber.ali@kiu.edu.pk
akber_ali@qq.com

Abstract
As a flagship of China’s One Belt One Road initiative, China Pakistan Economic Corridor (CPEC) is pivotal to China’s energy security owing to the growing row in the region of South China Sea among China and other regional and global players. The ongoing contestation between China and other countries in the Asia Pacific has compelled China to look for alternative pathways to meet its increasing energy needs in case of any blockade of the Strait of Malacca as a consequence of any conflict between China and other countries. The CPEC could also bring economic avenues to Pakistan and can foster regional and cross-regional economic and trade integration between South Asia, Central Asia, East Asia and West Asia. However, it is also surrounded by some serious challenges ranging from regional security environment, internal instability to political discontent among various political actors in the Pakistani polity.

Keywords: CPEC, Pakistan, China, regional integration, prospects, challenges

JEL Classification: R1, F15

1. INTRODUCTION
The China Pakistan Economic Corridor (hereafter CPEC) is the flagship of China’s One Belt One Road (OBOR) initiative envisioned by president Xi Jinping back in 2013 for the economic integration of Eurasia through belts and roads initiatives. The OBOR is part of China’s grand strategy of its peaceful rise as a great power on the global stage through a financial initiatives of $40 billion Silk Road Fund and the 57 members Asian Infrastructure Investment Bank (AIIB) to
generate new growth engines along the New Silk Road with a win-win and cooperative approach (Aneja, 2016). The OBOR has two international trade connections namely the land based ‘Silk Road Economic Belt’ and oceangoing ‘21st –Century Maritime Silk Road; the CPEC is the part of the former one. With the former launch of CPEC between China and Pakistan in April 2015 by President Xi Jinping, the CPEC has got a status of “game changer” or “fate changer” and nationalistic fervor in the political, media and public discourses in Pakistan (Zaidi, 2016). This multibillion dollar (US$46bn) CPEC is a network of roads, railway tracks, oil and gas pipelines, fiber optics for communication, dams, ports, airports and economic zones linking the Western part of China to the Gawadar Port in Balochistan, Pakistan running some 3000km from Xinjiang in China to Balochistan in Pakistan via the Khunjerab Pass in the Gilgit-Baltistan of Pakistan.

Historically the Sino-Pakistan relations have remained more military- oriented, but it seems that a new relationship is in the offing between the two countries to make their ties more economic oriented focusing on trade, investment and energy cooperation (Kumar, 2007). The CPEC has the potential to further deepen the relationship between China and Pakistan both economically and at public level (Small, 2015) and can change the geopolitics of South Asia (Barber, 2014) by connecting China to the Indian Ocean. This access of China to the Indian Ocean via Gawadar Port in Balochistan, Pakistan may trigger concerns for India as it considers the CPEC as strategic initiative of China to deploy the latter’s naval forces in the India Ocean to contain India what many termed as ‘String of Pearls’ strategy (Holmes, 2013). Both China and India have already conducted naval exercise in the India Ocean as a symbolic sign of hedging in 2014. However, scholars have rejected this argument stating that China has vulnerabilities in the Indian Ocean given the increasingly success of India’s security relationship with the surrounding countries in the region of Indian Ocean (Brewster, 2015).

The CPEC is strategically and economically important both for China and Pakistan. It will pave the way for China to access the Middle East and Africa from Gawadar Port, enabling China to access to the Indian Ocean and in return China will support development projects in Pakistan to overcome the latter’s energy crises and stabilizing its faltering economy. Additionally, the CPEC could serve as the driver for trade and economic integration between China, Pakistan, Iran,
India, Afghanistan and the Central Asian States provided the frosty political atmosphere between Pakistan, India and Afghanistan and to some extent Iran gets improved in the near future. Under the CPEC framework, around US$10 billion will be spent on infrastructure development and US $ 30 billion have been allocated to various energy projects including dams to generate electricity which is a dire need for Pakistan’s economic and industry development. This substantial amount of US$ 46 billion could rejuvenate Pakistan’s dilapidated communication infrastructure and overcome its energy crisis. It may also be pivotal for Pakistan’s regional trade activity between China, the Middle East, South and Central Asia and beyond (Masood, 2015). A this stage CPEC seems to be a bilateral initiative between China and Pakistan, however in the long run it has the prospects to be a multilateral project.

2. STRATEGIC SIGNIFICANCE OF CPEC
2.1. CPEC as pivot to China’s Economic and Energy Security
The CPEC if become operational can connect China directly to the Indian Ocean and the region of the Middle East from the deep Gwadar Port in Pakistan thus reducing its existing dependence on the South China Sea. The South China and East China Seas are increasing becoming contentious territories between China and many regional powers and their allies including Japan, Philippines and the United States, who have challenged the ownership claims of China over these strategic seas in the Asia-Pacific region. The recent decision by the international tribunal against China over the South China Sea case has further build up pressure on China to explore for alternative secure ways to transport it goods and energy requirements from the Gulf region. However, China has rejected the ruling of the international water tribunal stating it not abiding and would not affect China’s territorial sovereignty and maritime rights in the South China Sea (The Guardian, July 2016). The Gwadar Port in Pakistan, under the Chinese control is only 400 KM away from the Strait of Hormuz and is strategically pivotal for China in transporting its energy and oil needs from the West Asia reducing its current maritime transportation distance from 12000 km to 3000km. Accessing the Indian Ocean from the Gwadar Port is inevitable for China as it makes China less vulnerable to its existing Malacca Dilemma and provides the economic security to China in getting access to the West Asia at a time when the Strait of Malacca is increasingly becoming a contested territory among various players including China (Joshi, 2013; Kumar, 2007).
Currently China transports 80% of its oil and energy needs through the Malacca Strait and increasingly feels that its economic and energy security interest in the region are under serious threats due to the escalation of tensions between China and the region and global players in South and East China Sea. This is why China is looking for alternative viable transit routes both economically and security wise; the CPEC is the best choice for China linking it directly to the Indian Ocean via Gwadar Port. Under the US policy of rebalance to Asia the region of Asia-Pacific has got an unprecedented strategic importance for the Obama administration as the recently signed Trans Pacific Treaty between US and its allies testifies it. This rebalance policy of the US in the region of Asia-Pacific involves military, economic and strategic focus to the countries of South East Asia including India in shaping its rebalance of the region including South China Sea and the Indian Ocean (Saunders, 2014). This would further cause discomfort for China vis-à-vis its economic interests and security in the region of the Asia-Pacific.

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

The CPEC passing through the regions of China and Pakistan bordering many states could be extended to the countries Central Asia, Afghanistan and West Asia and India. The landlocked and resource rich countries of Central Asia have always set their eyes to access regional markets including Pakistan, China, India and the countries of West Asia. Both Afghanistan and Tajikistan have transit agreements; CPEC will provide them the opportunity to transport their goods and market them
more competitively to the regional and global market fostering regional economic and trade connectivity. Similarly, Pakistan has always desired to access the resource rich region of Central Asia via Afghanistan to meet its energy needs and to transport goods to Central Asia States. The area through which the PCEC passes is at the crossroad of Asia, South Asian and Central Asia. For the greater benefit of the region and regional integration, the CPEC could be extended to Central Asia including Afghanistan and India opening them to the regional and global market. President Xi Jinping has already made a reference to such an arrangement in future during his address to the Pakistani parliament on his first visit to Pakistan in April, 2015. The changing geopolitical environment demands Pakistan to reorient its trade policy to more export oriented and must search for new markets in its neighborhood including India to boost its economy (Burki, 2016) and the CPEC seems to be the best opportunity for Pakistan to expand its trade with the region of South and Central Asia including China and India. Recently, Afghanistan has also shown its interest to be part of the CPEC.

India has had always desired to have transit route to Afghanistan and Central Asia via Pakistan. However, given the political rivalry between India and Pakistan, the later has denied transit route to India through Pakistan. India alternatively has focused on Chahbahr Port in Iran to access Afghanistan and Central Asia via Iran reducing its long lasting dependence on Pakistan to access the Central Asia States’ markets. India, Iran and Afghanistan have recently inaugurated the Chabahar Port under the trilateral framework signaling to bypass Pakistan for a regional trade connection between the three countries. However, the Chahbahr Port is not likely to be a zero-sum game for Pakistan, Pakistan can also be part of Chahbahr trilateral arrangement and both Gwadar and Chahbahr ports could be linked as regional ports fostering regional trades. The Iranian side has already offered Pakistan to be part of the Chabahar Port trilateral arrangement and not to consider the port as rival to Gwadar Port.
3. CAN CPEC BE TRANSFORMED INTO AN IICPEC?
Can China Pakistan Economic Corridor be transformed into India/ Iran China Pakistan Economic Corridor (IICPEC)? To address this question one has to understand the recent geopolitical and economic developments in the region of South and Central Asia that could foster the regional environment to transform the CPEC into the IICPEC. The TAPI (Turkmenistan, Afghanistan, Pakistan, and India) gas pipeline agreement signed in December 2015 between India, Pakistan, Turkmenistan and Afghanistan signifies the melting of the long existing cold attitude and trust deficit between India and Pakistan and Pakistan and Afghanistan. The concept of TAPI was an old one but did not get materialize due to the political rivalry between the aforementioned states. Under the TAPI framework gas will be transported from Turkmenistan to Afghanistan to Pakistan and further to India. The TAPI agreement is the harbinger that a similar...
arrangement can be formed to extend the CPEC to Afghanistan, Central Asia and India.

Despite its strategic location and favorable economic geography, Pakistan has very limited trading activity with both its eastern and north-western neighbors—namely India and Afghanistan. India needs a transit route to trade with Afghanistan and Central Asia via Pakistan and Pakistan desires access to the markets of Central Asian States for its energy needs. Pakistan’s access to Central Asia is unlikely unless Pakistan allows Afghanistan the transit route to access India. The CPEC seems to be an opportunity for India, Pakistan, Afghanistan and Central Asian States to have North South regional trade connectivity in addition to creating economic avenues for Pakistan (Ziauddin, 2016).

Currently the anathema between India and Pakistan could prevent India to be part of the CPEC. However, India’s inclusion to the CPEC can be a mutually beneficial move for regional cooperation and trust building that could ultimately be stimulating in resolving political disputes between India, China and Pakistan amicably (Haider Suhasini, 2016). Making India’s inclusion to the CPEC will be helpful to allay the doubts between the two neighbors namely India and China toward each other’s move in the region. The joint security of the CPEC between China, Pakistan and India can usher a new economic beginning in the region and can bring the countries more closely. China has already indicated that CPEC is not a bilateral move, rather a regional and cross regional move and Afghanistan and Iran have lately has shown its interest to be part of the CPEC (The News, 2015).

The lift of the international sanction on Iran has provided yet another opportunity to trade with Iran and to revive the Iran Pakistan India (IPI) gas pipeline—also known as the peace pipeline. India had left the IPI owing to the US pressure and Pakistan faced similar pressure from the US no to go ahead with the IPI. In his recent visit to Pakistan the Iranian President has stated to revive the IPI gas pipeline and India can again join the IPI as the sanctions on Iran have been lifted for international trade. Both IPI and TAPI are important for regional cooperation and trust building between India, Pakistan, Iran and Afghanistan. Extending the CPEC to both India and Iran in addition to the IPI and TAPI will further boost the regional economic integration and allay any mistrust toward the CPEC both by Iran and India.
The connectivity between the Chabahr Port of Iran and the Gawadar Port and CPEC and Bangladesh China India Myanmar (BCIM) can foster a new economic and trade beginning between the South, West, Central and East Asia. Iran has already shown its interest for such an arrangement between Gawadar Port and Chahbar Port. The connectivity between Gawader Port and Chahabar Port will further allay the existing feelings of ambivalence between Iran, India and Pakistan vis-à-vis Chahabar Port supported by India and Gawader Port supported and run by China. In addition to this, the Indian inclusion to CPEC will not provide a justification for India to oppose the project unwarrantedly as India claims that it passes through the disputed territory of Pakistan administered Gilgit-Baltistan.

The region of South Asia has remained the least integrated one in the world despite having potential for accelerating economic growth (Rahman, Khatri & Brunner, 2012) and is rich in natural resources yet faces the energy crises that affect its economy badly. The regional economic cooperation through CPEC and related regional moves could pave the way for cross border electricity and trade cooperation harnessing complementariness in electricity demand patterns and gains from larger market access by removing the regional trade barriers between India, Pakistan and other states of the region including China (Singh, Jamasb, Nepal & Toman, 2015).

In the lately hosted fifth ministerial conference of Hear of Asia-Istanbul Process (HOA-IP) hosted by Pakistan the participation of the top leaders from Kabul, India, Tehran have vowed to regional security situation particularly Afghanistan and its war torn-economy and ways to strengthen cooperation, security challenges and regional economic ties. The participation of top leadership of Afghanistan in the HOA-IP signals a shift in the region from geopolitics to geo-economics (Haider Ejaz, 2015). This conference is a fresh start for greater economic links between Central, South Asia and Iran. By changing the transit route policies between Islamabad and Afghanistan, economic development could be brought not only to these two countries but can also foster trade between Central and South Asia in bringing the electricity and gas from Tajikistan, Uzbekistan and Turkmenistan to the region of South Asia (Wayand, 2016). The HOA-IP shows a commitment of the member countries for a broader economic engagement and CPEC could pave the way for such an engagement. The CPEC could be catalyst for a regional economic integration if India and Iran also become part of it and
that is likely to happen soon as China also desires the Indian and Iranian inclusion in the CPEC for a greater peaceful environment in the region. This is why China’s entire trade and commerce policy is based on the peace in its neighborhoods and any quarrels between its neighbors would displease China for its trade and commerce initiative in the region. For this reason China wants to play a diplomatic role in bringing both India and Pakistan to live resolve their issues peacefully and come closer for trade and economic ventures in the region setting aside their political differences (Hussain, 2016). The recent trilateral agreement between India, Iran and Afghanistan vis-à-vis Chabahar port is yet another harbinger for regional and cross region trade connectivity given the condition that these developments are not taken a zero-sum game in the region of South Asia and West Asia. With the opening of Chabahar port there are strong prospects that the two ports namely Gwadar and Chabahar could be linked to each other to forge regional and cross regional trade among the countries of South, Central, West and East Asia narrowing the existing gap of regional connectivity between these regions.

4. CHALLENGES TO THE CPEC
Despite its strategic significance both for China and Pakistan, the CPEC is not without challenges. It is surrounded by some serious challenges ranging from regional security to the political discontent within the provinces of Pakistan.

4.1. Regional and Internal Security Challenges
Regional security could be the biggest issue to the CPEC as it passes through the areas facing the biggest security challenges. The biggest challenged to the CPEC is the regional security environment; specifically the Afghanistan conundrum and its spill over to Pakistan. China’s huge investment in the region is hinged on the peace and stability both in Pakistan, Afghanistan and Western parts of China (Small, 2015). This is why China is actively pursuing to bring the Taliban to negotiating table within the quadrilateral framework between China, Pakistan, US and Afghanistan. The security situation in Afghanistan is getting worse day by day and even could be devastating after the withdrawal of NATO forces from Afghanistan as the Taliban have refused to come to the negotiating table initiated by the quadrilateral forum comprising. After the killing of the Mullah Mansoor—the Taliban leader in the US drone attack, there seems to be few chances that the Taliban could come to the negotiations. Moreover, Pakistan has recently stated
that after the killing of the Taliban leader in Pakistan, it cannot guarantee to bring the Taliban to engage in peace talks (Shah, 2016).

With the refusal of talk by the Taliban in their recent statements it seems that it will take time to prevail peace in Afghanistan. Stability in Afghanistan is of utmost importance as the spillover effect can further destabilize the regional security environment, particularly in Pakistan and Western parts of China. This could create security issues for the mega projects namely TAPI and CPEC in the region. Within Pakistan the situation is not good equally. The long lasting insurgency in Balochistan and FATA (Federally Administered Tribal Areas) could hinder further to materialize the CPEC. As Lieven (2011) has noted that after the Withdrawal of Western forces from Afghanistan, Pakistan's survival will remain a vital concern for the Western and Chinese interests in the region. On the other hand China is equally worry about the security situation of Afghanistan that could affect the Xingjian province which is an important region for the functioning of the CPEC. Moreover, the antagonistic attitude of the public of Pakistan and India could be a stumbling block in getting the public support for the Indian inclusion to the CPEC to make it a cross regional move. Pakistan’s internal security has improved qualitatively after the military operation against the militants, yet the security phenomenon in Pakistan will remain a challenge to execute mega projects under CPEC framework smoothly. Although a special security force has been formed by Pakistan led by the military to protect the CPEC and related projects, given the porous border between Pakistan and Afghanistan and some difficult terrains through which the CPEC will pass in Pakistan, security will remain a major concern for the success of the CPEC.

4.2. The Balochistan Conundrum
The long existing insurgency in Balochistan can pose challenges to the execution of CPEC and its related projects including the Gwadar Port. The rising insurgency in Balochistan is a challenge to the CPEC as well as to the federation of Pakistan (Majeed & Hashmi, 2014) and resolving it is imperative for the secure trade corridor between China and Pakistan. Lately, many non-locals, businesses and multinational companies’ personnel have come under attack in the restive Balochistan region. A debate is already going on in the indigenous populace of Balochistan that the CPEC will benefit only the Chinese interest and could convert the local population into a minority (Baloch, 2016). Such feelings of
deprivation coupled with foreign involvement in the province as has been claimed by Pakistan recently, can be a serious challenge to the CPEC. Addressing the concerns of Baloch people is imperative for the success of the CPEC and that could be done through a sane policy of integrating the least integrated Balochistan and its people in the political process of Pakistan. The long lasting political and economic deprivation is one of the major causes of uprising in Balochistan. Meeting these deprivations is pertinent for the peace in Balochistan (Javed, 2010; Bansal, 2008).

The CPEC will also pass through some parts of FATA and in future the extension of CPEC to Afghanistan is linked with the stability and restoration of peace in the FATA region of Pakistan. Therefore security of Gwadar and the whole region is a serious concern for China and its investment in Balochistan (Rana, 2015). In addition to Balochistan issue, the people of Gilgit Balistan are also demanding their part in the CPEC. The region has recently witnessed protests and strikes demanding political and economic rights including a fair share in the CPEC as it is the entry point of CPEC.

4.3. Political Discontent in Pakistan
The political controversy among various political parties is yet another challenge to overcome for the smooth functioning of the CPEC in Pakistan. The discontentment is mainly for route selection, dividends and allocations of funds for projects under the CPEC. Although the ruling regime through the APCs (All Party Conferences) has tried to allay the grievances of the provinces mainly of KPK and Balochistan, yet it seems the issue has not been resolved yet. The political differences over the CPEC among various political parties are deep rooted in the history of political economy of Pakistan where the allocation of resources has always been politicized for political gains and has been allocated to the major provinces. The smaller provinces have concerns over the policies of the federal government where the resources including the federal budget are allocated on the bases of population rather than the backwardness and poverty conditions in the respective federating units of Pakistan. Given the magnitude and scope of the CPEC, Pakistan needs more highly skilled labor to execute various projects of the CPEC. The existing labor skills are not enough to pursue the CPEC and its related projects in Pakistan. The issues pertaining to transparency about CPEC related projects are also on rise. The political parties and other stakeholders have shown
their concerns over the lack of transparency and have demanded that all agreements related to CPEC be made public. However, the concerned ministry seems reluctant to make it public which further increases the doubts about the transparency of the project. The nationalists’ parties of Balochistan have once again demanded that all agreements made between China and Pakistan vis-à-vis CPEC must be made public and the interest of the people of Balochistan must be protected (Dawn, 2016). This political discord among the provinces of Punjab over the benefits of the CPEC will always remain there if the grievances of the smaller provinces and regions including the Gilgit-Baltistan are met timely through political consultation.

5. CONCLUSION
As a major component of China’s One Belt One Road strategy, the China Pakistan Economic Corridor (CPEC) has strategic importance for both China and Pakistan. While one the one hand the CPEC will ease China from the Malacca Dilemma- by providing China with an alternative route to secure its economic interests in the region of the Middle East, on the other hand the CPEC can rejuvenate the deteriorating economic conditions of Pakistan by injecting a huge investment of 46 billion US dollar mainly in the energy production and infrastructure development. Given the geostrategic location of Pakistan, the CPEC can also foster regional and cross regional trade and economic integration between the regions of South, Central, East and West Asia. Such an economic integration within the framework of CPEC may be a harbinger to resolve the political differences through economic cooperation between the states of South Asia mainly China, Pakistan and India. The states of South Asia, Central Asia and East Asia need more regional economic connection to make the 21st century the Asian century setting aside the perennial political issues to start a new beginning.

However, the potential threats may hamper the CPEC to be transformed into a regional trade and economic reality, namely the worsening security situation in Afghanistan and its spill over to Pakistan. The growing insurgency in Afghanistan may spoil the peace of the surrounding regions through which the CPEC will pass including Pakistan. The increasing rivalry between India and Pakistan over the Kashmir issue and interference in each other’s internal affairs is becoming a challenge for the CPEC to be a regional and cross regional move. Within Pakistan the political discord among various stakeholders over the route selection of the
CPEC pose yet another challenge to current political regime of Pakistan. Although efforts have been made by the current ruling party in Pakistan to allay the disagreements among various stakeholders vis-à-vis the CPEC, the suspicion still exists among the smaller provinces that the CPEC is going to benefit only the larger provinces of Pakistan. In a longer futuristic perspective the CPEC can foster an economic community in the entire region of Asia and beyond if its vision is materialized in its true sense.

REFERENCES


