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SINO-PAK TRADE CORRIDOR, BOON OR BANE

Authored by:-

(Dr.) Rajib Kumar Sanyal, PhD

Associate Professor of Economics

&

Ms. Pubali Chatterjee, BBA-LLB (2)

Amity University, Kolkata

Major Arterial Road

Action Area-II, New Town

Kolkata

Pin-700135, India

The \$46bn CPEC project connecting Xinjiang in China to 'Gwadar Port' in Pakistan has raised concerns in India. Srinagar, India administered Kashmir- The China Pakistan economic corridor worth million dollar is a game changer in Pakistan and has raged apprehensions in neighbouring India. As soon as Chinese president Xi Jinping announced plans to develop infrastructure and energy projects in Pakistan Indian prime minister Narendra Modi declared it "unacceptable".

The most ambitious project for china is Belt and Road initiative .Many countries have positively received it though it remains an irritant for China.

New Delhi sent a clear message to Beijing through its ministry of external affairs on the grounds that the so called China Pakistan economic border violates the core concerns of India such as sovereignty and territorial integrity .Their principal objection being that the CPEC passed through Pakistan occupied Kashmir. PoK has always been an sensitive issue for India.

The establishment of CPEC is a disregard to the territorial claims of India. The establishment of the CPEC is a disregard to the territorial claims of India as observed by it. If the CPEC gets operational India's larger interest would be hampered .The incentive would be that CPEC's potential success would grant Pakistan greater legitimacy over the region .If India would not have protested it would have been perceived as a weakness.

What's new?

Pakistan leaders say that the China Pakistan Economic corridor, is a game changer for the country's economy.

Why does it matter?

It would help to revive Pakistan's economy.

What should be done?

The government that assumes power after July, 2018 should encourage debate about CPEC.

Political history and summary

Envisaged in mid 2013 and launched in April 2015. The CPEC marks a newer of economic ties in a bilateral relationship. The government that would mitigate power after Pakistan should mitigate the risks by being more transparent about CPEC. CPEC travels 2700 km route and includes investment and grants around \$60 billion. It starts on the Pakistani Arabian sea port, climbs along the Karakoram highway through the Khunjerab pass before crossing the Kashgar prefecture. The Pakistani Muslim League depicted CPEC as to build relations with china and for economic development. Contenders to national officials have broadly endorsed this view.

The CPEC project risks inflaming longstanding tension between the central and smaller federal units; CPEC power projects are not only damaging the environment, but are also displacing locals from their homes. Unequal gains combined with perceptions that CPEC projects undermine the economic, social, and political interest of key stake holders could aggravate anti Chinese sentiment within Pakistan.

Beijing and Chinese firms:-

- 1: CPEC projects to ensure that benefits to be shared equitably between competing interests.
- 2: Complement such efforts with effective and extensive communication.
- 3: For all the risks and challenges CPEC offers an opportunity to upgrade Pakistan's aging and dysfunctional infrastructure.



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Graph showing Pakistan’s import from China

Introduction

Pakistan’s relationship with China has been defined by security cooperation as the economic ties lagging far behind military engagement.

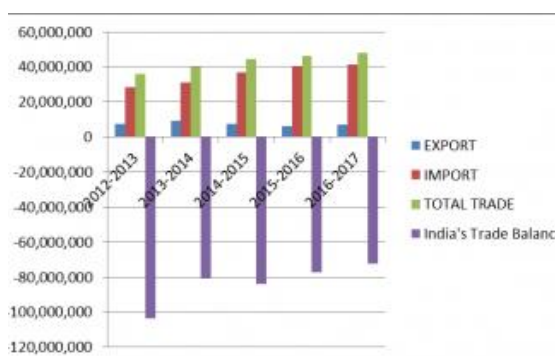
Pakistan’s political leadership calls CPEC as game changer as that would bring prosperity by revitalizing a fragile economy.

This report examines CPEC’s economic and development projects within Pakistan. It analyses CPEC’s impact on domestic stability and security. The reports are based on interviews with officials, economists, politicians, journalists and other stake holders in the federal capital.

II. The Beijing Connection

A. Balancing Geopolitics and Economics

Geopolitics and security dynamics have long determined the contours of Pakistan’s China policy, with mutual animosity towards India a major factor. Policy with mutual animosity towards India. When a border dispute triggered the 1962 war and unravelled the Sino-Indian relationship. Islamabad seized the opportunity to forge stronger ties with Beijing. During Pakistan’s war with India; China provided its military but with significant diplomatic support. After Pakistan’s loss in the 1971 war with India, resulting in East Pakistan’s secession and the formation of Bangladesh, military ties between Islamabad and Beijing deepened and soon came to define the relationship, including China’s eventual support for Pakistan’s nuclear weapons program. Economic ties were also historically shaped by strategic priorities such as road connectivity in the border region of Gilgit-Baltistan and Xinjiang. Not only does China-Pakistan trade lag far behind Sino-Indian trade, it is also outstripped by Chinese trade with similar-sized and even smaller economies than Pakistan’s, such as those of the Philippines and Vietnam. Pakistan’s trade deficit with China has tripled over the last five years, reaching around \$12 billion in 2017. Chinese goods have flooded Pakistani markets because the FTA’s concessions mainly favour China and also because Pakistan’s liberal import policy, including low duties and general sales tax, keep down the prices of Chinese machinery and other imports. Chinese tariffs make it hard for Pakistani exports to penetrate the Chinese market. Pakistan’s ties with China have weathered political instability. Although China insists that political changes in Pakistan have no impact on the bilateral relationship, a senior Sindh official who interacts regularly with Chinese officials and investors said, “the Chinese were disappointed when Nawaz Sharif was ousted; they don’t like this political merry-go-round”.



B.The Jihadist factor

The military's support for Islamist militants and their political fronts, both to protect its jihadist proxies and to destabilise the civilian government, could frustrate Pakistan's hopes that China would help to neutralise U.S. pressure. China is particularly concerned about links between militants in Pakistan's tribal borderlands and disgruntled Uighurs organised as the East Turkestan Islamic Movement (ETIM) in Xinjiang Uighur Autonomous Region. After the 11 September 2001 attacks in the U.S., ETIM members found sanctuary along with other jihadist groups in Pakistan's Federally Administered Tribal Areas (FATA). Pressured by China, the Pakistani military moved against Uighur militants, claiming to have eliminated them, though many appear to have crossed the border into Afghanistan. At the September 2017 BRICS (Brazil, Russia, India, China, South Africa) summit in China's city of Xiamen, those countries expressed concern over "the security situation in the region and violence" because of several transnational organisations – these included Pakistan's Lashkar-e-Tayyaba, Jaish-e-Mohammed and a close ally, the Afghan Haqqani network. Warning that Pakistan faced international isolation because it had failed to end state support for such groups, former Prime Minister Nawaz Sharif said that allies like China were concerned. There are even signs that the coming together of U.S. and Chinese positions on these proxies might inspire a rethink in the military command about the institutional costs of such support.

C.Security Challenges for Chinese Nationals and Projects

As China's economic footprint expands in Pakistan through CPEC, so, too, do concerns about security threats to its interests and personnel. While exact numbers are not available, there are an estimated 30,000 Chinese nationals living in Pakistan. In October 2017, the Chinese embassy in Islamabad claimed there was a militant threat against the ambassador and requested additional security. Chinese firms and analysts see a need to train and employ more private security personnel and enhance security protocols.

A report by a leading Chinese think tank warned that CPEC risks becoming a new arena for competition among deeply divided political parties, levels of government, the military and civilians, and ethnic groups in Pakistan; other Chinese analysts concurred.

III.Demystifying CPEC

A.A Conceptual Leap?

A Pakistan Business Council representative argued that, "CPEC is primarily a geopolitical project. Economics have merely been added on to it". But not all business leaders are as sceptical. Given the fragility of Pakistan's economy, some believe that CPEC could have a useful "demonstration effect, indicating to other investors that Pakistan is a safe and attractive destination for foreign direct investment". The leader of the opposition in the Senate noted that CPEC could encourage the modernisation of manufacturing; Punjab's chief minister believed that CPEC would help create jobs. In its annual credit analysis for Pakistan, Moody's Investors Service concluded that, if successfully implemented, CPEC could transform Pakistan's economy by stimulating local and foreign investment. There has been little input from key stakeholders, whether parliament, chambers of commerce or civil society organisations. CPEC's Long-Term Plan (2017-2030), released in December 2017, defines the project broadly as "a growth axis and a development belt", with "the comprehensive transportation corridor and industrial cooperation between Pakistan and China as the main axis" and "concrete economic and trade cooperation" as "the engine". According to CPEC's timelines, short-term projects would be completed by 2020; medium-term projects, including the industrial system, close to completion by 2025; and long-term projects in place by 2030. Yet the plan provides barely any details on planned and proposed projects and agreements. The seventh meeting of the CPEC Joint Coordination Committee, which reviews and approves CPEC projects, took place in November 2017. The committee's discussions reportedly suggest a potential shift from concessional loans for energy and infrastructure projects to commercially viable projects that would not qualify for concessional loans. But though individual parliamentarians have raised concerns about inequitable distribution of CPEC projects and resources, all the major opposition parties have also supported CPEC and been reluctant to discuss it in parliament. Committee chairs and ranking members have failed to promote open debate or exercise oversight over one of Pakistan's most ambitious economic and geostrategic undertakings. But though individual parliamentarians have raised concerns about inequitable distribution of CPEC projects and resources, all the major opposition parties have also supported CPEC and been reluctant to discuss it in parliament.

B.Power Production and Debt

Islamabad has encouraged CPEC investment in power production, with power projects included in its first phase. To attract Chinese investment, most plants are being built with Chinese equipment and many will be Chinese-owned. These assessments reflect that in its bid to attract investment, Pakistan offers overly generous terms to foreign (including Chinese) investors. These will be unaffordable if the increased power generation does not yield

the expected economic growth. If, and when, Islamabad seeks another IMF bailout, the IMF will likely demand greater transparency in CPEC energy and other projects' financing, so as to assess the impact of expensive Chinese loans on Pakistan's balance of payment crisis. The new plants are in any case inadequate since an aging and inefficient power infrastructure will remain unreformed.

C.Special Economic Zones and Industrial Cooperation

Special Economic Zones (SEZs) and industrialisation are among the key areas of cooperation, and possibly the most critical for economic growth and job creation. For CPEC, Pakistan's GSP+ access to the EU will likely attract Chinese investors and producers, as will tax rebates and other incentives. If Pakistani producers and labour benefit the zones, coupled with pro-export and growth reforms, could indeed create opportunities for Pakistan.

Information is scarce about how the zones will relate to the rest of the economy, which could slow other investments. For example, producers would be hesitant to establish factories or mills if a nearby CPEC zone produces similar goods but with the benefit of tax, duty and other concessions. Whether these zones will ultimately produce products that can compete in the international market, including against Chinese manufactures is also debatable. Pakistan's more than 60 industrial zones (unrelated to CPEC) have done little to increase industrial competitiveness, and the most prominent industries, such as textiles and automobile manufacturers, survive on subsidies and other forms of protection, with few incentives to be competitive. Pakistani policy is skewed toward imports, given a one-time 6 per cent import duty, rather than production.

IV.CPEC: End to End

A.Strains on the Federation

The earliest tussle between the federation and federal units is related to CPEC's route from Kashgar in Xinjiang to Gwadar port in Balochistan. CPEC was originally meant to pass through and thus help develop impoverished areas of Balochistan as well as southern Punjab and Khyber Pakhtunkhwa. A compromise between the federal and provincial governments yielded three planned routes: western, central and eastern. The western route would pass from the Karakoram highway's Khunjerab pass on the Gilgit-Baltistan-Xinjiang border, through Islamabad, Khyber Pakhtunkhwa's Dera Ismail Khan district, Balochistan's Zhob, Qilla Saifullah, Quetta, Panjgur and Turbat districts, before reaching Gwadar. A central route would pass through Dera Ismail Khan and reach Balochistan's Khuzdar district and Basima town via interior Sindh and southern Punjab. The eastern route would cover southern and central Punjab districts, including Lahore, Faisalabad, Rahimyar Khan, Bahawalpur and Multan.

With renegotiations and new Chinese conditions on the western corridor, CPEC's immediate focus is on using and upgrading the existing eastern route before eventually turning to new western routes. A Baloch member of parliament said Chinese officials were wary of developing the western route because of security concerns.

B.CPEC's Exit Point: Gilgit-Baltistan

All three prospective CPEC routes cross from Pakistan into China from Gilgit-Baltistan, which Pakistan considers part of disputed Kashmir. Its constitutional status within Pakistan is undetermined and political autonomy a façade, given the circumscribed powers of its elected legislative assembly. Nevertheless, because the Khunjerab pass via the Karakoram highway marks CPEC's border for both Pakistan and China, there were high expectations among residents that CPEC would offer Gilgit-Baltistan major development dividends. Indeed, Beijing's ambassador to Pakistan has promised major CPEC-related benefits to the region, including enhanced cross-border trade, upgraded infrastructure and hydropower projects.

Locals in Gilgit-Baltistan are already resentful of what they see as their region's political and economic isolation. Adding insult to injury is that CPEC projects, designed and implemented without their input, will be of little benefit to them. Locals are also sceptical of government claims that CPEC will reduce high rates of unemployment, suspecting that most jobs will go to outsiders from Punjab and Khyber Pakhtunkhwa, which could also affect Gilgit-Baltistan's delicate Sunni-Shia demographic balance. Officials accuse Indian intelligence agencies of trying to stir up anti-state sentiment in the region. CPEC's Gilgit-Baltistan component also has geopolitical implications. India claims the region as part of its Jammu and Kashmir territory, rejecting Pakistan's cession of part of the region to China under the 1963 border agreement.

C.CPEC's Entry Point: Gwadar

1.Developing Gwadar

Purchased by Pakistan from Oman in 1958, Gwadar is a fishing town on the Arabian Sea not far from the Iranian border. General Pervez Musharraf's military regime (1999-2008) sought assistance from China and other countries to develop the town into a modern deep-sea port, along with a master plan for refineries, power plants and industrial estates. The Port of Singapore Authority assumed control over Gwadar port in January 2007, and inaugurated it in March that year. Gwadar subsequently became integral to CPEC, with proposed energy pipelines, and road and rail links connecting it to China's Xinjiang province through Gilgit-Baltistan via the Karakoram highway, aimed at turning it into a bustling commercial hub. In a November 2017 then federal minister for ports and fisheries, confirmed that China would receive 91 per cent of Gwadar port-generated profits over 40 years and the Gwadar Port Authority, controlled by the federal government, the remaining 9 per cent; Balochistan's provincial government would get nothing. The Port of Singapore Authority, the previous Gwadar port operator, had the same lopsided terms but many local officials and business community representatives believed that Islamabad should have renegotiated them with the Chinese operator. In November 2015, the China Overseas Ports Holding Company-Pakistan assumed control over Gwadar's free trade zone. Gwadar suffers from acute water and electricity shortages, major challenges to transforming it into a commercial hub. Iran exports electricity to Gwadar, but outages can extend up to ten hours a day. With pipelines running dry, privately owned tankers supply water at high prices. Attacks on tankers carrying water from the dam to Gwadar have provoked strikes by owners and drivers and strikes in thirsty Gwadar's markets and businesses. Gwadar's apparently limited commercial potential is raising suspicions about China's real intentions.

2.Leaving Gwadar's Communities Behind

Alienation is fast increasing as locals in Gwadar's inner city fear their homes could become the first casualty of the CPEC port and free (trade) zone project. While the Gwadar city master plan has yet to be finalised, according to several Gwadar officials, the federal government plans to expropriate land, bulldoze the old city and resettle residents; it is already prohibiting the Gwadar Development Authority from allocating any funds for the inner city's development. A state-led land expropriation is now underway in and around Gwadar under the 1894 Land Acquisition Act, including over 2,200 acres for CPEC's free trade zone, with an estimated 290,000 acres of land required for Gwadar city and 160,000 acres for residential purposes. Instead of improving the lives of locals, CPEC's presence is depriving them of their livelihoods. Local fisher folk and other stakeholders say the project will close Gwadar's jetty. Fisher folk, whose daily catch provides them just enough to feed their families, already have been denied access to the sea for days on end on security grounds. Locals also resent exclusion from employment in the port and in construction. Many criticise the military-run Frontier Works Organization, which dominates construction contracts in Balochistan and elsewhere, for using labour from central and northern Punjab.

3.Gwadar and the Baloch Insurgency

Over the past two decades, Baloch alienation has reached new heights. During Musharraf's regime (1999-2008), the military and paramilitary Frontier Corps attempted to suppress Baloch dissent, abducting, torturing and killing hundreds. The state has made few attempts to address Baloch calls for greater political and economic autonomy, which underpin the insurgency. It has also failed to prevent various jihadist groups, including Lashkar-e-Jhangvi and Lashkar-e-Tayyaba/Jamaat-ud-Dawa, from expanding their presence in Balochistan. With animosity toward Islamabad heightening, Baloch insurgent groups such as the Baloch Liberation Army have condemned CPEC projects as another attempt by the state to exploit Balochistan's resources while giving little back to the province and its citizens. Frequent killings of police and paramilitary personnel – by both Baloch insurgents and jihadist groups – including in normally safe areas such as the provincial capital Quetta, have raised questions about whether the state, even with a heavy military and paramilitary presence, can maintain security. Even if such attacks do not deter Chinese enterprises, they could be used to justify an even greater security presence, which, in turn, would risk feeding Baloch dissent and fuelling the insurgency.

V.Punjab and Sindh: Land Grab in the Heartland?

The CPEC Long-Term Plan outlined a focus on agricultural modernisation, setting as goals, among others, "to strengthen agricultural construction" and "to promote the systematic, large-scale, standardised and intensified construction of agricultural industry". While CPEC advocates expect that Pakistan's "untapped agricultural potential" can be realised through such cooperation with China, there is still little clarity about CPEC's agricultural component. Moreover, CPEC's focus on agricultural development could result in opposition similar to that in Gwadar in other parts of the country, including in the Punjab heartland and Sindh, where most land is privately owned. Chinese agricultural projects in Central Asia have sparked protests over agricultural deals and reforms perceived as friendly to Chinese enterprises. The same could occur in Pakistan.

A. Agricultural Cooperation: Punjab's Challenges

Any ambitious agricultural modernisation project will require the acquisition and consolidation of large tracts of cultivated or cultivable land but such state-owned lands are in short supply. Small farmers own much of central Punjab's cultivated agricultural land, the most fertile in the country. There are large private landholdings in southern Punjab and Sindh but these are the currency of political fortunes; landowners would risk losing political influence should they sell up. But the availability of such land, and the provision of quality inputs and guaranteed prices, could attract entrepreneurs seeking to maximise profits in a short timeframe with little interest in the long-term viability of such projects. Large-scale displacement and dispossession, were they to accompany CPEC agricultural projects, would increase social and political tensions. Tenant and small farmers have resisted past attempts by the state to deprive them of their land or their rights to cultivate it, a notable example being the mobilization of tenant farmers on military-run farms in Punjab's Okara district, a dispute that has lasted for years. There are three broad categories of land ownership: individual; collective (ten or more owners); and land whose transfer or sale was not completed officially and whose ownership and property rights therefore are not clear. Tenants and farmers on land in the last category are particularly vulnerable to expulsion. According to the Land Acquisition Act of 1894, under which the state can acquire land "needed for a public purpose or for a Company", compensation is only given to formal owners of land, and excludes tenant farmers and those without deeds.

B. CPEC and Sindh's Tharparkar District

Sindh's impoverished Tharparkar district is the site of Pakistan's largest coal mining and power project, now a high-profile element of CPEC. The CPEC envisages mining thirteen blocks, covering 9,000 sq km, and doing so will likely displace many locals. As speculators enter the property market, many locals also could sell their lands and join the ranks of the unemployed. This reliance on coal for power projects will also pose serious environmental risks. One component of the Tharparkar mining and power project, run by a Pakistani multinational firm, provides a model for mitigating the disruptive effects of such development by giving locals stakes in the enterprise. The firm, which has the contract for one of the thirteen blocks, mainly employs locals on the mining site, with Chinese workers only providing technical expertise. It is building model villages, including homes, places of worship and markets, to resettle some 450 displaced families, and making long-term investments in skills development, training, jobs, education and health, including for women and girls. Tharparkar is one of the few regions in Pakistan with a Hindu majority and has a sensitive location bordering India. As a result, locals claim, security agencies doubt their loyalty to the state. As in Gwadar and Gilgit-Baltistan, the security presence is overbearing, with agencies keeping a close eye on activists and others that question CPEC developments. In late 2016 and 2017, enforced disappearances of activists and journalists in the district became common. Some observers suspect that opposition to CPEC was a factor. Stifling democratic debate could result in anti-CPEC sentiments assuming a far more hostile form in the future.

VI. Conclusion

If properly carried out, CPEC could promote economic development and growth and thus have a profound impact on Pakistan and its citizens. Unless there is a serious rethink in policy circles, CPEC could inflame tensions between the centre and federal units, and could trigger or worsen conflict within provinces. To avoid such outcomes, Pakistan's CPEC projects and programs should be guided by diligent planning and policy. Islamabad should determine the direction of Pakistan's CPEC policy, based on its – and not Beijing's – economic and political interests. It should place CPEC in the context of a broader strategic vision for modernizing its economy in ways that do not destabilise the polity. Beijing and Chinese companies face a steep learning curve with CPEC, but many problems could be mitigated through consulting and engaging the full spectrum of Pakistani stakeholders, from competing elites to the grassroots, and conducting comprehensive risk and political analysis to balance competing priorities. Efforts to ensure benefits are shared equitably need to be complemented by effective and extensive communication to illustrate common interests.

As Pakistan's democratic transition approaches another milestone, with a second consecutive elected government completing a full term and a successor assuming power in August 2018, the new parliament should seize the opportunities of a fresh mandate by shaping public debate on CPEC, and informing government policy. That policy should have the well-being of Pakistani citizens at its heart, rather than treating it as something that can be negotiated away in the pursuit of mega-development or perceived strategic interests.

Appendix B: Acronyms

CPEC- China-Pakistan Economic Corridor
SEZ-Special Economic Zones
FATA-Federally Administered Tribal Areas
ETIA-East Turkistan Islamic Movement
BRICS-Brazil,Russia,India,China,South Africa.

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