

## A Chinese Perspective on CPEC: Background, Benefits and Risks

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### Abstract:

*China-Pakistan Economic Corridor (CPEC) is the flagship project in Silk Road Economic Belt programme (SREB), which is half of the grand strategic plan put forward by Chinese President Xi Jinping—‘One Belt One Road’ vision (OBOR). OBOR is China’s effort to contribute to global prosperity by pushing for better cooperation among countries in Asia, Europe and Africa, and especially by helping developing countries to grow economically. As one of the earliest OBOR programmes, CPEC is uniquely significant. It can contribute to regional economic connectivity and growth, and therefore, may be viewed as a catalyst for social stability in the region. This article endeavours to analyze the significance of CPEC and SREB/OBOR in the present geopolitical picture of Asia-Pacific. After a brief overview of the progress of CPEC, the author examines its significance for China, Pakistan and other nations, and the political, security, economic and external risks which CPEC may confront, including political, security, economic risks and the risk of potential.*

**Key Words:** *China-Pakistan Economic Corridor, Silk Road Economic Belt, ‘One Belt One Road’ vision, US rebalance strategy*

**I**n September 2013, Chinese President Xi Jinping put forward a grand development plan—Silk Road Economic Belt (SREB)<sup>1</sup>—in response to the changing strategic situation in the Asia-Pacific and to global as well as Chinese economic slowdown. In October of the same year, he advanced the idea of building ‘21st-Century Maritime Silk Road’. These two ideas were combined into ‘One Belt One Road’(OBOR) vision, the central purpose of which is to contribute to global prosperity by pushing for better cooperation among countries in Asia, Europe and Africa,

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<sup>1</sup> Xi Jinping, “Speech in Kazakhstan University,” September 7, 2013, <<http://news.cntv.cn/2013/09/07/ARTI1378531506771407.shtml>>

and especially by helping developing countries to grow economically. China-Pakistan Economic Corridor (CPEC) is one of the six corridors planned along the Belt<sup>2</sup> and for many reasons regarded as a most important one by Chinese government.

This article focuses on the significance of CPEC for China, Pakistan and other nations and also the risks which CPEC may face. The main body of the analysis is preceded by an overview of the background of the proposal of CPEC and its progress.

## The Background of SREB and Overview of CPEC's Progress

China and Pakistan have been keeping very good bilateral relations; but in the past they have remained limited to the political domain. Bilateral trade between China and Pakistan is much less than that between China and some other nations. In 2012, the trade between China and Pakistan was merely about \$12 billion.<sup>3</sup>

Yet there appeared a scope to promote bilateral trade and economic cooperation, as China was then Pakistan's second largest trading partner, second largest import source, and 4<sup>th</sup> largest export destination.<sup>4</sup>

Other elements in the context of proposal for CPEC, as part of SREB, included the changing strategic situation in Asia-Pacific and global economic slowdown. In 2011, US President Obama announced that the US would rebalance towards the Asia-Pacific. This rebalance strategy may have been planned on the basis that global strategic centre of gravity has been shifting from Europe to the Asia-Pacific and the US has been trying to follow the shifting patterns, where most of global economic interests gather. The objective of the US strategic shift is to maintain its superpower status. In its rebalance endeavour, it has adopted a comprehensive strategy to contain China. Its strategy has at least six aspects. The first aspect is building up the 'Air-Sea' battle system, with China identified as the main combat target and the western Pacific as the main battle-field.<sup>5</sup>

The second aspect is strengthening the US military alliances, in which Japan and Australia serve as the northern and southern strategic supports. In recent years, US has adopted an appeasement policy towards Japan to contain China. Japan's economy has been stagnant for the past 20 years and has relatively declined. Right wing Japanese may see no way to

<sup>2</sup> "China Plans 6 Economic Corridors along 'One Belt One Road,'" May 27, 2015, 19:44:32, <<http://world.people.com.cn/n/2015/0528/c1002-27069213.html>> ([《中国规划一带一路6大经济走廊建设》](#))

<sup>3</sup> "China's Foreign Trade," *Global Reference*, 2014, 3: 12

<sup>4</sup> Yan Hailong, "On the Trend of Sino-Pakistani Trade," *China Opening Journal*, June 2015, No. 3, : 56-59

<sup>5</sup> NI Shi-xiong & Qian Xu-ming, "Several Reflections on the Geopolitical strategy of Sino-US Relationship—Also on China's Peaceful Rise and US Strategic Adjustment," *Journal of Tongji University* (Social Science Section), August 2012, vol. 23, No. 8: 30.

retain or regain Japan's power except through potential aggression and war. As a result, Japan has been using the Diaoyu Islands issue and propagating China as a potential enemy to justify its militarization. Historically, the Diaoyu Islands issue was created intentionally by the US after WWII by giving the administrative rights over the islands to Japan instead of returning the islands to China. At present, Japanese government purposefully keeps the Diaoyu Islands a deadlocked issue; the chances for resolving the dispute through negotiation are reduced due to a refusal to acknowledge that a dispute over their (Diaoyu Islands) sovereignty exists. This stance discourages China to hold meaningful talks with Japan, let alone resolving it through talks. The US could have helped resolve the dispute over the Diaoyu Islands by admitting that there is a dispute over their sovereignty. This may help persuade Japan to sit down and talk with China to resolve the dispute. But instead of taking this objective stance, the US has publicly sided with Japan, supporting Japan's so-called "administrative control" over the islands and repeatedly affirming that the islands fall under Article 5 of *US-Japan Mutual Security Treaty*. Since 2006, the US and Japan have held many joint "taking islands" military exercises.

With support from the US, Japan propagates the image of China as an aggressive enemy and has been militarizing gradually. In April 2014, US Defense Secretary Chuck Hagel visited Japan and claimed that "the United States welcomes Japan's efforts to play a more proactive role in contributing to global and regional peace and stability, including reexamining the interpretation of its Constitution relating to the rights of collective self-defense."<sup>6</sup> He also announced that the US would send Japan two more Aegis-equipped ballistic-missile defence ships by 2017. Immediately after his visit, Japan lifted ban on its arms export. Japan's old policy, adopted in 1976, allowed only a small amount of arms sales to the US and banned all the other arms sales. The new policy only bans arms sales to nations where conflicts are going on, something which contradicts the UN resolutions. With the new policy, Japan can sell weaponry to the Philippines, the Vietnam, and other nations. Till the new policy came, Japan had been selling only old equipment to Philippine coastguards. With the new policy taking effect, Japan reached a \$1.65 billion deal of US-2 aircraft sale with India.<sup>7</sup> Japan also acquired the freedom to sell more weapons to the US, which will increase American reliance on Japan's weaponry gradually and reduce its influence over Japan. When Japan's importance to the US reaches a certain level, the strategic balance between US and Japan may change.

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<sup>6</sup> "US Defense Secretary Chuck Hagel tours Liaoning carrier," *Global Times*, April 8, 2014, <<http://en.people.cn/90883/8590940.html>>

<sup>7</sup> Sun Xiaobo, "Japan arms sales shift rings alarm," *Global Times*, April 2 2014, <<http://www.globaltimes.cn/content/852207.shtml>>

In July 2014, Japanese parliament gave permission for collective self-defence rights. Since then, Japan has cooperated more with the Philippines, Vietnam and India politically and militarily to deal with China. With approval from the US, Japan inked strategic partnerships with the Philippines and Vietnam as complements to US-Japan security alliance and expanded defence cooperation and military exchanges with these countries. The US has encouraged its allies to shoulder more responsibilities in containing a rising China.

The third aspect of US rebalance strategy is strengthening military deployment chained up by its western Pacific islands and its allies. In *Quadrennial Defense Review 2014*, the US has said that, “being challenged by increasingly capable and economically strong potential adversaries”,<sup>8</sup> and, “in light of growing challenges from state adversaries, the Department will rebalance investments toward systems that will be effective in defending airspace and denied areas.”<sup>9</sup> Additionally it was said that, “we will need capabilities that can operate effectively in contested environments and that can execute forced entry. We will need to continue to provide and enhance a network of systems that can defeat deeply buried and hardened targets and that can track and destroy mobile launchers.”<sup>10</sup> This targeted state adversary is clearly China and it is planned that the US will station additional forward-deployed naval force in the Asia-Pacific so that US troops can respond more quickly with more strength.<sup>11</sup> By 2020, 60 percent of US Navy assets will be stationed in the Pacific, including enhancements to their critical naval presence in Japan. This will include LCSs (Littoral Combat Ships) rotated through Singapore, a greater number of destroyers and amphibious ships home-ported in the Pacific, and the deployment of surface vessels such as Joint High Speed Vessels to the region.<sup>12</sup> The US navy “will closely examine whether the LCS has the protection and firepower to survive against a more advanced military adversary, especially in the Asia-Pacific region”;<sup>13</sup> the US will also increase the number of ground-based interceptors and deploy a second early warning and tracking radar in Japan.<sup>14</sup> These military deployments build up a manifest containment circle against China.

The fourth aspect of US rebalance strategy is economic containment. The US is negotiating Trans-Pacific Partnership Agreement (TPP) with regional countries. TPP will raise non-member countries’

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<sup>8</sup> Quadrennial Defense Review 2014, *Department of Defense*, USA, 2014: 25.

<sup>9</sup> *Ibid.*, 38.

<sup>10</sup> *Ibid.*, 61.

<sup>11</sup> *Ibid.*, 23.

<sup>12</sup> *Ibid.*, 34.

<sup>13</sup> *Ibid.*, 30.

<sup>14</sup> *Ibid.*, 5.

trading threshold with its member countries. But if China joins, it will increase China's production costs and make her lose most of its production and trading advantages in regional economy. Thus it excludes China from its regional trade circle through technical means and helps the US to maintain trading advantages and economic dominance in the Asia-Pacific and suppress China.

The fifth aspect of US rebalance strategy is the "forward deployment" of diplomatic network, which tries to alienate China and its surrounding countries by stimulating frictions between them. In the South China Sea and East China Sea, there used to be no territorial dispute between China and its neighbouring countries before the 1980s. But now these issues have been manipulated to contain China's rise.<sup>15</sup>

The sixth aspect of US rebalance strategy is systematic penetration of Western values into Chinese society. The aforementioned developments clearly demonstrate that with US rebalancing to the Asia-Pacific, regional security situation has been tilting towards unrest and conflict.

The US has openly admitted its strategic shift. In *Revising US Grand Strategy toward China* by US Council on Foreign Relations, it is said that,

because the American effort to "integrate" China into the liberal international order has now generated new threats to US primacy in Asia—and could result in a consequential challenge to American power globally—Washington needs a new grand strategy toward China that centers on balancing the rise of Chinese power rather than continuing to assist its ascendancy.<sup>16</sup>

This "cold war" mentality is dangerous. By seeking "enemy", the US may fall into the "Thucydides trap", which predicts war is inevitable between a preeminent power and a rising power.<sup>17</sup>

In this unfavourable strategic environment, China's economic development has reached the "middle income trap" stage, in which upward growth is many times harder than before. It demands that China make fundamental changes to raise production capabilities and to spur scientific and technical innovations so as to raise itself in the global production chain. The global economic and financial crisis, which started in 2007, has also negatively impacted China's economy. As most countries have not yet fully recovered from the economic crisis and little outside stimulus is available, China had to find ways out of its negative influence as well as the bottleneck development stage.

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<sup>15</sup> Jia Hao, "On Obama Administration's 'Asia-Pacific Rebalancing Strategy,'" *The Journal of Shanghai Administration Institute*, September 2013, vol. 14, No. 5, 22.

<sup>16</sup> Robert D. Blackwill & Ashley J. Tellis, "Revising US Grand Strategy Toward China" *Council on Foreign Relations Special Report*, No. 72, March 2015, 4.

<sup>17</sup> Joseph S. Nye, Jr. and David A. Welch, *Understanding Global Conflict and Cooperation*, 8th Edition, Beijing: Chinese People's University Press, 2012, 13-21.

As a counter-measure to all these elements, in September 2013, Chinese President Xi Jinping put forward a strategic growth plan—the Silk Road Economic Belt. The Economic Belt is meant to connect China, Southeast Asia, South Asia, Central Asia and Europe. It not only means infrastructure construction but also aims at cooperation with nations willing to join the initiative. By making mutually-beneficial growth plans and policies, participant countries can promote trade, investment and industrial growth. Before its formal announcement, Chinese Prime Minister Li Keqiang had proposed the idea of CPEC to Pakistan during his visit to the country in May 2013. With warm response from Pakistan and most of the consulted countries, on April 27, 2015, Chinese vice Premier Zhang Gaoli announced that six economic corridors had been planned along the Silk Road Economic Belt. They are: CPEC, China-Mongolia-Russia economic corridor, new Eurasia continental railway, China-Central Asia-West Asia Corridor, China-Indochina peninsular corridor and Bangladesh-China-India-Myanmar economic corridor. These corridors are Chinese priorities in building Silk Road Economic Belt.

CPEC starts from Gwadar Port and ends at Kashi<sup>18</sup> in China. It is about 3,000 kilometres and consists of railroads, highways, oil and gas pipelines, and optical fibre cable lines. By facilitating and speeding the traffic and communication between China and Pakistan, China hopes to promote mutual economic growth for both nations.

In April 2015, when President Xi Jinping visited Pakistan, it was agreed by Chinese and Pakistani governments that CPEC would be the focus of bilateral cooperation and more than 30 CPEC agreements were signed between the two governments.<sup>19</sup> The primary investment amounted to \$28 billion. Of these projects, 21 are energy projects, 11 are infrastructure, and four are comprehensive projects. Some of the projects are KKH (Raikot-Islamabad Section) Thakot to Havelian Section, Sukkur-Multan motorway, Dry Port at Havelian, Lahore track transportation project, optical fibre cable lines construction, digital TV communication system (DTMB) , a highway east of Gwadar Port, new Gwadar International airport, Gwadar water purification and supply project, Gwadar China-Pakistan technology and profession research institute, Gwadar hospital, Gwadar dredging project, Gwadar bulwark, Gadani dock and infrastructure in Baluchistan, electricity transmission from Gadani to Lahore and Faisalabad, Thar coal exploration, Thar coal-electricity station, coal-electricity station in Port Qasim, coal-electricity station in Gadani, Sahiwal coal-electricity station, Karot hydropower station and SukiKinari hydropower station, etc.

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<sup>18</sup> Kashigaris the old term.

<sup>19</sup> Zhang Yan, "Whatwill CPEC bring to China-Pakistan trade?" *China Economic Weekly*, April 27, 2015, 72-73.

In CPEC projects, there are four foci: building of Gwadar Port, infrastructure, energy and industrial development. The total investment amounts to \$46 billion. The whole CPEC programme is expected to be completed in 2030. In the first stage before 2017, the priorities are Gwadar Port, the building of Gwadar International Airport, improving the railway from Karachi to Lahore and Peshawar, and the laying of optical fibre cable lines.

For the newest progress, in January 2016, CPEC Joint Committee of China and Pakistan decided that the west passage of CPEC would be the top priority in the whole programme and be finished before July 2018.

## Significance of CPEC for China

Prosperity is the dream of peoples of Pakistan, China and all the nations. CPEC is an important means to help all the relevant nations achieve this goal.

Economic growth and people's welfare is China's strategic priority. Geographic conditions hinder Beijing's efforts for economic uplift of west China. The central and western China are at high altitudes, composed mainly of mountains, plateaus, and deserts. For many areas in the region, rainfall is low and plants can hardly grow. It is also difficult for the west to reach out to the coast and ports. Therefore, the economic growth in China's central and western parts is still lagging far behind that of the Eastern part. Half of Chinese population lives in the central and western China and 1/3 of poor people live in the Western region. Hence, Chinese government hopes that by opening up China's west to Central and South Asia, building better transportation infrastructure, and by encouraging trade with South and Central Asian countries, the development of manufacturing, processing and industrial capabilities in Western China can be promoted.

CPEC is also crucial to augment China's energy security. China imports much energy from the Middle East and Africa. At present the main import route from the Middle East and Africa to China is the sea route through the Malacca Strait. Too much reliance on single Sea Lines of Communication is often fraught with various risks. Pakistan lies at a key position between the Middle East and China. Thus, CPEC can be an important energy corridor and provide China with an alternative energy supply route. This route is much shorter than the existing sea-lanes, which is about 12,000 kilometres, while the CPEC energy corridor would be only 3,000 kilometres long.<sup>20</sup>

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<sup>20</sup> Gao Chao, "One Belt One Road' Starts, CPEC Becomes the Flagship Program," *China's Foreign Trade*, March 2015: 56. (高朝《“一带一路”开局 中巴经济走廊成为旗舰项目》,《中国外贸易》,2015,3,56.)

## Significance for Pakistan

From the 1970s up to now, Pakistan has been China's steadfast friend and has supported China on all issues concerning Chinese people. As a result, Chinese people generally feel that people of Pakistan have been reliable and trustworthy friends and they would like to help their friends.

## CPEC and Pakistan's energy needs

According to the plan, CPEC projects will produce more than 5,000 megawatt-hour energy annually in Pakistan and fill its power gap. These projects will add 16,400 megawatt installed electricity capacity in Pakistan, which will nearly double its presently installed capacity.<sup>21</sup>

China will help Pakistan to explore natural gas and make use of water, solar and nuclear energies. This will help Pakistan in improving its technology to utilize energy, especially renewable energy, and reduce its reliance on imported oil and gas. Reducing energy import is significant for Pakistan's economic growth. The rich coal mines in Baluchistan can be explored which can help the province to be energy sufficient and prosperous.

CPEC energy projects have been progressing as planned. In May 2014, Qasim coal field power project was started. Its installed capacity will be 1,320 megawatts. By June 2018 the power station will operate and produce 9 billion kilowatt-hours of electricity annually and greatly improve local power supply. In February 2015, the Industrial and Commercial Bank of China (ICBC) and Pakistan Sachal Energy Company signed an agreement on a wind power project, for which ICBC will provide \$100 million. In March 2015, the first China-invested wind power project in Pakistan, located near Karachi, was completed. It can produce 140 million kilowatt-hours electricity annually, providing electricity for 60,000 local families.

In April 2015, Jhampir wind power project was started. The total investment will be \$1.3 billion with an installed capacity of 50 megawatts. In the same month, agreements were signed to build the Thar coal and electricity integration project. It is the first of such projects in Pakistan. The investment is about \$2 billion. By March 2018, the mine will produce 3.8 million tons of coal annually and the electricity station will start to operate. By September 2018, its annual production of coal will double and more electricity will be generated.

In June 2015, the construction of Sahiwal coal-electricity station was started. Also in 2015, the photovoltaic project in the solar industrial park in Bahawalpur was completed. Initiation of this project provided

<sup>21</sup> Mu Lijie & Yao Yao, "'One Belt One Road' Starts from CPEC: Pakistan and China Will Decide on Energy Infrastructure Building," *21st Century Economic Report*, April 6 2015, 4. (慕丽佳、姚瑶《“一带一路起步”中巴经济走廊：巴基斯坦与中方确定能源基建合作》，《21世纪经济报道》，2015年4月6日第4版）。

more than 3,000 jobs for local people. By the end of the year 2015, it had generated 120 million kilowatt-hours electricity and supported the energy needs of local factories and 750,000 local families. The construction of Karot hydropower station on Gillam River is expected to start in January 2016. The installed capacity will be 720 megawatts and it will generate 3.17 billion kilowatt-hours clean energy annually for Pakistan.

By March 2018, 14 CPEC energy projects are expected to produce 1,040 million kilowatts of energy and Pakistan will no longer be short of energy. Adequate energy supply is one of the fundamental conditions for industrial development. Therefore the success of CPEC is crucial for Pakistan's economic growth.

### **CPEC as a bridge between Pakistan and Neighboring Regions**

In the last century, Pakistan had supported Chinese government to resume its position in the UN and provided China with an air corridor to contact the world even when the action had instigated US displeasure. Chinese people still remember that help from Pakistan. Because of this all-weather or time-tested friendship, now Chinese people, with increased capabilities, hope that CPEC will bring prosperity to every corner of Pakistan.

CPEC will provide Pakistan with better traffic infrastructure. For this two examples can be given: first, in April 2015, agreements were signed to update the motorway ML1 from Karachi to Peshawar, which is 1726 kilometres, and the Lahore track traffic project will be built by China Weapons Industry Group. Second, in December 2015, agreements for two Chinese companies to build two CPEC highways were signed: the highways from Karachi to Lahore, and from Havelian to Takot, which amounted to \$2.89 billion and \$1.3 billion respectively. These two highways will facilitate traffic from the north to south Pakistan.

These and other infrastructure projects will help Pakistan facilitate trade with neighbouring countries enlarging both imports and exports. An updated Gwadar Port can help Pakistan to profit from robust trade. This port can become an important one along the Indian Ocean coast and a regional growth engine, especially for Baluchistan.

In short, in this era of globalization, isolation will deprive a country of the opportunities which international economic cooperation and trade may provide. CPEC will make Pakistan a more effective bridge connecting South Asia, Central Asia, Middle East, and China, thus allowing it to benefit from its geo-strategic location.

### **CPEC as a source of investment for Pakistan**

China has set up the Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund, and put \$50 billion in AIIB and \$40 billion in Silk Road Fund. No upper limits are set for the funds in these two organisations,

which will provide substantial financial support for Silk Road Economic Belt projects and CPEC is a priority for investment.

In 2015, China has signed an agreement with Pakistan that in the next 6 years, Chinese government and banks will provide \$45.69 billion for Pakistan's infrastructure and energy projects, of which around \$11.8 billion will go to investment in infrastructure, and \$33.8 billion will be invested in energy production. For example, China will invest \$1.62 billion in Gwadar Port. Three Chinese banks, including China National Development Bank, China Import and Export Bank, and ICBC will be mainly responsible for the investment. In South Asia, Pakistan is at present China's largest investment destination and overseas engineering contract market.

### **CPEC and the improvement of Pakistan's productive capabilities**

Economic zones will be built along CPEC in Pakistan. From Rawalpindi to Gwadar, there will be eight economic zones having industries and enterprises concerning import and export, manufacturing, processing, farmland water conservancy, etc. Pakistan is rich in mineral and water resources but has limited processing capabilities. China can help Pakistan with technology to make use of natural resources and let the resources fully and truly benefit its people.<sup>22</sup>

For example, by the end of 2014, 28 Chinese enterprises had signed agreements to enter the Ruba Economic Industrial zone, while in May 2015, the construction of a textile industrial zone in Faisalabad, Punjab, was started.

The economic zones along CPEC will help Pakistan improve its production capabilities. In the long run, Pakistan may become a manufacturing nation independent of foreign assistance.

### **Prospects for employment in Pakistan**

According to some statistics, around 60 percent of Pakistani population is below the age of 25.<sup>23</sup> With limited job opportunities, idle population is a burden on national economy and a cause of social instability. But when CPEC will create job positions in Pakistan, it will turn labour resources into a blessing. CPEC projects will bring production technology and capabilities to Pakistan, a country having enough labour

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<sup>22</sup> Li Jingfeng, "Study on Kashgar Opening Policy to Pakistan," *Strategic Decision Studies*, 2014, No. 3, 49-50. (参见李景峰《中国喀什巴基斯坦开放研究》,《战略决策研究》,2014年第3期第9-50页)

<sup>23</sup> Zhang Xiping, "Studies on the Opportunities Provided by CPEC for Xinjiang and Pakistan to Deepen Resources Cooperation," *Economic Vision*, October 2014: 19. (张希平《以建设中巴经济走廊为契机全面推动新疆与巴基斯坦资源合作领域研究》,《经济视野》,2014年10月 p. 19.)

resources; therefore, CPEC is a win-win cooperation between China and Pakistan.

On balance, through CPEC projects, China will be helping Pakistan with funds, technology and management support to boost Pakistan's economic growth, which in turn will have positive influence on its social stability.

### **Significance for other Asian, Middle East and African nations**

If Pakistan allows Afghanistan, Central Asian countries and Russia to import and export goods through CPEC, the economy of Pakistan and all the relevant countries can get a boost. The north end of CPEC is only 100km to Afghanistan. In the south, Gwadar Port is only 400 kilometres from the Hormuz Strait. Therefore, CPEC can help in connecting neighbouring countries. Increased trade will benefit regional nations by boosting their economic growth and forming a regional common market.<sup>24</sup>

CPEC can also benefit Middle Eastern, African and East Asian countries as the transportation from Indian Ocean to East Asia through CPEC and China is more than 8,000 kilometres shorter than the sea-lane passing through the Malacca Strait, which is about 12,000-15,000 km. The goods can be transported through CPEC to China, and through the railway to sea ports (Port Lianyungang, Shanghai, and so on) in east China. The distance is only 6,700 km. As a result, export and import through CPEC is much faster than the sea route. It can contribute to greater trade between the Middle East, Africa and East Asia.<sup>25</sup>

### **Potential Risks faced by CPEC**

There are some risks that might hinder the progress and early completion of CPEC.

#### **a. Political risks**

Both Pakistani and Chinese governments have been trying their best to complete the construction of CPEC. The construction is being done at an unprecedented fast pace. The Chinese side is deeply moved by the friendship with Pakistan, and appreciates this good relationship. However, some Chinese scholars still have some worries due to the reasons discussed below.

<sup>24</sup> MiuLinyan, "Innovate Various Means of Financing for 'One Belt One Road' Development," *China Exploration Plans*, May 2015:37. (缪燕《创新多样融资模式 合力推动一带一路发展》,《中国探索》, 2015.05, 第7页)

<sup>25</sup> Zhang Chaozhe, "CPEC: Opportunities and Challenges," *South Asian Studies Quarterly*, No. 2, 2014:83. (张超哲《中巴经济走廊建设 机遇与挑战》,《南亚研究》, 2014年第2期 总第57期 第3页)

### ***The political situation of Pakistan***

In 2014, a turbulent protest occurred in Pakistan, which compelled President Xi Jinping to cancel his state visit to Pakistan. It is hoped that political disagreements between different parties in Pakistan will not have negative impact on the progress of CPEC. It is also hoped that even if there are changes in the wake of next election, they will not affect the momentum of CPEC's progress.

### ***Disputes in Pakistan over the specific route of CPEC***

Even though it has been agreed between the two governments that CPEC runs from Gwadar Port in Pakistan to Kashi in China, there exist diverging opinions in Pakistan over the specific route it is going to take through the country. Since December 2014, there have been reports that Pakistan government shifted the route that would pass from most parts of Baluchistan and Khyber-Pakhtunkhwa provinces to one based largely in Sindh and Punjab. In addition, some provincial leaders and political parties' elites have expressed their dissatisfaction over the deals with China. In April 2015, the leader of KP criticised that Punjab got \$11 billion worth of projects while his province got only \$2.7 billion worth of projects. The Pakistan Tehreek-e-Insaf (PTI) leader also expressed his reservation over the apparently lopsided deals.

There seems some dissatisfaction about the unequal chances of growth enjoyed by different Pakistani provinces and parties. If people in different regions of Pakistan can find ways to cooperate over CPEC projects, they might be able to pursue prosperity together.

### **b. Security risks**

#### ***The security situation in Pakistan***

Terrorism has seriously impeded Pakistan's economic growth and it is a threat to CPEC as well. In the past, terrorists have attacked Chinese workers in Pakistan.

#### **Chinese workers and citizens suffered from terrorist attacks**

<b>Year</b>	<b>Events</b>
2004	3 Chinese engineers died & 13 wounded in an attack by a Baloch terrorist group
2006	6 Chinese workers attacked (3 killed) by Baloch Liberation Army
2007	3 Chinese workers killed in an attack
2008	7 Chinese technicians survived an attack
2013	2 Chinese citizens died in an attack

In December 2014, a serious terrorist attack occurred in Peshawar, an important junction in CPEC blueprint.

In the first half of 2016, Pakistan plans to set up a special force to protect Chinese workers involved in CPEC projects. This is to ensure that even if a terrorist attack targeting Chinese workers occurs, this force might play effective role in protecting them.

### ***The security of Gwadar Port***

This port is a key transportation juncture, connecting the Middle East, Central Asia and South Asia. This port is in Baluchistan where there have been separatist tendencies on rise. According to statistics from some Chinese researchers, in the past few years, terrorist attacks in Baluchistan have killed many people.

#### **Terrorist attacks in Baluchistan (2010-2014)<sup>26</sup>**

	Total casualties	Civilians	Security personnel	Terrorists
2011	711	542	122	47
2012	954	690	178	86
2013	960	718	137	105
2014 (till June 8)	364	192	43	129

From 2004 to 2014, terrorism in Baluchistan is reported to have caused thousands of deaths or disappearances.

Total civilian casualties	By Baluchi separatists	By Islamic extremists	Disappeared
3073	276	489	2308

Many terrorist groups are said to be still active in this province, for instance, to name a few, Baloch Liberation Army, Baloch Republican Army, Baloch National Movement/Front, National Party, Baloch Student Organization, Jundallah, Lashker-e-Jhangvi, and Sipha-e-Sahaba among others. This complicated security situation in Baluchistan threatens and is a concern for the security of Gwadar Port.

<sup>26</sup> Li Li, Su Xin, "The Impacts of Pakistan Security Situation on CPEC," *International Economic Cooperation*, No. 5, 2015, 17.

### ***Influence from Afghanistan***

Military conflicts between Afghan Taliban and security forces have been frequent in Afghanistan. Afghan Taliban have refused to resume peace talks with the government. Regional turbulence may have negative impacts on the progress of CPEC.

### ***Negative impacts on Xinjiang of China***

In recent years, separatism and terrorism have been relatively active in some parts of Xinjiang. China has to take measures to prevent terrorism and extremism from infiltrating into Xinjiang; an expected consequence of better traffic and communication channels created by CPEC. To achieve this, China has to strengthen counter terrorism cooperation with Pakistan.

### **c. Economic risks**

Many factors in implementing CPEC are feared to result in economic losses. At present, Chinese concerns mainly focus in four areas. The first is circular debt in Pakistan's energy sector. Energy projects are one among the CPEC's priorities. Some Chinese entrepreneurs are worried that circular debt in Pakistan's energy sector may result in their losses. Circular debt means that end users fail to pay national electric supply companies, which in turn cannot pay the electricity producing companies, which then cannot pay fuel suppliers and banks. As of October 2014, the unpaid circular debt of Pakistan was reported to be around \$ 5.56 billion.<sup>27</sup> According to statistics from an Advisory Committee of Pakistan Independent Power Generators, Pakistan government owned \$2.2 billion to independent power plants, accounting for 0.75% of GDP. If Chinese enterprises and banks investing in Pakistani coal-field power plants suffer from delayed payments, it may put them under great financial pressure resulting even in bankruptcy. Pakistan government has agreed to set up a reserve account to secure energy payments. Maybe it can take more measures to coordinate power generating, supplying and selling; for example, to update power grids and install prepaid power meters, etc. to reduce the risk of circular debt.

Second element of economic loss involves the whole process of running businesses and enterprises in Pakistan, including possible losses in foreign currency exchange which may result from insufficient foreign exchange reserves of Pakistan. Some Chinese investors hope to have better environment for running businesses in Pakistan, related to easier procedures to obtain licences, register assets and pay taxes, sufficient energy supply, reducing the risk of bank guarantee confiscation, etc.

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<sup>27</sup> He Shiyou & Li Chenxi, "Chain Debts: Risks of Chinese IPP Investing in Pakistan," *Global Scan*, January 15, 2015.

The third element concerns the quality of labour. Due to cultural differences, Chinese side usually finds two difficulties in implementing “One Belt and One Road” projects in foreign countries. The first relates to work ethics. Generally speaking, the Chinese are hard-working people, ready to endure hardships and work long hours in order to pursue better lives. Chinese factories often operate 24 hours a day, with machines never stopping and workers working in three shifts of 8 hours each. Compared to this, in South Asian and Middle Eastern countries, people seem to prefer leisure to wealth or prestigious life. Local workers are often unwilling to work for long hours and fail to turn out punctually for work. Quite often, the Chinese enterprises have difficulty in finding enough qualified local workers to be employed for working under same discipline and management standards as in China. For example, Chinese factories in the Suez Canal Economic Zone find that local men are unwilling to work in night shifts and have to reduce three shifts a day to one shift only. This reduces factories’ profits and makes the projects less attractive to Chinese investors.

The other labour-related challenge is regarding women workers. When new China came into being in 1949 women were “liberated” and acquired equal social footing to men. It is normal for Chinese women to work outside home or receive high education as men do. Therefore, it is surprising for Chinese entrepreneurs to find that, in South Asian and Middle Eastern nations, the norm is still for women to stay at home. This makes the problem of having competent and sufficient labour worse. The case of Suez Canal Economic Zone can again serve as an example. Without enough male labour, Chinese factories there have to employ more women than men but find that women workers usually work for several months only. Their motive for work is often to earn for making enough dowries and they would usually quit before marriage.

This is completely different from the case of Chinese women workers who usually aspire for economic independence, which gives them freedom of making decisions for their own lives, including choosing husbands and the way of life they prefer. Continuous work makes them skillful and adds significantly to the productivity of Chinese factories. Some Chinese entrepreneurs in Egypt even observed that the root cause of Egypt being a relatively poor nation is because its women have not achieved equal social footing with men. If projects of CPEC will meet similar attitudes, comparable fate is to be expected.

Last element of economic risk relates to the complexities of natural environment. Some areas where CPEC passes through are difficult for traffic. Difficult geographic conditions may present technical challenges in

construction, and natural disasters may result in unforeseen economic losses.<sup>28</sup>

#### **d. Fear of External interference**

Some nations may not be happy to see increased Chinese involvement in South Asia. Gwadar Port and many relevant CPEC projects are located in Baluchistan. Some foreign nations used to interfere with issues in Baluchistan in the name of so-called “human rights” concerns. Similar issues might get manipulated in future as an effort to spoil China-Pakistan cooperation.

### **Conclusion**

At present, the international system is undergoing a gradual but constant process of change. Global economy is recovering while making fundamental adjustments. The geopolitical situation in the Asia-Pacific is changing. Around the world, hegemony, power politics, and interventionism are still prevalent. Religious and ethnic conflicts are becoming bitter and more intertwined. The international situation we face today seems unprecedentedly complicated. To deal with this complex situation and achieve sustainable development, China proposed “One Belt One Road” vision, the basic idea of which is that states can cooperate to achieve common growth.

It shows China’s active efforts to avoid the “Thucydides trap”, as traditional Chinese wisdom believes more in “unity for prosperity” than in containment and confrontation.<sup>29</sup> CPEC is considered the flagship project of “One Belt One Road” programme. It is expected to benefit not only China and Pakistan but also Central Asian, Middle Eastern and other relevant countries. However, only through cooperation of all these nations CPEC can be successful and make regional economic growth and social stability more conducive.

<sup>28</sup> Luo Zuoxian , “The Fifth Energy Corridor Appears,” *China Petroleum and Petrification*, August 15, 2013, vol. 16, 44.  
(罗左等《第五能源通道露端倪》，《中国石油石化》，2013年8月15日第6期第4页。)

<sup>29</sup> NiuHuayong and Wang Ruochen, “One Belt One Road Will Renovate the Euro-Asia Continent,” *China Economic Weekly*, June 1, 2015, 22-23.  
(牛华勇、王若成《“一带一路，欧亚大陆复兴指日可待》，《中国经济周刊》，2015年6月1日第22-23页。)

