China-Pakistan Economic Corridor (CPEC) Internal and External Challenges and Solutions

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ABSTRACT
Traditionally Pakistan and China enjoy very cordial relations, China now is Pakistan’s largest trade partner. In 2013, China and Pakistan agreed to create one road one belt project known as China Pakistan Economic Corridor, linking north western in China Kashgar to Pakistan Gwadar Port via railway, roads and Gas Pipeline network, in Gwadar where China is constructing the Special Economic Zone. South and East Asia are two sub regions of Asia and the conceptualizing of this project is connectivity between South Asia and Central Asia. During the research, the focus was on the internal and external challenges on proposed China Pakistan economic corridor and Gwadar port. This paper attempts to explain the challenges, due to security issues, culture difference between China and Pakistan, energy issues, political issues, conflict in Baluchistan and Kashmir area, tribal issues in Baluchistan and Khyber Pakhtunkhwa, and external pressure. This research attempts to explain the contemporary issues of China-Pakistan from a rational perspective, the qualitative study explores the multiple internal and external challenges that both countries can face during the project, are not only the empirically identified but also comprehensively addressed in term of the policy. However, this project is a game changer, which will transform the fate of both countries, especially Pakistan. This study helps to analyze specific issues, strategic risk on the corridor and at the end suggestions for those challenges.

INTRODUCTION
China, Pakistan economic corridor forms an integral part of the “Silk Road Economic Belt”. Silk road or Silk route is a connecting network of roads or railways of cultural transmission and trade routes and communications. That was central to cultural interaction through regions of Asia, which is connecting the East and West areas. (wikipedia).Pakistan and China have a long history of cooperation in almost all aspects. It doesn’t matter its defense, economic, trade, politics or diplomacy. Both countries have a long history of cooperation for mutual benefit from defense cooperation to trade partnership, and both countries have benefited from this cooperation. In 2008, Pakistan signed (FTA) Free Trade Agreement with China. First time China Pakistan Economic corridor (CPEC) discussed in 2013-May and signed a (MoU) memorandum of understanding to construct the economic corridor from Kashgar to Gwadar.

The successful agreement on the visit of Chinese president to Pakistan from 20-21 April 2015 provided the New Strategic Partnership Framework for China-Pakistan cooperation for the coming decades of the CPEC. The singing of economic project worth 46 billion US$ in infrastructure, energy sector, communication sector, etc. It is Starts from, Xinjiang province Kashgar (China) and passes through Pakistan. It connects the ports of Gwadar...
and Bin Qasim port Karachi (Pakistan). The initial cooperation structure of CPEC is growing as (a) Developing and operationalization of Gwadar port (b) Creating energy, solar energy, oil and Gas, wind (c) Building infrastructure (d) Enhance Chinese investment in Pakistan (e) Export minerals & Livestock (f) Tourism (g) Goods and services (h) Transportation.

China Pakistan economic corridor will benefit more than 3 billion people in these local regions through the regional connectivity. It is not a single road and railway track, it intends to create the socioeconomic synergy between the development of Pakistan territory where would be projects taken. These strategic corridors envisage a multibillion master plan to construct until 2030 (Peking University, 2015). China Pakistan Economic Corridor is geo strategically important for Pakistan as well as China. CPEC is very important in Geo-strategic sense. It is close to Afghanistan and Central Asian states. In future, the corridor will prove an economic hub and it will provide an easy access in the central Asian states. The corridor will design in the Indian Ocean, Arabian Sea and Persian Gulf. Most of the oil routes pass through the Arabian Sea, in addition, CPEC has a direct land route access to the Central Asian states, which Iran and India Don’t have. Words of Chinese president “the two countries are presented with a great opportunity, to build the China, Pakistan community of common destiny and set a great example for efforts by China and its neighboring countries” (Akhilesh Pillalamarri, 2015)

Pakistan would be a conduit for the export of Chinese products from the western and central regions and alternate route to receiving petroleum supplies from the Middle East, minerals and new raw material from Africa and other products from Europe. The CPEC will reduce the travel distance between china and Arabian Sea by 85% when compared to transportation through the straits of Malacca. China will construct 4000 Km long railroad network from Kashgar to Gwadar, the construction of 12-13 special economic zone, new oil, gas pipelines and cable projects along the proposed corridor. In addition, China fulfills 60% of its energy needs from the Persian Gulf countries. The proposed oil and gas pipeline along the corridor will solve the energy crises of Pakistan and China. The corridor can change the IPI (Iran, Pakistan, and India) gas Pipeline into IPC (Iran, Pakistan, China) gas pipeline. The oil and gas supplies to China through Pakistan will save billions of dollars. China’s Xinjiang province will be linked to the Arabian Sea through this corridor. It is the shortest possible route. The distance from Xinjiang to Gwadar is only 2500 KM. The Theory that describes the benefit of Pakistan China Economic corridor is the Cluster of Agglomeration theory. According to the theory, the development of a cluster of interlinked business and industries facilitates economic competition in various ways (Amy Cogan Wares, 2008). First, it multiplies the production of the industrial unit, secondly it brings new ideas and innovative technique in the field, and thirdly it generates new business activities. There is widespread consensus that such cluster brings innovation and foster competition among the companies, which is necessary for economic growth. Such cluster invites more and more and investment. The CPEC passes through the epicenter of enormous supplying and consumption centers of the world that will transform the economic fortunes of Pakistan. Baluchistan will get the maximum benefit from the corridor. It will transform Baluchistan into economic hub and it will bring peace and prosperity in the entire region. It will bring the (FDI) Foreign Direct Investment in the infrastructure development, mining and processing field in the province (Yousaf, 2014). The proposed gas pipeline will solve the energy crises of both countries. The Geo strategic location of the project will provide an opportunity for China to keep close surveillance over the Indian military activities in the Indian Ocean. China will be linked to the warm waters of the Arabian sea through this project, and it is the shortest possible route from Xinjiang to Gwadar as compared to Chinese ports in the eastern part of the china and to the Indian ocean for Afghanistan and the Central Asian states. This project is best alternative energy route to states like Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.

Route of CPEC
Internal Challenges:

Pakistan is passing through a very difficult period. Investment has dried up in Pakistan due to bad law and order terrorism, energy crises in Pakistan, political instability, conflict in Baluchistan, tribal issues, and after Panama leaks.

Pakistan is the lack of unified national identity, lack to say, “Some people think let first get rich” the great rhetoric of politics, lack in the quadratic assignment to do transfer payment function of the central government. According to the 18th Amendment in constitution, 1973 has transferred power to the provinces, which has become more autonomous in their respective areas. Despite the formulation, change of east and west itself is not rigorous, but around this project has a core dispute. On this issue need to pay more attention on overall leverage during the project. The economy of Easter Pakistan is relatively developed as compared to western side of the Pakistan. Role of balance of this project in the economic layout, development of the backward areas gives the correction of care, it will cover the gap between poor and rich, but maybe the output and efficiency will not be same in Eastern and Western Areas. Claims giving the priorities of construction powers to western part is still a ton of bricks, the provincial committee council released ultimatum “Will not allow to start any project in the province” just because of east and west construction proprieties. The project become translocation between political parties. (马浩, 2015)

Bad law and order in Baluchistan and Khyber Pakhtunkhwa, lack of proper infrastructure because of their mountains terrain is a hindrance for the smooth functioning of this project. Pakistan should provide the required peace and stability for the completion of China Pakistan economic Corridor. In insecure and violent working environment, it will be hard for the Chinese worker to complete their tasks. In Pakistan, some Major factor project cannot meet their deadlines such as Corruption, nepotism and inefficiency impediment to launch successful projects (Ahmar)

Four provinces respectively, there are living with their own main ethnic groups with huge differences, in language, culture, personality, and communication with Chinese is also a big hindrance.

Energy is the soul of modern machine age. These days technology has been changing day by day, the machine has automated human life. However, without continues and reliable energy supplies to maintain the process of development are impossible. Shortage of electricity is getting increase day by day, and the price of electricity is increasing day by day. Government does not know how to control this, and especially external factors effect on this, so management cannot control this. Figuratively, this is another factor will affect the performance of work, in 2015 two Chinese companies quite the projects because of electricity shortages, shortage of power created more limits toward the normal production and life.27 December 2007 on the assassination of Benazir Bhutto has highlighted to the major issues that are facing Pakistan today. Pakistan may face an energy crisis by the year 2007 following healthy growth of 13% in electricity demand during the last session, which will erode surplus production in absence of empowerment of any new power generation project during this year. The report maintained that the difference between the supply of electricity and demand is estimated at 5900 MW by the year 2009-10 when firm electricity supply will stand at 15,000 MW against peak demand of 20,500 MW the country needs a quantum jump in electricity generation. Rawalpindi and Islamabad, both cities are facing 14 to 16 hours load shedding. People in rural areas are suffering from 18-22 hours load shedding (Sarfraz Hussain, 2010). A short-term scenario is not possible to reduce the possibilities of load shedding, in future due to the contraction gap between demand and supply of electricity will be at the highest point of consumption.

Pakistan, with a population of about 20 million people has experienced a remarkable macro-economic growth during the last couple of years, but the major problems of the Pakistan economy are still unsolved. Inflation is also a biggest problem in Pakistan. The Government has been taking various measures throughout the year to keep control in the prices of essential commodities but often it is useless. Inflation rate refers to a general rise in prices calculated against a standard level of purchasing power. The well-known measurement of Inflation is the CPI, which measures GDP deflator, and consumer prices. GDP measures inflation in the whole economy of the country.

Government is not well aware of the present conditions of the country. A Team of government is not well educated, and they are not technocrats in own sectors. The governmental policies are based on the suggestions of government officials, which do not have proper awareness about the problems of a common Businessman and common people. After implementation, the policies do not get effective result, and no one checks the output. After the collapse of one policy, government officials do not consider the cause of failure, announces, and implement other policies without studying the consequence of last one so new policy also fails. Heavy taxes and unemployment crush the people and they are living below the poverty line. The suitable medical facilities not provided to people even basic facilities are not available in government hospitals and Doctors are on strike every day, so the common people are getting treatment from private clinics, which are too expensive.

There are no disputes about the south tail of the zone. But inside the way of a corridor which provinces, cities come up with circle, media and politicians both have own set of claims and certainty. But also living concocted accused the federal government without the authorization consent of the relevant provincial
government changed the route of project from west to eastern affairs. The domestic dimension of this project are being fiercely debated in Pakistan, Major Political parties of Khyber Pakhtunkhwa and Baluchistan have challenged the route of this corridor. Their major objection is power project that ought to be installed in their province have been drifting into the Punjab (pioneer, 2016). However, assume that CPEC will be able to overcome the problems and barrier it faces. The most important issue is surge in Baloch militancy, such as August, heavily armed militants stormed an airport and destroyed its radar system, killing two engineers in the coastal town of Jiwani in Gwadar district. The airport is located strategically near the Pakistan-Iran coastal border (Kiyya Baloch, 2015). Previous analysis shows that the Pakistani Taliban has such heavyweight on strategic problems. Another issue is corruption. There are two types of corruption. There is not morality. Everyone who has power is trying to earn more and more money by using fair and unfair ways. Officials wastes their time has low efficiency and less output. Only one connection that exists in society is money. There is nothing more important than money can solve any issue with money, even you can get justice after paying. One has to pay a heavy cost to get his right. Situation of law and order are out of control and institutions are not able to provide justice to a common person. Justice can be gotten by money only if someone has money. However, the government is unable to control such type of things; even government machinery is also involved in this kind of things. In these circumstances, some corrupt people have been occupying the main resources of the country and the common person is living in miserable conditions. Dispute since the Partition, is claimed by India such as Gilgit Baltistan or the Northern Areas. China has expressed concerns about the legality of any work undertaken across territory, that is the subject of an international dispute.

A senior Chinese official told the Pakistani media, “China cannot afford to invest billions of dollars on a road that passes through a disputed territory”. (Imtiaz Ahmed, 2015)

However, behind this enthusiasm, the real game is how to bring the dividend distribution of the economic corridor. Another tail of this project is located at Kashgar. Kashgar is located at the centre of China’s only Muslim-majority, Turkic-speaking Xinjiang region. It is populated mainly by ethnic Uighur Muslims, and has been home to a separatist movement since the mid-1990s. There has been a recent upsurge in violence, which China blames on separatist “terrorists”. (BBC, 2015 may 22)

The proposed project will also result in environmental pollution, like contamination of bottom sediments by harmful and toxic substance, and will generate noise pollution, massive road traffic, ship traffic and cargo operations, as it will generate massive industrial activities in the region. It will be a big challenge for civil societies, political and social organization at the region and global level (Nolintha, 2012) Apart from all this, there are other factors related to this project as argued by Pakistani writer.

“Beyond governmental capacity, another daunting challenge projects under CPEC will face is the availability of local financing. Even if external financing is fully arranged, the CPEC portfolio will have a substantial local financial component. With the government unable to credibly broaden the tax base, its ability to provide funds for development spending is seriously constrained. In addition, the failure to reform public finances also means that the government borrows most of the available credit from the banking system, leaving little or no room for financing of private infrastructure projects.” (Sherani)

Mechanisms of implementation are an additional challenge. There are almost 358 joint agreements to date. Joint declaration and agreements covering almost every sector of civil society, lack of political interest and implementation has failed to fully materialize these endeavors (Center for Pakistan and Gulf Studies, 2014).

There are bundle of complaints about lack of transparency in the term of contracts and observers say it is not clear which projects will go ahead and which have been shelved. Local labour leaders have spoken uncertainties over a decision by Chinese contractors to employ Chinese nationals at construction sites. A report by the Pakistan Labour Institute said many of these Chinese workers are members of the People’s Liberation Army. Pakistani officials have not commented on these allegations. (Imtiaz Ahmed, 2015)

**External Challenges:**

On Geopolitical level, one of the perceived threats to Pakistan is raising the status of India. The major factor, in closer China-Pakistan ties is that it provides the counterbalance to India in the regional balance of power, Pakistan feels safe and secure with china by itself to promote as a regional power. Since 9/11, Indo-Iranian cooperation is growing in different fields, including naval cooperation in the Indian Ocean. CPEC will start competition with India and Iran. The growing Indo-US relations after the nuclear deal and the growing Iranian influence in Afghanistan are a cause of concern for Pakistan and China. United States may also join Indo-Iranian nexus to encircle China. It’s hard for Pakistan to encounter these issues alone. China should put eyes on growing Indian influence in the Arabian Ocean (CGPS Report, 2014).

Presence of US in Afghanistan and the influence of Russia in the central Asian republic may hinder the development of the corridor. The proxy wars fought in the region by Iran, Russia, India and US is an important
implement in the development of the corridor. Indian Presence in Afghanistan and Pakistan hostile the relations with its western neighbor is the biggest challenges for this project.

Pakistan economy is dependent on the regional security and vested interests of international players. Social unrest and political instability in Central and south countries will become barriers to the regional economic integration. A big contradiction among Central Asian countries, such as ethnic issues border, dispute, water issues, and local territory issues. Pakistan and India, and Uzbekistan and Tajikistan have strained relation one factor due to water dispute.

There is also international pressure on China, the fault line for which are concentrated in the neighborhood. In India Dalai Lama is employing the Tibetan card, and other who are playing the Islamic Xinjiang card against China given the situation here.

Russia wants status quo as far as the construction of the new pipeline in the Caspian region is concerned, it has a monopoly over the existing routes from Caspian to Europe and beyond. In CPEC project, construction of the gas pipeline will challenge to this monopoly.

Russia is exploiting these states like Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan but this project will influence Russian monopoly, so Russia and India will try its best to stop this project which will easily achieve after the completion of the corridor. This project will reduce the influence of India in the Central Asian region. Some experts in the US have referred to China’s cooperation in sea (SLOCs). This strategy extends from mainland china to Pakistan to straits Malacca stairs of Hormuz, and straits of Ba-el Mandeb. India is also apprehensive of Chinese design in the Indian Ocean. The Proposed project is a challenge to Indo-US Strategy of encircling.

In order to counter Pakistan China Economic Corridor, India has developed economic and strategic relation with Iran and Afghanistan. India is developing Chahbhar Port in Iran to get an easy access to Central Asian states (Mullen, 2012). The project will face resistance from India and Iran. Geographical location and Socio-Culture of Iran is similar to Central Asia, added more advantage to Iran.

China Pakistan Economic Corridor may challenge the supremacy of the US interests in the Middle East, the Persian Gulf and the Central Asian states. The US will try to destabilize the proposed project.

Pakistan’s new elected Government would continue to support the US in the terror war. It would simultaneously strive to ensure that, Xinjiang (Uighur) is neither afforded any help and never be safe on Pakistani soil. In addition, another aspect under the present circumstances, Pakistan cannot afford to distance itself either, so Pakistan Government would adopt a middle of road foreign policy aimed at accommodating the needs and requirements of both countries US and China (Ashraf, 2015).

**Solutions to Identified Challenges:**

This section of paper seeks to propose solutions in term of policy guidelines for Chinese and Pakistan, address the identified through mutual cooperation.

The success of China Pakistan economic corridor depends on its usage by other countries in the region, it should convince India, Iran, Afghanistan, US, and the other stakeholder in the region that China and Pakistan cooperation is not meant to counter their interests in the region. It is very difficult to convince these countries to involve in economic activities. To begin with, policy makers in both countries should come up with innovative techniques to overcome the challenges posed by regional and international environment. (Hussain Ejaz, 2015) A comprehensive and long-term economic policy should be drawn, which shouldn’t be changed with the change of government. They should convert the potential of CPEC into a sustainable economic and socio political growth. Both countries should pay attention to infrastructure development. A peaceful secure environment is vital for the construction of the project. In addition, Pakistan should get into SCO (Shanghai Cooperation Organization and CAC (Central Asian Cooperation). It will empower Pakistan to Convince Central Asian States to become partners in the development of the project.

The increasing globalization in economic field appears with an agreement between countries to create an international standard reporting form that applies equally in all countries as well as high quality and can be applied globally. International Financial Reporting Standard (IFRS) is a financial reporting standards issued by the International Accounting Standards Board (IASB) and answer to an agreement between countries in reporting of international standards. One by one country in the world began to adopt IFRS (Tantri Bararoh, 2016). However, unfortunately in Pakistan organizations are still using a manual record keeping. Transfer funds are a big issue, and Banking system in Pakistan is not enough good, Pakistan should adopt new techniques for improving the banking system and for the quality services. Maybe both countries should drive a mechanism for the banking system and make common banks. Pakistan should obtain the expertise from China to improve the banking system. Globalization is advancing the world development and effects on a wide range of fields.

The necessary instrument to enhance trade and business is Visa facilities, should be provided to encourage people to build the relations, and it will increase tourism as well as the country. Government of Pakistan should pay attention to the tourism industry, by promoting the industry of tourism, government can generate billion of dollars, and it will create the jobs in the local area. Local communities have the opportunity to brand, market,
and advertise the local tourism attractions are hot spring in northern areas of Pakistan, nature travel, culture tourism in Pakistan (Rodolfo Delgado, 2016).

Shortage of Power, including electricity. Oil, gas and clean water are the biggest hot issues in Pakistan these days. Pakistan should overcome the problem of power shortage and clean water.

China Pakistan and Central Asian states should hold joint exhibitions to promote trade and industrial links. All the economic activities along the corridor should be tax-free.

Law and order situation should be improved. A special security force should be created to guard the project. Pakistan should have proper laws and regulation to protect the local and foreign investment, and control the smuggling between both countries, such law will boost their confidence to invest in Pakistan. A peaceful, secure environment is vital for the construction of the corridor. In addition, Pakistan should get SCO (Shanghai cooperation Organization) as well as CAC (Central Asian Cooperation). It will empower Pakistan to convince Central Asian states to become partners in the development of the corridor.

Security and stability of CPEC should also rest to a high degree of enhanced cooperation between the law enforcing authorities of the two countries, board based security cooperation between two sides is fundamental importance. The Baluchistan and Khyber Pakhtunkhwa government should develop infrastructure, keeping in view the potential divided from the corridor. Government should adopt new technology, start biometric system, and keep proper online record of criminals. The government must stop manual record, and start monitoring the area with web cameras not with the human eyes.

Issue of Baluchistan is very critical and hard issue for the government of Pakistan. Government of Pakistan may lose control on Baluchistan that is correct Blochs are very slow, quarrelsome and stubborn by nature. Government of Pakistan should take seriously the demands of Bloch’s and uncertainty about China Pakistan Economic Corridor because when it comes to war, no one can defeat Blochs, they are very good in this. The world’s eyes on Baluchistan issue, everyone wants to exploit the mineral resources in Baluchistan at the cost of little positive impact on their life. (Dwan Newspaper, 2015). About Baluchistan issue, the government of Pakistan and law enforcement agencies they did not understand the difference social and the political issues there, these both issues are treated in one tone. Political issues are created from those leaders who never accepted Pakistan as their homeland and Studies say that, about social issues are with those poor people of Baluchistan who have been discriminated against necessities of life. Therefore, the national economic plan should cover the basic and social needs of Bloch public. Holistic solutions on Baluchistan issue include this, national unity, Reconciliation (Government of Pakistan and the army both should effort to accommodate the livid and afflict among them), Bloch Aspiration (The Bloch sense of injustice should be removed), economic cycle (Baluchistan has numerous treasures, Bloch people should be the first who benefit from this), Security, information warfare and blocking foreign interference.

Local population should be involved in the economic activities alongside the corridor.

In addition, training institutes should be established to equip the people with the desired skills.

Local people of area claims about there is a change in the Project route, but according to Federal Minister of planning and Development Ahsan Iqbal during the Address in the convocation of the Rawalpindi Medical College in the garrison city, the minister assured that "not a single inch of the originally proposed route has been changed" and that "such baseless allegations" were not in the nation's interest. (DAWN Irfan Ahmed, 2015).

Conclusion:

CPEC benefit the interconnected countries and open new ways of economic development. This corridor will provide an easy access to the oil rich countries. This project is expected to benefit not only China and Pakistan, but also the regional countries. China needssafe, shortest and competitive route, which is possible through Pakistan. This factor becomes more significant since China become the biggest exporter in the world and the second largest importer of oil.

The success of CPEC depends on certain factors, which should be handled carefully. The Potential challenge is the bad law and order situation in Baluchistan and FATA, which may influence the growth of this project. The Government of Pakistan should take all stakeholders on board like, local tribal in Baluchistan, Government of Khyber Pakhtunkhwa and Baluchistan and local people along the project.

The improvement in socioeconomic condition and security situation, because of the CPEC cooperation would contribute to the peace, security, progress and prosperity of all the regions interconnected through it.

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