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CPEC at Three: Mapping Progress, Stakeholders and Sustainability

Prateek Joshi*

Abstract

It has been three years since the inception of China Pakistan Economic Corridor (CPEC). Billed as a 'game changer' for Pakistan's economy as well as its broader geo-economic footing in Asia, it becomes imperative to map the corridor's progress holistically. However, the enquiry gets complicated not only due to the nature of Chinese funding of these projects, but also due to lack of data on project funding and differences among the stakeholders given the political setup in Pakistan. This, in turn fails to bring out an accurate analysis of how CPEC shall fare for Pakistan. With such grey areas as constraints, the paper attempts to present a holistic analysis on CPEC from the available data.

Launched in 2015, the China Pakistan Economic Corridor (CPEC) added a new dimension to the Sino-Pak strategic relationship through a series of grandiose projects that include power plants, transport corridors and an industrial belt spanning from Kashgar in Xinjiang to the port of Gwadar on the Arabian Sea. The projected aim is the intermeshing of the politico-economic destinies of Pakistan with that of China, and further use geography to link it by road and railways to Central Asia, Iran, Afghanistan, and beyond. Initially pegged at $46 billion, the CPEC swelled up to an estimated $62 billion by late 2016 with the availability of additional financing from China.

The CPEC can be broadly divided into three phases: namely, the Short Term (to be completed by 2020), Middle Term (to be completed by 2025) and Long Term Phase (to be completed by 2030). Broadly, it consists of two types of projects, namely power generation, and infrastructure (which includes

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development of Gwadar port, industrial zones, and mass transit projects). The energy projects are expected to be completed in the Short Term phase (by 2020), major infrastructure by 2025, and the remaining schemes and CPEC is expected to take its full operational shape by 2030.

The Chinese geostrategic aims notwithstanding, the more prominent questions revolve around how the corridor fits into Pakistan's developmental trajectory. The corridor's sustainability has been subjected to numerous studies by think tanks and financial institutions across the world, including scrutiny by Indian analysts. While these reports have their significance, this paper specifically looks into the Pakistani narrative to understand how the CPEC is progressing, how Pakistanis view the progress, the issues of sustainability, the nature of Chinese capital inflows and the stakeholders' perceptions. Based on official data, this article – by exclusively drawing from research reports of Pakistani newspapers, economists and veteran journalists – attempts to address some fundamental questions that have haunted the CPEC, namely: the progress made in the CPEC's major projects; how do they fare in terms of profitability and repayment liability to China; the expectations of the different stake-holders from the CPEC – the civilian leadership, the military, the Pakistani citizenry and the business community. It also tries to understand the actual volume and nature of Chinese investments and how they have been recorded in the nation's Balance of Payments accounts. Finally, the article attempts to assess the CPEC from the perspective of the sustainability of the Pakistani economy.

CPEC's Major Projects

At present, the complete break-up of data on Chinese capital going into infrastructure is yet to be made available (given the temporal expanse of several projects till 2030), except the early harvest and some middle term projects. Therefore, this section stresses on the progress of the early harvest projects, especially those related to the $1.3 billion expansion of the Karakoram Highway (KKH), the ML-1 railway line worth $8.1 billion, the $3 billion Peshawar-Karachi motorway, the $2 billion Karachi Circular Railway, and Gwadar Port.

Image Source: https://walizahid.com/2015/02/cpec-fact-sheet-2013-2018/

1. Karachi-Peshawar Main Line (ML-1) Railway

ML-1 first came in the news after the first Joint Cooperation Committee (JCC) meeting in August 2013 unveiled the proposal some months after Nawaz Sharif took charge as the Prime Minister and close to two years before the CPEC was officially launched. The proposal envisaged a "high-speed rail line from Karachi to Peshawar, with a design speed of 250 kilometres per hour and length of 1,681 km" (Hussain, 2018). In the JCC meeting in the following year, "a Chinese consultant was named to conduct a joint feasibility study of the ML1", which paved the way for its induction in CPEC (however, the cost was not included in the original $46 billion estimate) (Hussain, 2018). The Chinese concern of accurately determining the costs, initially raised during the third JCC, was carried over to the following JCC meetings. Later, a senior working group was created "to discuss the modalities and terms of financing" of the project to address the Chinese concerns about the terms of financing (Hussain, 2018). In May 2016, the two nations signed financing agreements

during the China visit of Ahsan Iqbal, the Minister for Planning, Development and Reform, after the loan was approved by the State Council of PRC.

Also, after the conclusion of the sixth JCC meeting, it was announced that China would provide $5.5 billion funding for ML-1, and the remaining $2.5 billion would be taken as loan from the Asian Development Bank, since Pakistan is a member of the Central Asia Regional Economic Cooperation (a programme established by Asia Development Bank). As news of negotiations between the Pakistani bureaucrats and the ADB officials over long-term concessionary loan for the project trickled in, the Planning Minister, in a surprising announcement, stated that Pakistan had refused the ADB funding due to Chinese objections and that the Chinese had agreed to single-handedly to finance the project (Kiani, 2018).

By November 2017, when the seventh JCC meeting came up, the financial terms were expected to have been approved since "design, joint feasibility, implementation, and coordination mechanism" had been put in place (Husain, 2017). More than four years had passed since ML-1's conception. The fact that it is taking so long to negotiate the financing terms highlights China's scepticism regarding the financing of the project. Nevertheless, the Pakistani side is still pushing the case for inclusion in CPEC.

2. Major Motorways

In 2016, $4.2 billion worth of agreements were signed on the CPEC infrastructure projects, the first being the $2.9 billion 392 km long Multan-Sukkur section of the proposed Karachi-Peshawar motorway. The second one was $1.3 billion for Thakot-Havelian stretch of the Karakoram Highway in Khyber Pakhtunkhwa (the amount shall be repaid at a concessionary rate of 1.6 per cent). Two Chinese firms engaged in these projects were offered import concessions worth Rs. 30 billion (Rana, 2016). The ambitious Multan Sukkur stretch includes over 50 bridges, rest areas, "11 interchanges, ten flyovers and 426 underpasses" and tentatively, its completion is planned for the latter half of 2019 (Daily Times, 2017). Described as the "largest transportation project under the China-Pakistan Economic Corridor," the project has employed 1,700 Chinese and 22,000 Pakistani workers (Xinhua, 2018).

The 120-kilometre long Thakot Havelian section is among the projects that are moving at a fast pace. The China Exim Bank is the principal funding

Map showing the KKH section of the CPEC (Thakot Raikot Section)

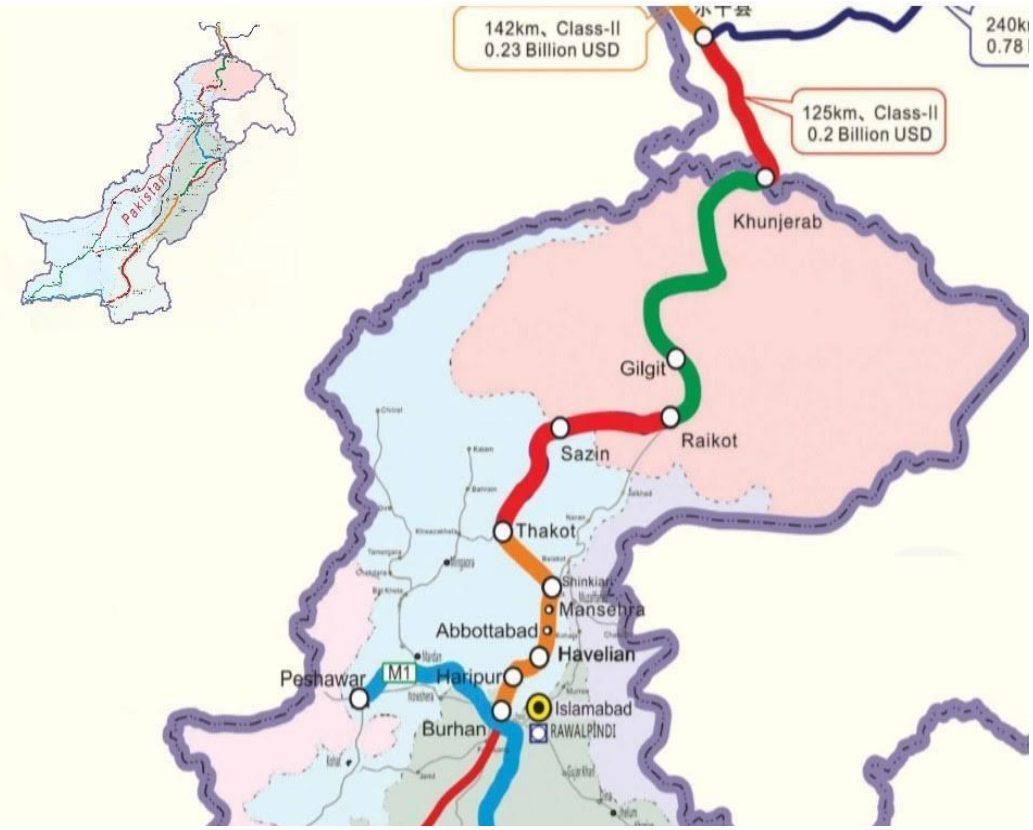

Image Source: http://cpec.gov.pk/maps

agency for 90 percent of this stretch with construction work commencing in 2016. It is expected to be complete by 2020 (Husain, 2017). Since the loan was offered on concessionary terms, the Finance Minister led Economic Coordination Committee (ECC) of the Cabinet "decided to grant the contracts for engineering design, procurements and construction" to the Chinese firms alone, ruling out any scope for competitive bidding (Rana, 2015).

CPEC: Proposed Infrastructure Upgradation

1. Karachi Circular Railway

While mega-projects like ML-1 faced delays over financing terms, the $2 billion Karachi Circular Railway (KCR) – which found its way into the CPEC after an in-principle approval in 2016 – was caught in a controversy between the Sindh administration and the Railways Ministry that escalated into a political tussle between Sindh province and Islamabad. The project was stated to be completed with Japanese assistance after the JICA's approval had been

made a part of the CPEC. The Prime Minister led Executive Committee of National Economic Council (ECNEC) approved the revival of the KCR in October 2017. It involves 43 kilometres of track, including "construction of 24 stations, procurement of 162 locomotives" aimed to cater to over 500,000 passengers a day. Problems resurfaced regarding a technical issue, since a section of ML-1 overlaps with the KCR (The Tribune, 2017). In January, the federal government conveyed to the Sindh administration "that the Chinese funding of $2 billion for the project was not possible in the immediate future" and advised it to look for funding on its own. Provincial rivalries resurfaced after this episode, with the Sindh government accusing the 'Punjabi dominated' establishment of discrimination, since the project had earlier been agreed to be financed as part of the CPEC (Subohi, 2018).

2. Gwadar Port

It must be noted that Gwadar Port's operations came under the control of a state-owned Chinese company in 2013, two years before CPEC's official launch, thereby confirming the port's strategic importance to China (The Express Tribune, 2013). Also described as CPEC's critical node, the indispensability attached to Gwadar is evident from the 12 projects stated to come up in the area. These include an international airport, expressway, a free zone, hospital, a steel park, a coal power plant and even a master-plan with the more substantial goal to transform the port into an international transit hub at par with Dubai or Singapore, with $1 billion as a provisional loan from China. Given the importance attached, work is progressing commensurately with $500 million pledged by Beijing as grants/ interest-free loans (Jorgic, 2017). A $140 million dedicated expressway (Gwadar East Bay Expressway) would soon be operational, and the amount spent has been converted into an interest-free loan (The News, 2015).

For the Gwadar International Airport, China converted a $230 million loan into a grant, marking a departure from China's "usual approach in other countries," especially the way it eyes strategic port projects (Jorgic, 2017). However, in return, the Shipping Ministry informed the Senate that 91 per cent of income generated from the Gwadar port would go to China for next 40 years (Khan, 2017). Chinese strategic designs regarding Balochistan have lately been in the news and it was reported that China was eyeing the nearby Jiwani

port as a military base (located between Gwadar and Chabahar port in Iran) and had been in secret talks with Baloch separatists for stabilising the region. The reports were later denied by China. Given China's relationship with the Afghan Taliban as an integral part of its Afghan policy, it would not be a surprise if it is engaged in such activities in Balochistan.

While China's maritime ambitions have become evident with the acquisition of the Djibouti Military base and the takeover of Hambantota port, the trend appears to be the same given the Chinese takeover of Gwadar port. However, Beijing's long-term strategy on Gwadar is still unfolding, though it already has financial and management control of the port. Overall, the CPEC, if all projects go through, would tangibly add to Pakistan's infrastructural needs, especially with the upgraded highway networks and logistics facilities, even though the railway projects are taking longer than the usual time. Infrastructure development in the frontier zones are under progress (discussed later) under the watch of the military's agencies and completion is expected as per their respective schedules.

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Major Energy Projects

While the CPEC was visualized as a corridor connecting the two nations, it is the energy projects which constitute more than half of CPEC's value. Faced with massive transmission and distribution losses, and an enormous circular debt, Pakistan's power sector is ailing for many years. The CPEC aims to generate another 17,000 MW power (adding to the existing installed capacity of 20000 MW), with half of the capacity slated to be generated by the end of 2018, as energy projects are the mainstay of CPEC's short-term plan. Fourteen of these projects are valued over a billion dollars each, with five of them touching $2 billion and above. While significant chunk of the electricity generated would constitute of coal-fired power plants (followed by hydropower projects), the CPEC has also diversified into wind energy and solar power generation, although on a lower scale. Some 1400 MW of nonconventional

energy is planned to be generated under the CPEC projects. Again, gaps in data and absence of any energy sector audit have left analysts to draw from various official data sources and interpretations by economists. While they shed some light on power-generating machinery imports from China, the data on balance of payments-- a concern relating to the energy sector, is an altogether different aspect.

To begin with, all energy projects would be implemented in the (Independent Power Producer) IPP Mode and would consist of a 75:25 debt to equity setup (Husain, 2015). Rate of return charged on debt component is 4.5 per cent plus Libor (totalling around 6 per cent), in addition to 7 per cent insurance premium to be charged by the China Export and Credit Insurance Corporation. The rate of interest on equity is 17 per cent (Husain, 2015). The loans for these would be taken by Chinese companies "against their balance sheets," and inflow into Pakistan would be either through FDI or machinery purchases shown in current accounts, technically resulting in no liabilities for Pakistan (Husain, 2017). In response to the criticism generated regarding the insurance premium charged, the Chinese deputy head of mission took to Twitter, clarifying that "7 per cent insurance fee is for 15-20 years but paid once, only 0.3-0.5 [per cent], every year", and defended the 6 per cent rate charged on the debt as an international norm (Zhao, 2017).

While work on longer run projects is yet to take off, details released by the Power and Water Ministry last year on eight early harvest projects worth $12.54 billion with a combined capacity of 7880 MW raise a few questions. For the major projects, including Hubco, Sahiwal, Port Qasim and Thar Coal and others, a $9.5 billion debt has been raised by the Chinese power-sector investors from China itself (notably the Exim Bank and China Development Bank) (Rana, 2017).The case of $1.6 billion Sahiwal power project alludes to the ambiguity described above. The 1320 MW power project --the first to be launched under CPEC-- after its completion a year ahead of schedule, reportedly faced closure in April as per a report by *The News*. "The government could not settle Rs. 20 billion in power dues of the project," and had been paying partially despite the requirement of Rs. 10 billion monthly payment needed, the report stated (Hasan, 2018).

In addition, the first phase of the $2 billion worth two unit Port Qasim project has been completed in Karachi and is the second project to be

completed. Its second phase too is on the verge of completion. Even hydel sector projects, including the 720 MW Karot ($1.4 billion) and 870 MW Suki Kinari ($2 billion) in KP, are under construction, and expect completion by 2021-22. With the exception of hydel projects as the ones listed above (having 6 per cent return on debt and 17 per cent internal rate of return) the return on equity agreed for coal-fired power plants has been a matter of concern. The rates vary from 24 per cent for Hubco project, 27.2 per cent on Port Qasim to 31 per cent for the Thar project (Rana, 2017).

Another contentious aspect --the local versus imported components of the power projects-- needs to be analysed. This enables a look into how the Pakistani local industries are being engaged in setting up of the power projects. Data from last year's Planning Ministry report shows that "material for civil work - sand, cement, steel - and consumable items like diesel, paints, major chunk of chemicals, gas required for power plants are procured locally." But, "the major part of material," for the projects, consisting of "mechanical, electrical equipment, cranes hydraulic turbines, boilers, generators, governors system, main transformers, and GIS system", is being imported from China given its non-availability in the Pakistani market (Khan, 2017).

On the delivery aspect, even if the latest Pakistan Economic Survey's claim that the installed capacity has crossed 29,000 MW this year is accepted , power supply gaps have actually grown (Mustafa, 2018) (Kiani, 2018). As per data supplied by Ministry of Energy's Power Division, "average electricity shortfall stood at 4,530MW in July 2017 and remained almost unchanged at 4,559MW in first week of June 2018," raising questions on the power sector's functioning. CPEC's capacity addition has virtually been nullified, thereby raising the old debate that the malaise lay in transmission and distribution, and not generation, which is CPEC's mainstay (Kiani, 2018).

Repayment Estimates and Rising Debt

Overall, there have been concerns about the ability to generate the desired returns. Noted Economist Farrukh Saleem estimated that in the first year after completion the "payment that Pakistan will have to make will be $2.4 billion followed by an annual payment of $1.8 billion thereafter" (Saleem,

Power Projects under CPEC

S.no	Major Projects	Capacity (MW)	Cost(million $)
1	2×660MW Coal-fired Power Plants at Port Qasim Karachi	1320	1980
2	Suki Kinari Hydropower Station, Naran,Khyber Pukhtunkhwa	870	1802
3	Sahiwal 2x660MW Coal-fired Power Plant, Punjab	1320	1600
4	Engro Thar Block II 2×330MW Coal fired Power Plant	1320	2000
	TEL 1×330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh, Pakistan		
	Thal Nova 1×330MW Mine Mouth Lignite Fired Power Project at Thar Block-II, Sindh, Pakistan		
5	Quaid-e-Azam 1000MW Solar Park (Bahawalpur) Quaid-e-Azam	1000	1300
6	SSRL Thar Coal Block-I 6.8 mtpa &SEC Mine Mouth Power Plant(2×660MW)	1320	3300
	CPHGC 1,320MW Coal-fired Power Plant, Hub,Balochistan	1320	1940
7	Two Transmission Lines (Matiari to Lahore and Faisalabad)		3000

Source: http://cpec.gov.pk/energy

2017). Comparing this with the average tariff on coal-based power plants of Rs. 8.3 per unit (calculated with an overestimated assumption of 85 per cent plant efficiency), the natural question posed by Saleem is whether "the eight power\projects create a surplus of $2.4 billion during the first year, enabling Pakistan to pay the principal, interest and the insurance premium?" (Saleem, 2017) In light of these realities, the calculation of Port Qasim's efficiency alone as 42 per cent (estimated by Akhtar Ali), raises similar questions (Ali, 2018).

Another unusual development regarding the energy projects is the introduction of security cess. In 2017, the National Electric Power Regulation Authority (NEPRA, Pakistan's power sector regulatory body), based on ECC's recommendations of September 2016 announced that consumers would be charged a tariff (estimated about $155 million), which would be one per cent of the "cost of 19 power projects worth $15.56 billion under the China-Pakistan Economic Corridor (CPEC) for 20-30 years on account of security cost" (Kiani, 2017). Justifying the order, the NEPRA cited Article 10 of the CPEC agreement which states that "the Pakistani party shall take the necessary measures to ensure the safety of Chinese personnel and projects" (Kiani, 2017). The decision evoked sharp criticism since it was argued that guaranteeing security of projects was the state's basic responsibility and explicitly charging for such services, irrespective of the amount, would send a wrong signal to the consumers. As a report in *Dawn* put it, the charge would be in addition to the existing combination of four surcharges amounting to Rs. 3.50, tariff to "cover low recoveries, high losses, special debt servicing, tariff equalisation across various distribution companies and so on" (Kiani, 2017).

Another unusual development regarding the energy projects is the introduction of security cess.

While scepticism prevails, the CPEC energy projects recently came under fresh criticism in light of another coal-based energy project agreement recently finalised by Islamabad with the Asian Development Bank to be set up in Sindh. The 1,320 MW plant has a substantial price difference with those of CPEC--- $0.587 million per MW (for Jamshoro project) versus $1.21 million per

MW (on average) for CPEC power projects and cost of generation difference being 6.38 cents versus CPEC's 8.34 cents (Ali, 2018).

With regards to the costs discussed above, some explanations have been offered from official sources with rationales on the ability of the Pakistani side to pay. Last year, Nadeem Javaid, advisor to the Prime Minister and the Chief Economist, Government of Pakistan, stated "debt payments and profit repatriation" would begin 2019 onwards. He estimated the amount to be between $1.5-1.9 billion during 2019, which would rise to "$3-3.5 billion by the following year", peaking around $5 billion in 2022 (Jorgic, 2017). Regarding Pakistan's ability to pay, Javaid stated that "the kind of toll tax, rental fees that the Pakistani system will gain is roughly $6-$8bn a year" (Jorgic, 2017). In another instance, *Dawn* reported a Pakistani research firm's estimate as $3-4 billion per year, totalling $90 billion repayments, including profits and loan repayments (Siddiqui, 2017).

Understanding this in the context of the state of Pakistani economy, the IMF and the Asian Development Bank have expressed scepticism over Pakistan's ability to generate a rate of return adequate to finance the project costs. Pakistani economy is characterised by soaring domestic and external debt, low foreign exchange reserves, high current account deficit (touching eight year high at 5 per cent of GDP in first nine months of FY 2018, partly due to rising CPEC related imports), and a weakening Rupee. According to IMF's estimates, liabilities could spike up to $144 billion in the coming five years, from the present level of $93 billion and the Forex Reserves could decline from present $12 billion to around $7 billion in 2023 (Haider, 2018). To top it, the circular debt of the energy sector crossed Rs. 922 billion (close to $8 billion at present exchange rate), almost twice of last November's estimates by the finance experts, further putting pressure on the energy sector. This is in addition to the high returns to be given to China in the CPEC projects (Kiani, 2018). Nonetheless, the optimism on Pakistan's abil-

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ity to pay rests on high returns CPEC is expected to generate, once all the projects come on stream.

The Stakeholders

1. Local Businesses and Industries

As the Chinese pattern of economic engagements with other emerging economies has shown, the Sino-Pak ties are inherently skewed. Three-fourths of Pakistani exports to China consist only of textiles and rice, whereas the main component of the Chinese imports is high value added items, especially electrical goods, electronics, and machinery. China presently occupies the largest share in Pakistan's total imports, amounting to 29 per cent of the total value (Naqvi, 2017). Ever since CPEC was unveiled, the common concern among the local industrial and traders was of being outcompeted by Chinese trade and incoming firms due to quality and cost factors, Chinese procurement policies and other trade-related issues. Besides rising maritime trade, the up-gradation of KKH with better logistics facilities would enable a greater volume of cheap Chinese imports into Pakistan, with further risk for Pakistan's local manufacturing. Media reports and a section of economists critical of the CPEC have repeatedly raised the threat since the Pakistani industrial capacity is no match to the scale of the Chinese industries entering the CPEC projects. The local business community was distraught after the Finance Ministry informed the National Assembly last year that the Chinese firms engaged in infrastructure and energy sector were offered $1.35 billion exemptions on customs duties and earnings through statutory orders (Kiani, 2017).

The *Dawn*, in a revealing article by Khurram Husain last July, published what it claimed to be the original Long Term Plan (LTP) which the Chinese planned to implement in Pakistan (Husain, 2017). The Chinese enterprises plan to dominate the agriculture market, namely through direct operation of farms, seed and fertiliser supply, food processing industries and logistics facilities. Chinese industries have been encouraged to "'[m]ake the most of the free capital and loans' from various ministries of the Chinese Government as well as the China Development Bank" (Husain, 2017). Another area of interest for the Chinese is the textile industry, mainly "yarn and coarse cloth". The LTP would be directed to develop the Pakistani textile industry in such a fashion that the nation becomes a key raw material supplier to Xinjiang's textile industry

(Husain, 2017). While the Pakistani Government denied *Dawn's* account, the report did raise concerns over China's intent behind the CPEC. *Dawn* raised the issue as to whether the CPEC was structured in a manner that gives the Pakistani economy a subservient status, becoming essentially a primary material supplier to Chinese industries. The threat gets amplified because 60 per cent of Pakistan's total exports comprise of textile yarn and cloth, and CPEC's proposed reorientation of Pakistan's textile sector into a low-end textile manufacturing base to support Xinjiang's high-end textile industry, would further relegate Pakistan's textile sector.

Dawn raised the issue as to whether the CPEC was structured in a manner that gives the Pakistani economy a subservient status, becoming essentially a primary material supplier to Chinese industries.

The other concern raised is regarding the nine industrial parks which are to be set up across Pakistan under CPEC (as approved under the sixth JCC in 2017), including one in Gilgit-Baltistan – dispelling the long-standing view that the region had been excluded from CPEC. Further, 37 more SEZs had been identified (Javed, 2018). For these projects to benefit the nation, it has been highlighted that certain clarifications and procedural requirements need to be in place. For instance, the issues of technology transfer, skill set requirements and local procurement are not settled. A comprehensive industrial policy which can ensure domestic interest is yet to take shape, while the looming threat of Chinese ventures crowding out local entrepreneurship has not been addressed.

Economists, civil society and local business lobbies have been demanding that the government focus on inclusion, including skill development to assist the workforce move away from low-skill employment, local content requirement, technology transfer, and facilitation of high value-added manufacturing (Chaudhary, 2017). The CPEC-driven enthusiasm also necessitated the need to carry out the trade relationship under a revamped Free Trade Agreement. Negotiations on the second FTA, which were ongoing since 2013 gave way to a new FTA in April 2018. It has also left the Pakistanis with

grievances. Even after ten rounds of negotiations, local industry's concerns have not been accommodated. Over the last decade, since the first FTA in 2006 was signed, Pakistan's exports have grown from $400 million to $1.7 billion, while imports from China have swelled from $1.8 billion to more than $14 billion (Dawn, 2018). In the ongoing negotiations, the Pakistani side is learnt to have offered 6,000 out 7,120 tariff lines on zero per cent duty (with protection only to the textile sector) in a phased manner in fifteen years (Khan, 2018). The decision, besides hurting local businesses, is specifically bound to hit agriculture and small-scale industries, which are not backed by institutional lobbies, unlike manufacturing and traders associations which have strongly voiced their opposition to any such move.

2. The Military's Stakes

Unarguably, the Pakistani army has emerged as an active beneficiary of CPEC. India's opposition to the CPEC's passage through the disputed territory of Gilgit-Baltistan set the stage for the army to further justify its support for the projects. The narrative popularised by the Pakistani army focuses on alleged Indian threats in Balochistan and Gilgit-Baltistan, which in reality face many deprivation due to structural factors endemic to Pakistan's domestic political and administrative processes and policies. Pakistan Army's claims of the Indian attempts of sabotaging the corridor, news reports claiming the presence of an Indian intelligence cell targeting CPEC and the Kulbhushan Jadhav affair were added to the Army's narrative. Simultaneously, the CPEC has also catered to the army's economic interests through its frontline organisations such as the Frontier Work Organization, National Logistics Cell and the Special Communications Organisation, whose roles have been elaborately described in Ayesha Siddiqa's *Military Inc* (Siddiqa, 2007).

Roughly a year before the CPEC was launched, Pakistani army began a systematic crackdown on the militant organisations operating in the frontier areas, primarily FATA, where the remnants of TTP still operated, launching attacks even in metros like Karachi and Lahore. The Operation, known and Zarb-e-azb, targeted such organisations and was aimed at sanitising the hideouts as a pre-requisite for economic stability. This was followed by the operation Radd-ul-Fasad in 2017 to flush out the remaining sleeper cells.

The army established the 15,000 troop Special Security Division (SSD), headed by a Major General ranking officer, headquartered at Gilgit, mandated with the responsibility of maintaining the security of Chinese workers. The government has spent the initial amount of Rs. 23 billion from 2016 onwards (Gishkori, 2016). While the northern branch of the SSD is responsible for clockwise surveillance from the Khunjerab border to Rawalpindi, the southern branch covers the area between Rawalpindi and Gwadar. Rs. 10 billion has been allocated for the SSD in this year's budget as well. To guard the maritime dimension of CPEC, a special task force was set up comprising of "ships, fast attack craft, aircraft, drones (unmanned aerial vehicles), and surveillance assets", along with the deployment of marines (The Dawn, 2018).

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Initially, Pakistan was interested in sharing these costs with China, but Beijing refused to commit any amount for security-related expenditure. Repeatedly, the ISPR, Army Chief, and senior Pakistan army officials have used the CPEC to gain political legitimacy at a time when the Panama Gate case and Nawaz Sharif's dismissal were being used by the PMLN to garner sympathy against Army's vindictive stance against its leader. In 2016, the CPEC was largely responsible for the civil-military chasm which emerged over the administrative issues. It was reported in various news channels that in light of the political infighting that began over numerous issues related to CPEC – such as route alignment, financing, capital outlay – the military establishment had grown sceptical and sought a role in its administration through the establishment of a CPEC authority. This was strongly resisted by the Sharif administration, especially Planning Minister Ehsan Iqbal, who wanted the Ministry to act as the apex body for CPEC (Rana, 2016). The issue faded, but if one goes by news reports, this was evidence of either of the military establishment being apprehensive

about CPEC being properly implemented by the civilian administration or meeting Chinese concerns regarding the corridor.

On the economic front, the military is engaged in some of the strategically vital projects of CPEC, especially in the frontier areas. The National Logistics Cell (NLC), along with the Frontier Works Organisation (FWO) is engaged in the construction of the 280 km long second phase of the five-phase four-laning of Dera Ismail Khan to Hakla stretch of the CPEC's western route. The western route's second stretch (worth 470 km), connecting Hoshab and Sohrab, was completed by the FWO (Associated Press of Pakistan, 2016). The FWO also completed the most important part of the western route, or the M-8 motorway. The contract for widening the strategic Jaglot- Skardu road also went to the FWO. The 216-kilometre long CPEC link road in northern Pakistan, which would be constructed from Chitral, linking Shandur and Gilgit, would likely go to FWO as well given the topography and the work experiences.

The Army's Special Communications Organisation, the nodal agency for maintaining the communications infrastructure in Gilgit-Baltistan, is responsible for laying the fibre optic cable from Rawalpindi to Khunjerab, as well as for introducing 3G/4G networks in Gilgit-Baltistan. Similarly, the National Logistics Cell, which Siddiqa describes as "the largest goods transportation company in the country", took over the administration of Sost dry port near China-Pakistan border, which oversees the overland border trade between both the nations (Paul, 2014, Pamir Times, 2018). The NLC is engaged in several other small logistics and engineering projects across the nation as well. It also set up a technical institute in Gilgit for imparting technical skills to the youth, with the expectation of fulfilling the demand for skill-based jobs which the CPEC would generate. The scale of army's economic stakes in CPEC clearly shows that the corridor is well-integrated into the military's politico-economic interests.

3. Political Parties

The CPEC factor remains the most exploited theme in Pakistan's political discourse, given the way it was utilised to manipulate the domestic audience and the clamour seems to have only intensified from 2015 onwards – the year it was unveiled. In the context of the inter-province and inter-party

rivalries in provincial Pakistan, the nation's principal political players --namely the Pakistan Muslim League- Nawaz (PML-N), Pakistan People's Party (PPP) and the Pakistan Tehreek-e-Insaf (PTI) -- used the project to further their political ends.

For the PML, the CPEC is synonymous with its vision, since it was only under Nawaz that the project was finally negotiated. The high expectations appear in the budgets and the economic surveys, which have elevated the CPEC to be an indispensable element of Pakistan's economic destiny. Therefore, the project would figure in its campaign in the general elections as well. Protests emanated mostly from the political parties based in Balochistan and Khyber Pakhtunkhwa, chiefly the Imran Khan-led PTI, and Mahmud Achakzai's Pakhtunkhwa Milli Awami Party, which accused the design of the corridor of having an ethnic bias, since Punjab would be the greatest beneficiary from CPEC. This is because of the ambiguities surrounding the western route, which would traverse on the Balochistan-KP axis. Opponents based their concerns on the lack of clarity regarding how the benefits would trickle into their respective provinces. If the corridor is supposed to traverse through three different alignments, despite assurances from the Pakistani Government, there have been no official announcements from the Chinese side over these routes. The opponents also raised an issue regarding the nature of roads being constructed on different alignments. The eastern alignment consists of a six-lane expressway suited for heavy trucks, unlike the western alignment, which was a two-lane track unsuited for heavy traffic. The disparity was evident in the allocations for the Public Sector Development Plan (PSDP) in 2015-16. The government has allocated Rs 20 billion for the western route while earmarking a handsome Rs 110 billion for the eastern alignment, of which Rs. 5 billion is for building the first few kilometres of the common route after which the different alignments branch out (Kakar, 2016).

Imran Khan's opposition to the PML N, which led to a three-month-long agitation in Islamabad in September 2014 and even delayed President Xi's scheduled visit that month, is also accused of having delayed announcement of CPEC. Xi Jinping finally arrived in Pakistan in April 2015 (Malik, 2017). Since 2015, the PTI is also advocating the changing of CPEC's main alignment from the east to ensure fair distribution of the corridor's benefits. It coined the

epithet China Punjab Economic Corridor. Despite having met the Chinese ambassador twice specifically on CPEC, PTI's opposition has not tapered (Malik, 2017). Tensions were eased after all the provincial Chief Ministers had been invited to China to attend the JCC meeting in December 2016 and several provincial projects were "provisionally added to the CPEC portfolio." Divisions, however, have resurfaced time and again, although on a less frequent basis (Rafiq, 2018).

Of all the political players, it is the PPP – during whose rule (2008-13) the CPEC was initially negotiated by President Zardari in his 2013 China visit – which has been the most vocal in claiming the credit, as a counter to ruling PML-N's narrative of CPEC being its flagship project (Business Recorder, 2018) (Najam, 2017). In one of his speeches, Asif Zardari even traced CPEC's origins to Pakistan's turn to become the strategic pivot to China under Zulfiqar Ali Bhutto in 1960s when he was the foreign minister (The Express Tribune, 2017). PML's marketing of the CPEC has indeed overshadowed PPP's role in the earlier negotiations, and therefore the latter has taken every opportunity to highlight its role, particularly when elections are round the corner.

4. The Citizens: Job Creation and Perceptions

While a mega project like the CPEC had all the reasons to make most happy, its benefits to the citizenry has to be gauged from the available opportunities, especially employment generated, for which official data has been scanty and contradictory. It is not to say that the benefits from CPEC have not led to employment generation – since the ongoing laying of infrastructure and construction of power plans, besides employing Chinese workers has also generated local jobs – but it is difficult to quantify the jobs created. For instance, the Chinese Ambassador to Pakistan stated in April that CPEC related projects had generated 70,000 jobs in the last five years and aims to generate 700,000 more by 2025 as work on other projects commences (Achakzai, 2018). While this estimate has been confirmed by the Applied Economics Research Centre, a Pakistani think tank researching on the nation's economy, the current estimate of 70,000 jobs based on official Pakistani claims (Pakistan Today, 2018) would come under question. Contrarily, the Planning Ministry at the same time stated that the CPEC had created 30,000 jobs, less than half of what the Chinese Ambassador had claimed (Klasra, 2018).

A break-up of sector-wise job generation has been reported by the Business Recorder, a Pakistani financial daily, which estimated 30,000 jobs citing official records, and identified the power sector to be the highest job generator (Jabri, 2018). Port Qasim power project was stated to have been the highest employment generator with 5000 jobs, whereas 3,000 jobs each were generated by Sahiwal and Zonergy Power Projects. This was followed by the transportation and infrastructure sectors, which together generated around 13,000 jobs. This data does not specify the indirect number jobs generated.

This leads us to the second issue – the nature of jobs. The public feels that while non-skilled and labour-intensive jobs would go to Pakistanis, the Chinese workers would come to occupy the high skilled jobs, crowding out the Pakistanis. The common concern is whether Pakistan's educational sector and technical training infrastructure are geared up to fill thousands of upcoming jobs for skilled workers. The assurances by the government to churn out skilled labour in a short time have not been convincing. In August 2017, the Pakistani Ambassador to China stated that 30,000 Chinese were working in Pakistan on CPEC related projects, with the number expected to rise as more projects begin (Jabri, 2018). In addition to direct jobs, the Chinese have also set up small businesses in Pakistan's main cities in recent years, such as groceries, guesthouses and restaurants. Reportedly, "27,596 visa extensions were granted to the Chinese" in 2016 – "a 41 per cent increase on 2015." This shows the Chinese are spending longer duration in Pakistan, many for employment and business purposes (Khan, 2017). At the same time, Pakistanis engaged in business are being denied visas by China.

The growing visibility of the Chinese, while a welcome factor in Pakistan on a strategic level, has attracted some degree of resentment, for reasons other than mere crowding out of local employment. Though few, there have been reports especially this year of an unease with Chinese settlements among the conservative pockets that inhabit Pakistan. A simmering cultural-friction that is still in an incipient stage is emerging, with the possibility of flaring up. A clash between the Chinese and the Pakistani police did take place, as captured in a video of a Chinese worker displaying hostility to the local police at Khanewal. It generated national and international headlines, following which the involved workers were deported back. Also, in February, one member of the Pakistan National Assembly accused China of sending

prisoners to Pakistan as CPEC workers, and drew attention to the recent arrests of Chinese nationals in an ATM fraud case (Dawn, 2018). The issue had also been raised by Cyril Almeida (Dawn editor, infamous for the Panama Leaks) in 2016.

The Balance of Payments Ambiguities

The debates in Pakistan on CPEC projects have focused on their capacity to generate financial returns that are expected to launch the Pakistani economy on a growth spiral and enable it to repay the Chinese investors. But what has inhibited a more holistic analysis of a precise figure of CPEC is the nature of Chinese funds itself. The balance of payments issue, which has gained critical importance given Pakistan's persisting foreign exchange problems and Islamabad's commitments on loan repayment to the IMF, also raises the question as to how it would pay the CPEC loans. Part of the optimism driving the CPEC has been the belief that the multiplier effects of the promised $62 billion worth of investments would not only put the Pakistani economy on a high growth path, but also generate demand-propelled high returns and bring in FDI as investor confidence rises, enabling it to pay back the loans. However, there is a lack of clarity on the amount of Chinese capital that has gone into CPEC and the routes through which it is flowing in. CPEC related inflows shown in the Pakistani Balance of Payments indicate this, leading to the question of the sustainability or the ability to address these stressed accounts.

From the beginning of the CPEC there has been no procedural clarity on how Pakistan would repay the loans.

The dwindling foreign exchange reserves raised questions on Pakistan's ability to repay the $6.6 billion it took from IMF in 2013. Besides the CPEC project costs, Pakistan has to repay the IMF loan from next year onwards, and it has to be seen how this would take place, in case a situation emerges where IMF would not bail out the Pakistani economy. In addition, Pakistan recently received $1 billion loan from China this June, taking "China's lending to Pakistan in the fiscal year [ending] in June" to $5 billion, according to a Reuters report. (Reuters Staff, 2018).

From the beginning of the CPEC there has been no procedural clarity on how Pakistan would repay the loans. It is necessary to look into the balance

of payments data from the Pakistan Economic Survey, and State Bank of Pakistan (SBP) reports to understand this. From the FDI data FY 2016 onward, it is clear that inflows into Pakistan are not taking the FDI route as a significant source, despite inflows from China having grown. In FY 2015, the year before CPEC was launched, FDI in Pakistan stood at $987 million of which the Chinese share was $319 million (Pakistan Economic Survey, 2015). The rise in FDI is discernible from FY 15-16 onward, as it more than doubled to $2.30 billion, with the Chinese share soaring to $1.063 billion – a three-fold rise from the previous year (Pakistan Economic Survey, 2016). In FY 2017, FDI into Pakistan amounted $2.41 billion; with Chinese share almost half at $1.185 billion. FDI from China between July and February of FY 2018 rose to $1.281 billion of the total $1.941 billion that came into Pakistan (Pakistan Economic Survey, 2017). Official Pakistani records have not clarified what percentage of the Chinese FDI constitutes the CPEC investments. However, the rise in capital inflows coincide with the launching of CPEC. Even going by the assumption that all of the incoming investments have gone into the corridor, they add up to only $3.5 billion, which is substantially short of the figures discussed by the Chinese officials or those claimed by Pakistani leaders. Also, since it was also declared at the outset that some CPEC related inflows would come as machinery imports, this necessitates an inquiry into the pattern of import composition and the trade balance with China in the last three years.

FY 2016 onwards, successive Pakistan Economic Surveys (PES) have cited CPEC related imports as the causal factors for high CAD

Current Account Deficit (CAD) and Accounting Ambiguities

Pakistan's CAD had been on the rise since 2013-14 with slowing of exports and rise in imports, as also because of a depreciating rupee. FY 2016 onwards, successive Pakistan Economic Surveys (PES) have cited CPEC related imports as the causal factors for high CAD, ending further debates by stating that this would be beneficial for the economy in the longer run as the gains start to be realised. The data of the first eleven months of Financial Year 2017 recorded an alarming trade deficit of $30 billion, a 42 per cent rise over the

previous year. While this was partly explained by a decline in exports, what gained attention was the steep rise in machinery imports from China (attributed to CPEC). Growth in CPEC-related imports "accounted for 38 per cent increase in the total imports" by Pakistan (Pasha, 2017). There has been a focus on imports of power generation machinery (which constitutes close to a quarter of total machinery imports) to explain high CAD. These have grown substantially if compared to the pre-CPEC years' data. During July-April months of FYs 2013-14 and 2014-15, the power machinery imports amounted $872.9 million and $934 million, respectively. With the launch of CPEC, the figure rose up to $1.341 billion and $2.185 billion (between July and February) for FYs 2015 and 2016, despite the PES data calculating the latter figure with a one-to-two month omission (Pakistan Economic Survey, 2014, 2015 and 2016).

Despite such increase, even the import figures do not account for the claims of CPEC inflows. Moreover, discrepancies have been found between the PES data on power generation machinery imports and that published by the Pakistan Bureau of Statistics. This was admitted by the State Bank of Pakistan's State of the Economy report for the second quarter of FY 2017-18 (Jamal, 2017). According to the report, the "gap between the datasets of the SBP and the PBS has consistently been rising since 2015", which is incidentally the year of CPEC's inception. It increased from a ten-year average of $193 million to $1.1 billion, owing to discrepancies in information regarding how these imports from China are being financed (Jamal, 2017). Technically, PBS takes data from the customs after imports have arrived, and SBP calculates the data once the bank makes payment for those imports (Jamal, 2017).

Conclusion

The CPEC is seen as a strong connecting link between the geopolitical and economic destinies of Pakistan and China. Given the branding of the Belt and Road Initiative, the corridor has been strategically elevated, and is now identified as part of Pakistan's nation-building endeavour. Alongside the optimism, China's economic dealings with the developing world (and even developed world to some extent) raise questions about the goals it wishes to pursue and its methods. The article has attempted to understand Chinese forays into Pakistan through the pattern in which the CPEC is actually unfolding, and concludes that CPEC should not be understood in the success

or a failure binary. Major infrastructure projects, except ML-1, are underway and expect completion soon, as seen from progress reports. Several energy projects are underway and making steady progress. Given the capital expected to go into this sector, Pakistan's ability to repay the loans would largely hinge on the returns these projects generate.

Nevertheless, severe data ambiguities have prevented a clear analysis of where CPEC is headed and an estimation of how much Pakistanis are expected to repay. The FDI figures too are not appreciable as seen from the official data, given the high rhetoric regarding expected Chinese investments. External debt to China has been rising in the last three years, but is out-weighed by external debt to other countries. Some of these ambiguities would be clarified as more of the CPEC's projects become operational in the next few years. It would also become clear whether the corridor would generate the desired financial and developmental returns. Regarding China's strategic goals, it is too early to say whether China would gain strategic foothold in areas like Gilgit-Baltistan or Gwadar as against its realising its commercial objectives. Nevertheless, traces of discontent are visible, especially among the economists and the business community on issues of loan repayment and benefits to the local economy, as opposed to the military. The military has clearly acquired greater political and economic stakes in the CPEC on grounds of strategic gains and in the pretext of safeguarding the corridor. At the moment, what is clear is the tremendous pressure on Pakistan to ensure the execution of the projects under progress and ensure generation of returns as soon as possible.

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