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# CPEC 2.0: Progress and Pitfalls

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# **CPEC 2.0: Progress and Pitfalls**

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## Introduction

China-Pakistan relations have historically been perceived as an all-weather friendship and iron brotherhood. Partnership between both states is based on mutual interests and practical cooperation under guidance of both leaderships. Both sides continuously make efforts for advancing relations in all spheres, including political, economic, security and people to people linkages. The relationship was elevated to new heights during the 2013 visit of Premier Li Keqiang to Pakistan. Both sides reached consensus on enhancing comprehensive strategic cooperation, as bilateral talks laid foundations of China-Pakistan Economic Corridor (CPEC).

In 2013 a Memorandum of Understanding (MoU) on long-term cooperation was signed and CPEC was launched in 2015 as the flagship project of the broader Belt and Road Initiative (BRI) of China. Both sides constituted a Joint Cooperation Committee (JCC), comprising of political leaders, ministers and senior official from both countries to oversee implementation of the consensus reached between two leaderships. JCC is the apex decision-making body of the CPEC cooperation.

CPEC has faced some hurdles and the rate of progress has gotten slower in the wake of recent regional developments including several terrorist attacks on Chinese nationals working within Pakistan. The prospective pace of the completion of these projects remains to be seen; however, some observers suggest<sup>1</sup> that the rise of Taliban in Afghanistan would lead to a surge in extremism in the region by emboldening other terrorist outfits, which could temporarily or otherwise put a halt on the China invested projects in Pakistan.<sup>2</sup> It is, thus, important to take stock of recent developments in order to render recommendations for Pakistan to tackle the newly emerging security, economic and political challenges, while also considering Chinese interests.

### Trajectory of CPEC then and now:

In the first phase of CPEC when Pakistan Muslim League-Nawaz (PML-N) government was in office, more focus was directed towards energy projects to increase electricity production. Moreover, the majority of the investments were done in politically important regions of Punjab and Sindh to increase the bid for reelection. A recent report has also

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<sup>1</sup> Betsy Joles, "Taliban takeover could mean more security challenges for Chinese projects in Pakistan", *The World News*, August 19, 2021.

<https://www.pri.org/stories/2021-08-19/taliban-takeover-could-mean-more-security-challenges-chinese-projects-pakistan>

<sup>2</sup> Ibid.

concluded that partisan politics has played a key role in deciding the types of projects covered under CPEC.<sup>3</sup>

When Pakistan Tehrik-i-Insaf (PTI) government came in 2018, it embraced CPEC as a major boost for Pakistan's economic development despite PTI's initial skepticism towards the initiative. PTI government has chosen to prioritize the establishment of Special Economic Zones (SEZs), starting with first in Khyber Pakhtunkhwa, which is the political base of the party. This has come despite Chinese side preferring other locations according to feasibility studies of the areas.

Regardless, both the former and the current Pakistani government have been cooperative with and commended the Chinese efforts at enhancing Pakistan's infrastructure through CPEC. The major priority of the successive governments has been the development of Gwadar Port due to its strategic location, potential of establishing convenient trade routes and boosting the economy. Many projects have not been completed on their schedule, leading to Pakistan forming a dedicated CPEC Authority to oversee implementation of existing and new projects. The CPEC Authority bill was also unanimously passed through the Senate so as to speed up the progress of CPEC projects and Rs.87 billion were allocated in the 2021-22 budget for it.<sup>4</sup>

### **Progress of CPEC:**

In the first, Early Harvest Phase, 11 projects worth USD \$25 billion were completed with Chinese investment.<sup>5</sup> The second phase of CPEC development was initiated in 2020 where the orientation of mega projects was shifted to focus on poverty alleviation, agriculture and industrial cooperation. By late May 2021, Government had allowed special CPEC business visa to accommodate new Chinese investors.<sup>6</sup> A delay has been observed owing to COVID-19 pandemic, which emerged in early 2020. Meanwhile, so far, nineteen projects of CPEC have been completed. Federal government has also allocated Rs.23 billion for 17 CPEC projects under Public Sector Development

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<sup>4</sup> Mehtab Haider, "Rs87 billion allocated for CPEC projects in next budget", *The News*, 9 June 2021.

<https://www.thenews.com.pk/print/846761-rs87-bn-allocated-for-cpec-projects-in-next-budget>

<sup>5</sup> "CPEC has attracted \$25 billion investments in Pakistan", *The Express Tribune*, 4 November, 2020.

<https://tribune.com.pk/story/2271041/cpec-has-attracted-25-billion-investments-in-pakistan>

<sup>6</sup> "Govt allows CPEC business visa to facilitate Chinese investors: Fawad", *the Nation*, May 26, 2021.

<https://nation.com.pk/26-May-2021/govt-allows-cpec-business-visa-to-facilitate-chinese-investors-fawad>

Programme (PSDP) for the financial year 2021-22.<sup>7</sup>

- 1) **Infrastructure Projects:** The Eastbay Expressway, Quetta to Hoshab road, Surab-Quetta Road, Gwadar-Hoshab (M-8) road and Ratodero–Khuzdar have been completed and were operational. Recently the construction work has started on Hoshab-Awaran road which would connect Gwadar port with Sindh province.

Construction work is still ongoing on some roads including Nokundi-Mashkhel road which would improve access to Iran; Basima-Khuzdar road; and Hakla–Dera Ismail Khan Motorway. Budget has been allocated for the construction of Zhob to Kulchak road, ML-1 railway project, Havelian Dry port, KKH Phase-II Havelian-Thakot and Sea Water Desalination Plant at Gwadar. It was decided by the government to extend the western route of CPEC to Gilgit via Swat, Chitral and Shandur<sup>8</sup> which would expand the western part of the corridor up to 1617km and provide Gilgit-Baltistan with an alternate route to the existing Karakorum Highway to connect with other provinces. Budget has also been allocated for the establishing of offices for Intelligence Bureau along with CPEC and Construction of Blacktop Road from Kharan Yak Mach Road to Gul Kharmagai District Washuk.

- 2) **Energy Projects:** High-Voltage Direct Current (HVDC) Matiari-Lahore long-distance power transmission line project has been operationalized.<sup>9</sup> 88% work on 720-megawatt Karot Hydropower Project completed. CPEC authority official reported that nine energy projects out of 22 have been completed while five mega

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<sup>7</sup> “Govt allocates Rs23b for 17 CPEC projects under PSDP 2021-22”, *The Nation*, 28 June 2021.

<https://nation.com.pk/28-Jun-2021/govt-allocates-rs23b-for-17-cpec-projects-under-psdp-2021-22>

<sup>8</sup> “Pakistan approves to extend western route of CPEC to Gilgit”, *ANI News*, 19 July 2021.

<https://www.aninews.in/news/world/asia/pakistan-approves-to-extend-western-route-of-cpec-to-gilgit20210719170425/?amp=1>

<sup>9</sup> “On CPEC”, *Bussiness Recorder*, 7 September 2021.

<https://www.brecorder.com/news/40118349>

electricity projects were being planned in Thar, Kohala, Azad Pattan, etc.<sup>10</sup> A 300 MW power project is also under construction in Gwadar.<sup>11</sup>

- 3) **Special Economic Zones:** Among the nine proposed Special Economic Zones, three are currently being developed with Allama Iqbal industrial city (first SEZ of Punjab) development in full swing while its first phase complete, Dhabeji SEZ and Rashakai SEZ. Government has allocated Rs.1.203 billion for provision of gas by federal government for the Rashakai Zone.<sup>12</sup>
- 4) **Others:** It was decided that the livestock and fisheries sectors which were in close proximity to Khunjerab Pass would be developed under CPEC.<sup>13</sup> Budget has been allocated for the development of Gwadar Smart Environmental and Sanitation System and Landfill, Academic Collaboration under CPEC Consortium of Universities, Strengthening of Core Network & Expansion of PERN footprints through CPEC Optical Fiber (PERN-III).

Chairman of the CPEC Authority, Gen. Asim Saleem Bajwa recently stepped down after which Khalid Mansoor, former Chief Executive of Hubco was appointed by the Prime Minister as the new chairman.

Despite the 10<sup>th</sup> JCC meeting, work on CPEC projects remains slow, especially in the energy sector due to delay in Rs.250 billion worth of payments to Chinese Independent Power Producers (IPPs) which has lead to reluctance on their side to proceed.<sup>14</sup> Recently SAPM on CPEC Khalid Mansoor has written a letter to the vice chairman of National Development and Reform Commission (NDRC) for helping to resolve the issues related

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<sup>10</sup> “CPEC to gain momentum in days ahead”, *Profit by Pakistan Today*, 16 May 2021.

<https://profit.pakistantoday.com.pk/2021/05/16/cpec-to-gain-momentum-in-days-ahead/>

<sup>11</sup> “Energy projects set up under CPEC provides one-third of Pakistan's energy supply: foreign ministry”, *Xinhua Net: Asia & Pacific*, 3 September 2021.

[http://www.xinhuanet.com/english/asiapacific/2021-09/03/c\\_1310165898.htm](http://www.xinhuanet.com/english/asiapacific/2021-09/03/c_1310165898.htm)

<sup>12</sup> “First phase of Allama Iqbal Industrial City under CPEC complete”, *Profit by Pakistan Today*, 28 July, 2021.

<https://profit.pakistantoday.com.pk/2021/07/28/first-phase-of-allama-iqbal-industrial-city-under-cpec-complete/>

<sup>13</sup> “Livestock, fisheries sectors in areas close to Khunjerab Pass to be developed under CPEC: Asim”, *Radio Pakistan*, July 22, 2021.

<https://www.radio.gov.pk/22-07-2021/livestock-fisheries-sectors-in-areas-close-to-khunjerab-pass-will-be-developed-under-cpec-asim>

<sup>14</sup> “CPEC: Our last chance for industrialization”, *Business Recorder*, 12 November 2021,

<https://www.brecorder.com/news/40132905>



to ML-1 and other important energy projects like Gwadar, Karrot, Kohala and Azad Pattan, Thar Block-VI, Thal-Nova power projects and Quaid-i-Azam Solar power project. For the ML-I, NDRC was asked to intervene for the term sheet of the financing. Pakistan had already submitted its own plan and a term sheet from lender were awaited.<sup>15</sup> Karachi Coastal Comprehensive Development Zone (KCCDZ) has also been included in CPEC, first of its kind, which will be a game changer in boosting Pakistan's industrialization and economy with a prospective investment of \$3.5 Billion. It would improve the marine ecosystem for the fishermen, reduce pollution with the establishment of a water treatment plant and enhance trade potential through construction of state-of-the art ports.<sup>16</sup>

On November 15, the government hosted a marketing session for about 70 Chinese companies since it plans on initiating the second phase of CPEC with the focus on industrial, technological and agricultural development. CPEC Authority (CPECA) chairman Khalid Mansoor briefed the attendees on the latest developments on the CPEC projects, and the various opportunities and incentives for investment.<sup>17</sup>

### **Terrorist attacks**

Pakistani Taliban and some other militant groups have targeted Chinese citizens and projects multiple times in the past few years and it is feared that the recent victory of Taliban in Afghanistan may embolden these groups to continue their militant activities.

On July 14, a shuttle bus going towards the Dasu hydropower project with 9 Chinese nationals onboard and a few Pakistanis was attacked in the Kohistan region of the northern areas. Initially the foreign office of Pakistan had claimed that it was an accident since the shuttle fell into a ravine; later investigations revealed that it was indeed a bombing attack. China postponed Joint Cooperation Committee pre-scheduled meeting a day after the Dasu incident, which was to be held in July 2021 in which the lingering issues in CPEC related projects, financing of ML-1 railway project, security of Chinese nationals and future course of development were to be discussed.

The attack drew widespread condemnation while China emphasized on Pakistan to

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<sup>15</sup> “[Beijing's help sought for insurance cover of six CPEC projects](https://www.dawn.com/news/1657063)”, *Dawn News*, 10 November 2021,

<https://www.dawn.com/news/1657063>

<sup>16</sup> “Karachi coastal project under CPEC to boost economy: officials”, 15 November 2021,

<https://www.pakistantoday.com.pk/2021/11/15/karachi-coastal-project-under-cpec-to-boost-economy-officials/>

<sup>17</sup> “CPEC Phase II”, *The Nation*, 15 November 2021, <https://nation.com.pk/17-Nov-2021/cpec-phase-ii>

thoroughly investigate the matter in order to find out and punish the perpetrators. During the investigation, fourteen people were found to be involved belonging to Tehreek-i-Taliban Pakistan (TTP) that is allegedly backed by Indian and Afghan intelligence agencies.<sup>18</sup> The TTP however has not yet claimed responsibility for the attack which is intriguing given its record of involvement in previous attacks. This has uncovered the complexity involved in the terror attacks and thus further investigation is still ongoing.

In the wake of this event, Pakistan vowed to review the security arrangements in place for Chinese workers and formulate a new one to cover all Chinese nationals working in Pakistan on various projects, be those CPEC or non-CPEC.<sup>19</sup> It has been contended that security arrangements at the Dasu hydropower plant were not foolproof, because it was not a CPEC project.<sup>20</sup> Efforts were being made by WAPDA Chairman to resume the work on Dasu dam, in response to which the Chinese ambassador Nong Rong had expressed his resolve to restart the construction activities soon. However, work has not resumed as of yet, despite Pakistani assurances of high-level provision of security.

Chinese concerns related to security were heightened when in another targeted attack on 29<sup>th</sup> of July at Karachi, a Chinese engineer was shot in a moving vehicle by gunmen on a motorbike, while he was on the way to repair imported machinery at SITE area. Balochistan Liberation Front's spokesperson Gohram Baloch had claimed responsibility for the attack, as revealed by Counter-Terrorism Department official.<sup>21</sup>

On 21<sup>st</sup> of August, a suicide attack took place at Gwadar when a bus carrying Chinese nationals was passing by. The banned Balochistan Liberation Army (BLA) later claimed responsibility for the attack.<sup>22</sup> China demanded that Pakistan must treat those who are injured immediately and investigate the attack to punish the perpetrators. It is also pressing Pakistan to take practical measures to prevent the recurrence of such incidents

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<sup>18</sup> "Truth on Dasu terror attack surfaces amid unanswered questions, as China and Pakistan step up security for Chinese", *Global Times*, 13 August, 2021.  
<https://www.globaltimes.cn/page/202108/1231423.shtml>

<sup>19</sup> "New security plan to cover 'all Chinese workers'", *The Express Tribune*, 25 July 2021.  
<https://tribune.com.pk/story/2312133/new-security-plan-to-cover-all-chinese-workers?amp=1>

<sup>20</sup> Ibid.

<sup>21</sup> "Chinese engineer wounded in gun attack on car in Karachi, BLF claims responsibility", *Dawn News*, July 29, 2021.  
<https://www.dawn.com/news/1637510>

<sup>22</sup> "Punish the perpetrators": China presses Pakistan for 'practical measures' after Gwadar attack", *Dawn News*, 21 August 2021.  
<https://www.dawn.com/news/1641817>



in future, as successive terrorist attacks have resulted in casualties of Chinese nationals which are alarming.

### **Joint Cooperation Committee**

10<sup>th</sup> meeting of the JCC was held on 23 September 2021 via a video link, which was chaired by Deputy Head of China's National Development and Reforms Commission (NDRC), Ning Jizhe and Minister for Planning Development and Special Initiatives Asad Umar, and attended by more than 200 Chinese and Pakistani representatives from various financial, governmental, business and public institutions.<sup>23</sup> The cooperation between both the countries on CPEC since 9<sup>th</sup> JCC was reviewed, summarized and lauded by respective representatives and they vowed to further enhance the economic partnership in health, green economy, digitalization and agriculture for regional connectivity. It was announced that a joint working group would be established for information technology industry. 10 other working groups would also be established to monitor development projects.<sup>24</sup> The meeting was attended by respective chief ministers of Pakistan's provinces which show that support for CPEC is based on national consensus.

A Memorandum of Understanding for the 5,000 sets of solar generators aided by the Ministry of Ecology and Environment of China and the implementation agreement of desalination plant with the capacity of 5,000 tons per day have been signed, which aims to promote the socio-economic development and people's livelihood in Gwadar. <sup>25</sup> Pakistan had been seeking to change the tariff structure for independent power producers to address circular debt pressure, however, it was unanimously decided that tariff on power deals would not alter. Similarly, arrangements for \$6 billion Mainline Railway Track (ML-1) could not be finalized. <sup>26</sup>

### **Challenges to China-Pak Relations and CPEC**

China is one of the few countries largely investing in Pakistan and assisting it in various

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<sup>23</sup> CPEC: 10th JCC meeting held", *Gwadar Pro*, 23 September 2021.

<https://www.gwadarpro.pk/1441023194207547394/cpec-10th-jcc-meeting-held>

<sup>24</sup> "China, Pakistan committed to success of CPEC", *Daily Times*, September 25, 2021.

<https://dailytimes.com.pk/820891/china-pakistan-committed-to-success-of-cpec/>

<sup>25</sup> "China, Pakistan commit to high development of CPEC at 10th JCC meeting", *CPEC info*, 28 September 2021.

<http://cpecinfo.com/china-pakistan-commit-to-high-development-of-cpec-at-10th-jcc-meeting/>

<sup>26</sup> "Pakistan, China agree not to alter tariff on power deals", *Dawn News*, 24 September 2021.

<https://www.dawn.com/news/1648054>

ways to keep the economy afloat. If CPEC projects are delayed due to terrorist activities, Pakistani interests would be greatly hurt and its economic growth and stability would be jeopardized.

Meanwhile, anti-China sentiments have risen among some sections of the society due to lack of inclusionary efforts on the part of the Pakistani government to involve all the groups being affected by developmental projects, which has contributed to the fueling of militancy in Pakistan. This factor is then further exploited by hostile powers to get involved in Pakistan's internal issues and create ethnic rifts. Numerous CPEC projects are currently stalled due to terrorist attacks and increased chances of militancy would further put pressure on Pakistan.

Any future attacks would be harmful for the relations between China and Pakistan as the former is already furious over the recent attacks on Chinese nationals within Pakistan. Likewise, China's economy is also under pressure due to the supply chain woes caused by the pandemic and the trade war with US which would require stability, security and time to gear up again. Any sort of turmoil in Xinjiang could impede China's progress.

### **Recommendations for Pakistan**

Pakistan would have to take substantial actions to ensure the smooth running of infrastructural and industrial projects since it would be a major beneficiary of the development of CPEC. It is recommended that Pakistan should:

- Involve all the stakeholders in decision-making regarding CPEC to address the woes of people being directly affected by the environmental costs of the projects.
- Address the regional problems while also considering Chinese interests as without Chinese assistance Pakistan cannot tackle the upcoming challenges which could inhibit its economic growth.
- Reassure China by enhancing security measures in and around the projects where Chinese nationals are working.
- Major decision making regarding CPEC and its trajectory must not be based upon election bidding but rather on the potential benefits it could render to Pakistan's economy and for that all the stakeholders involved.
- Address the causes of delay in ongoing projects on priority basis while also halting various ministers from passing sweeping and irresponsible statements on developments related to CPEC on media.

- The Taliban must be made aware of potential advantages of CPEC for Afghanistan and encouraged to be a part of development in the region by resisting against those involved in militant activities.
- National consensus must be ensured on the issue of Afghanistan with the consideration of all the repercussions that chaos there would have on CPEC, since lack of well thought out statements by Pakistani officials can be exploited by enemy forces in information warfare to discredit the diplomatic stance of Pakistan internationally.

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