



The Eurasian Business Coalition Brief

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The Belt and Road Initiative in Pakistan – China’s Gains



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To many in the West, China's Belt and Road Initiative (BRI) can seem both ambitious and ambiguous, in terms of its size and its goals. In this way it would be useful to take a closer look at what is, perhaps, the cornerstone of BRI to see exactly what China has gained from the project.

The China-Pakistan Economic Corridor (CPEC) is one of the largest Belt and Road projects. Prior to the COVID-19 pandemic, China and Pakistan had signed some 51 agreements relating to CPEC, stretching from the port of Gwadar in the south to the Pakistani-Chinese border in the north. The two countries plan to build everything from special economic zones, to a rail line, to electric plants. China planned to spend \$46 billion in Pakistan before the pandemic. They doubled down in July 2020, agreeing to another \$11 billion of projects with Pakistan. The two countries plan to complete CPEC projects by 2030.



Economic Gains

Trade

Chinese-Pakistani bilateral trade has greatly improved thanks to CPEC, largely due to China's energy investments. Pakistani exports to China totaled at \$575 million in 2007 after the two countries first signed a Free Trade Agreement. In 2019, that number had increased to \$1.85 billion.

Prior to China's intervention, Pakistan's energy crisis reduced the textile industry production by nearly 30-40%. In 2015 the country needed an additional 5,000-8,000 MW of power

to meet demand. CPEC's energy projects helped to supply Pakistan with 11,110 MW in 2019, helping to close that energy gap.

Chinese Laborers Employed

Hard numbers on CPEC are hard to find. The most recent economic report provided by Pakistan does offer some employment data, but their data does not review every project connected to CPEC. Instead, it reviews a handful of projects, occasionally breaking them down by Chinese vs Pakistanis employed. At the end of the report, they provide an estimate of total jobs created by CPEC for each year, including projections for the lifetime of the project.

Of the 60,958 jobs created, 51,887 are filled by Pakistanis while 9,071 are filled by Chinese laborers, or 85.12% to 14.88%, respectively. Chinese laborers outnumber Pakistanis in energy and in the construction of the Gwadar city and port.

If we extrapolate these percentages along with the projected total employed over the lifetime of the project, we could assume that CPEC will employ 181,442 Chinese workers to some 1,037,923 Pakistanis. It is reasonable to assume, however, that these numbers do not exactly add up -- Pakistani and Chinese officials have rarely given coinciding job numbers.

Chinese Capacity Offloaded

One of the most common arguments about China's motivations for BRI is their need to offload excess industrial capacity. CPEC and its construction-heavy projects stand to help China do just that. Chinese companies working on CPEC projects signed onto nearly \$33 billion worth of contracts, according to the American Enterprise Institute's China Global Investment Tracker.

CPEC has helped to create a glut of demand for steel that China is struggling to sell domestically. China's biggest state-owned steel enterprise, Baosteel, is one such company that found new customers in Pakistan. Baosteel has contracts to build a jetty in the port of Gwadar as well as several energy plants.



Security Gains

Uighurs and Xinjiang

Perhaps the most critical domestic security issue facing China is their ongoing repression of the Uighur ethnic group in the Xinjiang Autonomous Region. Out of fear of secessionism and terror, China has created a gulag system to crackdown on the Muslim majority Uighurs.

In September 2018, Pakistan's Federal Minister for Religion denounced the repression in Xinjiang, making Pakistan the first Muslim majority country to do so. However, by December the Pakistani Foreign Ministry walked back the statement. In a January 2019 interview, Pakistani President Imram Khan denied even knowing about the situation and pivoted to praising the "breath of fresh air" China had given Pakistan. It would appear the benefit that Pakistan has received from CPEC is ensuring their silence on the issue.



The Port of Gwadar

The Port of Gwadar is often the center of America's security concerns about BRI. The deep-water port is often considered to be part of a forward deployment strategy to project Chinese naval power into the Indian Ocean. Though the Chinese military is not present at the port, those worried about its security implications suggest that China might seize the port through predatory loans and “debt-trap diplomacy”.

While in theory this is possible, it is certainly not the case currently. In 2017 a Chinese state-owned enterprise purchased the vacant port. The company is developing a special economic zone around the port. China has also changed two projects at the port. They are providing financing for an airfield and a highway in the form of interest-free grants, which runs counter to the “debt-trap diplomacy” theory. Additionally, the Chinese embassy in Pakistan released a statement clarifying that the total loans for CPEC only amount to \$5.8 billion with an annual payment of \$300 million. This payment structure, they claim, “will never be a burden on Pakistan.” Finally, to the extent that the port has been militarized, it has come from Pakistan's military -- not China's.

Economic Security

The Port of Gwadar and other infrastructure projects in Pakistan also have the potential to help secure China's energy imports. Roughly 80% of China's oil and natural gas imports travel through the Malacca Strait and the South China Sea. CPEC helps them divert vital energy imports away from this chokepoint.

A pipeline is in the works to transport 1 million barrels a day from the Gwadar port to Kashgar in Xinjiang. This would divert about 1/7th of China's oil imports. However, the pipeline would require passing through the Himalayas. This feat of engineering would increase oil transportation costs from \$2 a barrel to \$10. It remains to be seen if this will be completed.



Future Security Implications

Though China has a limited number of citizens on the ground in Pakistan, the security situation around Gwadar poses an imminent threat. Gwadar is in the Balochistan province which is home to a secessionist terror movement. If the security situation deteriorates, China will have to decide on how to proceed.

Balochistani rebels want to oust Chinese investment from Pakistan. These rebel groups feel that the flow of Chinese investments and new economic opportunities will draw in unwanted outsiders to the region. Additionally, they believe Chinese investments are helping to fund the Pakistani military's fight against them.

Though the rebels have mostly engaged in low intensity operations, there is potential for the conflict to escalate. In 2018, Balochistani rebels killed three Chinese engineers and, in a separate attack, attempted to bomb the Chinese consulate in Karachi. The recent reunification of the Pakistani Taliban now threatens Chinese projects and laborers in the northern part of the country as well.

If the Pakistani military is unable to control these terror groups, China will have to reconsider the state of its engagement in Pakistan. In perhaps the worst-case scenario, China might feel the

need to deploy the People's Liberation Army in order to ensure the safety of Chinese citizens. This would raise red flags in the US and India and many would use it to reinforce their view that China is attempting to use Pakistan as a forward operating base with which to challenge the west.

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