

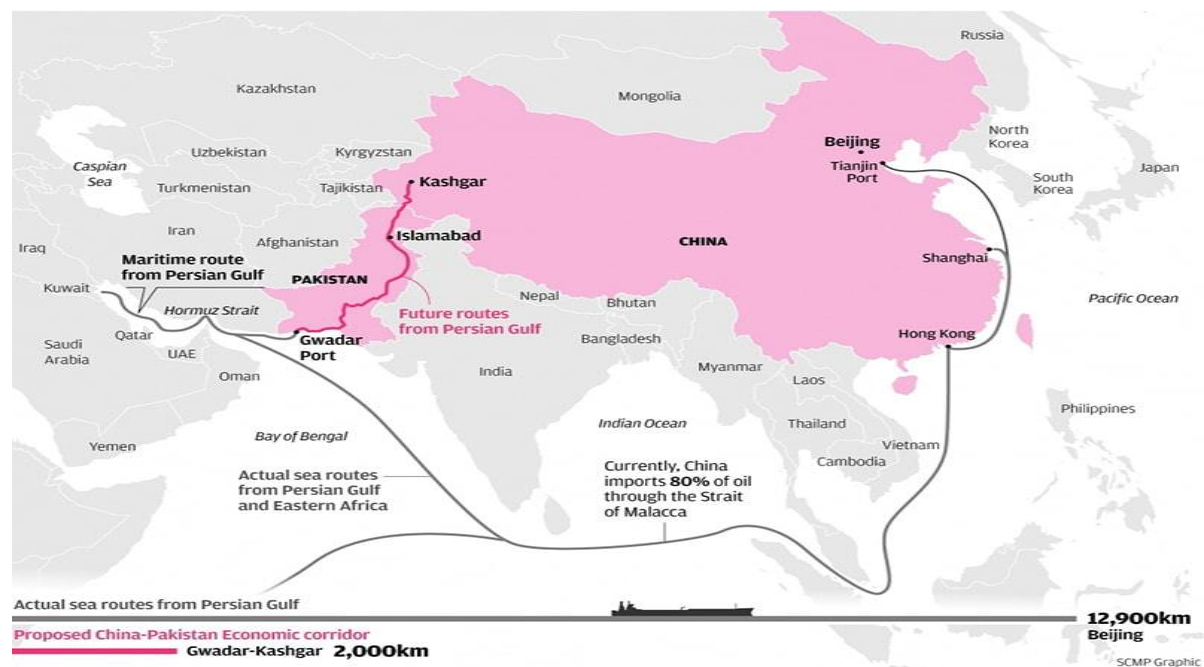
# How will CPEC boost Pakistan economy?

## Background

According to Pakistan Economic Survey 2014-15, the volume of trade between Pakistan and China has increased to \$16 billion. China's exports to Pakistan increased by ten percent during the five years from 2009-10 to 2014-15. As a result, China's share in Pakistan's total exports has gradually picked up from four percent in 2009-10 to nine percent during the fiscal year 2014-15. The most recent milestone achieved in this bilateral relationship is the signing of Memorandum of Understanding on the construction of China-Pakistan Economic Corridor (CPEC).

CPEC is a 3,218 kilometer long route, to be built over next several years, consisting of highways, railways and pipelines. The actual estimated cost of the project is expected to be US\$75 billion, out of which US\$45 billion plus will ensure that the corridor becomes operational by 2020. The remaining investment will be spent on energy generation and infrastructure development.

The much advertised US\$45 billion China-Pakistan Economic Corridor will pass through the beautiful Gilgit-Baltistan province in the north which will connect Kashgar in China's western province Xinjiang to rest of the world through Chinese-operated Gwadar port in the country's south. This mega project is expected to take the bilateral relationship between Pakistan and China to new heights, it's a beginning of a journey which hopes to transform the economy and help bridge Pakistan's power shortfall.



The CPEC project has been divided into phases, the first phase being the completion of Gwadar International Airport and major developments of Gwadar Port. This phase is expected to be completed by the year 2017. The project also includes the expansion of Karakoram Highway- the road that connects China with Pakistan and placement of fiber-optic line ensuring better communication between the two countries.

It is estimated that if all the planned projects are implemented, the value of those projects would exceed all foreign direct investment in Pakistan since 1970 and would be equivalent to 17% of Pakistan's 2015 gross

domestic product. It is further estimated the CPEC project will create some 700,000 direct jobs during the period 2015–2030 and add up to 2.5 percentage points to the country's growth rate.<sup>1</sup>

## Benefits

The CPEC will open doors to immense economic opportunities not only to Pakistan but will physically connect China to its markets in Asia, Europe and beyond. Almost 80% of the China's oil is currently transported from Strait of Malacca to Shanghai, (distance is almost 16,000 km and takes 2-3 months), with Gwadar becoming operational, the distance would reduce to less than 5,000 km. If all goes well and on schedule, of the 21 agreements on energy– including gas, coal and solar energy– 14 will be able to provide up to 10,400 megawatts (MW) of energy by March 2018. According to China Daily, these projects would provide up to 16,400 MW of energy altogether.

As part of infrastructure projects worth approximately \$11 billion, and 1,100 kilometer long motorway will be constructed between the cities of Karachi and Lahore,<sup>2</sup> while the Karakoram Highway between Rawalpindi and the Chinese border will be completely reconstructed and overhauled. The Karachi–Peshawar main railway line will also be upgraded to allow for train travel at up to 160 kilometers per hour by December 2019.<sup>3</sup> Pakistan's railway network will also be extended to eventually connect to China's Southern Xinjiang Railway in Kashgar.<sup>4</sup> A network of pipelines to transport liquefied natural gas and oil will also be laid as part of the project, including a \$2.5 billion pipeline between Gwadar and Nawabshah to transport gas from Iran.<sup>5</sup>

Oil from the Middle East could be offloaded at Gwadar and transported to China through the corridor, cutting the current 12,000 km journey to 2,395 km. It will act as a bridge for the new Maritime Silk Route that envisages linking 3 billion people in Asia, Africa and Europe, part of a trans-Eurasian project. When fully operational, Gwadar will promote the economic development of Pakistan and become a gateway for Central Asian countries, including Afghanistan, Uzbekistan, linking Sri Lanka, Iran and Xinjiang to undertake marine transport.<sup>6</sup>

Over \$33 billion worth of energy infrastructure will be constructed by private consortia to help alleviate Pakistan's chronic energy shortages,<sup>7</sup> which regularly amount to over 4,500MW,<sup>8</sup> and have shed an estimated 2-2.5% off Pakistan's annual GDP.<sup>9</sup> With approximately \$33 billion expected to be invested in energy sector projects, power generation assumes an important role in the CPEC project. Over 10,400MW of energy generating capacity is to be developed between 2018 and 2020 as part of the corridor's fast-tracked "Early Harvest" projects.<sup>10</sup>

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<sup>1</sup> Pakistan Times

<sup>2</sup> *Karachi to Lahore Motorway Project Approved*". Dawn. The Dawn Media Group. 2014. Retrieved 5 September 2014

<sup>3</sup> *Railway track project planned from Karachi to Peshawar*". Pakistan Tribune. 13 November 2015. Retrieved 6 March 2016 and *nation.com.pk/national/22-Jun-2015/cpec-may-get-extra-billion-dollars "CPEC may get extra billion dollars"*] Pakistan: The Nation. 22 June 2015. Retrieved 11 December 2015.

<sup>4</sup> Zhen, summer (11 November 2015). "Chinese firm takes control of Gwadar Port free-trade zone in Pakistan". *South China Morning Post*. Retrieved 11 December 2015.

<sup>5</sup> Shah, Saeed (9 April 2015). "China to Build Pipeline From Iran to Pakistan". *The Wall Street Journal*. Retrieved 6 December 2015

<sup>6</sup> The Jakarta Post

<sup>7</sup> Malik, Ahmad Rashid (7 December 2015). "A miracle on the Indus River". *The Diplomat*. Retrieved 11 December 2015

<sup>8</sup> *Electricity shortfall increases to 4,500 MW*". *Dunya News*. 29 June 2015. Retrieved 11 December 2015

<sup>9</sup> Kugelman, Michael (9 July 2015). "Pakistan's Other National Struggle: Its Energy Crisis". *The Wall Street Journal*. Retrieved 11 December 2015

<sup>10</sup> *Parliamentary body on CPEC expresses concern over coal import*". *Daily Time*. 19 November 2015. Retrieved 11 December 2015.

The region of Baltistan is known for its fresh fruit exports, like cherries, apricot and apples, CPEC will be a game changer by opening business opportunities for the region's traders. This will provide local traders with an advantage and help them double their sales by tremendous saving in cost of transportation. Presently, fruits are being exported through air-cargo via Dubai it would be faster and cheaper if the same could be sent by road to China via Xinjiang.



Tourism which currently makes up an insubstantial part of our earnings is believed to be elevated by opening of this economic corridor. The CPEC, some believe, will also boost tourism in the 73,000 square km region. The region is considered to be a mountaineer's paradise, since it is home to five of the 'eight-thousands' (peaks above 8,000 meters), as well as more than 50 mountains over 7,000 meters. It is also home to the world's second highest peak K2 and the Nanga Parbat.<sup>11</sup>



K2, Pakistan. K2 is the second-highest mountain on Earth, after Mount Everest. It is located on the border between Baltistan, in the Gilgit–Baltistan region of Pakistan, and the Taxkorgan Tajik Autonomous County of Xinjiang, China.

#### **Conflicts between motives**

The project surrounded by all optimism yet cannot be totally perceived without apprehensions. Government of Pakistan (GoP) claims to revive Diamer-Bhasha dam on Indus River in Gilgit –Baltistan, in the second phase of CPEC, resulting in the production of 4500MW of electricity in addition to serving as a huge water reservoir for the country, which being authenticated by Asian Development Bank (ADB), Gilgit-Baltistan has the potential to produce nearly 50,000MW of energy. Just Bunji Dam, a run-of-the-river project that the ADB has invested in, has the capacity to generate up to 7,100MW electricity when completed. The question being raised in the mind of the commoners are when by building hydro projects Pakistan can safely import energy and will have enough to use it for its development also why construct an expensive 750km transmission line?

There is also the fear that the CPEC may lead to widespread displacement of the locals. "Of the 73,000 square kilometers, cultivable land is just 1pc. If that is also swallowed by rich investors from outside, we will become a minority and economically subservient once there will be no farmland or orchards left to earn our livelihood from," Hunzai –a local businessman expressed concern while talking to Gilgit Times.

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<sup>11</sup> Gilgit Tims

Not only by the local businessmen but serious concerns have been raised by various sectors and many political parties on the opaqueness regarding the project. "CPEC is not the problem. It has just highlighted the imbalance in provinces with the largest one, Punjab, being seen as favored specially as far as investments on road infrastructure are concerned and fueling bitterness among the rest of the three provinces," repented Vaqar Zakaria, energy sector expert and managing director of environmental consultancy firm Hagler Bailley Pakistan.

Justifying the parity it is clarified by GoP that of the US \$46bn, between \$35bn to \$38bn were earmarked for the energy sector— of this, \$11.6bn will be invested in Khyber Pakhtunkhwa, \$11.5bn in Sindh, \$7.1bn in Baluchistan and \$6.9bn in Punjab.<sup>12</sup> Repeated assurances of the Federal Government as to the parity of the project and that no province or region of the country would be discriminated in CPEC, doubts still remain as to its fair allocation.

### **The Final Route**

After evaluating various possible routes, The All Party Conference held in May 28, 2015 unanimously decided to adopt a modified Western Route for CPEC that would pass through:

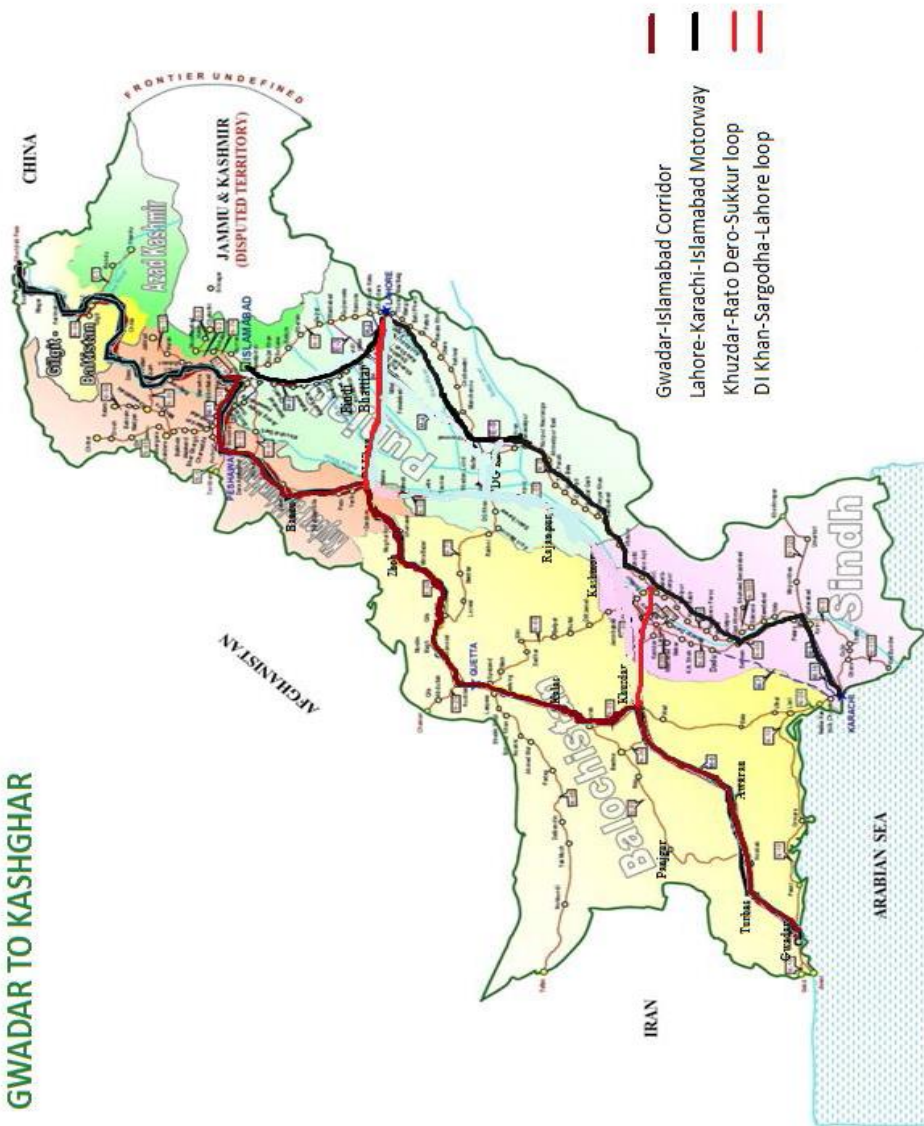
*Gwadar-Turbat-Hoshab-Panjgur-Besima-Kalat-Quetta-Qila Saifullah-Zhob-Dera Ismail Khan-Mianwali-Attock-Hasanabdal-and onwards*

This route is considered better than other routes in terms of opportunity cost of land and dislocation compensation costs.

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<sup>12</sup> Gilgit Times

## GWADAR TO KASHGHAR



Source: China Pakistan Economic Corridor-Route Controversy? Issued by Chief Minister's Reform Unit, Government of Baluchistan

### Conclusion

The CPEC appears to be a very crucial project for both the countries. For China it provides an alternate secure route to import Energy and find new markets for its goods and services. For Pakistan it helps counters Indian influence in the region, position itself as a major transit point connecting Eurasian region with South Asia and South East Asia and provide a much needed base to kick start its economic growth.