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China



Betting Big on CPEC

BY XIANGMING CHEN, S.K. JOSEPH AND HAMNA TARIO

With the launch of the China-Corridor Pakistan **Economic** (CPEC), one fundamental question to ask is if this ambitious project will transform Pakistan and boost China's ambitious Belt and Road Initiative (BRI). In this article, the authors assess the potential and prospect of CPEC in terms of its various opportunities and constraints and examine the economic potentials and social impacts of CPEC from the Pakistani national perspective using a subnational and local lens as well as from the Chinese vantage point and draw the broad

implications of this two-sided analysis of CPEC toward a preliminary policy oriented conclusion.

erched 4,693 metres above sea level in the Karakoram Mountains on Pakistan's northern border with the southwestern region of Xinjiang, China, Khunjerab Pass, with an international border gate, stands lonely against the stunning snowy mountains around. On the Chinese side, besides an isolated army border control station and few adventurous tourists, the Pass is accompanied by a few scattered yurts and rarely

seen white mountain yaks. Yet this place in a remote corner of the world heralds larger looming significance for both China and Pakistan. Its location defines the Pass as the only existing crossroad point for the ambitious China-Pakistan Economic Corridor (CPEC) that both countries have committed to building. While there are relatively few freight lorries running along the highway (G314) leading from Kashgar, China's westernmost city and closest city to the Pass, CPEC is touted as a difference-maker for boosting Pakistan's economic development and China's Belt and Road initiative (BRI). As Pakistan's Prime Minister Shahid Khaqan Abbasi is quoted in the Long Term Plan (LTP) for China-Pakistan Economic Corridor (2017-2030), "Pakistan-China bilateral ties are time tested; our relationship has attained new heights after the China-Pakistan Economic Corridor that is a game changer for the region and beyond".1

With over \$50 billion up from the original \$46 billion for infrastructure

construction mostly financed by China, CPEC is the single largest capitalised project ever mounted in Pakistan. It comprises the (re)construction of Gwadar port on the Indian Ocean, roads, railways, power stations and other facilities that aim to create sea-land transport connections between Gwadar and Kashgar. This southnorth corridor through the length of Pakistan (see Map 1) is capable of stimulating national and regional economic development at a scale and speed not seen before. From Kashgar as China's terminus of CPEC, this overland corridor will create the shortest access to sea for the country's northwestern region and thus generating new growth momentum for this vast but lagging region. If successfully implemented, CPEC can serve the crucial overland bridge for linking China's Belt and Road (see Map 2).

Despite its hype for both Pakistan and China, as well as its broader regional and global importance, CPEC is just beginning to attract more attention as an ambitious cross-border project and a salient issue for research, although the latter has not kept pace with the project's on-the-ground development.

CPEC from Pakistan's National Perspective

In April 2015, Chinese President Xi Jinping visited Pakistan. This was the second visit of China's top leader to Pakistan since the beginning of the 21st century after Hu Jintao's visit to Pakistan in 2006. During his visit, Xi stated, "this will be my first trip to Pakistan, but I feel as if I am going to visit the home of my own brother", thus amplifying the friendly relations between both countries.2 As a result of his visit, a total of 51 agreements were signed between China and Pakistan having a total worth of \$46 billion which also included the development of CPEC.3 The originally intended \$46 billion investment for CPEC has since been raised to over \$50 billion. The amount exceeds all foreign direct investment Pakistan has received over the

MAP 1: The Proposed \$46-Billion China Pakistan Economic Corridor



SOURCE: WALL STREET JOURNAL, U.S. GLOBAL INVESTORS

last several years and is considerably more than all the aid Pakistan has received from the US since 9/11.⁴ This is more than 20% of Pakistan's 2016 gross domestic product.

This project is basically a collection of infrastructure projects in Pakistan to develop Pakistan's shattered economy. CPEC includes construction of modern transportation networks, numerous energy projects and creation of special economic zones. CPEC eventually aims at linking Pakistan's port of Gwadar on the Indian Ocean to China's landlocked Northwestern region of Xinjiang through a vast network of highways and railways. If this project becomes reality, Pakistan will be having a massive new network of roads, highways, railways and pipelines. The road will cover approximately 3,000 kilometers from Gwadar to Kashgar. The internal motorway is

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also a part of this project, which will be about 1100 kilometers long stretching from Lahore to Karachi, in addition to the Karakorum highway from Kashgar via Khunjrab Pass to Islamabad (Map 1). This is by far the largest infrastructural project ever mounted in the history of Pakistan. Several projects are already underway and are expected to be completed by as early as 2018, with the short-term plan of CPEC to be completed by 2020, the mid-term by 2025 and long-term by 2030.⁵

Economic potentials

Pakistan will reap several much needed benefits from CPEC that can and will improve the country's development. First, CPEC is expected to enhance Pakistan's employment opportunities along the route. Although thousands of Chinese workers have been assigned to construct the railways, pipelines and roads, most construction workers are locals. CPEC is projected to generate 2,320,000 jobs ultimately reducing Pakistan's unemployment rate from 5.5% to 3.9%. According to Pakistan's Minister of Planning and Development Ahsan Iqbal, at least 300,000 jobs have been created by CPEC thus far. A lot of these jobs will be for building three routes of roads to connect Gwadar to Kashgar, a considerable improvement over the only road now.

Stronger and more expansive transport infrastructure is expected to stimulate faster economic growth through more trade and investment. In fact, after the official launch of CPEC in 2013, Pakistan's GDP annual growth rose from 4% to 5.5% in 2016. According to an IMF estimate, investment in CPEC will add \$3 to \$13 billion in output to Pakistan's GDP through 2024.8 Other external advantages include greater trade through

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MAP 2: The Geographical Scope of the Belt and Road Initiative (BRI) with Six Corridors

Source: Mercator Institute for China Studies, Berlin

Gwadar port, which will play out its key location for facilitating trade among South Asia, Central Asia and the Middle East. Pakistan will also benefit from improved energy supply as more China-invested and - built power stations come online. This, in conjunction with more special economic zones (SEZs) being built along the new or enhanced roadways, will allow Pakistan to strengthen its limited manufacturing sector, from assembling parts and components to localised production of parts, and encourage more Chinese companies to build factories in Pakistan as envisioned by the LTP for CPEC.9

CPEC will also improve Pakistan's tainted international reputation. Tourism which currently makes up a small part of Pakistan's earnings can benefit. The cross-border region where the road from Kashgar starts is considered to be a mountaineer's paradise, since it is home to five of the "eight-thousands" (peaks above 8,000 metres), as well as more than

50 mountains over 7,000 metres. It is home to the world's second highest peak K2 (Mount Godwin-Austen) straddling the China-Pakistan border and the Nanga Parbat, the world's 9th highest peak in the Gilgit-Baltistan region of Pakistan. Previously, foreign tourists had been hesitant to climb these wondrous peaks, but due to increase securitisation for the Chinese officials and transformative infrastructure construction, this breathtaking region is now deemed safe.10 Local demand for traveling within Pakistan is increasing year on year, with an expected number of 50-plus million domestic tourists forecasted by the Pakistan Tourism Development Corporation (PTDC). CPEC is also expected to stimulate coastal tourism along the development axis between Karachi Port and Gwadar port as the two coastal centers or anchors of CPEC.

The Pakistani government is betting that faster economic growth and lower unemployment through CPEC can alleviate poverty and thus reduce the threat of terrorism, especially in very poor and restive Baluchistan province. Pakistan has deployed a Special Security Division of 9,000 Pakistan Army soldiers and 6,000 paramilitary forces dedicated to the security of individuals working on CPEC, to prevent Chinese nationals from getting harmed.¹¹ The LTP for CPEC calls for more rigorous safety precautions in the Gwadar region, especially at the port and in Gwadar Free Zone (see Photo 1). The management of Khunjerab Port will also be strengthened with 24-hour video surveillance along the China-Pakistan Highway from the border to Gwadar port.12 These security measures add cost to both the realised and potential economic benefits of CPEC.

Social impacts

CPEC goes above and beyond its economic influence and has led to unforeseen social impacts that have left many Pakistani residents stunned. Mandarin Centers have cropped up to teach Mandarin to children as young as eight. Schools have realised the extent of Chinese influence on Pakistani Society and have also started teaching Mandarin courses in class.¹³ Thousands of Chinese have settled not only in Gwadar and remote areas along the infrastructure routes and connections but also in the major cities of Lahore, Islamabad and Karachi. Chinese superstores in Lahore sell spices exclusively imported from China. Lahore even has a traditional Chinese medicine hospital linked to CPEC (see Photo 2).

Most interestingly, the Pakistani media has attempted to appease a new national audience that has been exposed to growing Chinese influence. Chinese soap operas have replaced



Photo 1: A Pakistani security guard at Gwadar port, in front of a Chinese container ship Source: http://cpecvela.com/cpec-effects-on-regional-connectivity/

popular Turkish ones. The "Shan Masala" ad showing a Chinese woman in Pakistani clothes bringing Biryani to a Pakistani home has appealed to many locals. The Pakistani movie "Chalay Thay Saath" shows a budding romance between a Chinese male visitor to Pakistan and a Pakistani girl. While it may be too early to gauge the full social impact of CPEC, the latter has already triggered direct sociocultural repercussions for Pakistani society despite the wide cultural and religious differences between the two countries.

Turning a Local Lens to CPEC

While the national perspective on CPEC has revealed its large scale and broad impact, we turn to a local lens to shed light on the highly differentiated positions and roles of Pakistani cities in CPEC. Gwadar emerged as the first choice for the starting point of CPEC from southern end of the proposed corridor. A small fishing village on the coast of Makran with underdeveloped paved roads, schools and hospitals, Gwadar relied on exporting limited quantity of seafood caught by small finishing boats.

Since becoming the lynchpin of the CPEC, this small fishing village has been slowly transformed into a growing modern city. Due to the joint efforts of Pakistani and Chinese governments, Gwadar deep sea port has been built at a total cost of \$288 million¹⁴ and handed over to China Overseas Port Holding Company (COPHC) for operation. It is capable of handling container offload of 300 to 400 million tons annually.15 According to a local businessman, "the construction site was a century old fisherman's settlement called Mullah Band. The Pakistani government had to pay owners in the area to move out of the area. They were promised a school, hospital and playground but progress has been slow."16 Over the past ten years, a high school with the playground has been established for students in Gwadar. An emergency hospital had been established under CPEC at a cost of \$2.44million.¹⁷ Despite positive spillover effects from these investment projects, some local residents complain about not given priority for employment at the port. According to a local laborer, "when CPEC started I was happy that people like me will have lot of opportunities to make a



Photo 2; A traditional Chinese medicine hospital linked to CPEC, Lahore, Pakistan Source: Photo by Hamna Tariq

decent living by working at the construction site but China has brought either its own workers or people of Punjab (the most populous province of Pakistan). They are taking away our living."¹⁸

The Baloch National Movement, a regional group advocating autonomy for Baluchistan where Gwadar is located, is against CPEC. Its leaders see CPEC as making the cause of obtaining autonomy even more difficult because a powerful China will be heavily vested in the region. Therefore, if China and Pakistan want CPEC to be successful, then both countries need to make a serious effort to engage local people in the development process by providing more employment opportunities, which leads people to question China's motives for CPEC.

While a deep sea port has been developed at Gwadar, SEZs have been planned to

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its northeast, in the province of Sindh. This includes Dhabeji, Thatta where 1000 acres have been set aside for the potential setup of cement, steel, pharmaceutical and chemical plants.¹⁹ Due to Dhabeji's proximity to Karachi and ease of connectivity through M3 motorway to the north and Markran Coastal Highway to Gwadar, Chinese investors have shown a great interest in this SEZ. Many local businessmen in Sindh also are very optimistic about SEZ in Dhabeji because they are hopeful that Sindh will return to its glory days of industrialisation of the 1970s when Karachi and its surround areas thrived with industrial activity. As a local businessman put it, "I am already buying land in Dhebeji to setup a restaurant in the vicinity of the proposed plants because factory workers will buy lunch and dinner between their shifts. I remember in 1970. Karachi and urban areas were lucrative business ventures for us. Lots of foreigners also visited the area for business dealings."20 CPEC will prove to be a major impetus for generating employment activity in Sindh province because government has signed a memorandum to provide tax holiday to plant owners and incentives on hiring local workers. Local governments in Pakistan are trying to compete for Chinese investment, which has surpassed that from the US. Between 2013 and 2017, Chinese investment in Pakistan amounted to \$1.2 billion compared to US investment at \$505 million. Relative to Chinese investment's intention to improve the economic situation of average Pakistanis, many perceive American companies such as Philip Morris and Proctor & Gamble as investing only to enrich their subsidiaries in Pakistan.²¹



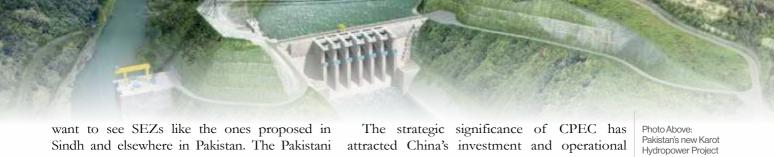


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In northern Pakistan, Gilgit is the last major city before CPEC reaching the Chinese border and Kashgar. The most important section of the highway running from Burhan, Hasan Abdal to Kashgar is called Karakoram Highway or KKH with a total length of 887 kilometers. Under CPEC, KKH is going through upgrades including the construction of second lane to facilitate the traffic flow at a cost of \$1.26 billion from China's Import-Export Bank as a low interest loan.²² This has reduced the commuting time from Islamabad to Gilgit from 28 hours to 16 hours. The immediate effects of KKH enhancements are felt as domestic tourism has significantly increased. According to a local businessman, "it is due to CPEC that now we have a reliable highway connected both to the Chinese border and our city. The new road has brought 500,000 Pakistani tourists. I get my shipments from China on time and my customers are happy. I buy Chinese items because they are in demand such as dinner sets, clothes, appliances etc."23 CPEC has begun to generate some sustainable economic activities in this remote region and lessen its dependence on government's monetary support.

Another prominent CPEC project is a data cable from Gilgit to Islamabad at a total cost of \$44 million.²⁴ The data cable will increase the Internet bandwidth for people in northern Pakistan. It will allow local businessmen to stay in touch with their Chinese counterparts through phone and the Internet. As this area has always been a historic trade route between traders in Xinjiang and Gilgit, enhancing road and communications linkages will further strengthen cross-border trade ties. Similar to the Pakistani government's effort to secure Gwadar port, the Chinese government has provided funding for security vehicles to patrol the KKH regularly to maintain law and order in the area.²⁵

The locals have mixed feeling about CPEC and its effects on Gilgit. On one hand, the business community is very content that highway improvement makes it easier to trade as cargo can move with less delay; but at the same time, the businesspeople want projects that can and will do even more for economic development. People of Gilgit are happy to see more lorries pass through and drivers stop to buy food and spend money on lodging. In addition, they hope CPEC projects can generate employment on a larger scale. They



want to see SEZs like the ones proposed in Sindh and elsewhere in Pakistan. The Pakistani government should take plight of people in Gilgit very seriously because since the independence of Pakistan, this area has remained very underdeveloped. With CPEC, Pakistan has a great opportunity to develop this area and demonstrate its true commitment towards the people of Gilgit. From a geostrategic point of view, developing this area with an increased Chinese business presence will help to deter India's long-standing claim for Gilgit Baltistan as an Indian territory. It may even create an opening for both India and Pakistan to resolve this territorial dispute and co-exist more peacefully on the Subcontinent.

CPEC from the Chinese Side

From the Chinese side to echo Pakistan's Prime Minister, CPEC represents, in President Xi's own words, "a strategic decision by our two governments and peoples to build a China-Pakistan community of shared destiny."26 More strategically, China sees CPEC as the only one of the six corridor-shaped components²⁷ of the BRI that can truly link the overland Belt and maritime Road (see Map 2). The BRI includes over 60 countries, about 65% of the global population and close to 40% of the world's GDP. Since its launch in 2013, China has invested \$60 billion in BRI-related projects and is committed to invest \$800 billion over the next five years.²⁸ Enshrined into the Charter of the Chinese Communist Party (CCP) in 2017, the BRI is advanced as heralding China's new inclusive approach to globalisation by "promoting the connectivity of Asian, European and African continents and their adjacent seas and establishing and strengthening partnerships among the countries along the Belt and Road."29 As an integral part of the BRI, the implementation and success of CPEC matters a great deal to China and its new stature and role in the global economy, much more than just solidifying an already close relationship with Pakistan.

priorities that are compatible with Pakistan's. Gwadar port again stands out. Moving oil and goods from the Middle East and Eastern Africa through Gwadar to Xinjiang is over 10,000 kilometers shorter than going around to China's coast by sea. It also avoids sailing through the narrow and vulnerable choke point of the Strait of Malacca. China has pushed very hard to finish the upgrading of Gwadar port, which became operational in November 2016. Moreover, China helped Pakistan to complete the first phase of the construction of Gwadar Free Trade Zone in 2017, a whole year of schedule, and has already sunk \$270 million into the project, with the remaining three phases to be completed by 2030 when CPEC is scheduled to wrap up.

Up north, China has been assisting Pakistan to build the Karot Hydropower Dam Project on River Jehlum, a tributary of the Indus River, located in Punjab province. With an installed capacity of 720MW and costing \$1.4 billion, the Karot Dam will be Pakistan's fifth largest and add considerable power supply to Pakistan's most populous province and beyond. Broken ground at the beginning of 2016, the dam will create over 2000 jobs and be completed in 2020 through built-operate-transfer (BOT). After 30 years of operation, it will be transferred to the Pakistani government. The project has already attracted a \$300 million loan from China-led Asia Infrastructure Investment Bank (AIID) and the first ever targeted financing by the Silk Road Fund linked with the BRI.³⁰ Gwadar port and Karot dam exemplify China's infrastructure-centric approach to working with Pakistan on CPEC.

Kashgar is the key

If Gwadar, Karachi and Gilgit are key Pakistani cities for CPEC as discussed earlier, Kashgar of Xinjiang region, as China's terminus of CPEC,

Photo Source: https://islamabadscene.com



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holds the key to China's major efforts to make CPEC successful. Kashgar and other western cities began to benefit from growing investment and more favourable policies under China's "Go West" development initiative launched in 2000. But the BRI and CPEC have accelerated the infusion of domestic resources to Kashgar. In advancing both spatially targeted initiatives, the Chinese government has designated the most wealthy coastal cities of Shenzhen and Shanghai as partners for directly supporting Kashgar's development. This administrative fiat led the Shenzhen government to give \$1.5 billion for building a new campus for the University of Kashgar. Companies from Shenzhen and Shanghai have set up factories in Kashgar's Economic and Technological Development Zone established in 2010. For example, with government financial incentives and guaranteed orders for army uniforms, a clothing company in Shenzhen has set up a large factory in the zone and sent technical supervisors to train the large number of Uyghur women hired locally (see Photo 3). More recently, the Chinese state elevated an expansive region encompassing the city of Kashgar to a national level SEZ, with the package of special incentives originally granted only to Shenzhen and three other coastal SEZs. This designation is clearly intended to further elevate Kashgar's crucial status and role in anchoring the Chinese end of CPEC.

As an ancient Silk Road city, Kashgar is well located to facilitate the success of CPEC as a crucial nexus for the BRI. Its historic bazaar, which served as a central market for the Silk Road for over 2,000 years, received a facelift in November 2017 when the Kashgar government announced that the bazaar would be relocated to the brand new and much more spacious Kashgar Central and Western Asia International Trade Center. An important project for 2018 built by wealthy Zhejiang province, the center will cost \$708 million, have 1.35 million square metres of construction space, house over 10,000 vender stalls and create nearly 100,000 jobs for the central market and its various auxiliary facilities.³¹ Once completed, the new central market will attract more traders from Central and South Asia such as Kazakhstan and Pakistan who have trekked long distances to shop at the old bazaar (see Photo 4). However, cross-border trade between China and Pakistan will continue to be limited by the single-lane road over high mountains through the Khunjerab Pass, which lies several driving hours away from the city of Kashgar itself.

Conclusion

The challenging natural terrain on either side of the Khunjerab Pass forms a formidable barrier to creating a smooth and sustainable long corridor of commerce between Gwadar, Pakistan and Kashgar, China. It also symbolises the equally, if Photo 3 (left): A Chinese foreman is supervising Uyghur female workers in a clothing factory set up by a company from Shenzhen, Kashgar, China Source: Photo by Xiangming Chen

Photo 4 (right): Pakistani shoppers at the central bazaar, Kashgar, China Source: Photo by Changhong Xu not more, challenging geopolitical obstacles to the success of CPEC. India sees CPEC as a threat as it runs through or by the contested territory in Kashmir that India claims as its own. India is also worried that Pakistan and China use CPEC to counter India in jostling for influence in South Asia and beyond. In response, India has invested \$85 million in Iran's Chabahar port located near the Pakistani border and Gwadar port. Pressuring Pakistan on doing more to contain terrorism and in sympathy with India regarding CEPC, the US government has recently threatened to withdraw its massive aid to Pakistan. In quick and strong response, Pakistan decided to adopt the Chinese yuan (RMB) as an international currency, allowing deals to be done directly between the Pakistani rupee and Chinese yuan. The concern by both India and the US about the potential use of Gwadar port by the Chinese navy could lead to more tension surrounding CPEC.

While some of the external environment may not be favourable to CPEC, the Pakistani government has firmly committed to the project's economic rationales and goals in spite of recent changes in its top leadership. As former Prime Minister Shaukat Aziz told CNBC, "When you build a road or a highway through an area where there is none, you create economic activity, you create jobs, secondly new cities come up along that route, thirdly you have industrial estates coming so a lot of job creation takes place."32 He went on to say, "We have seen over the years that in areas that have grown fast and where economic growth is strong, extremism and terrorism reduces." This logic may have influenced the decision to choose Gwadar port in and road route through Baluchistan province, whose insurgency movement has threatened political stability and led the Pakistani government to introduce special

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security to the region. The same rationale has also motivated the Chinese government to channel heavy investment into Kashgar for CPEC (see earlier) to improve the standard of living for the Uyghur population as an economic means of countering its potential receptivity to the influence of extreme Islamic ideology from across the border. It remains to be seen if CPEC can ultimately deliver this big combined economic-political benefit for both sides.

Finally, given the long-term horizon of CPEC extending toward 2030, it is critical to anticipate the uncertain future of Pakistan serving the large loans from China financing the massive infrastructure projects now and going forward. According to the Gwadar port revenue sharing and control agreement, China Overseas Ports Holding Company will receive 91% share of the revenue while only 9% will go to Gwadar Port Authority for the next 40 years. Moreover, for the next 20 years Pakistan would have to repay \$3.5 billion annually for loans taken under CPEC. CPEC loans may add \$14 billion to Pakistan's total public debt, raising it to \$90 billion by June 2019.33 Due to China's strict loan conditions, Pakistan has recently excluded the \$14 billion Diamer-Bhasha dam on the Indus River in Pakistan-occupied Kashmir from CPEC, as this project also appears intrusive to India's controlled Kashmir. Putting this uncertain or even risky prospect aside, Pakistan is betting big on CPEC as a potentially transformative development project. And China is also betting big on it as the key to implementing the BRI. As both governments work to make CPEC successful, its ultimate impact should be measured by how it can really benefit the communities and people along this lengthy cross-border corridor.

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- 26. Same as Note 1.
- 27. The Belt and Road initiative (BRI) is geographically structured along six corridors, and the maritime Silk Road; 1) New Eurasian Land Bridge, running from Western China to Western Russia; 2) China Mongolia Russia Corridor, running from Northern China to Eastern Russia; 3) China Central Asia West Asia Corridor, running from Western China to Turkey; 4) China Indochina Peninsula Corridor, running from Southern China to Singapore; 5) China Pakistan Economic Corridor (CPEC), running from South-Western China to Pakistan; and 6) Bangladesh China India Myanmar Corridor, running from Southern China to India; Maritime Silk Road, running from the Chinese Coast over Singapore and India to the Mediterranean.

 28. Same as Note 7.
- 29. Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, March 28, 2015: accessed from http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.
- 30. Same as Note 7.
- 31. Reported by the Kashgar city website, November 14, 2017.
- 32. "China-Pakistan railroad will help curb extremism," Jessica Hartogs with former Pakistani PM, Special to CNBC.com, May 18, 2016: access from CNBC.com.
- 33. "Sri Lanka leases Hambantota Port to China: Is this the beginning of Chinese debt trap in South Asia?" Shelly Mahajan, the South Asia Program at Hudson Institute, January 14, 2018: accessed from http://www.southasiaathudson.org/blog/2018/1/14/sri-lanka-leases-hambantota-port-to-china-is-this-the-beginning-of-chinese-debt-trap-in-south-asia.