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INTRODUCTION

The China-Pakistan Economic Corridor (CPEC) has been the single highest-profile investment package under China's Belt and Road Initiative (BRI). Billed as the BRI's flagship when it launched in 2015, CPEC was meant to be one of the largest clusters of Chinese investments under the global plan. Initial reports suggested that China would invest more than \$46 billion in Pakistani infrastructure under the scheme; some estimates of the total package went as high as \$100 billion or more.¹

In addition to its eye-popping scale, CPEC also seemed to embody the multifaceted nature of the BRI: a vast array of projects, encompassing ports, roads, railway lines, fiber optics, energy projects, industrial cooperation, agriculture, and virtually every other sector of the Pakistani economy. For its supporters, CPEC was a "game-changer" that would catalyze an economic takeoff in Pakistan, and strengthen the country's strategic position.² In India, home of its strongest critics, it was a military gambit in economic clothing that sought to shore up China's access to the Arabian Sea and undermine Indian sovereignty claims in Kashmir.³ Both sides could at least agree that CPEC was a plan of major significance that would completely transform and dramatically upgrade the Sino-Pakistani relationship.

Yet five years in, CPEC faces major challenges. Even before the coronavirus pandemic, Pakistan's deteriorating economic picture had forced China to reevaluate the feasibility of moving ahead with it in its most expansive form. With Pakistan now facing negative growth rates for 2020, its capacity to make repayments on project loans has been severely affected, and the Pakistani government has already attempted to renegotiate the terms of the energy deals that comprise the largest portion of CPEC. For its part, the Chinese government is facing a wave of BRI debt crises across the world, and it has become more cautious about taking on new overseas financing commitments.⁴

The overall picture is one of scaled-back ambitions and efforts to put the best possible face on CPEC's more modest scope. While \$25 billion of projects have been moving ahead or completed, only a few of the other infrastructure projects that were once being actively negotiated are even under discussion anymore.⁵ Although China and Pakistan have been assembling a new "Phase Two" package to be launched during the Chinese

1 For the \$100 billion figure see for instance, Nadia Naviwala, "[Pakistan's \\$100B deal with China: What does it amount to?](#)" DEVEX, August 24, 2017.

2 See remarks by Prime Minister Nawaz Sharif, "[CPEC 'game-changer' for Pakistan, 'fate-changer' for region: PM](#)," Associated Press of Pakistan, August 29, 2016.

3 For discussion of the various strands of India's analysis, see Daniel Markey, "[Why The China-Pakistan Economic Corridor Will Worsen Tensions in Southern Asia](#)," War on the Rocks, September 28, 2017.

4 See Rhodium Group, *Booster or Brake? COVID and the Belt and Road Initiative*, April 15, 2020.

5 See "Statement of the Spokesperson from the Chinese Embassy in Pakistan," May 21, 2020. The Chinese embassy has consistently provided the most conservative figures for CPEC investments, which only count the projects that are happening rather than those that are under negotiation. As such, they have tended to correspond most closely to the reality on the ground, where many of the larger figures have at best a speculative quality.

leader Xi Jinping's upcoming visit, tentatively scheduled for later this year, it will be a pale shadow of the massive scope and ambition that once characterized the scheme.

Some elements of the new package reflect plans that were supposed to have been put in motion years ago, such as industrial cooperation and the associated special economic zones.⁶ The larger projects, such as the ML-1 railway line between Karachi and Peshawar, have been highly contentious given the financial liabilities at stake. Others reflect the very different priorities of Prime Minister Imran Khan's Pakistan Tehreek-e-Insaf (PTI) government from those of its predecessor, such as aid provision, and represent precisely the sort of economic relationship—that of donor rather than investor—that China had always sought to avoid.

As with many other BRI projects, it is impossible to disentangle CPEC from geopolitics. In its early years, while CPEC served to further complicate dynamics between China, India, and Pakistan, it played little role in the emerging Sino-U.S. competition. Some elements of the investment package were viewed with a skeptical eye in Washington, but on the whole, the CPEC plans were seen by many there to have potential benefits too: if Beijing was willing to deepen its economic role in Pakistan and address the country's infrastructure and energy deficiencies, such efforts could even have a stabilizing effect.

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As the Sino-U.S. rivalry has continued to intensify and concerns about the BRI have grown, that sanguine attitude has evaporated, and has been replaced with efforts by the administration of President Donald Trump to convince Islamabad that CPEC is a wolf in sheep's clothing, a debt trap meant to ramp up Beijing's influence over Pakistan. In the past, Pakistan usually succeeded in finding a way to straddle relations between Washington and Beijing, but that balancing act is becoming much more difficult as their rivalry deepens.

Yet it is the domestic situation inside Pakistan that has proved most challenging. Not the security threats that many analysts believed would derail the initiative—in fact, the projects have largely been well protected—but more prosaic political, economic, and bureaucratic challenges. No national consensus in Pakistan has ever been established over exactly what form CPEC should take. Political parties, swathes of business, and—most critically—the army have had reservations about how CPEC was being conducted, even if they supported the general concept.⁷

Since 2017, the economic and political context for the BRI's showcase has shifted significantly, from the fall of its biggest political supporter, Prime Minister Nawaz Sharif, to Pakistan's dramatically weakened economic picture. Even ventures that were supposed to yield healthy returns for Chinese power companies have seen payments fall short. In many cases, those companies now face a renegotiation of terms. Meanwhile, any projects that were not given a forceful push from the center were often snared by bureaucratic or local political

6 Saeed Shah, "China's Belt-and-Road Initiative Puts a Squeeze on Pakistan," Wall Street Journal, April 3, 2019.

7 Interviews in Pakistan, September 2018, and February 2019. For a rare Pakistani article alluding to the concerns in the military, see Farooq Tirmizi, "CPEC is dead. Somebody tell Beijing," Medium, May 29, 2019.



Pak-China Comm Centre by the Khunjerab Pass, at the China-Pakistan border.

obstacles, from the investment zones to the plans for turning Gwadar into a functional port. If CPEC's launch in 2015 reflected a benign constellation of factors, in 2020 it faces a far more adverse environment.

In one sense, this would seem to make CPEC emblematic of the BRI. Pakistan is one of a number of cases, from Malaysia to the Maldives, where a familiar list of problems have resulted in a backlash from local actors, particularly in the aftermath of elections that have seen more skeptical parties take power.⁸ However, the close Sino-Pakistani relationship has ensured that the negative reverberations have played out less visibly than elsewhere in Asia.

Yet in many more ways than that, Pakistan was supposed to be different: Beijing's initial ambitions for CPEC were grander and more transformative than for most other BRI countries. It was envisaged as playing a central role in the future of the Pakistan's economy and bolstering its strategic position, as well as contributing to the stability of China's western periphery.⁹ In falling such a long way short of these goals, the disappointment is far greater than in countries where Beijing is just downscaling a few projects or dealing with deferments of debt repayments.

⁸ Kathrin Hille and Simon Mundy, "[The Maldives counts the cost of its debts to China](#)," Financial Times, February 10, 2019; Bradley Hope and Tom Wright, "[WSJ Investigation: China Offered to bail Out Troubled Malaysian Fund in Return for Deals](#)," Wall Street Journal, January 7, 2019.

⁹ Interviews in China, Pakistan, and Washington, DC, 2013-2017.

At the same time, it would also be wrong to characterize CPEC as a simple embodiment of the flawed approach that has defined the BRI in so many countries. It is clear that the principal items on the standard checklist of problems—excessive debt, large-scale corruption, coercive economic influence—do not apply to the same extent in the Pakistani case as they do elsewhere.

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While there has been evidence of price inflation in some of the energy projects, for example, there is less evidence of the astronomically bloated costs that have been seen in other countries or of China's seeming indifference to debt levels. Beijing has been deeply embroiled in the financing of Pakistani debt, but largely to address the balance-of-payments crisis rather than excessive project lending, and the current renegotiations reflect the economic shock resulting from the coronavirus pandemic rather than the inherent unmanageability of the project costs.

When it comes to the question of economic influence, China's objectives in Pakistan were not the same as in Sri Lanka or Djibouti, reflecting the distinctive history of their relationship. Beijing has a longstanding security partnership to fall back on and different channels through which to address its political problems. Pakistan is not a country where China sought to build a security relationship through economic means. Instead, CPEC was an attempt to expand beyond the military and intelligence linkages that have almost entirely defined the two sides' ties for decades. But, precisely for these reasons, Pakistan was supposed to be an easier case. It was the "all-weather friend," the country where support for the relationship with China spans the political spectrum and registers stratospheric approval numbers in public opinion polls, the place where—when problems emerged—the army could be counted on to weigh in on Beijing's behalf. Cultural differences and security risks were always going to provide obstacles, but this was true in many other countries as well.

Pakistan has regularly been used by China as a testing ground and a showcase. This was supposed to be true for the BRI too: CPEC was intended as a proof of concept, a demonstration that Beijing could deliver a strategic economic and development agenda under difficult circumstances and show up prior U.S. failures to boot. China's chastening experience in Pakistan, where its standing and influence were expected to yield more convincing results, is in this sense a salutary lesson for its wider global ambitions. CPEC may still prove to be a showcase, but one that tells a very different story than Beijing had intended.

The period ahead for CPEC will be characterized by a very different balance of factors to those of its first five years. Both sides are savvier and more cautious. The days that saw a seemingly ever-expanding list of mega-projects and speculation about tens of billions of dollars of new investments are over. The near term will be defined by the economic hangover from the global coronavirus pandemic, and the medium term will see CPEC taking a more modest trajectory.

Yet since the global battle over the BRI's reputation will not be easing up anytime soon, there is little chance that China and Pakistan can simply allow CPEC to fade away quietly. Its prominent standing in the frame-

work of Xi Jinping's signature foreign policy initiative means that Beijing needs to maintain the narrative of success, even if that narrative is belied by developments on the ground. At the right moment, Phase Two will be launched with full fanfare, even if the use of the word "flagship" has largely been dropped.

The civil-military struggles in Pakistan around CPEC are also effectively over. Where Prime Minister Sharif and the Pakistan Muslim League-N (PML-N) government sought to maintain control over the projects and, implicitly, to use CPEC as a means of tilting the balance a little further in favor of the country's politicians running the economy, the CPEC authority is now run by a retired general. In this sense, things have come full circle—a strategic initiative that was once supposed to transform Pakistan and the nature of its relationship with China has ended up largely reinforcing decades-old dynamics instead.

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This report lays out the principal political, economic, and security developments that led to CPEC's dramatic takeoff, then to its quieter retrenchment, and now to some modest attempts at revival. It does not attempt to be exhaustive or to dig into project details, but rather to provide an overview of how these various factors intertwined to affect the overall strategic context facing China, Pakistan, and the BRI. The primary focus is on how CPEC played out in Pakistan. Although the deliberations and high strategic goals in Beijing are an important part of the analysis, the report focuses on how China's strategic choices interacted with the political and economic situation in Pakistan.

The report is based on interviews that were principally conducted in Islamabad, Karachi, Lahore, Beijing, and Western capitals over CPEC's lifetime, from the preliminary planning to the present day, with the last in-person interviews in Pakistan taking place in February 2020. It takes a chronological form rather than a thematic one. CPEC has meant different things at different moments, which means that any analysis of the subject is essentially a snapshot of a specific moment in time.

With the combination of the unpredictability resulting from the coronavirus pandemic and the growing urgency to get the CPEC narrative back on track ahead of Xi Jinping's tentatively scheduled visit, recent months have seen more flux on CPEC planning than at any point since the last Pakistani elections in 2018.

But to make sense of what is likely to happen in CPEC's second phase, and what it might mean for the BRI and for Chinese grand strategy beyond that, it is essential to look back at the promises and disappointments of its first five years.