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## THESIS

**CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC):  
BENEFITS FOR PAKISTAN AND COMPARISON WITH  
SUEZ AND PANAMA CANALS**

by

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December 2017

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PAKISTAN AND COMPARISON WITH SUEZ AND PANAMA CANALS**

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## **ABSTRACT**

The China Pakistan Economic Corridor (CPEC) is part of China's "One Belt, One Road" initiative and joins two major economic corridors: The Silk Road Economic Belt and Southeast Asian Maritime Silk Road. CPEC is part of China's regionalism and economic cooperation in South Asia. It will include energy projects, infrastructure development, industrialization, and the expansion and improvement of the Gwadar Port. The project has great potential for Pakistan, both economically and regionally. CPEC faces serious challenges on both internal and regional fronts, however. This thesis will examine CPEC in two ways: through a cost/benefit analysis of the proposed project and a comparison of the project to two other economic corridors, the Suez and Panama Canals. This analysis suggests that CPEC potentially could boost Pakistan's economy, making it a regional economic hub. Whether this will happen depends upon the effective and timely completion of the project, the ensuring of transparency, and efficiency. Furthermore, if Pakistan is able to methodically ensure that the terms and conditions of CPEC are aligned with Pakistan's national interests, Pakistan will likely receive maximum benefits from CPEC and, at the same time, avoid the pitfalls that Egypt and Panama experienced at the hands of investing foreign powers.

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## LIST OF ACRONYMS AND ABBREVIATIONS

CMSR	21st Century Maritime Silk Route Economic Belt
CPEC	China Pakistan Economic Corridor
EIC	East India Company
FDI	Foreign Direct Investment
HDI	Human Development Index
KPK	Khyber Pakhtun Khwa
LTP	Long Term Plan
NDS	Afghanistan National Directorate of Security
OBOR	One Belt, One Road
RAW	Research and Analysis Wing
SEZ	Special Economic Zones
SREB	Silk Road Economic Belt
TTP	Tehrik Taliban Pakistan

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## I. INTRODUCTION

The China-Pakistan Economic Corridor (CPEC) has become the mega project of regionalism in South Asia, and many hope it will have great economic benefit for the Pakistani economy.<sup>1</sup> China and Pakistan mutually agreed upon CPEC during Chinese President Xi Jinping's visit to Pakistan in April 2015. CPEC is a component of the Chinese "One Belt, One Road" initiative, which connects China through trade routes with Asia, Europe, and Africa. The key aspects of CPEC are an economic corridor, development of a deep-water port on the Arabian Sea in the southwestern city of Gwadar, energy plants, needed infrastructure, and industrialization.<sup>2</sup> Total Chinese investment in CPEC will be approximately \$46 billion, which is the equivalent of approximately 20 percent of Pakistan's GDP.<sup>3</sup> Construction of the project is planned in three phases, with completion slated for 2030. Besides being a transit corridor, CPEC is planned as an economic corridor to accrue maximum economic benefits to Pakistan regarding energy, industry, trade, and new business opportunities.<sup>4</sup> CPEC is expected to attract foreign investment, which should boost Pakistan's exports, increase its GDP, and bring improvement in health and basic amenities.<sup>5</sup> As they progress ahead, the projects associated with CPEC will attract more foreign

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1 Siegfried O. Wolf, "The China-Pakistan Economic Corridor: An Assessment of Its Feasibility and Impact on Regional Cooperation," South Asia Democratic Forum (SADF), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2834599](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2834599).

2 Wolf, "The China-Pakistan Economic Corridor," 8.

3 Andrew Stevens, "Pakistan Lands \$46 Billion Investment from China," *CNN Money*, April 20, 2015, <http://money.cnn.com/2015/04/20/news/economy/pakistan-china-aid-infrastucture/>.

4 Sutinder Singh, and John Mohd Magray, "China-Pakistan Economic Corridor (CPEC), Its Impacts on Pakistan Economy," *International Journal of Innovative Research and Advanced Studies (IJIRAS)* 4, no. 7 (July 2017): 6–9, [http://www.ijiras.com/2017/Vol\\_4-Issue\\_7/paper\\_2.pdf](http://www.ijiras.com/2017/Vol_4-Issue_7/paper_2.pdf).

5 Singh and Magray, "CPEC Impacts on Pakistan Economy," 9.

direct investment (FDI) from China, benefiting the economy in the medium term.<sup>6</sup> At \$46 billion, CPEC is China's biggest FDI in Pakistan. Of that investment, \$34 billion will be used to construct hydro-, solar- and coal-powered plants that will generate 17,000 megawatts of electricity, with \$12 billion dedicated for infrastructure development, including transport, optical fiber, pipelines, Gwadar Port, and the establishment of Special Economic Zones (SEZs).<sup>7</sup>

Most governments and scholars believe that this project will greatly benefit Pakistan. Against this backdrop, this thesis seeks to address the benefits and the costs of this project for Pakistan. It will do so by presenting and analyzing the arguments for and against CPEC, as well as an overview of hurdles that will be faced, and some of the myths and realities associated with CPEC. The thesis will also compare CPEC with two other well-known economic corridors: the Suez and Panama canals. I have selected these foreign-funded projects for comparison with CPEC in order to ascertain the economic benefits Pakistan claims it will achieve as Egypt and Panama achieved from their canals in the past.

Pakistani policymakers have identified successful completion of the CPEC as a significant national interest. Identifying and pursuing national interest is of paramount importance for achieving national goals. Robert J. Art writes in *A Grand Strategy for America*:

The most fundamental task in devising a grand strategy is to determine a nation's national interests. Once they are identified, they drive a nation's foreign policy and military strategy; they determine the basic direction that it takes, the types and amounts of resources that it needs, and the manner in which the state must employ them to succeed. Because of the critical role that national

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<sup>6</sup> "World Bank, 2016, Pakistan Development Update, November 2016: Making Growth Matter." World Bank, Washington, DC. © World Bank, License: CC BY 3.0 IGO, <https://openknowledge.worldbank.org/handle/10986/25358>

<sup>7</sup> Muhammad Saqib Irshad, Qi Xin, and Hamza Arshad. "One Belt and One Road: Dose [sic] China-Pakistan Economic Corridor Benefit for [sic] Pakistan's Economy?" *Journal of Economics and Sustainable Development* 6, no.24 (2015): 200–207, [http://china-trade-research.hktdc.com/resources/MI\\_Portal/Article/obor/2016/04/474089/1460080496674\\_SSRNid2710352.pdf](http://china-trade-research.hktdc.com/resources/MI_Portal/Article/obor/2016/04/474089/1460080496674_SSRNid2710352.pdf)

interests play, they must be carefully justified, not merely assumed.<sup>8</sup>

Ingrained infrastructural and energy issues have hindered Pakistan's economic progression. Many see CPEC as a means for addressing the power and infrastructural worries and enriching Pakistan's economy.

Pakistan shares a border with China and has access to the sea: with CPEC, Pakistan and China have opened a new international trade route.<sup>9</sup> This geographical significance of Pakistan may bear fruit in the future as the CPEC project progresses.

Pakistan faces many challenges that could hinder CPEC's progress, on the geopolitical and regional fronts. Successful and timely completion mainly depends on overcoming challenges met. India is concerned about CPEC's northern route, which plans to run through Jammu and Kashmir.<sup>10</sup> India also sees the Chinese navy in the Arabian Sea as a likely disruption in Indo-U.S. strategic cooperation.<sup>11</sup> Iran sees the development of Gwadar Port as a rival to its own Chah Bahar Port, which it is developing with India's support.<sup>12</sup> In the domestic domain, concerns include transparency and political consensus. The most considerable worry is law and order, however, mainly since Gwadar, which is the gateway to CPEC, is in Baluchistan, where an unstable law-and-order situation is

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8 Robert J. Art, *A Grand Strategy for America* (Ithaca, NY, and London: Cornell University Press, 2003), 45.

9 Ayaz Gul, "Pakistan, China Jointly Open New International Trade Route," Voice of America (blog) accessed on October 8, 2017, <https://www.voanews.com/a/pakistan-china-jointly-open-new-international-trade-route/3596644.html>.

10 Dhrubajyoti Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," Indian Council of World Affairs (Issue Brief), May 12, 2015, 5, <http://www.icwa.in/pdfs/IB/2014/CPECIB12052015.pdf>.

11 Maryam Nazir, "Macro and Micro Dividends of CPEC," Islamabad Policy Research Institute, November 1, 2016, <http://www.ipripak.org/macro-and-micro-dividends-of-cpec-efforts-of-regional-and-international-players-to-disrupt-the-development-in-the-region-its-ramifications-and-rectifications>.

12 Nazir, "Macro and Micro Dividends of CPEC."

of great concern.<sup>13</sup> China's huge investment may likely increase its influence on Pakistan's policies. If Pakistan is able to ensure the terms and conditions of CPEC meticulously, they will likely get maximum benefits out of CPEC and at the same time, they will not face what Egypt and Panama experienced from the foreign-funded Suez and Panama Canals.

CPEC is perceived as equally imperative for China as it is for Pakistan. China is not the primary focus of my thesis, however. China is the world's largest oil importer from Africa and the Gulf States, and this mega project provides routes to guarantee its energy security.<sup>14</sup> CPEC will allow China to bypass maritime routes in East Asia that might be blocked during a war.<sup>15</sup> Besides securing its trade route, China aims to develop its neglected western regions and wants more business for Chinese companies.<sup>16</sup> In the regional domain, CPEC, when implemented, may likely increase China's role as a regional power.<sup>17</sup>

#### **A. MAJOR RESEARCH QUESTION**

CPEC is a major infrastructural project with a wide potential for changing the course of economic growth and geopolitics in Asia. China and Pakistan hope for the attainment of CPEC objectives despite impediments in the current

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<sup>13</sup> Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 4.

<sup>14</sup> Dhrubajyoti, "China Pakistan Economic Corridor (CPEC)," 6.

<sup>15</sup> Foreign Ministry Spokesperson Hong Lei's Regular Press Conference on April 20, 2015, Ministry of Foreign Affairs of the People's Republic of China, [http://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/t1256093.shtml](http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1256093.shtml).

<sup>16</sup> Christopher K. Johnson, "President Xi Jinping's 'Belt and Road' Initiative," *Center for Strategic & International Studies*, last modified March 2016, [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328\\_Johnson\\_PresidentXiJinping\\_Web.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf).

<sup>17</sup> Louis Ritzinger, "The China-Pakistan Economic Corridor: Regional Dynamics and China's Geopolitical Ambitions," *The National Bureau of Asian Research*, last modified August 5, 2015, [http://www.nbr.org/downloads/pdfs/psa/Commentary\\_Ritzinger\\_080515.pdf](http://www.nbr.org/downloads/pdfs/psa/Commentary_Ritzinger_080515.pdf); Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," 11; Daniel Twining, "As the U.S. Pivots Away, China Bets on Pakistan," *Center for Strategic & International Studies*, last modified April 23, 2015, [www.csis.org/analysis/pacnet-26-us-pivots-away-china-bets-pakistan](http://www.csis.org/analysis/pacnet-26-us-pivots-away-china-bets-pakistan).

environments. Against this backdrop, this thesis asks the following: How much will the China Pakistan Economic Corridor (CPEC) benefit Pakistan?

## **B. RATIONALE**

CPEC's anticipated benefits for Pakistan depend on effective and timely completion against all challenges. CPEC has found its way from Chinese strategy of 'One Belt, One Road' and regionalism in South Asia.<sup>18</sup> This modern initiative is China's connection through trade routes with other parts of the world. Pakistan anticipates that CPEC may boost its economy and transform it into an economic hub. It also shows that China and Pakistan are not just friends but close allies.<sup>19</sup> Rafi Amna Ejaz agrees that it is a valuable economic opportunity for Pakistan, where Pakistan will elevate its undeveloped areas into fully developed industrial zones, attract foreign investment, and address the important energy issue.<sup>20</sup> Claude admits that these economic benefits are not restricted to Pakistan alone; CPEC will potentially benefit other neighboring countries such as Afghanistan, India, and Iran. Gwadar Port will likely become the gateway of CPEC. CPEC aims at infrastructural development through the network of roads, education, energy, and cultural development.<sup>21</sup>

China will be likely to benefit immensely from CPEC, both economically and politically. China will secure its trade routes and bypass any attempt by Western navies to block and encircle it. CPEC will considerably reduce the distance between China and other countries for oil and other imports and exports. In the regional domain, CPEC will likely provide a launching pad for China to emerge as a regional power in the future and flex the muscles of its

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<sup>18</sup> Wolf, "The China-Pakistan Economic Corridor," 17.

<sup>19</sup> Ibid., 18.

<sup>20</sup> Amna Ejaz Rafi, "Chinese President Visit to Pakistan," IPRI Review, Islamabad Policy Research Institute (IPRI), Islamabad, (2016), <http://www.ipripak.org/chinese-president-visit-to-pakistan/>.

<sup>21</sup> Claude, "Pakistan—the Pivot to China," *Defence Journal*, Karachi 18.11 (Jun 2015): 70–71, <http://www.atlanticcouncil.org/news/in-the-news/rakisits-pakistan-s-pivot-to-china>.

naval presence in the Arabian Sea. On the internal front, China desires to develop its underdeveloped Western regions by making CPEC its “Five Year Plan for Economic and Social Development.”

### **C. BACKGROUND**

This thesis examines whether CPEC will benefit Pakistan’s economy in the way that the Suez and Panama Canals benefited Egypt and Panama, respectively. I have examined the scholarly work on CPEC, but as the topic is new, no books are available on it. Articles published in academic journals, reports, and different studies elaborate on the importance of this mega project, however,<sup>22</sup> scholars have made arguments both for and against the project; many feel that CPEC will provide a boost to Pakistan’s economy, and they view CPEC as a long-term integration among the countries of the region.<sup>23</sup> Others view it as a launching pad for China as a regional power.<sup>24</sup> Still others point to the highest rate of the interest on CPEC’s loans and worry that this will be a burden on Pakistan’s economy in the future.<sup>25</sup> This thesis will examine both the costs and the benefits of CPEC by analyzing the following areas.

#### **1. CPEC Economic Benefits**

Many scholars have highlighted how Pakistanis are really interested in what Pakistan will gain from this project. Siegfried Wolf considers CPEC to be a

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<sup>22</sup> Daniel S. Markey, and James West, “Behind China’s Gambit in Pakistan,” Council on Foreign Relations, last modified May 12, 2016, 5, <http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855>.

<sup>23</sup> Waheed Ali, Li Gang, and Mohsin Raza, “China-Pakistan Economic Corridor: Current Developments and Future Prospect for Regional Integration,” *International Journal of Research* 03, no. 10 (2016): 220, <https://internationaljournalofresearch.com/list-of-volumes/volume-3-2016/vol-3-issue-10-june-2016>.

<sup>24</sup> Louis Ritzinger, “The China-Pakistan Economic Corridor: Regional Dynamics and China’s Geopolitical Ambitions,” *The National Bureau of Asian Research*, last modified August 5, 2015, [http://www.nbr.org/downloads/pdfs/psa/Commentary\\_Ritzinger\\_080515.pdf](http://www.nbr.org/downloads/pdfs/psa/Commentary_Ritzinger_080515.pdf).

<sup>25</sup> Salman Siddiqui, “Pakistan Will be Paying China \$90b against CPEC-related Projects,” *The Express Tribune*, <https://tribune.com.pk/story/1352995/pakistan-will-paying-china-90b-cpec-related-projects/>.



game changer for Pakistan as well as a means to attain national consensus and harmony between Pakistan and its neighbors. He concludes on the importance of peace for completion of CPEC projects that peace brings development, not development brings peace.<sup>26</sup> Gordon Chang agrees with Wolf that CPEC will attract foreign capital and boost the economy.<sup>27</sup> Mehar argues the economic benefits of CPEC and notes that Pakistan cannot enhance its volume of exports without the development of infrastructure, and that foreign investment in the manufacturing sector is directly proportional to the supporting facilities in the country.<sup>28</sup> Amna Rafi argues that CPEC's economic dividends will reach the more backward regions of Pakistan and eradicate poverty in the rural areas.<sup>29</sup> Singh and John also concludes that CPEC energy projects would address the energy shortcomings of the country.<sup>30</sup> Huang et al. also note that Pakistan's socio-economic development is directly linked to the availability of energy and CPEC will resolve the energy issue of Pakistan.<sup>31</sup> Stevens supports this argument and concludes that CPEC's significant investment in the energy sector may provide a way out of Pakistan's energy crisis.<sup>32</sup> A World Bank study notes that as the CPEC projects move ahead, there will be more FDI flows from China to Pakistan, and FDI will bear fruit in the medium term.<sup>33</sup> Sutinder Singh and John Magray argue that the 29 industrial parks proposed as part of CPEC would play a vital

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<sup>26</sup> Wolf, "The China-Pakistan Economic Corridor," 46.

<sup>27</sup> Chang, Gordon, "China Big Plans for Pakistan, the National Interest," December 10, 2014, <http://nationalinterest.org/feature/chinas-big-plans-pakistan-11827>

<sup>28</sup> Ayub Mehar, "Infrastructure Development, CPEC and FDI in Pakistan: Is There Any Connection?" *Transnational Corporations Review* 9, no. 3 (2017): 232–241, 3.

<sup>29</sup> Rafi, "Chinese President Visit to Pakistan," IPRI Review, Islamabad Policy Research Institute (IPRI), Islamabad.

<sup>30</sup> Singh and Magray, "CPEC Impacts on Pakistan Economy," 6.

<sup>31</sup> Bwo-Nung Huang, Jeng Hwang Ming, and Wei Yang Chin, "The Causal Relationship between Energy Consumption and GDP Growth Revisited: A Dynamic Panel Data Approach," *Ecological Economics*, 67, (August 2008), 41–54.

<sup>32</sup> A. Stevens, "Pakistan Lands \$46 Billion Investment from China, *Money*, April 20, 2015.

<sup>33</sup> "World Bank, "Pakistan Development Update, November 2016: Making Growth Matter." World Bank, Washington, DC. © World Bank, <https://openknowledge.worldbank.org/handle/10986/25358> License: CC BY 3.0 IGO.

role in the industry and trade sectors.<sup>34</sup> Muhammad Saqib Irshad, Qi Xin, and Hamza Arshad determine that CPEC potentially will benefit Pakistan's economy.<sup>35</sup> Waqas, Shahzad, and Mumtaz support the importance of CPEC for supply-chain management since it offers a much shorter trade route between the Arabian Sea and Western China.<sup>36</sup> Ahsan Iqbal, Pakistan's Minister of Interior and Minister for Planning, Development and Reforms, stresses the importance of CPEC, arguing that its completion is needed and a revival of the economy is essential to undo the past mistakes.<sup>37</sup> While some sources have warned that CPEC bears similarities to the East India Company, which would not be positive for Pakistan, Khurran Hussain calls this comparison specious, since CPEC has no element of force and no intentions for foreign control of Pakistan.<sup>38</sup>

## 2. Downside and Challenges to CPEC

Some scholars have argued against CPEC and underlined the downside. For example, Munir Ahmad concludes that due to the extensive construction associated with the project, Pakistan will have to face a considerable amount of environmental damage.<sup>39</sup> Hussain concludes that, contrary to the government of Pakistan's claims about infrastructural and energy development, CPEC actually aims to foster Chinese enterprise and its main interest is in agriculture, large

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<sup>34</sup> Singh and Magray, "CPEC Impacts on Pakistan Economy," 7.

<sup>35</sup> Muhammad Saqib Irshad, Qi Xin, and Hamza Arshad. "One Belt and One Road: Dose [sic] China-Pakistan Economic Corridor benefit for [sic] Pakistan,3"

<sup>36</sup> Waqas, Shahzad, and Mumtaz, "Application of Lean-Agile Resilient Green Paradigm Framework on China Pakistan Economic Corridor: A Case Study," *Mehran University Research Journal of Engineering & Technology*, Volume 36, No. 3, July, 2017 [p-ISSN: 0254-7821, e-ISSN: 2413-7219], accessed on October 10, 2017 632, [http://publications.muet.edu.pk/research\\_papers/pdf/pdf1573.pdf](http://publications.muet.edu.pk/research_papers/pdf/pdf1573.pdf).

<sup>37</sup> Ahsan Iqbal, "Debunking myths on CPEC," *The Express Tribune*, May 25, 2017, <https://tribune.com.pk/story/1418270/debunking-myths-cpec/>.

<sup>38</sup> Khurran Husain, "CPEC: Is there cause for alarm?" Dawn News Updated March 16, 2017, <https://www.dawn.com/news/1320670>.

<sup>39</sup> Munir Ahmed, "Flipside of CPEC coin" Daily Times, 16-May-17, <http://ysiddaqui.com/flip-side-of-cpec-coin-by-munir-ahmed-in-daily-times-16-may-17/>.

cities surveillance systems, and visa-free entry.<sup>40</sup> Khaliq concludes that Pakistan's debt is gradually increasing, and by the year 2019–20, it may rise from its current \$73 billion to \$110 billion because of CPEC loans.<sup>41</sup>

Some scholars have highlighted both regional and international challenges to CPEC, and concluded that stability in Pakistan's law and order situation is the key to success for CPEC projects. For example, Thomas Zimmerman argues that CPEC's success is linked with stability and security along the routes and security within China from threats like the Turkestan Islamic Movement (ETIM).<sup>42</sup> Li Xiguanget et al. note that India's opposition to the project is one of the major problems that Pakistan faces.<sup>43</sup> Akbar notes that Afghanistan's volatile security situation and the convergent interests of Iran and India are regional challenges for CPEC.<sup>44</sup>

### 3. Geopolitical Implications

Scholars have also highlighted the geopolitical implications of CPEC. For instance, in his article "Pakistan: The Pivot of China," Claude discusses Chinese investment and interest in the region in the time after NATO departs from Afghanistan. He concludes that defense collaboration between Pakistan and China will be strengthened with Gwadar Port.<sup>45</sup> Parveen and Khalil note that China's anticipated benefits will not only be in the economic sphere, but also in

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<sup>40</sup> Khurram Husain, "Exclusive: CPEC master plan revealed," Dawn News, Updated Jun 21, 2017, 02:17 pm, <https://www.dawn.com/news/1333101>.

<sup>41</sup> Abdul Khaliq, CPEC—"A "game-changer" or another "East India Company"?" CADTM – Pakistan, <http://www.cadtm.org/Pakistan-CPEC-A-game-changer-or>.

<sup>42</sup> Zimmerman, "The New Silk Roads: China, the U.S., and the future of Central Asia" October 2015. [http://cic.nyu.edu/sites/default/files/zimmerman\\_new\\_silk\\_road\\_final\\_2.pdf](http://cic.nyu.edu/sites/default/files/zimmerman_new_silk_road_final_2.pdf).

<sup>43</sup> Li Xiguanget al., *China-Pakistan Economic Corridor: A Game Changer*, 3-11.

<sup>44</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," *Arts Social Sciences Journal* 7, no. 204 (2016): 1-5, doi: 10.4172/2151-6200.1000204.

<sup>45</sup> Claude, "Pakistan—the Pivot to China," *Defence Journal*, Karachi 18.11 (Jun 2015): 70–71, <http://www.atlanticcouncil.org/news/in-the-news/rakisits-pakistan-s-pivot-to-china>.

the regional and strategic benefits.<sup>46</sup> Ahmad Malik et al. note that China imports about 47 percent of its crude oil from the Persian Gulf and Iran; once CPEC has been developed, Gwadar Port will provide a safer, shorter, and economical route to western China.<sup>47</sup> Ammad Hassan concludes that Gwadar Port, the gateway to CPEC, will become a main port for China and central Asia.<sup>48</sup> Akber Ali notes that CPEC will both provide a secure alternate trade route for China and help Pakistan to counter India's influence in the region.<sup>49</sup>

A few writers have expressed concern about CPEC as furthering Chinese increased presence in the Indian Ocean and raised concerns for India in the future.<sup>50</sup> For example, Bhattacharjee has highlighted Indian concerns as per their claim that CPEC plans to run through Jammu and Kashmir.<sup>51</sup> According to Lim, India is concerned that CPEC's passage through disputed territory will provide legitimacy to Pakistan's claim of these areas.<sup>52</sup> Muhammad Daim argues that India is very much hand-in-glove with Iran and is building an alternate route to Afghanistan and central Asia by developing Iran's port of Chah Bahar in the Gulf of Oman.<sup>53</sup> Jamal has highlighted Iran's concerns that Gwadar Port will become a rival to its port at Chah Bahar.<sup>54</sup> Massarrat and Ayesha agree that India

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<sup>46</sup> Saima Perveen, and Jehanzeb Khalil, "Gwadar-Kashgar economic corridor: Challenges and imperatives for Pakistan and China," *Journal of Political Studies* 22, no. 2 (February 2015): 351.

<sup>47</sup> Ahmad Rashid Malik et al., *China-Pakistan Economic Corridor: A Game Changer*, (Islamabad: Institute of Strategic Studies, 2016), 121.

<sup>48</sup> Ammad Hasan, "Pakistan's Gwadar port's prospects of economic revival," Monterey: *Naval Postgraduate School*, 2005, <https://calhoun.nps.edu/handle/10945/2138>.

<sup>49</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1–5.

<sup>50</sup> Markey, "Behind China's Gambit in Pakistan," 7.

<sup>51</sup> Bhattacharjee, "China Pakistan Economic Corridor (CPEC)" ICWA Issue Brief, 12 May 2015, 2, [www.icwa.in](http://www.icwa.in).

<sup>52</sup> Alvin Cheng-Hin Lim, "The China-Pakistan Economic Corridor One Year On—Analysis," *Eurasia Review*, May 16, 2016, <http://www.eurasiareview.com/16052016-the-china-pakistan-economic-corridor-one-year-on-analysis/>.

<sup>53</sup> Muhammad Daim Fazil, "5 Reasons Gwadar Port Trumps Chabahar," *Diplomat*, June 9, 2016, <http://thediplomat.com/2016/06/5-reasons-gwadar-port-trumps-chabahar>.

<sup>54</sup> Jamal, "China Pakistan Economic Corridor," 18.

perceives China as the primary obstacle to its trade with Afghanistan and other countries.<sup>55</sup> Markey sees a Chinese naval influence and presence in the Arabian Sea as a matter of concern for India.<sup>56</sup>

One aspect that is missing from the scholarly analysis of CPEC's potential advantages and disadvantages is any comparison with existing transit routes and the economic impact they have had on their respective countries. Such a comparison would be valuable in predicting CPEC's potential costs and benefits for Pakistan. Therefore, I will examine the Suez and Panama Canals in order to see what lessons they might offer to CPEC from an economic and strategic perspective.

#### **D. PURPOSE AND SCOPE**

I developed this thesis on two axes. The first one is research-based, analyzing the benefits of CPEC regarding Pakistan. The second is inference-based, comparing CPEC with the Suez Canal and Panama Canal.

In answering the question, this thesis begins with the hypothesis that Pakistan will benefit economically from CPEC. Presently, Pakistan is facing an energy crisis, infrastructure quandaries, unemployment, economic deficits, a lack of foreign investment, and security concerns. I seek to determine whether—although China is investing for its own interests—the project will also benefit Pakistan. I also explore whether CPEC will benefit Pakistan similarly to how the Suez Canal and Panama Canal benefited Egypt and Panama. Like Egypt and Panama, Pakistan will be a transit country.

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<sup>55</sup> Massarrat Abid and Ayesha Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," *Pakistan Vision* 16, no 2 (2015): 159, [http://pu.edu.pk/images/journal/studies/PDF-FILES/Artical-7\\_v16\\_2\\_2015.pdf](http://pu.edu.pk/images/journal/studies/PDF-FILES/Artical-7_v16_2_2015.pdf).

<sup>56</sup> Markey, "Behind China's Gambit in Pakistan," 7.

## **E. METHODS AND SOURCES**

I use qualitative research in my thesis. First, it covers the details of CPEC, including various aspects of planned infrastructure, energy projects, and proposed economic zones inside Pakistan and hurdles for Pakistan. Second, it addresses the costs and benefits of CPEC for Pakistan. Third, it compares CPEC to the Suez and Panama Canals to substantiate its professed economic benefits for Pakistan's economy.

The research in this thesis is drawn from open sources, including articles in newspapers, journals, and blogs. It has no access to the detailed official agreement between Pakistan and China for analysis and clarification. It has been kept updated with the inclusion of the latest changes in the project. To validate the argument and make the thesis authentic, sources of different scholars from different countries have been consulted.

## **F. THESIS OUTLINE**

The thesis comprises five chapters. Chapter I has included the introduction, literature review and hypothesis, setting the foundation for this thesis. Chapter II covers the details of CPEC, including various aspects of planned infrastructure, distribution of funds, routes and constraints faced in both external and internal domains. Chapter III covers the costs and benefits of CPEC, as well as some of the myths associated with the project. Chapter IV is a comparative analysis of the Suez and Panama Canals with the future of CPEC and its perceived future economic benefits for Pakistan. The thesis concludes in Chapter V with findings and analysis of CPEC.

## II. THE CHINA-PAKISTAN ECONOMIC CORRIDOR AND HURDLES FOR PAKISTAN

There is a tide in the affairs of men, which taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries. On such a full sea are we now afloat. And we must take the current when it serves, or lose our ventures.

—William Shakespeare, *Julius Caesar*<sup>57</sup>

### A. CHINA-PAKISTAN ECONOMIC CORRIDOR

The China-Pakistan Economic Corridor (CPEC) is a significant component of the One Belt, One Road (OBOR) Initiative, which connects China through a trade route with Asia, Europe, and Africa and is also known as the New Silk Road Economic Development Corridor.<sup>58</sup> With CPEC, China will invest \$46 billion mainly on the economic corridor, Gwadar Port, energy plants, infrastructure development, and the industrialization of economically-deprived areas.<sup>59</sup> China considers CPEC its flagship project, as Pakistan is the nexus of two major economic corridors: The Silk Road Economic Belt (SREB) and the Southeast Asian Maritime Silk Road.<sup>60</sup> Despite CPEC's significance, there are challenges to Pakistan on both its external and internal fronts. Externally, challenges include the concerns of India, the instability in Afghanistan, the interests of Iran,<sup>61</sup> and the potential influence that China could exert on Pakistan's foreign and economic policy with huge investments. Internally, weak law and order situations in different areas of Pakistan and the political concerns of all of

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<sup>57</sup> Shakespeare: *Julius Caesar*: Act 4, Scene 3, 11.

<sup>58</sup> Wolf, "The China-Pakistan Economic Corridor," 8.

<sup>59</sup> *Ibid.*

<sup>60</sup> Markey, "Behind China's Gambit in Pakistan," 7.

<sup>61</sup> Louis Ritzinger, "The China-Pakistan Economic Corridor: Regional Dynamics and China's Geopolitical Ambitions," National Bureau of Asian Research, last modified August 5, 2015, [http://www.nbr.org/downloads/pdfs/psa/Commentary\\_Ritzinger\\_080515.pdf](http://www.nbr.org/downloads/pdfs/psa/Commentary_Ritzinger_080515.pdf).

Pakistan's political parties appear to be the primary hurdles. This chapter provides an overall view of CPEC and the challenges it faces in Pakistan.

## 1. What Is an Economic Corridor?

Currently in the scholarly world, there is no definition of an economic corridor. It is a developing idea,<sup>62</sup> involving a number of different characteristics distributed among economic corridors.<sup>63</sup> First, economic corridors are an emerging concept of global trade routes implemented for strategic development. Second, they are the focus of various countries and regions.<sup>64</sup> They are often seen as potentially increasing economic growth in some areas.<sup>65</sup> Moreover, infrastructural development, transportation facilities, and electricity are the pre-conditions for a successful economic corridor.<sup>66</sup> Economic corridors tend to benefit rural areas and link them through transportation and infrastructural development.<sup>67</sup>

Wolf summarizes the essential requirements of economic corridors in terms of their economic, organizational, institutional, behavioral, political, and planning aspects.<sup>68</sup> First, a growth zone is identified based on economic

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<sup>62</sup> Hans-Peter Brunner, "What Is Economic Corridor Development and What Can It Achieve in Asia's Subregions?" (August 6, 2013). Asian Development Bank Economics Working Paper Series No. 117, <https://ssrn.com/abstract=2306801>.

<sup>63</sup> Wolf, "The China-Pakistan Economic Corridor," 4.

<sup>64</sup> Safitri, H. "Economic Corridor Policy, Land Concentration and 'social Exclusion': Java's Economic Corridor Policy Implementation, Indonesia." *Agricultural and Rural Development (ARD)*, 2012, <http://hdl.handle.net/2105/13083>.

<sup>65</sup> AGIL, (2000), *Zona Paz Economic Corridor Strategy*. Abt Association Inc., Guatemala-CAP Income Generation Activities Project. Guatemala: Abt Association Inc., [http://pdf.usaid.gov/pdf\\_docs/Pnacy158.pdf](http://pdf.usaid.gov/pdf_docs/Pnacy158.pdf).

<sup>66</sup> François Bafoil, and Lin Ruiwen, "Re-examining the role of transport infrastructure in trade, regional growth and governance: Comparing the Greater Mekong Subregion (GMS) and Central Eastern Europe (CEE)," *Journal of Current Southeast Asian Affairs* 29, no. 2 (February 2010): 73-119.

<sup>67</sup> Masami Ishida and Ikumo Isono, "Old, New and Potential Economic Corridor in the Mekong Region," in *Emerging Corridors in the Mekong Region*, BRC Research Report No. 8, edited by Masami Ishida (Bangkok Thailand: Bangkok Research Center, IDE-JETRO, 2012), <http://www.ide.go.jp/English/Publish/Download/Brc/08.html>.

<sup>68</sup> Wolf, "The China-Pakistan Economic Corridor," 7.



characteristics. Second, a survey is conducted for identifying economic zones, economic resources, and actors. Third, the identified economic zones are linked with connectivity and infrastructure projects. Fourth, the establishment of special economic zones (SEZ) and industrial parks are essential elements of an economic corridor, rather than its use as merely a transit corridor for a host country. Fifth, the country where the economic corridor is to be located must be economically feasible and able to provide a satisfactory financial return. Sixth, political will and commitment among all actors are essential for completion and implementation. Seventh, feasible rules with centralized control and an in-bureaucratic approach in execution will mark the success of an economic corridor. Eighth, a comprehensive action plan with a proper period and inclusion of the private sector is vital for the development of an economic corridor. Ninth, geographical stability is of paramount importance to the success of an economic corridor. Finally, yet importantly, an economic corridor must be extended to regional chains and production networks for the generation of maximum economic benefits.<sup>69</sup> These aspects are essential for the success of an economic corridor.

## **2. China's "One Belt and One Road" Initiative**

China's "One Belt and One Road" (OBOR) Initiative is Chinese President Xi Jinping's vision, which he first announced in 2013. OBOR is intended to revive the connections between Asia, Europe, and Africa by serving as a trade route between the three regions. The focus of Chinese diplomacy is OBOR. Embedded within OBOR are two main aspects: The Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Route Economic Belt (CMSR).<sup>70</sup> The SREB will link China with Europe via railroads, distribution networks, and fiber optics. This will allow China to bypass maritime ports if they are blocked during times of war.

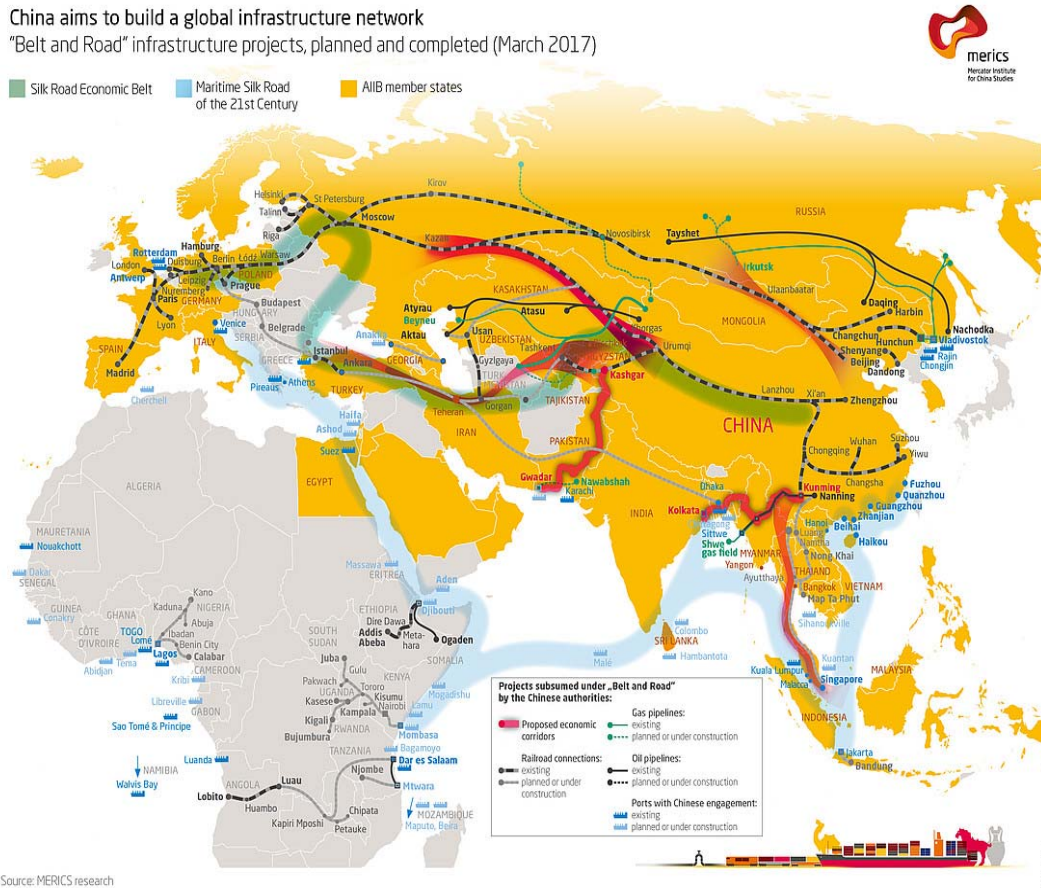
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<sup>69</sup> Wolf, "The China-Pakistan Economic Corridor," 9.

<sup>70</sup> Ibid.

CPEC is the main portion of OBOR, located at the juncture of the SREB and the 21st CMSR.<sup>71</sup> Details of OBOR are shown in Figure 1.

Figure 1. China OBOR with Alignment of CMSR and SREB<sup>72</sup>



The SREB is a combination of three corridors, namely the Northern, Central and Southern Corridors.<sup>73</sup> The Northern Corridor will link China to Moscow and Germany. The Central Corridor will link China to Europe via Iran’s

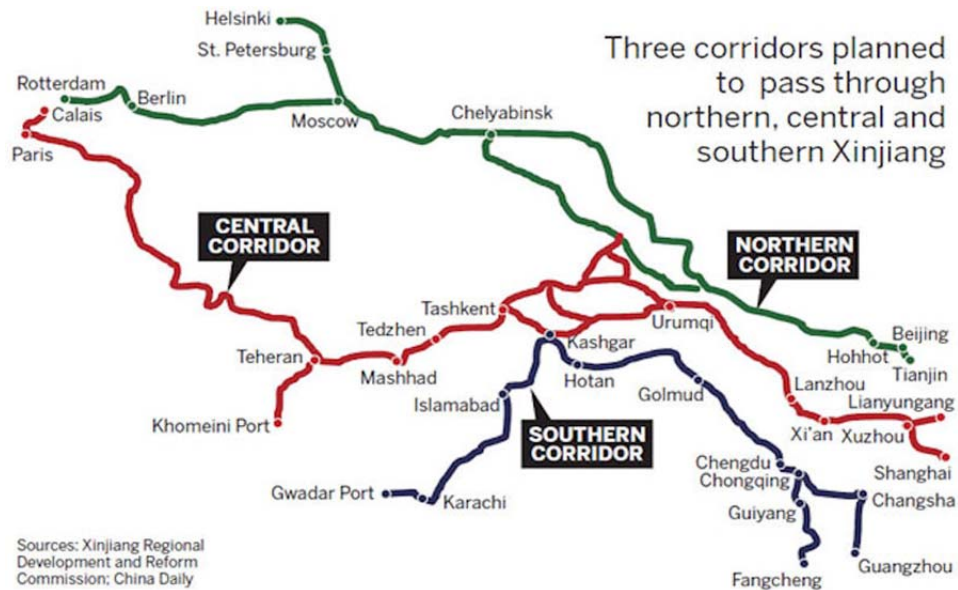
<sup>71</sup> Foreign Ministry Spokesperson Hong Lei’s Regular Press Conference on April 20, 2015, Ministry of Foreign Affairs of the People’s Republic of China, [http://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/t1256093.shtml](http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1256093.shtml).

<sup>72</sup> Source: “Infographic/China Mapping Silk Road Initiative,” Merics China Mapping

<sup>73</sup> Wolf, “The China-Pakistan Economic Corridor,” 8.

Bandar Imam Khomeini Port. Finally, the Southern Corridor—the CPEC route—will originate in Guangzhou, the third largest city of Central China, move toward the Xinjiang province in the western part of China via Kashgar, and enter Pakistan from Khunjrab Pass in Gilgit–Baltistan province. From Khunjrab Pass, it will be linked through different routes inside Pakistan to Gwadar Port, opening to the Arabian Sea and the Indian Ocean.<sup>74</sup> The SREB's planned corridors are shown in Figure 2.

Figure 2. Alignment of Northern, Central, and Southern Corridors of Planned SREB<sup>75</sup>



<sup>74</sup> Rana, Shahbaz “China-Pakistan Economic Corridor: Lines of development—not lines of the divide,” *The Express Tribune*. May 5, 2015, accessed on June 13, 2017, <http://tribune.com.pk/story/887949/china-pakistan-economic-corridor-lines-of-development-not-lines-of-divide/>.

<sup>75</sup> Cui Jia, “China studying new Silk Road rail link to Pakistan,” *China Daily*, Updated: June 28, 2014, 07:15, accessed on Oct 18, 2017, [http://www.chinadaily.com.cn/business/2014-06/28/content\\_17621525.htm](http://www.chinadaily.com.cn/business/2014-06/28/content_17621525.htm).

### 3. Overview of the China Pakistan Economic Corridor

CPEC will provide much in power generation and infrastructural development and connect the Chinese province of Xinjiang through a road network of 3,000 km (1,800 miles) with Pakistan's Gwadar Port.<sup>76</sup> Under the CPEC agreement, China will contribute \$46 billion, which is around 20 percent of Pakistan's annual GDP.<sup>77</sup> The key aspects of CPEC include Gwadar Port, energy, infrastructure, industrialization, and the economic corridor.<sup>78</sup> Completion of CPEC is projected by 2030 in four phases, as follows: first phase by 2018, second phase by 2020, third phase by 2015, and fourth phase by 2030.<sup>79</sup> Upon completion, approximately 17,000 megawatts of electricity will be generated, costing \$34 billion, and \$12 billion will be spent for infrastructural development.<sup>80</sup>

CPEC will shorten the trade route between China and the Middle East by 12,000 km. It will also link the Middle East with China's underdeveloped far-western areas via Gwadar. Moreover, by 2017, a \$44 million fiber optic cable will provide an additional 10,400 megawatts of electricity, and energy projects worth \$15.5 billion will also be completed.<sup>81</sup> The main focal projects of CPEC will include the energy sector, transport infrastructure, optical fiber, pipelines, Gwadar Port, and the establishment of special economic zones (SEZs).<sup>82</sup>

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<sup>76</sup> Saeed Shah, "China's Xi Jinping Launches Investment Deal in Pakistan," *The Wall Street Journal*, April 20, 2015, <http://www.wsj.com/articles/chinas-xi-jinping-set-to-launch-investment-deal-in-pakistan-1429533767>.

<sup>77</sup> Andrew Stevens, "Pakistan Lands \$46 Billion Investment from China," *CNN, Money*, April 20, 2015, <http://money.cnn.com/2015/04/20/news/economy/pakistan-china-aid-infrastucture/>.

<sup>78</sup> Wolf, "The China-Pakistan Economic Corridor," 8.

<sup>79</sup> Andrew Stevens, "Pakistan Lands \$46 Billion Investment from China," *CNN, Money*, April 20, 2015, <http://money.cnn.com/2015/04/20/news/economy/pakistan-china-aid-infrastucture/>.

<sup>80</sup> Saeed Shah, "China's Xi Jinping Launches Investment Deal in Pakistan," *The Wall Street Journal*, April 20, 2015, <http://www.wsj.com/articles/chinas-xi-jinping-set-to-launch-investment-deal-in-pakistan-1429533767>.

<sup>81</sup> M Ilyas Khan, "China's Xi Jinping Agrees \$46bn Superhighway to Pakistan," *BBC News, Asia*, April 20, 2015, <http://www.bbc.com/news/world-asia-32377088>.

<sup>82</sup> Ali, Akber. "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration." *Arts and Social Sciences Journal* 7, no. 204 (2016): 1–5. doi: 10.4172/2151-6200.1000204.

In December 2014, the Chinese Government brought together various major banks of China in order to establish the “Silk Road Fund Co., Ltd,” which will financially support CPEC. Under the overall supervision of said company, the China Development and China Exim banks are responsible for funding CPEC. These loans are guaranteed by the Chinese Government and non-payment risks are insured by the China Export and Credit Insurance Corporation (Sinosure).<sup>83</sup>

China is not the only country that will benefit from CPEC. Pakistan’s energy infrastructure is inadequate, so a significant share of CPEC is for the energy sector. The total generation of energy would reach 17,000 megawatts of electricity, which will double the amount of energy that Pakistan produces now.<sup>84</sup> Energy projects are divided into two categories: priority projects, which are planned or are currently in progress, and actively promoted projects, which have been proposed but do not have a near or urgent completion time. The share of the various priority projects is \$21.5 billion of the \$34 billion allocated for energy (details provided in Appendix A) and will generate 10,400 megawatts of electricity. The actively promoted projects will cost \$12.9 billion and are expected to generate 6,645 megawatts of power. The overview of the proposed projects under CPEC is provided in Figure 3.

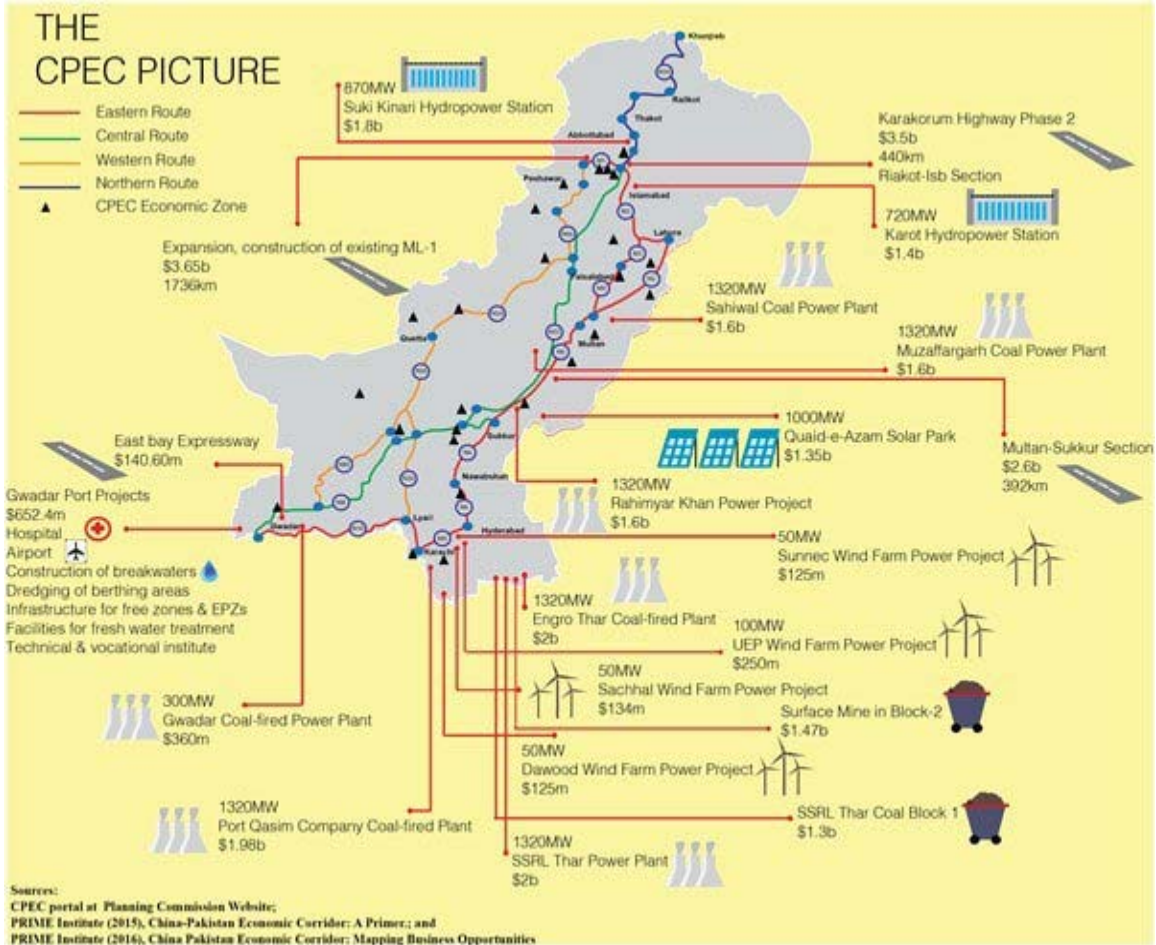
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<sup>83</sup> Hussain Ahmad Siddiqui, “CPEC Projects: Status, Cost, and Benefits,” *Daily Dawn*, last modified July 13, 2015, <http://www.dawn.com/news/1194014>.

<sup>84</sup> Markey and West, “Behind China’s Gambit in Pakistan,” 4.



Figure 3. Overview of the Proposed Projects under CPEC<sup>85</sup>



New construction of 1,200 kilometers of tracks and the upgrade of 3,100 kilometers of roads are also included in the overall plan.<sup>86</sup> As planned, CPEC will be a network of three major routes (Eastern, Central and Western routes) and one Northern extension passing through different areas of Pakistan. The Eastern Alignment is through Punjab and Sindh, linking the cities of Thakot, Mansehra,

<sup>85</sup> Jazib Nelson, "The TFT Guide to CPEC for Incredibly Smart People," *Beyond the Horizon*, (blog). September 10, 2016, accessed on October 20, 2017, <http://beyondthehorizon.com.pk/the-tft-guide-to-cpec-for-incredibly/>.

<sup>86</sup> Markey and West, "Behind China's Gambit in Pakistan," 4.

Islamabad, Lahore, Multan, Hyderabad, Karachi, and Gwadar.<sup>87</sup> The Central Route will pass through the Khyber-Pakhtunkhwa (KPK) province until it connects to Punjab and Sindh. The Western Alignment joins the province of KPK with Baluchistan<sup>88</sup> and connects Dera Ismail Khan, Dera Ghazi Khan, Zhob, Quetta and finally Gwadar.<sup>89</sup> The Northern extension, known as the Northern Route, will link the Eastern, Central, and Western Routes with China via Khunjrab. Details are attached in Appendix B.

There are several benefits and concerns about all these routes. The KPK and Baluchistan provinces where the Western Route will pass through are underdeveloped areas and have security concerns, but this planned alignment does provide the shortest distance to Gwadar. Conversely, the Eastern Route passes through comparatively developed and peaceful areas, where the upgrading of old roads and construction of the Karachi-Peshawar and Sukkur-Multan sections have been underway since 2016.<sup>90</sup> The plan includes more than 40 Special Economic Zones (SEZ), which will surely attract and encourage foreign investment. This foreign investment is expected to boost local employment and industrialization.<sup>91</sup>

Besides roads, railway infrastructure is also given a due share of the development. With a cost of \$3.6 billion, the railway system is to be reconstructed, expanded, and upgraded. The plan includes upgrading the provincial Rail-Based Mass Transit Systems and 1,736 kilometers of the main

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<sup>87</sup> Rana, Shahbaz, "Eastern CPEC Route Unfeasible: Report," *The Express Tribune*. July 26, 2015, accessed on June 13, 2017, <http://tribune.com.pk/story/926582/economic-corridor-eastern-cpec-route-unfeasible/>.

<sup>88</sup> Ibid.

<sup>89</sup> Zingel, Wolfgang-Peter, China's Pakistan Option: Economic and Social Implications of an 'All-Weather Relationship,'" *IIC Quarterly*, Indian International Center (IIC): New Delhi, India, 42:2, Autumn, 2015, 14–24.

<sup>90</sup> "Peshawar-Karachi Motorway (Multan-Sukkur Section)," CPEC: China Pakistan Economic Corridor, accessed on February 2, 2017, <http://cpec.gov.pk/project-details/29>.

<sup>91</sup> Markey and West, "Behind China's Gambit in Pakistan," 5.

line between Karachi and Peshawar.<sup>92</sup> In addition, the envisioned projects include the construction of a new 682 kilometers of railway track linking Khunjarab, Havelian, Gwadar, and Karachi. Details are attached in Appendix C.<sup>93</sup>

Gwadar is not only a gateway to CPEC but also a potential cornerstone of the strategic triangle of China, Pakistan, and Iran. This port is important for energy security and trade. In the future, it will almost certainly be a hub of maritime activities, as well as a potential backup option to the Strait of Malacca.<sup>94</sup> A fully functional and upgraded Gwadar Port, Economic Processing Zone, airport, and hospital, with a total of U.S.\$793 million of investment, would mark the success of CPEC.<sup>95</sup> Details are attached in Appendix D.

The Joint Cooperation Committee, headed by the Minister for Planning and Development of Pakistan, was set up by China and Pakistan to monitor the ongoing CPEC progress. The committee has five working groups, all of which are responsible for scrutinizing and short-listing projects for the final approval of the committee.<sup>96</sup>

## **B. HURDLES FOR THE CPEC**

Ostensibly, the CPEC project seems very simple. Simple things can face hurdles as well, however. As legendary German war theorist Clausewitz writes in his book *On War*: “Everything in war is very simple, but the simplest thing is difficult.”<sup>97</sup> CPEC’s successful completion will only occur if the challenges that could potentially hinder its progress can be overcome. These challenges will

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<sup>92</sup> Ministry of Planning Development and Reform, Government of Pakistan.

<sup>93</sup> Ibid.

<sup>94</sup> Wolf, “The China-Pakistan Economic Corridor,” 14.

<sup>95</sup> Hussain Ahmad Siddiqui, “CPEC Projects: Status, Cost, and Benefits,” *Daily Dawn*, last modified July 13, 2015, <http://www.dawn.com/news/1194014>.

<sup>96</sup> Ministry of Planning Development and Reform, Government of Pakistan.

<sup>97</sup> Carl Von Clausewitz, *On War*, trans. Michael Howard and Peter Paret, Princeton, Princeton University Press, 1989, 119.



need to be countered at the geopolitical level and on the regional front. In the domestic domain, internal security, transparency, and political consensus need special considerations. The following section will discuss the challenges faced in the completion of CPEC on Pakistan's geopolitical, regional and domestic fronts.

## **1. Geopolitical Dynamics**

The United States sees CPEC as a multi-lateral project that supports the vision of regional economic connectivity and expects Afghanistan's future inclusion in CPEC.<sup>98</sup> In the post-NATO withdrawal scenario, the U.S. supports China's positive role in Afghanistan to counter Russian control in the Central Asian Republics.<sup>99</sup> The U.S. is aware that with the development of Gwadar Chinese influence is a potential naval threat in the Indian Ocean.<sup>100</sup> As a result, the U.S. is developing good strategic relations with India so that India can maintain its regional dominance; it supports Indian naval power against future Chinese influence in the Indian Ocean and has also signed the civilian Nuclear Agreement in 2006.<sup>101</sup>

## **1. Regional Constraints**

Afghanistan's volatile security situation and the convergent interests of Iran and India are regional challenges for the CPEC.<sup>102</sup> India is worried by China's growing influence as a regional power and its presence in the Arabian Sea.<sup>103</sup> Furthermore, the porous border between Pakistan and Afghanistan is a

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<sup>98</sup> Ahmad Rashid Malik, "All-Weather Friendship," *Diplomatic Insight* 8, no 5 (2015): 13–15, <http://thediplomaticinsight.com/wp-content/uploads/2015/06/Special-Supplement-on-Pakistan-China-Relations-All-Weather-Friendship-May-2015.compressed.pdf>.

<sup>99</sup> Zimmerman, "The New Silk Roads: China, the U.S., and the Future of Central Asia."

<sup>100</sup> Markey and West, "Behind China's Gambit in Pakistan," 7; Ritzinger, "China-Pakistan Economic Corridor," 3.

<sup>101</sup> Hussain, "China Pakistan Economic Corridor," 4; Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 126.

<sup>102</sup>; Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1–5.

<sup>103</sup> Markey, "Behind China's Gambit in Pakistan," 7.

serious security concern for Pakistan. Tehrik Taliban Pakistan (TTP), Al-Qaeda, the Islamic State (ISIS), East Turkestan Islamic Movement (ETIM), and other groups that operate from Afghanistan have carried out most of the terrorist activities in KPK and Baluchistan provinces.<sup>104</sup> They could potentially cause a considerable delay in the planned timeframe of CPEC.

As a major regional stakeholder, India is concerned about CPEC's northern route passing through the disputed territory of Jammu and Kashmir;<sup>105</sup> as it is likely to strengthen Pakistan's claim to these areas.<sup>106</sup> The Indian Foreign Minister, Sushma Swaraj, has called CPEC "unacceptable" because it is planned through Jammu and Kashmir.<sup>107</sup> It was because of this that India boycotted the May 14–15, 2017, OBOR forum in Beijing. As Indian External Affairs spokesperson Gopal Baglay stated, "No country accepts a project that ignores its core concerns on sovereignty and territorial integrity."<sup>108</sup> The work force on different CPEC projects will be from the People's Liberation Army Corps of Engineering. Some scholars consider the CPEC to be part of a Chinese colonialist agenda and threat to Indian security.<sup>109</sup> These scholars view it as China's strategy to contain India by controlling Gwadar and securing access to the Indian Ocean.<sup>110</sup> Chinese analyst Zi Shi supports a non-involvement policy in the region, one that follows the 'Three Nos': namely, no interference in the

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<sup>104</sup> Abid, and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 156.

<sup>105</sup> Dhrubajyoti, "China Pakistan Economic Corridor (CPEC)," 6.

<sup>106</sup> Lim, "The China-Pakistan Economic Corridor One Year On—Analysis," 3.

<sup>107</sup> Chinese Pressure Sees Pakistan Mull Constitutional Status of Gilgit-Baltistan, *Express Tribune*, January 7, 2016, <https://tribune.com.pk/story/1023523/chinese-pressure-sees-pakistan-mull-constitutional-status-of-gilgit-baltistan/>.

<sup>108</sup> "Miglani, India skips China's Silk Road summit, warns of 'unsustainable' debt, *Reuters*, 14 May 2017, <http://www.reuters.com/article/us-china-silkroad-india-idUSKBN18A07L>.

<sup>109</sup> Monika Chansoria, "China Makes Its Presence Felt in Pak Occupied Kashmir," *Sunday Guardian*, accessed April 14, 2017, <http://www.sunday-guardian.com/analysis/china-makes-its-presence-felt-in-pak-occupied-kashmir>.

<sup>110</sup> Dhrubajyoti, "China Pakistan Economic Corridor (CPEC)," 6.

internal affairs; no increase of influence, and no dominance.<sup>111</sup> Notwithstanding Indian apprehensions, Pakistani northern areas, where the CPEC Northern Route is passing through, have never been under Indian control since independence.<sup>112</sup>

In addition to their concerns about China using Gwadar as an economic hub, India is also concerned that the port may be utilized as a military base. A Chinese naval presence in the Arabian Sea is likely to disrupt Indo-U.S. strategic cooperation.<sup>113</sup> Moreover, India is worried about other seaports being developed by China, in Sri Lanka, Myanmar, and Bangladesh.<sup>114</sup> It has a concern that through these developments it will be encircled through a “String of Pearls” strategy.<sup>115</sup> Closer ties between China and Pakistan are considered a challenge by Indian thinkers; Gwadar is seen as a project that will affect the region’s balance.<sup>116</sup>

Unstable and volatile security environments may affect the pace of work on CPEC projects. The growing instability in Afghanistan is expected to have the spillover effect of instability in Pakistan and western Chinese regions.<sup>117</sup> Cordial geo-economic relations between Pakistan and Afghanistan would mark the success of CPEC, but Pakistan believes that on the behest of India, the Northern Alliance is spoiling the trust initiatives agreed to by Pakistan with the Afghan

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<sup>111</sup> Shi, Zi. “One Road & One Belt” New Thinking with Regard to Concepts and Practice.” Lecture delivered at the 30<sup>th</sup> anniversary of Conference of the Schiller Institute, Germany, October 14, 2014.

<sup>112</sup> Nazir, “Macro and Micro Dividends of CPEC.”

<sup>113</sup> Ibid.

<sup>114</sup> Debasish Roy Chowdhury, “Pakistan Happy to Aid in China’s Quest for Land Route to the West; India, Not So Much.” *South China Morning Post*, last modified November 19, 2013, <http://www.scmp.com/business/commodities/article/1359761/pakistan-happy-aid-chinas-quest-land-route-west-india-not-so>.

<sup>115</sup> Christopher Ernest Barber, “The Pakistan-China Corridor: A New Project Will Give Pakistan the Tools of Globalization. Will It Use Them?” *Diplomat*, February 27, 2014, <http://thediplomat.com/2014/02/the-pakistan-china-corridor/>.

<sup>116</sup> Ibid.

<sup>117</sup> Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 3.

Government.<sup>118</sup> Moreover, Pakistan alleges that two foreign agencies are behind the terrorist attacks in Baluchistan Province: the Afghanistan National Directorate of Security (NDS) and the Indian Research and Analysis Wing (RAW). In October 2016, the Pakistani government informed the U.S. about the alleged involvement of Indian and Afghan intelligence agencies in terrorist attacks inside Pakistan.<sup>119</sup> Uighur militants from the Xinjiang province of China do have links with the Taliban and abducted Chinese employed on different projects inside Pakistan.<sup>120</sup>

China's participation in the talks between the Taliban and the Afghan government in July 2015, along with the U.S., shows its strong desire for stability inside Afghanistan.<sup>121</sup> A peaceful Afghanistan is of paramount significance for CPEC. China supports the promotion of peace in Afghanistan and has highlighted the same in various forums like the, "Fourth Ministerial Conference of Heart of Asia-Istanbul Process Held in Beijing," in October 2014,<sup>122</sup> and "Belt and Road Forum for International Cooperation" in May 2017, in Beijing, which, as noted earlier, India skipped.<sup>123</sup> To benefit the most from CPEC, China is fully behind easing tension between Pakistan and Afghanistan.

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<sup>118</sup> Hussain, "China Pakistan Economic Corridor" *Defence Journal* 19, no.6 (Jan 2016): 13–21, ProQuest, search run August 3, 2016,

<sup>119</sup> Sanaullah Khan, "RAW, NDS Patronizing Terror Groups in Afghanistan, National Security Adviser Tells U.S. Envoy," *Dawn News*, October 26, 2016, <https://www.dawn.com/news/1292399>.

<sup>120</sup> Ritzinger, "The China-Pakistan Economic Corridor," 3.

<sup>121</sup> Edward Wong and Mujib Mashalmy, "Taliban and Afghan Peace Officials Have Secret Talks in China," *New York Times*, May 25, 2015, <https://www.nytimes.com/2015/05/26/world/asia/taliban-and-afghan-peace-officials-have-secret-talks-in-china.html>; "Taliban and Afghan Government Hold Talks in Pakistan," *Aljazeera*, July 8, 2015, <http://www.aljazeera.com/news/2015/07/taliban-Afghan-government-talks-150708052742177.html>.

<sup>122</sup> Muhammad Arif, "Fourth Ministerial Conference of Heart of Asia-Istanbul Process Held in Beijing, China," *Nihao-Salam: Pakistan-China Institute promoting China Pakistan Economic Corridor*, October 31, 2014, <http://www.nihao-salam.com/news-detail.php?id=NzA2Mw>.

<sup>123</sup> Miglani, India skips China's Silk Road summit, warns of 'unsustainable' debt, *Reuters*, 14 May 2017, <http://www.reuters.com/article/us-china-silkroad-india-idUSKBN18A07L>.

The other regional stakeholder in CPEC development, Iran, considers Gwadar development as a rival to Chah Bahar.<sup>124</sup> Iran understands CBEC's significance and its wide potential of cooperation, however. In May 2016, the Iranian ambassador stated that, "We are ready for any rapprochement between regional countries which directly impact the interests of the people of our countries. Trade and business is business, and politics is politics. We should separate them."<sup>125</sup> The Iranian President expressed similar feelings during a meeting with the Pakistani prime minister in September 2016 and showed a desire to be part of CPEC.<sup>126</sup>

## 2. Domestic Constraints

The security situation presents one of the leading concerns that may hinder the successful completion of CPEC. Extremist elements along the Western Route, which passes through the KPK and Baluchistan provinces, may target the CPEC projects to harm the Pakistani state.<sup>127</sup> The unstable law and order situation in Baluchistan province is of great concern, as Gwadar is located in Baluchistan.<sup>128</sup> Anti-state Baloch insurgents contend that CPEC will exploit local resources.<sup>129</sup> They have a record of accomplishment of insurgent activities against Chinese working on different projects and oppose these national development projects, as they perceive that the influx of outsiders might disturb the province's demographic balance.<sup>130</sup> These militants are patronized by anti-

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<sup>124</sup> Nazir, "Macro and Micro Dividends of CPEC."

<sup>125</sup> Mateen Haider and Mahnoor Bari, "Chabahar Not a Rival to Gwadar, Iranian Envoy Tells Pakistan," *Dawn News*, updated May 27, 2016, <https://www.dawn.com/news/1261006>.

<sup>126</sup> Syed Sammer Abbas, "Iran Wants to be Part of CPEC, says Rouhani," *Dawn News*, last modified September 22, 2016, <https://www.dawn.com/news/1285404>.

<sup>127</sup> Abid, and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 159.

<sup>128</sup> Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 4.

<sup>129</sup> Wolf, "The China-Pakistan Economic Corridor," 22.

<sup>130</sup> Markey and West, "Behind China's Gambit in Pakistan," 6.

Pakistani, foreign intelligence agencies, RAW, and NDS.<sup>131</sup> In April 2015, before the Chinese president visited Pakistan, they killed 20 non-local laborers in Turbat, Baluchistan.<sup>132</sup>

To eliminate the terrorists, the Pakistan Army launched Operation Zarb-e-Azab in June 2014 in the tribal areas of Waziristan on the border with Afghanistan. This operation brought a reasonable decline in the terrorist activities in the country as per media reports<sup>133</sup> and denied space to the foreign terrorists who were launching terrorist activities across Pakistan.<sup>134</sup> Besides Operation Zarb-e-Azab, the Pakistan Army has also raised two special security divisions with 12,000 soldiers each, comprising nine army battalions, and six wings of Frontier Corps and Rangers.<sup>135</sup> This force will augment the local security mechanisms and protect the Chinese workers on different CPEC projects.<sup>136</sup>

### 3. Political Dimensions

Besides security issues, achieving political consensus among all political parties in Pakistan presents as one of the challenges in the completion of CPEC. An absence of political consensus on CPEC could delay or disrupt the timeline of the project's completion. This is no passing concern: historically, other projects in Pakistan have foundered due to the lack of a shared political and economic vision.<sup>137</sup> Short-vision political gains negatively affected the national interest,

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<sup>131</sup> Sanaullah Khan, "RAW, NDS Patronizing Terror Groups in Afghanistan, National Security Adviser Tells U.S. Envoy," *Dawn News*, October 26, 2016, <https://www.dawn.com/news/1292399>.

<sup>132</sup> Syed Ali Shah, "Militants Gun down 20 Labourers in Balochistan," *Dawn News*, last modified April 11, 2015, <https://www.dawn.com/news/1175280>.

<sup>133</sup> Saima Ghazanfar, "Operation Zarb-e-Azb: Two Years of Success," *Nation*, September 6, 2016, <http://nation.com.pk/national/06-Sep-2016/operation-zarb-e-azb-two-years-of-success>.

<sup>134</sup> Hussain, "China Pakistan Economic Corridor" *Defence Journal* 19, no.6 (Jan 2016): 13–21, ProQuest, search run August 3, 2016,

<sup>135</sup> "PM, COAS jointly inspect CPEC route," *Sama TV*, February 3, 2016, <http://www.samaa.tv/pakistan/2016/02/pm-coas-jointly-inspect-cpec-route/> (accessed August 29, 2017).

<sup>136</sup> Ibid.

<sup>137</sup> Wolf, "The China-Pakistan Economic Corridor," 20.

especially in the allocation of resources.<sup>138</sup> The KPK and Baluchistan provinces have concerns for changing route,<sup>139</sup> which the federal government denies.<sup>140</sup> In response to an objection related to lack of representation in decision making by smaller provinces, the government formulated the parliamentary committee in September 2015 to supervise CPEC projects. The committee has no say in the important decision making of the CPEC Secretariat within the Ministry of Planning and Development, however.<sup>141</sup> An “All Party Conference” was conducted on May 28, 2015, to address the political parties’ concerns about CPEC.<sup>142</sup> All political parties agreed on the development of the Western Route by 2018 and pledged their political support.<sup>143</sup>

### C. CONCLUSION

CPEC has great potential for ensuring a stable economic future, for all regional stakeholders as well as Pakistan and China. Opponents are making an all-out effort to throw a wrench into the works by conducting terrorist activities in the country. The best minds of forces hostile to CPEC envisage innovative methods to derail it, which means that managers of CPEC will have to remove all hurdles if they want change their region.

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<sup>138</sup> Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 4.

<sup>139</sup> Abid, and Ashfaq, “CPEC: Challenges and Opportunities for Pakistan,” 154.

<sup>140</sup> Ramay, “CPEC: A Chinese Dream Being Materialized through Pakistan,” Sustainable Development Policy Institute, accessed January 12, 2017, [https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-\(Shakeel-Ahmad-Ramay\).pdf](https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-(Shakeel-Ahmad-Ramay).pdf).

<sup>141</sup> Ibid.

<sup>142</sup> Mario Esteban, “The China-Pakistan Corridor: A Transit, Economic or Development Corridor?” Elcano Royal Institute, ARI 53/2016, July 5, 2016, 3, <http://www.realinstitutoelcano.org/wps/wcm/connect/f0dc14004d61c688a4b3ac9b30f1f92d/ARI53-2016-Esteban-China-Pakistan-corridor-transit-economic-development.pdf?MOD=AJPERES&CACHEID=f0dc14004d61c688a4b3ac9b30f1f92d>.

<sup>143</sup> Irfan Haider, “Parties Pledge to Take Full Political Ownership of CPEC,” *Dawn News*, last modified May 28, 2015, <https://www.dawn.com/news/1184733>.

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### III. ANALYSIS OF SIGNIFICANCE OF CPEC FOR PAKISTAN

All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind.

—Adam Smith<sup>144</sup>

CPEC is seen by most as very significant for China and Pakistan. As described in the Asian Development Bank study, “economic corridors connect economic agents along a defined geography.”<sup>145</sup> CPEC potentially provides a secure alternate trade route for China, and for Pakistan, it will help its economic growth and counter regional Indian influence.<sup>146</sup> Aside from the perceived economic benefits, CPEC will help secure China’s trade routes and peripheral influence and strengthen its presence around the world. Pakistan’s government believes CPEC will benefit Pakistan economically by increasing employment, alleviating poverty, and bringing stability to previously neglected areas by engaging locals in commercial activities. Moreover, government officials expect CPEC to attract foreign investment, which should boost Pakistan’s exports, increase GDP, and bring improvement in health and essential amenities.<sup>147</sup> This chapter will analyze the importance of CPEC for Pakistan and China, and it will discuss some of the myths and realities regarding CPEC.

#### A. SIGNIFICANCE OF CPEC FOR PAKISTAN

CPEC is not just a transit corridor; rather, it is designed as an economic corridor that will bring economic benefits to Pakistan in terms of energy, industry,

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<sup>144</sup> Adam Smith, “The Wealth of Nations: Book I: Chapter V.” The Library of Economics and Liberty, 1776. [www.econlib.org/library/Smith/smWN11.html](http://www.econlib.org/library/Smith/smWN11.html).

<sup>145</sup> Brunner, “What Is Economic Corridor Development and What Can It Achieve in Asia's Subregions?,” 1.

<sup>146</sup> Akber Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 1–5.

<sup>147</sup> Singh and Magray, “CPEC Impacts on Pakistan Economy,” 7.

trade, and new business opportunities.<sup>148</sup> Pakistan's economy has been beaten down from energy crisis, inadequate infrastructure, high inflation, and slow economic growth. Therefore, Pakistan sees CPEC as vital for the revival of its economic growth.<sup>149</sup> This section focuses on the importance of CPEC for Pakistan in terms of geopolitical concerns, economic growth, foreign direct investment, Pakistan's energy shortage, and infrastructural and social development.

### 1. CPEC Significance for Pakistan-Geostrategic Level

CPEC's great impact is that it would attract regional countries to be part of OBOR, thus cementing regional cooperation.<sup>150</sup> CPEC potentially may improve Pakistan's geostrategic environment, improve its infrastructure, and give a boost to its energy sector. With the huge Chinese investment of U.S.\$46 billion, CPEC will improve Pakistan's socio-economic development and bring development to its undeveloped areas.<sup>151</sup> Historically, Pakistan's location has allowed it to play an important role in geopolitics, trade, and transit.<sup>152</sup> Pakistan enjoys good relations with China and the West and has a good geostrategic location. It could potentially help bring normality among these big powers, promote trade cooperation, and enhance diplomacy that is oriented toward trade.<sup>153</sup> Moreover,

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<sup>148</sup> Singh and Magray, "CPEC Impacts on Pakistan Economy, 7"

<sup>149</sup> Saima Perveen, and Jehanzeb Khalil, "Gwadar-Kashgar economic corridor: Challenges and imperatives for Pakistan and China," *Journal of Political Studies* 22, no. 2 (February 2015): 351.

<sup>150</sup> Mario Esteban, "The China-Pakistan Corridor: A Transit, Economic or Development Corridor?" *Elcano Royal Institute*, ARI 53/2016, July 5, 2016. 1–9, <http://www.realinstitutoelcano.org/wps/wcm/connect/f0dc14004d61c688a4b3ac9b30f1f92d/ARI53-2016-Esteban-China-Pakistan-corridor-transit-economic-development.pdf?MOD=AJPERES&CACHEID=f0dc14004d61c688a4b3ac9b30f1f92d>.

<sup>151</sup> Christian Wagner, "The Effects of the China-Pakistan Economic Corridor on India-Pakistan Relations," German Institute for International and Security Affairs, SWP Comments, April 25, 2016, [http://www.swp-berlin.org/fileadmin/contents/products/comments/2016C25\\_wgn.pdf](http://www.swp-berlin.org/fileadmin/contents/products/comments/2016C25_wgn.pdf).

<sup>152</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration. 1-5"

<sup>153</sup> Rashid Ahmad Khan et al., *China-Pakistan Economic Corridor: A Game Changer*, 57

the expected inclusion of more regional countries in CPEC will enhance bilateral trade.<sup>154</sup>

The significance of Gwadar becomes more pronounced in the backdrop of the regional power struggle in the Indian Ocean in the 21<sup>st</sup> century.<sup>155</sup> Gwadar will be a gateway and pivot port in the region,<sup>156</sup> allowing Central Asian countries to engage in maritime transport.<sup>157</sup> In time, the development of Gwadar would be of great economic significance for the under-developed and neglected Baluchistan and other regions of Pakistan.<sup>158</sup> Gwadar is the strategic pivot of CPEC as a whole, as it provides economic security to China and shortens the maritime distance from Shanghai to North America by 9,000 kms. CPEC would bypass the future contested territory of the Strait of Malacca and the Indian Ocean for China.<sup>159</sup>

## 2. Perceived Economic Growth

Pakistan's economic growth has been gradually improving over the past three years. It has been linked with the rise in investment, besides private and public consumption, which, in turn, reflects on CPEC projects and public investment.<sup>160</sup> A World Bank study predicts gradual economic growth in Pakistan's economy by more than 5 percent in FY2017 with a further increase of

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<sup>154</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1–5.

<sup>155</sup> Ahmad Rashid Malik et al., *China-Pakistan Economic Corridor: A Game Changer*, 118.

<sup>156</sup> Ammad Hasan, "Pakistan's Gwadar port's prospects of economic revival," Monterey: Naval Postgraduate School, 2005, <https://calhoun.nps.edu/handle/10945/2138>.

<sup>157</sup> Singh and Magray, "CPEC Impacts on Pakistan Economy, 8," Volume 4 Issue 7, July 2017, [http://www.ijiras.com/2017/Vol\\_4-Issue\\_7/paper\\_2.pdf](http://www.ijiras.com/2017/Vol_4-Issue_7/paper_2.pdf).

<sup>158</sup> Zahid Anwar, "Gwadar Deep Sea Port's Emergence as Regional Trade and Transportation Hub: Prospects and Problems," *Journal of Political Studies*, vol. 1, no. 2, (n.d), 97–112.

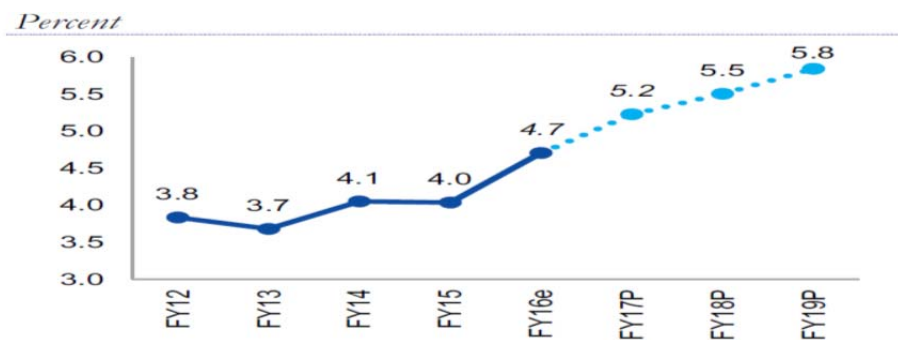
<sup>159</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1–5.

<sup>160</sup> World Bank, *Pakistan—Country Snapshot*. Washington, DC: World Bank Group. 2015. <http://documents.worldbank.org/curated/en/619971467987825539/Pakistan-Country-snapshot>.

5.4 percent in FY2018. The predicted increase in Pakistan’s GDP, largely as a result of CPEC, is shown in Figure 1.

The domestic construction industry, the electricity generation projects, and the infrastructure projects will all grow with the progress of CPEC projects. The industry and service sectors will grow with the availability of electricity.<sup>161</sup> The proposed 29 industrial parks, which include 21 mineral zones and 27 SEZs, would play a vital role in the industry and trade sectors. Above all, the planned 9 km<sup>2</sup> Gwadar SEZ would play an important role in profiting the livestock, energy, agriculture, and minerals industries.<sup>162</sup> The predicted gradual increase in Pakistan’s GDP growth is shown in Figure 4.

Figure 4. Pakistan GDP Growth<sup>163</sup>



### 3. Foreign Direct Investment

Besides infrastructure development and overcoming energy crisis, the CPEC projects’ value would exceed all foreign direct investment (FDI) since 1970, which is approximately equivalent to 17 percent of Pakistan’s GDP. Moreover, the project will boost Pakistan’s economic growth rate by 2.5 percent

<sup>161</sup> Ibid.

<sup>162</sup> Singh and Magray, “CPEC Impacts on Pakistan Economy,” 8.

<sup>163</sup> World Bank, *Pakistan—Country Snapshot*. Washington, DC: World Bank Group. 2015. <http://documents.worldbank.org/curated/en/619971467987825539/Pakistan-Country-snapshot>.

and create some 700,000 jobs.<sup>164</sup> As the CPEC projects move ahead, there will be more FDI flows from China to Pakistan. FDI will bear fruit in the medium term. The progress on CPEC projects and consistency in energy supply will maintain an upward increase in industrial growth, with the FDI, official reserves reaching from U.S.\$13.5 billion to U.S.\$18.2 billion in June 2016, as compared to June 2015.<sup>165</sup> The boost in FDI with the commencement of CPEC in 2015, where FDI goes up from \$1.88 billion in 2013 to \$46 billion in 2015, is shown in Figure 5.

Figure 5. FDI Flow to Pakistan<sup>166</sup>



Attracting FDI and development will depend solely on the Pakistani government's policies and working environment. In the present political and security situation, development work will be hard to undertake; financial liberalization and governmental policies would augment the development process, however. Chinese investment in the present environment would make

<sup>164</sup> Mario Esteban, "The China-Pakistan Corridor: A Transit, Economic or Development Corridor?" Institute of Strategic Studies Islamabad (ISSI) and the Elcano Royal Institute. ARI 53/2016—July 5, 2016, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development).

<sup>165</sup> "World Bank, Pakistan Development Update, November 2016: Making Growth Matter. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/25358> License: CC BY 3.0 IGO."

<sup>166</sup> "Behind China's Gambit in Pakistan." Council on Foreign Relations. Accessed September 5, 2017, <https://www.cfr.org/expert-brief/behind-chinas-gambit-pakistan>.

the development process possible.<sup>167</sup> Legal and institutional setups, under the government control of Pakistan, would mark the success of the development.<sup>168</sup> The decline in return rates in industrialized countries and availability of surplus saving and investable funds in the global market has made China's investment possible in Pakistan. The comparative advantage of investing in Pakistan is due to expected higher returns, coupled with government policies, cheap indigenous labor, and availability of raw material.<sup>169</sup>

#### 4. Overcoming Energy Shortages

Over the years, Pakistan has faced an energy shortage; this is mostly due to a lack of efficiency coupled with political instability and the Pakistani people's increased demand for energy.<sup>170</sup> The previously mentioned World Bank study has termed the non-availability of electricity as the main hurdle to economic growth and FDI.<sup>171</sup> To honor the official designation of CPEC as an economic corridor, the major share of all Chinese investment is planned to go to energy projects on a build-to-own-operate model.<sup>172</sup> These projects would address the energy shortcomings of the country. Special financial protection is being extended to all Chinese investors undertaking energy projects in Pakistan.<sup>173</sup> Chinese investment in Pakistan aims at accelerating the country's growth in

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<sup>167</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 6.

<sup>168</sup> Ibid.

<sup>169</sup> Ibid., 7.

<sup>170</sup> Yousaf Ali, Rasheed Zaeem, Noor Muhammad, and Salman Yousaf, "Energy optimization in the wake of China Pakistan Economic Corridor (CPEC)." *Journal of Control and Decision* (July 2017): 1-19, <http://dx.doi.org/10.1080/23307706.2017.1353929>.

<sup>171</sup> Ibid.

<sup>172</sup> According to Margaret Rouse, "BOO (build, own, operate) is a public-private partnership (PPP) project model in which a private organization builds, owns and operates some facility or structure with some degree of encouragement from the government. Although the government doesn't provide direct funding in this model, it may offer other financial incentives such as tax-exempt status. The developer owns and operates the facility independently." Margaret Rouse, "Definition BOO project (build, own, operate project)," <http://whatis.techtarget.com/definition/BOO-project-build-own-operate-project>.

<sup>173</sup> Singh and Magray, "CPEC Impacts on Pakistan Economy," 7.

various sectors like mining, food, energy, and construction. Moody's Investors Service also describes CPEC as "credit positive."<sup>174</sup>

The major share of investment of over \$33 billion would shed the long energy crisis with an added amounts of energy.<sup>175</sup> By the end of March 2018, when 14 out of the 21 gas, coal and solar energy projects are completed, an additional 10,400 MW of energy will be available. This figure will rise to 16,400 MW when all of CPEC's energy projects are operational.<sup>176</sup>

The Country's socio-economic development is directly linked to the availability of energy.<sup>177</sup> CPEC's major investment in the energy sector may provide a way out of Pakistan's energy crisis.<sup>178</sup> Moreover, whether these projects are cost-effective and help to lift the people out of poverty will largely depend on the accurate location of power and industrial projects.<sup>179</sup> CPEC's progression will mark the journey towards stability. With energy issues resolved, Pakistan in the future will be an axis of regional trade and an economic hub, will provide jobs to the locals, and will give a developed infrastructure to the country.<sup>180</sup>

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174 Ibid.

175 Singh and Magray, "CPEC Impacts on Pakistan Economy," 8.

176 Ibid.

177 Bwo-Nung Huang, Jeng Hwang Ming, and Wei Yang Chin, "The Causal Relationship between Energy Consumption and GDP Growth Revisited: A Dynamic Panel Data Approach," *Ecological Economics*, 67, (August 2008), 41–54.

178 Andrew Stevens, "Pakistan Lands \$46 Billion Investment from China," *CNN, Money*, April 20, 2015, <http://money.cnn.com/2015/04/20/news/economy/pakistan-china-aid-infrastucture/>.

179 Muhammad Abdullah Avais, Saima Shaikh, Hakim Ali Mahesar, and Fehmida Memon, "China-Pak Economic Corridor: Social Analysis for Pakistan," *The Government-Annual Research Journal of Political Science*. 5, no. 5 (May 2016), 163-169.

180 Yousaf Ali, Rasheed Zaeem, Noor Muhammad, and Salman Yousaf, "Energy optimization in the wake of China Pakistan Economic Corridor (CPEC)." *Journal of Control and Decision* (July 2017): 1-19, <http://dx.doi.org/10.1080/23307706.2017.1353929>.

## 5. Infrastructure Development

Another area where Pakistan will benefit from CPEC will be its infrastructure, which can be defined as “the system of public works of a country, state, or region; *a/so*: the resources (such as personnel, buildings, or equipment) required for an activity.”<sup>181</sup> The World Bank study concluded that per capita income at purchasing power parity is directly linked with infrastructure development. Infrastructural development does have a bearing on per capita income.<sup>182</sup> Regional infrastructure also uplifts standards of living, alleviates poverty, connects isolated places with financial hubs, and thus narrows a country’s development gaps.<sup>183</sup> Pakistan’s bleak picture of infrastructure conditions in the world ranking is shown in Table 1.

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<sup>181</sup> “Infrastructure.” *Merriam-Webster.com*, Merriam-Webster, [www.merriam-webster.com/dictionary/infrastructure](http://www.merriam-webster.com/dictionary/infrastructure). Accessed 2017.

<sup>182</sup> World Bank’s Infrastructure Strategy Update FY2015-2015, accessed 14 June 2017, [www.worldbank.org/infrastructure](http://www.worldbank.org/infrastructure).

<sup>183</sup> Biswa N. Bhattacharyay, Masahiro Kawai, and Rajat Nag, eds. *Infrastructure for Asian Connectivity* (Cheltenham: Edward Elgar Publishing, 2012), 187.



Table 1. Pakistan's Global Ranking in Infrastructure<sup>184</sup>

Indicator	Rank (out of 139)
Quality of overall infrastructure	100
Quality of roads	72
Quality of railroad infrastructure	55
Quality of port infrastructure	73
Quality of air transport infrastructure	81
Available airline seat kilometers	48
Quality of electricity supply	128
Fixed telephone lines	115
Mobile telephone subscriptions	107

Pakistan presently has a deteriorated infrastructure, which includes power shortages, deteriorated roads, and railways, and decreased shipping and national carriers.<sup>185</sup> Pakistan needs infrastructural development in order for there to be an acceleration in economic growth. Over the last two decades, Pakistan's infrastructural development has deteriorated, and it needs financial solutions for infrastructural construction and development. The lack of sufficient funds in the past has mainly caused inadequate infrastructural development.<sup>186</sup> Without the development of infrastructure, Pakistan cannot enhance its volume of exports. Moreover, the foreign investment in the manufacturing sector is also directly proportional to the supporting facilities in the country.<sup>187</sup> The Planning Commission of Pakistan has estimated a loss of 4 percent to 5 percent of GDP

<sup>184</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 2.

<sup>185</sup> Ibid.

<sup>186</sup> Ibid., 3.

<sup>187</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 3.

due to poor performance in the transport sector. To address these issues, infrastructure's share in CPEC's funding is around 36 percent, with the aim of development through connectivity.<sup>188</sup>

CPEC's successful completion would reduce the trade route from China to the Gulf of Oman from 12,000 km via sea to 2,200 km via Pakistan. Infrastructure gets the major share after energy spending, with \$11 billion out of the total \$46 billion spent on infrastructural developments. These planned infrastructural developments will link and uplift the under-developed areas of Pakistan, attract investment and give a boost to the economy.<sup>189</sup> Upgrading the Karakoram Highway and construction of a Karachi-to-Lahore motorway are currently underway as part of infrastructure projects.<sup>190</sup>

Gwadar's strategic location makes it significant for the economic growth of Pakistan. Its unique position at the end of the Gulf of Oman makes it a gateway out of The Gulf, for oil trade towards Japan and Western countries. Gwadar's development as a free port would revolutionize the economic growth of Pakistan with its linkage to international trade.<sup>191</sup>

## **6. Impact of CPEC on Social Welfare**

Through energy and infrastructure developments, CPEC surely will uplift Pakistan's social welfare. In light of the UNDP Report of 2016, Pakistan's standing in the human development index (HDI) value is 0.550, and its standing

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<sup>188</sup> Khaleeq Kiani, "Poor infrastructure a major hurdle to growth," *Dawn News*, Updated September 23, 2013, <https://www.dawn.com/news/1044734>.

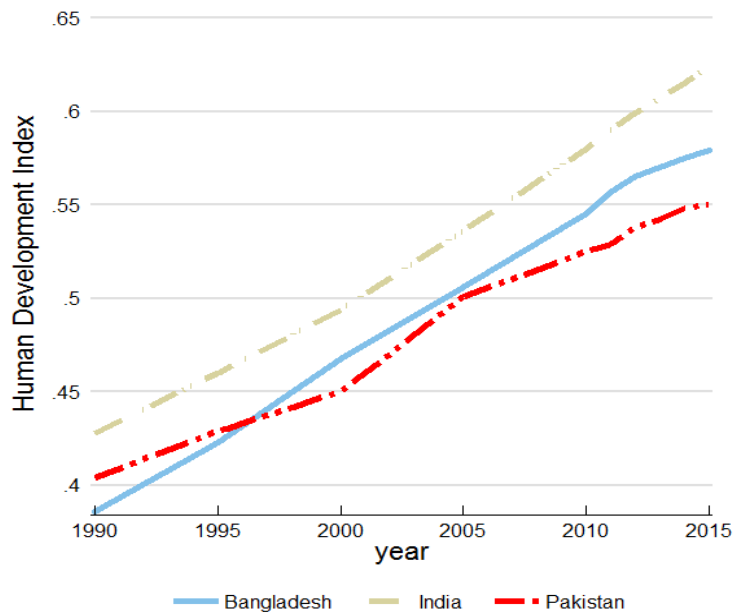
<sup>189</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 3.

<sup>190</sup> Mario Esteban, "The China-Pakistan Corridor: a transit, economic or development corridor?" Institute of Strategic Studies Islamabad (ISSI) and the Elcano Royal Institute. ARI 53/2016—July 5, 2016, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development).

<sup>191</sup> Ayub Mehar, "Infrastructure Development, CPEC and FDI in Pakistan," 6.

is 147<sup>th</sup> out of 188 countries.<sup>192</sup> The comparison of Pakistan, Bangladesh, and India, where Pakistan's HDI is the lowest among these countries, is shown in Figure 6. CPEC promises to raise Pakistan's HDI, especially in the underdeveloped areas of KPK and Baluchistan.

Figure 6. HDI trends for Pakistan, Bangladesh and India, 1990–2015<sup>193</sup>

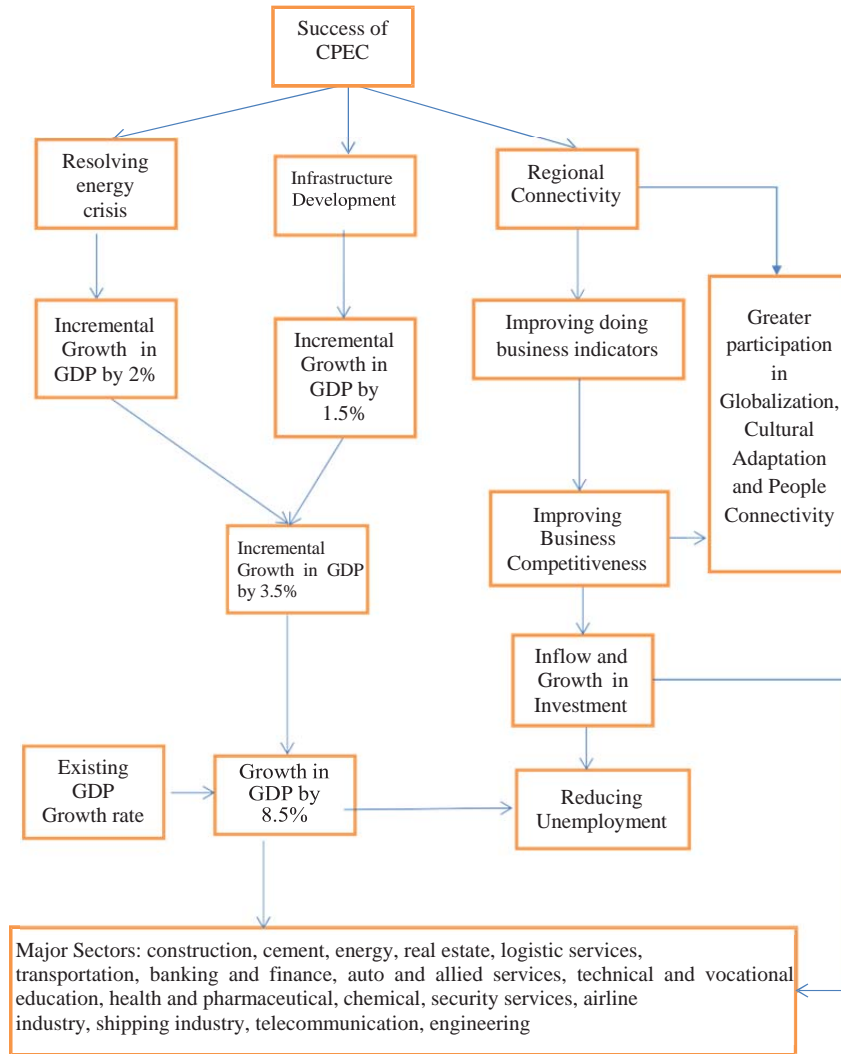


Infrastructure development and economic growth will positively affect socioeconomic growth and improve the life of the common man and women woman. Mehar has analyzed the socioeconomic development through a model shown in Table 2, where resolving energy shortage, regional connectivity, and infrastructural development are shown as the main pillars for the subsequent success of CPEC.

<sup>192</sup> UNDP Human Development Report 2016, [http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/PAK.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PAK.pdf).

<sup>193</sup> Ibid., 2.

Table 2. Farsightedness: Impact of CPEC on Socioeconomic Conditions<sup>194</sup>



## 7. CPEC and Tourism

Pakistan’s Northern areas and other historical sites and cities have a great potential for the revival of Pakistan’s tourism industry. CPEC will potentially lift the Pakistani tourism industry, which peaked in the 1970s. Many attractive tourist sites are spread along the CPEC route, with very promising potential. Gilgit-Baltistan attracts many mountaineers, as the world-renowned peaks of K2 and

<sup>194</sup> Ayub Mehar, "Infrastructure Development, CPEC and FDI in Pakistan," 9.

the Nanga Parbat top the list of scalable mountains in this area. Tourism, however, is deeply linked with peace and better infrastructure.<sup>195</sup>

## **B. SIGNIFICANCE OF CPEC FOR CHINA**

China will accrue great strategic and economic benefits out of CPEC. Besides the perceived transformation of economic development in Xinjiang province, China hopes to counter separatist sentiments through prosperity in these areas.<sup>196</sup> China's perceived benefits are in not only the economic sphere but also in the regional and strategic areas, too. Should CPEC not materialize as planned, Chinese interest may divert to alternate options.<sup>197</sup>

Chinese crude oil dependency from the Gulf and Iran is around 47 percent of its total consumption; with the development of CPEC, Gwadar will provide a shorter, safer and economical route to western China.<sup>198</sup> The overall inland distance from eastern China to Western China would decrease from 16,000 km to 3000 km.<sup>199</sup> According to Akber Ali, China is concerned that its security and oil trade is vulnerable, as 80 percent of its oil imports pass through the Malacca Strait.<sup>200</sup> China thinks that its main opposition comes from the regional and global powers in the South and East China Seas. CPEC addresses all these issues of Chinese concern of trade security and links China with the Indian Ocean through the deep-sea port of Gwadar. The Trans-Pacific Treaty among allies and the U.S.

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<sup>195</sup> Syed Ahtsham Ali, et al., "Emerging Tourism between Pakistan and China: Tourism Opportunities via China-Pakistan Economic Corridor," *International Business Research*; Vol. 10, No. 8; 2017, ISSN 1913–9004 E-ISSN 1913–9012 p7

<sup>196</sup> Louis Ritzinger, "The China-Pakistan Economic Corridor: Regional Dynamics and China's Geopolitical Ambitions," National Bureau of Asian Research, last modified August 5, 2015, [http://www.nbr.org/downloads/pdfs/psa/Commentary\\_Ritzinger\\_080515.pdf](http://www.nbr.org/downloads/pdfs/psa/Commentary_Ritzinger_080515.pdf).

<sup>197</sup> Saima Perveen, and Jehanzeb Khalil, "Gwadar-Kashgar economic corridor: Challenges and imperatives for Pakistan and China," *Journal of Political Studies* 22, no. 2 (February 2015): 351.

<sup>198</sup> Ahmad Rashid Malik et al., *China-Pakistan Economic Corridor A Game Changer*, 121.

<sup>199</sup> *Ibid.*, 121.

<sup>200</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 2.

speaks to the importance of rebalancing to Asia and the Asia-Pacific region. This treaty causes concern to Chinese regional economic interests, as it focuses on the countries of Southeast Asia's military, economic and strategic rebalance.<sup>201</sup>

### **C. CPEC—MYTHS AND REALITIES**

Besides the vast acceptance and importance of CPEC, there are a few questions and controversies raised by the media and several scholars against CPEC.<sup>202</sup> This study has no access to the detailed official agreement between Pakistan and China for analysis and clarification of the ambiguities they raise. Remarkably, a few scholars have compared CPEC to the East India Company (EIC), whereas a few have argued that it will turn Pakistan into a Chinese colony or province. This section analyzes the arguments of different scholars on various aspects of CPEC and the Government of Pakistan's response to them.

Ayub Mehar has summarized these arguments in terms of six points. The first is that CPEC would change the strategic interests of the U.S. and all regional powers in the international power game. A second is that few politicians in Pakistan have raised the controversy of Western versus Eastern routes for the country's development. A third is the concern of some that Baluchistan will become a minority because of new settlements and being deprived of their due share. A fourth is the concern of Pakistan's business community about the inflow of Chinese investment and business enterprises and the influx of Chinese labor to Pakistan. A fifth is the overestimation, unwise negotiation, and questionable financial feasibility of CPEC versus repayment of the higher cost of financing. The final point concerns the corruption, bad practices, and opaque mechanisms followed when contracting with Chinese firms and the inability of the Pakistani manufacturing industry's to compete with its Chinese counterpart. Nevertheless, as Mario Esteban argues, connectivity would foster traditional Pakistani exports,

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<sup>201</sup> Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1–5.

<sup>202</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 8.

mainly textile and sporting-goods.<sup>203</sup> He believes that local economic sectors and various-sized enterprises are the neglected domains in the overall planning of CPEC and need to be addressed through healthy federal government industrial policies.<sup>204</sup>

Many scholars argue that the high interest rates on CPEC's loans mean that Pakistan will have to pay around \$90 billion back to China over 30 years.<sup>205</sup> Transparency and the utilization of funds are also the primary concerns among scholars, in addition to resource mobilization and other financial government policies. More dependency on foreign aid for infrastructure development is a broken record in Pakistani history. Foreign borrowing has increased the burdens on its weak economy and will have lasting effects on it. The exports of Pakistan are linked with the infrastructure development, and foreign investment in the manufacturing sector is intensely dependent on the available supporting facilities in the country.<sup>206</sup> The CPEC interest rates are reasonable, however. The rate for the \$11 billion share for infrastructure development is at the concessionary rate of 1.6 percent, as compared to the past infrastructural projects financed by the World Bank at between 5 to 8.5 percent interest.<sup>207</sup> The repayment schedule of these loans will be spread over a 20–25 years period. Debt servicing will be the Pakistani government's responsibility.<sup>208</sup>

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<sup>203</sup> Mario Esteban, "The China-Pakistan Corridor: transit, economic or development corridor?" Institute of Strategic Studies Islamabad (ISSI) and the Elcano Royal Institute. ARI 53/2016—July 5, 2016, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/asia-pacifico/ari53-2016-esteban-china-pakistan-corridor-transit-economic-development).

<sup>204</sup> Ibid. 8

<sup>205</sup> Salman Siddiqui, "Pakistan will be paying China \$90b against CPEC-related projects," *The Express Tribune*, <https://tribune.com.pk/story/1352995/pakistan-will-paying-china-90b-cpec-related-projects/>

<sup>206</sup> Ayub Mehar, "Infrastructure development, CPEC and FDI in Pakistan," 3.

<sup>207</sup> Ibid., 9.

<sup>208</sup> Ishrat Husain, "Financing burden of CPEC," *Dawn News*, accessed on 22 October 2017, <https://www.dawn.com/news/1313992>.

Along with other scholars, lawmaker Senator Tahir Mashhadi, chairman of the Senate Standing Committee on Planning and Development, termed CPEC another East India Company (EIC). He welcomed the project but showed his concerns if it did not address the country's interests.<sup>209</sup> Others disagree and argue that comparing CPEC with EIC is specious. CPEC, unlike EIC, has no element of force and no future intentions of acquiring the governance responsibilities of administration, justice, and armed forces control.<sup>210</sup> Saad Ahmad Dogar has identified four ways in which CPEC differs from EIC.<sup>211</sup> First, China has been a victim of imperialist aggression and unlike EIC, has no intention of economic exploitation and accumulation of wealth. Second, the Chinese methodology of expanding its economic influence around the world is not through military force, but it is entirely through economic prosperity as it has done in Africa. Third, EIC eyed the rich sub-continent, whose income was 27 percent of the world's total back in 1700 AD, whereas CPEC focuses mainly on energy and infrastructural development. Fourth, unlike the colonial period, Pakistan has formal institutions like courts and other authorities for implementation of checks and balances with a degree of fairness.<sup>212</sup> Efforts to colonize Pakistan, if any, and irregularities can always be checked by the Pakistani free judiciary, which recently has removed a sitting elected prime minister on charges of corruption.

To be sure, Pakistan should not take CPEC as a God-given gift, or a self-paying enterprise, that addresses all of Pakistan problems. Instead, it should be

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<sup>209</sup> Syed Irfan Raza, "CPEC Could Become Another East India Company" *Dawn News* October 18, 2016, <https://www.dawn.com/news/1290677>.

<sup>210</sup> Khurram Husain, "CPEC: Is there cause for alarm?"

<sup>211</sup> Saad Ahmed Dogar, "Four Reasons Why CPEC Will Not be Another East India Company," *The Express Tribune*, January 03 2017, China Radio International CRI, <http://www.cpecinfo.com/cpec-news-detail?id=ODkz>.

<sup>212</sup> Ibid



seen as an opportunity for economic growth.<sup>213</sup> To this end, the IMF has also warned that CPEC could be a risk in the future and financing needs would raise \$15.1 billion from the current \$11.4 billion in the years 2018–2019.<sup>214</sup> Excessive debts could put Pakistan in a Greece-like situation and compel it to go back to the IMF in the future.<sup>215</sup> Pakistan’s debt is gradually increasing, and by the year 2019–20, it may rise from its current \$73 billion to \$110 billion.<sup>216</sup>

Pakistan will have to pay a huge environmental cost. Pakistan’s contribution to funds, the value of land, environmental effects, and social costs are unaccounted aspects that are missing from government planning.<sup>217</sup> Pakistan must pay a huge environmental price with the cutting of plenty of trees and air pollution with the planned daily movement of around 7,000 containers.<sup>218</sup>

Others have compared CPEC to the Marshall Plan (1948 to 1951). The Marshall Plan, however, was meant for capacity-building, not just infrastructure development, whereas CPEC aims more at infrastructure development.

Some in the media have also sensationalized CPEC. For example, Dawn News made headlines in the Pakistani media for alleged leakage of the detailed CPEC Long Term Plan (LTP). Its report argued that CPEC, contrary to the Pakistani government’s claims of infrastructural and energy development, aims at fostering Chinese enterprise and its main interest is in agriculture, large cities, surveillance systems, and visa-free entry.<sup>219</sup>

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213 Ibid.

214 Abdul Khaliq: CPEC—“A ‘Game-Changer’ or Another ‘East India Company?’.”

215 Ibid.

216 Ibid.

217 Munir Ahmed, “Flipside of CPEC Coin.”

218 Ibid.

219 Khurram Husain, “Exclusive: CPEC Master Plan Revealed.”

In response to points raised in the media leak, Dr. Kamal argued that the concerns of skeptics were too broad but did highlight the textile industry downfall and future inadequacies. Dr. Kamal also elaborated the importance of CPEC and its possible benefits for Pakistan.<sup>220</sup> Minister Iqbal also termed the leak report as an old draft and negated the points raised on the LTP, and emphasized that CPEC is needed to revive the economy and undo the past mistakes.<sup>221</sup>

#### **D. CONCLUSION**

CPEC, in the present economic and security environments, appears to be an excellent opportunity for addressing Pakistan's energy crisis and infrastructure needs. All CPEC promises of prosperity are linked with the timely planned completion of all projects. Myths and realities related to the different aspects of transparency and loan borrowing cannot be answered at this initial stage, however. Subsequent progress and the unveiling of agreements between China and Pakistan would explain all the queries. The development would attract FDI and bring socioeconomic prosperity to the country. CPEC would also foster regional stability and bring improvement in Pakistan's relations with neighbors through the inclusion of regional stakeholders' part of the project. Security, stability, transparency, and continuity would lead to timely completion and mitigate the hurdles posed by domestic, regional, and international actors. The Chinese policy of openness and OBOR would lead them to be the future center of Central Asia.<sup>222</sup> The next chapter compares CPEC with the Panama and Suez Canals.

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<sup>220</sup> Kamal Monnoo, "CPEC—Myths from Realities" *The Nation*, September 27, 2017, <http://nation.com.pk/columns/27-Sep-2017/cpec-myths-from-realities>.

<sup>221</sup> Iqbal, "Debunking Myths on CPEC."

<sup>222</sup> Li Xiguang et al., *China-Pakistan Economic Corridor A Game Changer*, 3.

## **IV. COMPARISON OF CPEC WITH OTHER MAJOR INFRASTRUCTURE PROJECTS: THE CASE OF THE PANAMA AND SUEZ CANALS**

Liberation of the peoples through the development of credit and labor, creation of railroads, the binding together of worlds and oceans by the building of the Suez and Panama Canals.

—Johann Plenge<sup>223</sup>

In a classic sense, there are no projects comparable to CPEC. Projects like the Panama and Suez Canals, however, share certain similarities with CPEC that allow them to be used to illustrate some of the effects that CPEC is anticipated to have on the Pakistani economy. For example, the Suez Canal, Panama Canal, and CPEC were conceptualized and envisioned by foreign powers, rather than the locals of the area where the projects were executed. Until nationalization, both the Suez and Panama Canals did not bring considerable economic benefits to the host nations, as foreign powers did not pay much in revenues to them. On other hand, these canals brought strategic laurels to big powers too, both economically and militarily. This section covers the analysis of the Panama and Suez Canals and comparison with CPEC.

### **A. PANAMA CANAL**

#### **1. Rationale for the Canal**

The Panama Canal connects the Atlantic and Pacific Oceans through the Isthmus of Panama. In the 1880s, the French could not complete the construction of the Panama Canal due to tropical diseases; later, the United States completed it between 1904 and 1914. The land that is currently the country of Panama was a province of Colombia until the U.S. supported the

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<sup>223</sup> Johann Plenge, *Grzndung und Geschichte des Credit Mobilier*, (Tuibingen: H. Laupp, 1903), 52.

Panama Revolution of 1903 in order to take control of the canal project. This canal connects 144 trade routes, with 160 states and 1,700 ports worldwide.<sup>224</sup> To stabilize the political situation in Panama, two treaties were signed between President Jimmy Carter of the U.S. and Maximum Leader of the Panamanian Revolution Omar Efraín Torrijos Herrera of Panama on September 7, 1977. Both treaties went into effect on October 1, 1979. One treaty was related to the transitional co-management of the Canal until the year 2000, when the canal had to be entirely under the control of Panama, and the other treaty was related to the neutrality of the canal after December 31, 1999.<sup>225</sup> Among the top users of the Panama Canal are the U.S. and China.<sup>226</sup> The Panama Canal saves 8,000 nautical miles of distance and 30 days of journey between the Atlantic and Pacific Oceans, compared to the previously required journey around Cape Horn (South America).<sup>227</sup>

In 2007, work began on a new set of locks capable of handling ships too large to fit through the original locks. The expansion, which was completed in 2016, cost \$5.3 billion, or 10–15 percent of Panama’s 2016 GDP. This expansion could potentially further develop Panama’s ports and its logistics industry.<sup>228</sup>

More than three quarters of Panama’s dollar-based economy derives from the service sector.<sup>229</sup> According to Thomas Sigler, Panama’s current economy rests on six main pillars that together form what he calls the canal agglomeration. These components are international banking, neoliberal governance, the Colon

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<sup>224</sup> History.com Staff, *Panama Canal: History.com*, access on October 23, 2017, <http://www.history.com/topics/panama-canal>.

<sup>225</sup> Andrew Zimbalist and John Weeks, *Panama at the Crossroads, Economic Development and Political Change in the Twentieth Century* (University of California Press, 1991), 52.

<sup>226</sup> “The World Factbook: Panama,” Central Intelligence Agency, Updated on October 19, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/pm.html>.

<sup>227</sup> Ahmad Rashid Malik et al., *China-Pakistan Economic Corridor A Game Changer*, 125

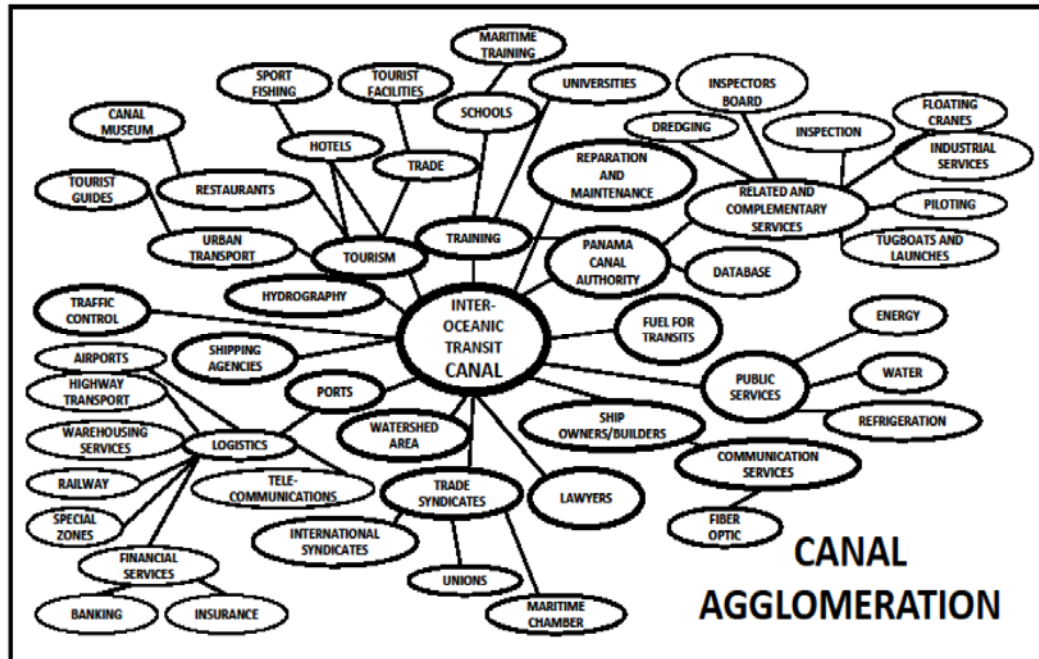
<sup>228</sup> Kimberly Beaton, Metodij Hadzi-Vaskov and Jun Kusumoto, *International Monetary Fund: Panama Selected Issues* (IMF Country Report No. 17/106) (Washington, DC: International Monetary Fund, 2017), 4–30, <file:///C:/Users/hkhan/Downloads/cr17106.pdf>.

<sup>229</sup> “The World Factbook: Panama,” Central Intelligence Agency.

Free Zone, flags of convenience, a dollarized economy, and auxiliary services.<sup>230</sup>

He explains how the service-based economy centers on the Canal through a model made by economist and former president of Panama Nicolás Ardito Barletta, shown in Figure 7.

Figure 7. Panama's Canal Agglomeration Economy<sup>231</sup>



## 2. Immediate Impact on Government Revenues

The Panama Canal's revenue impact on Panama's economy can be divided into three segments: 1903–1977, from the time when the Canal Zone was originally handed over to the U.S. to when the Carter-Torrijos treaties were signed; 1977–1999, the transition period when control of the Canal was returned to Panama; and the time since that transition ended in 1999, with Panama now controlling the Canal and completing its expansion.

<sup>230</sup> Sigler, Thomas J., *Global Connections: Panama City As a Relational City*. (State College, PA: The Pennsylvania State University, 2011), 114.

<sup>231</sup> *Ibid.*, 40.

**Economic benefits from 1903–1979:** Prior to October 1, 1979, the tolls collected from the Panama Canal’s operation did not benefit much Panama’s economy.<sup>232</sup> This was because before the Carter-Torrijos treaties, the original 1903 treaty fixed the canal revenues from the U.S. to Panama as an annual payment. The payment began as \$250,000 annually, was raised to \$430,000 in 1936, \$1.93 million in 1955, and \$2.5 million from 1975 and 1979.<sup>233</sup> In addition to these rental payments, the Canal Company contributed to Panama’s economy in other ways, such as the employment of Panamanians on the Canal and the purchases of goods, services, and refined oil from international companies in Panama.<sup>234</sup> Table 3 presents direct canal revenues.

Table 3. Direct Revenues from the Canal (in millions of U.S. dollars)

	<i>Fiscal Year(s)</i>	<i>Annuity</i>	<i>Public Services</i>	<i>Net Tonnage</i>	<i>Surplus</i>	<i>Total Revenues</i>
1903 Treaty	1903					10
	1903–1934	0.24				5
1936 Treaty	1934–1955 <sup>a</sup>	0.43				9
1955 Treaty	1955–1979 <sup>b</sup>	1.93				50
1977 Treaty	1979 <sup>c</sup>	2.5	2.5	13.0	0.0	18
	1980	10.0	10.0	55.0	2.7	78
	1981	10.0	10.0	57.0	0.0	77
	1982	10.0	10.0	61.2	0.4	82
	1983	10.0	10.0	51.2	0.0	71
	1984	10.0	10.0	45.0	0.0	65
	1985	10.0	10.0	52.8	2.7	76
	1986	10.0	10.0	57.0	1.1	78
	1987	10.0	10.0	58.0	2.0	80
	1988	10.0	10.0	59.9	0.0	80

*Sources.* Panama Canal Commission, *Annual Report* (various years); Elton et al., *Canal: desafío para los panameños*, 166–67; various documents from the Canal Commission.

<sup>a</sup>Payments made retroactive to 1934.

<sup>b</sup>Through September 30, 1979.

<sup>c</sup>For 1979, figures include only October through December.

<sup>232</sup> Andrew Zimbalist and John Weeks, *Panama at the Crossroads*, 49.

<sup>233</sup> *Ibid.*, 49.

<sup>234</sup> *Ibid.*, 50.

**Economic benefits from 1979–1999:** In 1977, in the light of the Carter-Torrijos treaties, Panama gained immediate control of railroad, ports, and other activities and 2,700 U.S. citizens lost job protection.<sup>235</sup> The treaties increased the annuity from \$2.3 million to \$10 million, with an additional \$10 million paid for public services; Panama received revenues of \$0.30 per ton on the cargo that transited the canal. In addition, the U.S. pledged \$295 million in economic aid to Panama, which would be paid out over five years. In addition to these direct payments, the Panama Canal indirectly benefited the Panamanian economy. It is estimated that in 1988, \$142 million were paid in wages and salaries to Panamanian workers, \$52 million in retirement and disability benefits and \$38 million for services and local purchase of goods.<sup>236</sup>

**Economic benefits from 1999–2016:** Since 1997, GDP in Panama has experienced unprecedented levels of growth.<sup>237</sup> The Panama Canal and the services related to it have always been the most important sector of Panama's economy, particularly after the Canal was fully handed over to Panama in 1999. Though the American presence did add positively to the Panama economy before said period, the canal tolls did not. The years following the Canal transfer saw a precipitous rise in global maritime trade, particularly a surge in container traffic, which played a paramount role in the rise of toll revenue from the Canal. With this increase, the Canal's overall revenue is increasing nearly \$2 billion annually and is expected to rise to \$6 billion annually by 2025.<sup>238</sup> Figure 8 shows the increase in the GDP per capita of Panama.

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<sup>235</sup> Ibid., 51.

<sup>236</sup> Andrew Zimbalist and John Weeks, *Panama at the Crossroads*, 53.

<sup>237</sup> Sigler, Thomas J. *Global connections: Panama City As a Relational City*, 104.

<sup>238</sup> Ibid., 108.

Figure 8. Panama GDP Per Capita



Despite this boost in its economic growth, according to the CIA Factbook, “Panama has the second worst income distribution in Latin America.”<sup>239</sup> Even though a 10 percent reduction in the poverty rate was observed between 2006 and 2012, around one quarter of Panama’s population still lives in poverty. The country’s public debt surpassed \$37 billion, in 2016, mainly due to excessive government spending.<sup>240</sup>

### 3. Stimulation of Private Investment

An IMF study of 2017 shows that the recent exceptional growth in Panama’s economy is mainly due to large investment projects with \$5.3 billion invested over 2007–16. These completed projects include the Canal expansion, Metro Line I (train service between Los Andes County and the city center), some

<sup>239</sup> “The World Factbook: Panama,” Central Intelligence Agency.

<sup>240</sup> “The World Factbook: Panama,” Central Intelligence Agency.



highway sections, and the revamping of Panama City’s old town.<sup>241</sup> Moreover, between the years 2008 and 2016, on average, these projects have contributed to a 4 percent increase in Panama’s annual economic growth.<sup>242</sup> The gradual increase in the private investment from 1977 onwards is shown in Table 4.

Table 4. Private and Public Investment 1972–1979

	<i>Private Investment</i>	<i>Public Investment</i>
1972	261.6	157.4
1973	325.1	104.7
1974	304.5	123.3
1975	253.8	261.4
1976	264.2	296.0
1977	171.2	238.0
1978	246.8	304.5
1979	418.6	231.0

*Source. Panamá en cifras, various years.*

The current and planned investment projects with an estimated total value of \$16.7 billion, or about 30.3% of Panama’s 2016 GDP, are shown in Table 5.<sup>243</sup>

<sup>241</sup> Kimberly Beaton, Metodij Hadzi-Vaskov, and Jun Kusumoto, *International Monetary Fund*, 10.

<sup>242</sup> Ibid.

<sup>243</sup> Kimberly Beaton, Metodij Hadzi-Vaskov, and Jun Kusumoto, *International Monetary Fund*, 11.

Table 5. Overview of Ongoing and Planned Investment Projects<sup>244</sup>

Project	Value	Status
<i>Public/government</i>	8.94	
Metro line 2	2.10	ongoing
Tocumen terminal expansion	0.90	ongoing
3rd High-voltage transmission line	0.35	ongoing
4rd High-voltage transmission line	0.45	planned
Urban renewal of Colon	0.57	ongoing
3rd bridge over the canal	0.57	ongoing
Metro line 3	2.60	planned
4th bridge over the canal	1.20	planned
Technical Institute (ITSE)	0.20	ongoing
<i>Private</i>	7.74	
Minera Panama	5.50	ongoing
AES gas project	1.15	ongoing
Gas to Power Panama (Martano)	0.90	ongoing
Convention center Amador	0.19	ongoing
<i>Total</i>	16.68	
% of 2016 GDP	30.26	

Sources: News and Fund staff calculations.

#### 4. Activities that Developed in Panama that Would Not Have Occurred without the Canal

Panama's per capita income has doubled since 2004. Overall, in the Latin American Countries (LAC) over the last two decades, Panama has had the highest growth. This has contributed to an improvement in the socio-economic conditions, with a reduction in poverty and income inequality.<sup>245</sup> In the regional domain, Panama's infrastructure quality is high and attracts investment. The Panama Canal and the upcoming expansion of Tocumen Airport have played and will play important roles in making Panama a regional hub. Panama has the best road infrastructure in the region. With the Panama Canal, related port and

<sup>244</sup> Ibid., 11.

<sup>245</sup> Kimberly Beaton, Metodij Hadzi-Vaskov and Jun Kusumoto, *International Monetary Fund*, 3.

logistic activities significantly contributed to the economic growth of Panama.<sup>246</sup> Panama is a net exporter of electricity to Costa Rica. Though internet usage in Panama is low, it is the interconnection point of the international fiber submarine cable.<sup>247</sup>

In 2017, an IMF study compared Panama's characteristics with Singapore, and found that both had these same advantages: an ideal geographical location, stability in the political and economic domains, port and airport connectivity, and above all, an openness to world trade. With these advantages, Panama can potentially transform from a regional logistics hub into a global one.<sup>248</sup>

Along with this other economic growth, Panama is attracting more tourists annually. The tourism industry is mainly driven by Panama being an affordable tourist destination for a broad range of eco-tourism and beaches. Panama City has become a tourism hub and a shopping destination, and the upcoming new convention center and the expanded Tocumen Airport are expected to attract more high-end activities to Panama City. Panama's tourism industry will improve if it is spread out around the country. This will spread the economic growth around the country rather than concentrate it in Panama City.<sup>249</sup>

## **B. SUEZ CANAL**

### **1. The Rationale for the Canal**

The Suez Canal is another example of how foreign-funded economic corridors can radically change a country's economic and political landscape. According to Barbra Harlow and Mia Carter, a French diplomat, Ferdinand de Lesseps, first envisioned the Suez Canal. He marketed his idea of the Canal as

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<sup>246</sup> Ibid., 5.

<sup>247</sup> Ibid., 5.

<sup>248</sup> Ibid., 16.

<sup>249</sup> Ibid., 23.

an economic channel for conveyance and transportation of goods.<sup>250</sup> Much larger than the Panama Canal in scale, it had the same underlying reasons for construction: to reduce the time taken for ships to travel between Europe/the Mediterranean and Asia/the Indian Ocean.

The Suez Canal Company, a private entity with a majority of French investors, constructed the Canal. The Suez Canal formally opened on November 17, 1869. Steamship requirements enhanced subsequently with opening of the Canal, as sailing vessels had navigation difficulty moving through the waterway.<sup>251</sup>

Britain used the Suez Canal extensively for shipping, transporting 60% to 80% of its tonnage along that path.<sup>252</sup> Britain increased its military presence in the area and attacked Egypt (then part of the Ottoman Empire) to take control of the Suez Canal in 1882.<sup>253</sup> Later, in 1888, Europeans negotiated the Constantinople Convention, which declared the Canal “shall always be free and open, in time of war as in time of peace, to every vessel of commerce or of war, without distinction of flag.”<sup>254</sup> Egypt was made a British colony on December 18, 1914, and Britain assumed all powers of the 1888 Constantinople Convention.<sup>255</sup>

In 1952, when President Gamal Abdel Nasser assumed power in Egypt as a champion of Egyptian nationalism, the British agreed to withdraw their troops from Egypt within 20 months.<sup>256</sup> On July 26, 1956, Nasser announced that Egypt was nationalizing the Canal and would block Israeli ships from using it. As a

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<sup>250</sup> Barbra Harlow and Mia Carter, *Archives of Empire, Volume 1, From the East India Company to the Suez Canal*, London, Duke University Press, 2003, .7

<sup>251</sup> D.A. Farnie, *East and West of the Suez: The Suez Canal in History 1854–1956* (Oxford: Clarendon Press, 1969), 97.

<sup>252</sup> Rockford Weitz, *Strategic Oceanic Choke Points, are They Still Important*. Working paper, Fletcher School of Oceanic Studies, Tufts University, 2000, 5–6.

<sup>253</sup> Ibid.

<sup>254</sup> Ibid.

<sup>255</sup> Ibid.

<sup>256</sup> Ibid.

result, Israel, France, and Britain invaded Egypt on October 29, 1956.<sup>257</sup> With U.S. pressure, invading forces withdrew and the Suez Canal was opened in April 1957. The Suez Canal was later closed twice, in 1967 and 1973, both times due to war between Egypt and Israel. It has remained open, however, since the signing of the 1979 Camp David Accords.<sup>258</sup>

The presence of the Canal made the territory a hotbed of colonial intrigue. Unlike the Panama Canal, where the presence of a neighboring military power (the United States) discouraged other powers from interfering, the Suez Canal's location and its effect on international trade to all major British colonies "including India" made sure that the French and the British were in a constant tug of war for influence in the region. There would have been colonial intrigue between France and Britain. Then, Nasser nationalized the Canal and blockaded Israel, leading to the Suez Crisis. The U.S. intervened, and peace was restored. There were two other times the Canal was shut down.

Its unique geographic location does put the Suez Canal in a significant position, as it provides the shortest link between Asia and Europe.<sup>259</sup> The Mediterranean Sea and the Red Sea are joined by this canal, which makes it important for both Egypt and the world. Maritime transport is cheaper than shipping by land or by air. Since about 80 percent of the world's trade is shipped by sea, whenever maritime traffic increases, the importance of the Suez Canal also increases. It also provides the shortest route between the regional ports as compared to travel around the Cape of Good Hope; at a speed of 15 knots, this

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<sup>257</sup> Ibid., 6.

<sup>258</sup> Ibid.

<sup>259</sup> "Importance of the Suez Canal," Suez Canal Authority, accessed on September 29, 2017, <http://www.suezcanal.gov.eg/English/Pages/default.aspx>.

can save up to nine days and reduce the distance by more than 3,000 nautical miles.<sup>260</sup> This saves fuel, time, and cost, as shown in Table 6.<sup>261</sup>

Table 6. Suez Canal Distance Saving Chart<sup>262</sup>

From	To	Distance in Nautical Miles		Saving	
		SC	Cape	Miles	%
Ras Tanura	Constanza	4,144	12,094	7,950	66
	Lavera	4,684	10,783	6,099	57
	Rotterdam	6,436	11,169	4,733	42
	New York	8,281	11,794	3,513	30
Jeddah	Piraeus	1,316	11,207	9,891	88
	Rotterdam	3,997	10,797	6,800	63
Tokyo	Rotterdam	11,192	14,507	3,315	23
Singapore	Rotterdam	8,288	11,755	3,647	29

## 2. Immediate Impact on Government Revenues

The Canal had a significant effect on Egypt's economy. By 1955, revenue from the Canal provided up to 1.6 percent of Egypt's GDP, making it one of the biggest contributors to the Egyptian economy; this was a significant rise from its contribution a decade earlier, when it contributed less than half a percent of

<sup>260</sup> Oliviero Baccelli, et al., "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," SRM in cooperation with CERTeT-Bocconi, 11, <https://www.scribd.com/document/332754457/The-New-Suez-Canal-Economic-Impact-on-Mediterranean-Maritime-Trade-En>.

<sup>261</sup> "Importance of the Suez Canal," Suez Canal Authority, accessed on September 29, 2017.

<sup>262</sup> Ibid.

Egypt's GDP.<sup>263</sup> By 2017, it was contributing around 3% of GDP,<sup>264</sup> and its contribution is expected to increase significantly with more investment and the new Suez Canal. The gradual increase in revenue has made the Canal one of Egypt's major sources of hard currency, in addition to remittances from tourism and people working abroad.<sup>265</sup> Table 7 shows the upward trend in the revenues collected from the Suez Canal.

Table 7. Revenues Collected from Suez Canal

Year	Total revenue (US\$ billion)	Decrease or increase %	Decrease or increase %
1999	1,765	-	-
2000	1,868	5.9	(+)
2001	1,945	4.1	(+)
2002	1,876	3.5	(-)
2003	2,309	23.0	(+)
2004	2,819	22.0	(+)
2005	3,100	9.9	(+)
2006	3,246	4.7	(+)
2007	4,159	28.1	(+)
2008	5,113	22.9	(+)
2009	4,700	8.0	(-)
2010	4,541	3.3	(-)
2011	5,053	11.3	(+)
2012	5,100	0.9	(+)
2013	5,200	1.9	(+)
2014	5,310	2.1	(+)
2015	5,372	1.1	(+)

Source: General Authority of the Suez Canal - different years.

The Canal is an important player in world trade and the Egyptian economy. In 2016, 5.5 million barrels of oil, roughly 5.6 percent of the world's oil

<sup>263</sup>“Economic Impact of Suez Crisis on Middle East,” *The Economic Weekly*, U N Headquarters, 807, [http://www.epw.in/system/files/pdf/1957\\_9/26-27\\_28/economic\\_impact\\_of\\_suez\\_crisis\\_on\\_middle\\_east.pdf](http://www.epw.in/system/files/pdf/1957_9/26-27_28/economic_impact_of_suez_crisis_on_middle_east.pdf),

<sup>264</sup> “Economy of Egypt,” Fanack, November 14, 2017, <https://fanack.com/egypt/economy/>.

<sup>265</sup> Fouad N. Ibrahim, *Egypt: An Economic Geography*. Vol. 1. (London: IB Tauris, 2003), 64.

supply, passed through the Suez Canal.<sup>266</sup> It is an important hub for trade to and from the Persian Gulf and Asia. Besides the income generated from transit fees, the Suez Canal also furnishes livelihoods to thousands of Egyptians. Numerous industries have grown up in Port Suez and Port Said and along the western flank of the Canal.<sup>267</sup>

### 3. Stimulation of Private Investment

Egypt's economy has suffered budget deficits since the Nasser era, and it reached an alarming level of 11.5 percent in fiscal year 2015–2016. Moreover, no public-private partnership existed before 2006. Since 2010, political instability has negatively affected the Egyptian economy. Government economic reforms in the private sector, however, offer hope for better economic growth in the future.<sup>268</sup>

The expansion of the Suez Canal carried out by the armed forces (and completed in one year) aimed at new jobs creation, an increase in growth rates, and attracting new investments. Some scholars argue this will negatively impact the private sector in the long term, however. Furthermore, private companies find it hard to compete with the military because of the armed forces' increased influence and authority in the business sector in getting the contracts.<sup>269</sup>

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<sup>266</sup>“World Oil Transit Chokepoints,” Beta, accessed on November 14, 2017, <https://www.eia.gov/beta/international/>.

<sup>267</sup> Pervaiz Asgher, “Suez and Panama Canals – Feats of Human Ingenuity” Pervaiz (blog) September 26, 2017, <http://pervazasghar.com/2017/03/suez-and-panama-canals-feats-of-human-ingenuity/>.

<sup>268</sup> Muhammad Kamel, Ali Montaser, and Ibrahim Abd El-Rashid, “Public Private Partnership in Egypt,” in *Proceedings of Canadian Society for Civil Engineering Annual Conference (CSCE 2017), 6th CSCE/CRC International Construction Specialty Conference, At Vancouver, BC, Canada* (May 2017), 9.

<sup>269</sup> Ezzat Molouk Kenawy, “The Expected Economic Effects of the New Suez Canal Project in Egypt,” *European Journal of Academic Essays* 1, no. 12 (July 2015): 19, <http://euroessays.org/wp-content/uploads/2015/01/EJAE-315.pdf>.



#### 4. The Suez Canal, its Expansion and Significant Role in Egypt's Economy

The Suez Canal revenues are of great importance for Egypt's economy.<sup>270</sup> The Suez Canal has contributed to the overall development of Egypt. Over the past ten years, Egypt has risen more than 30 places on the World Bank's Logistic Performance Index.<sup>271</sup> The Canal on the international level has also served Europeans in their trade with Asia. To meet the international shipping requirements, the Canal has been deepened and widened from time to time.<sup>272</sup> The tolls collected from Suez have remained stable, but the ups and down in toll collection are directly linked with the international market conditions. For example, in 1998–1999, a drop in oil exports affected toll collection; it recovered in 2000–2001, when the revenue was \$355 million.<sup>273</sup>

The work on the 72 km New Suez Canal started in July 2014 and was completed in July 2015 with \$8.2 billion of domestic investment. This project also included the Great Bitter Lakes and Ballah bypasses, deepening and widening for two-way ship traffic and accommodating bigger ships. This new project aimed to make Egypt a center of world trade and give confidence to the domestic investor as well as to the international community.<sup>274</sup>

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<sup>270</sup> Fouad N. Ibrahim, *Egypt: An Economic Geography*. Vol. 1. (London: IB Tauris, 2003), 249

<sup>271</sup> Oliviero Baccelli et al., "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," 10.

<sup>272</sup> Fouad N. Ibrahim, *Egypt: An Economic Geography*. Vol. 1. (London: IB Tauris, 2003), 64.

<sup>273</sup> *Ibid.*, 97.

<sup>274</sup> Oliviero Baccelli et al., "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," 38.

The New Suez Canal project will potentially transform Egypt into a world industrial and logistic center. The country's geographic location can make it a world-class industrial economic zone and leader in logistic services for maritime trade passing through the Suez Canal.<sup>275</sup> Some scholars believe that the New Canal, besides being a huge infrastructure project, will become the main economic and logistics interest of Egypt. The New Suez Canal will further increase the importance of maritime trade through the Mediterranean, which presently is 19% of world traffic and has increased by 120% in the last 15 years.<sup>276</sup>

Suez Canal revenues make up 5 percent of Egypt's gross national product (GNP) and 10 percent of its gross domestic product (GDP), with annual transit fees of over \$5 billion. The New Canal will increase the revenue by \$13.2 billion by 2023.<sup>277</sup> It is hoped that the new project will transform the Sinai and the areas around the Canal, which have unexploited economic resources but have remained neglected in the past.<sup>278</sup>

The New Canal has lessened the transit time of ships considerably, from 19 to 11 hours. It is expected that the number of ships passing through the Canal daily will rise from its level of 49 to 97 by 2023. This will have a considerable positive influence on the world trade movement and revenue collection.<sup>279</sup> More new job opportunities are expected with the New Suez Canal, especially for the youth in technical and services fields.<sup>280</sup> The Canal expansion is projected to

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<sup>275</sup> Ezzat Molouk Kenawy, "The Expected Economic Effects of the New Suez Canal Project in Egypt," *European Journal of Academic Essays* 1, no. 12 (July 2015): 14.

<sup>276</sup> Oliviero Baccelli. et al, "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," 37.

<sup>277</sup> Ezzat Molouk Kenawy, "The Expected Economic Effects of the New Suez Canal Project in Egypt," *European Journal of Academic Essays* 1, no. 12 (July 2015): 18.

<sup>278</sup> Ibid., 1.

<sup>279</sup> Ibid., 18.

<sup>280</sup> Ibid., 18.

create approximately one million new jobs, benefiting five million families.<sup>281</sup> The establishment of logistic centers alongside the Canal will attract foreign direct investment, giving growth to transportation and logistics.<sup>282</sup>

The New Suez Canal has economic relevance for the Egyptian economy, as an efficient revenue provider, with more than \$5.4 billion a year in toll collection fees, enhancing a transportation system that is essential for world trade.<sup>283</sup> The New Suez Canal is expected to gradually improve the value of the Egyptian pound.<sup>284</sup> Through cultivation and reclamation of approximately 4 million acres of land, the New Suez Canal will give food security to the Egyptian people. Moreover, fish farming in a planned 23 sediment basins will also enhance annual returns and generate more jobs.<sup>285</sup>

The foreign currency sources from tourism and crude oil exports through the Suez Canal constituted 4.4 percent of GDP in the early 2000s. Tourism is labor intense and more than 2.2 million Egyptians earn their livelihood from tourism. It is considered the engine of Egypt's economic development.<sup>286</sup> Security issues have affected tourism in Egypt, but hopes are high for its restoration.

Scholars have expressed skepticism regarding the claims that the increased revenues from the Suez Canal will help to revive Egypt's economy, which has been badly affected by the slump in tourism. Criticism has also been

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<sup>281</sup> Ibid., 37.

<sup>282</sup> Ibid., 19.

<sup>283</sup> Oliviero Baccelli, et al., "The New Suez Canal: Economic Impact on Mediterranean Maritime Trade," 38.

<sup>284</sup> Ibid., 19.

<sup>285</sup> Ibid., 19.

<sup>286</sup> Ibid., 195.

voiced on development of new industrial zones, which will require upgrades in the infrastructure and the need to protect the land from seawater intrusion.<sup>287</sup>

The downside of Egypt's economy shows a different picture. A fast-growing population with limited natural resources is a challenge for Egypt, where over half of Egyptians live below the poverty line.<sup>288</sup> Poverty in Egypt has its negative effect among children too; one fifth of Egyptian children have never attended school, and the most frequent reason for school dropouts is poverty of the parents.<sup>289</sup>

Business reforms from 2004 to 2008 did attract foreign investment and increased growth; according to the CIA's *World Factbook*, however, business reforms from 2004, joblessness and poor living conditions proved to be leading factors in the 2011 Revolution that ousted Hosni Mubarak. Since then, uncertainty about the security and political situations has slowed the rate of economic growth, affected tourism, and pushed up unemployment, which remains higher than 10 percent.<sup>290</sup>

### **C. COMPARISON OF CPEC TO THE PANAMA AND SUEZ CANALS, AND ASSESSMENT LESSONS**

Economic strength is another name for military strength. Many military analysts believe that the Allies won World War II because they were economically more powerful than the Germans.<sup>291</sup> Considering economic power as the linchpin of military might, countries try to cripple the economic strength of

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<sup>287</sup> Sarah Searight, "A Dismal but Profitable Ditch': The Suez Canal Then and Now," *Asian Affairs* 47, no. 1 (January 2, 2016): 99.

<sup>288</sup> *Ibid.*, 247.

<sup>289</sup> Fouad N. Ibrahim, *Egypt: An Economic Geography*. Vol. 1. (London: IB Tauris, 2003), 105.

<sup>290</sup> "The World Factbook: Egypt," Central Intelligence Agency, Updated on November 08, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/eg.html>

<sup>291</sup> Richard Bernstein, "Why the Allied Victory Was not a Sure Thing," *The New York Times*, 19 April 1996

their enemy.<sup>292</sup> The Suez and Panama Canals did not face such challenges, as they were backed by powerful nations when they were built. CPEC likely will provide Pakistan with increased economic strength. For this reason, nations hostile to Pakistan, both regional and extra-regional, have begun covert operations to hamper the project's successful execution. An insurgency is being supported inside Baluchistan,<sup>293</sup> and a rival port is being developed at Chah Bahar, Iran, which is approximately 100 km away from Gwadar Port.<sup>294</sup>

CPEC, just like the Panama and Suez Canals, will facilitate global maritime trade and will bring prosperity to the region.<sup>295</sup> The Suez Canal reduces the maritime distance between the Straits of Gibraltar and Muscat from 9,800 nautical miles (nM), to 4,300 nM if moving around the Cape of Good Hope (South Africa). The Panama Canal also saves 8,000 nM of distance between the Atlantic and Pacific Oceans compared to the distance around Cape Horn. Correspondingly, CPEC also saves 10,000 miles of transit distance between Western China and Eastern Europe, and potentially could make Pakistan an economic hub of connectivity, like the Panama and Suez Canals.<sup>296</sup> Moreover, the Panama and Suez Canals are protected through international treaties of 1888 and 1977, declaring both these canals as neutral international waterways. CPEC potentially can support the global trading system and likewise may get the

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<sup>292</sup> R. T. Naylor, *Economic Warfare: Sanctions, Embargo and Their Human Cost*, (Boston: Northern University Press, 1999), 2.

<sup>293</sup> Sanallah Khan, "RAW, NDS Patronizing Terror Groups in Afghanistan, National Security Adviser Tells US Envoy," *Dawn News*, October 26, 2016, <https://www.dawn.com/news/1292399>.

<sup>294</sup> Nazir, "Macro and Micro Dividends of CPEC."

<sup>295</sup> Muhammad Zarrar Haider, "Maritime Prospects of China Pakistan Economic Corridor," *Defence Journal* 18, no. 10 (May 2015): 27–29. <http://libproxy.nps.edu/login?url=https://search.proquest.com/docview/1687839106?accountid=12702>.

<sup>296</sup> Ahmad Rashid Malik et al., *China-Pakistan Economic Corridor: A Game Changer*, 125.

status of a transit corridor. This may minimize the threats to CPEC and will make it an international asset.<sup>297</sup>

Compared to Panama and Egypt, Pakistan is in a much stronger bargaining position to protect its interests. The diversity of its economy, a large production base, and mature diplomatic relations with the rest of the world will all come into play. Despite this leverage, however, much like the Panama and Suez Canals' importance vis-à-vis the economies of their host countries, the size of CPEC and the investments that have already been promised by China means that China can easily match that leverage. Just the initial promised investments of \$46 billion will account for a large portion of Pakistan's GDP.<sup>298</sup> Once the economic activity from all projects picks up, CPEC will become an even more significant part of the economy. This cushions Pakistan a little from overexposing its economy to China's through CPEC, meaning that any downturn in the Chinese economy or global trade will not wholly decimate the economic activity created by CPEC.

The economic impacts of projects like the Suez and Panama Canals are self-evident in the numbers. What is hidden, however, is the impact of the government, inequality, and "most notoriously" the erosion of the host nations' sovereign rights. These are all part of these projects. Egypt has been a central figure in Cold War strategies in the Middle East. Panama has been less fortunate in this regard, given its much-diminished status when compared to Egypt. Because of the importance of these canals, both countries have developed highly service-focused economies, which are linked to their respective canals. This means that without a national industrial base on which to develop the superstructure for the large financial markets, neither economy has any resistance to economic downturns. As a result of this, coupled with the political

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<sup>297</sup> Muhammad Zarrar Haider, "Maritime Prospects of China Pakistan Economic Corridor," *Defence Journal* 18, no. 10 (May 2015): 27–29.

<sup>298</sup> Khaleeq Kiani, "With a New Chinese Loan, CPEC is now Worth \$51.5bn" *Dawn News*, Updated September 30, 2016, <https://www.dawn.com/news/1287040>.

instability, both countries rank low on the equality indexes and have found it difficult to sustain major economic recoveries without outside help.

Pakistan has already given up a lot to ensure the success of the project. It has handed over the strategically important Gwadar Port to the Chinese government.<sup>299</sup> China may set up a naval presence in Gwadar to protect its interests; but there are no similarities between this chain of events and the colonial forces sent to Panama and Egypt to defend the canals set up there without much regard for the local governments. Besides maintaining regular armed forces to protect the sovereignty of the country, Pakistan's Army has also raised two Special Security Divisions, each 12,000 men strong and comprising nine army battalions, and six wings of Frontier Corps and Rangers to counter any attempt to sabotage the work on CPEC projects.<sup>300</sup>

The level of importance of the Suez Canal for developers was evident when the developers went to war against Egypt during the 1956 Suez Crisis, once access to their project was denied. There is no heart in the chest of international affairs. Compelling needs help make allies. American President John F. Kennedy said: "Geography has made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies."<sup>301</sup> Now the argument is this: will the U.S. go to war if the Panama Canal is threatened?

Against the backdrop of the tumultuous relationship Pakistan has had with the West, and its perceived insecurity on the world stage, Pakistan's embrace of China is a logical conclusion. It was only a matter of time before Pakistan turned

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<sup>299</sup> Umair Jamal, "If China Does Build a Naval Base in Pakistan, What Are the Risks for Islamabad?," *The Diplomat*, June 24, 2017, <https://thediplomat.com/2017/06/if-china-does-build-a-naval-base-in-pakistan-what-are-the-risks-for-islamabad/>

<sup>300</sup> "PM, COAS Jointly Inspect CPEC Route," *Sama TV*, February 3, 2016, <http://www.samaa.tv/pakistan/2016/02/pm-coas-jointly-inspect-cpec-route/> (accessed August 29, 2017).

<sup>301</sup> Cited in Nicholas Tracy, *A Two-Edged Sword: The Navy as an Instrument of Canadian Foreign Policy*, Ontario, McGill Queens' University Press, 2012, 301.

towards an ally on its border rather than the powerful yet distant (both geographically and politically) powers of Europe and America. Given its long history and desire of deep relations with the West, however, Pakistan's position on the world stage is a lot more complex than either Panama or Egypt had during their journey. It has strong and meaningful relations with several camps and international bodies, which cannot be quickly overtaken by any one investor.

#### **D. CONCLUSION**

CPEC differs from the Suez and Panama Canals, but it shares similarities with these projects. The primary difference is that CPEC is a comprehensive package of energy, infrastructural and industrial development, in addition to being a passage corridor, whereas the canal projects were simply the construction of sea passages. The positive indicators of CPEC so far go in favor of Pakistan. CPEC projects are still in the development phases, however. CPEC's secret of success will lie in transparency in contracting, right planning, timely completion against all challenges, and effective management. Time will prove whether fate of the poor man's life changes with CPEC or not.

The Suez and Panama Canals both have completed their first century of life and have experienced the vicissitudes of their complicated history. Both host countries attracted the world's attention right from the conceptualization of these two foreign-funded mega projects, but correspondingly, the life of the common person did not see an abrupt change. Arguably, both nations struggled hard to break the shackles of colonization and gain control of the canals themselves and now are on the path of development with the expansion of both canals. Presently, the situations in Egypt and Panama are improving, with economic growth making steady progress. The expansions of both the Suez and Panama Canals have boosted their economies and improved their geopolitical importance. Nevertheless, the century-long revenues collected could not eradicate poverty and transform the economies into well-developed ones. Still, there is the issue of colonization in Panama. Over 70 years passed between the



Panama Canal's construction and Panama gaining control over it. The U.S. still enjoys full rights of intervention militarily if required in light of the Carter-Torrijos treaty. The Suez Canal made Egypt a hub of the Cold War in the Middle East and most notoriously was denied the sovereign rights. Colossal investment in CPEC may increase China's influence on Pakistani policies and corridors of power. Taking into account the said influence, perceived future burden of foreign debts, repayments, interest rate, and toll collection, Pakistan significantly needs to evaluate all terms and conditions minutely and thoroughly.

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## **V. CONCLUSION**

This thesis demonstrates that CPEC will most likely benefit Pakistan. Inferences drawn from a comparison with the Suez and Panama Canals suggest that CPEC has the potential to generate positive economic growth. As of this writing, the project is in its nascent stages; timely completion and proper management will be necessary in order for it to bear fruit for Pakistan. CPEC is an essential component and flagship project of China's OBOR initiative. Besides energy, infrastructural and industrial developments in Pakistan, CPEC can potentially convert Pakistan into an economic hub by using the strategic port of Gwadar to attract and benefit regional stakeholders like Iran, Afghanistan, India, and the Central Asia States, to develop economic ties with Pakistan.

### **A. FINDINGS**

CPEC is China's investment in Pakistan for economic growth, encompassing a couple of development projects of Gwadar Port, energy production, industrial and infrastructural developments and the linking of Western China's Region with the Arabian Sea, through the port of Gwadar. Completion of CPEC is planned in four phases by 2030.

China plans to invest \$46 billion in CPEC; \$33 billion of that investment will be spent on hydro, gas, coal, and solar energy projects, which together will produce 10,400 MW of electricity and help to end Pakistan's protracted energy crisis. The remaining \$13 billion will be spent on infrastructure development, including Gwadar Port and in the under-developed areas of Pakistan, which should attract additional investments and provide a boost to the economy.

CPEC is faced with numerous challenges on the international, regional, and domestic fronts. India is worried about an increase in Chinese naval presence in the Arabian Sea, as well as CPEC's Northern Route, which will pass through the disputed territory of Jammu and Kashmir, a concern shared by the U.S. The volatile security situation in Afghanistan has spilled over the porous

border into the adjacent Pakistani provinces of KPK and Baluchistan, through which CPEC passes. Iran is in the process of developing its port at Chah Bahar, with Indian support, which may be a competitor for Gwadar Port. On the domestic front, the challenges identified are security concerns, especially terrorist attacks in KPK and Baluchistan provinces, a politically short-sighted approach to distributing and prioritizing CPEC projects among the different provinces, and the menace of corruption.

The Pakistani government is pursuing CPEC as a primary national interest and is determined that the project will finish on time. The Pakistani Army has also raised two Special Security Divisions of 12,000 men, comprising nine army battalions, and six wings of Frontier Corps and Rangers for protection of CPEC projects from any terrorist attacks.

As CPEC projects are progressing, Pakistan's economy has shown gradual improvement. A World Bank study has predicted that Pakistan's economy will have annual gradual economic growth of more than 5 percent in FY2017 and 5.4 percent in FY2018. Foreign currency reserves in June 2016 totaled \$18.2 billion, up from \$13.5 billion in June 2015, where FDI went up from \$1.88 billion in 2013 to \$46 billion in 2015.

As of this writing, the official long-term plan for CPEC has still not been released. Nevertheless, the project has received criticism from scholars and media sources, both domestic and international. The critics have raised the following questions: Is CPEC's goal actually to foster Chinese enterprise in Pakistan instead of developing Pakistan's infrastructure and energy system? Will CPEC lead to China's colonization of Pakistan? Will Pakistan be burdened by foreign debts?

Notwithstanding the potential benefits that are likely to accrue due to CPEC, there is apprehension of a scenario involving China's growing influence on Pakistan's economic and foreign policies. On the surface, this appears to be logical. It is established beyond doubt that when a country invests colossally, it

does have an influence on the beneficiary. For example, Panama and Egypt received financial benefits in monetary figures, but they had to face the immense influence of the U.S. and Britain.

Based on what happened in Suez and Panama, some have concluded that Pakistan's policies will be enormously influenced by the Chinese. There is not an iota of doubt that Egypt and Panama initially suffered in the aftermath of completion of mega projects by the foreign investors. But the question remains, why did they suffer? Was the execution of mega projects by foreign investors the cause of abject humiliation for these countries? No, the reason was that when they signed the contracts with foreign powers, they did not safeguard their own independence, dignity, and sovereignty. Overwhelmed by the perception that mega projects were going to give them financial benefits, they signed the terms and conditions of the contract without much caution, which resulted in subjugation for them and later forced them to battle hard for decades to get the canals back from colonial powers.

Pakistan is also facing the same dangers now. While it is extremely important for Pakistan to continue the phenomenal project of CPEC, it will be extraordinarily significant for Pakistan to bring each term of CPEC under the lens, evaluate it painstakingly and microscopically, gauge the manifestation of every word, ensure the "same explanation" of terms by both countries, and evaluate the perceived future burden of foreign debts and repayments. If Pakistan is able to ensure the terms and conditions meticulously, they will likely get maximum benefits out of CPEC, and, at the same time, they will not face what Egypt and Panama experienced.

## **B. AREAS OF FURTHER INTEREST**

While researching CPEC's benefits and significance for Pakistan, it is very likely that this region will become the nexus of another cold war. This could have implications for the timely completion of CPEC projects and regional stability. This presents two further research questions: What is the impact on regional

stability against China pursuing its goal of the OBOR initiative? What could be done to protect CPEC through an international treaty, in line with the Suez and Panama Canals? The situation in Afghanistan is still not entirely under control; an unstable Pakistan would find it difficult to fully support U.S. interests in the region. A stable and prosperous Pakistan will efficiently crush the extremist elements and will play a vital role in the Global War on Terror.

## APPENDIX A. ENERGY PRIORITY PROJECTS<sup>302</sup>

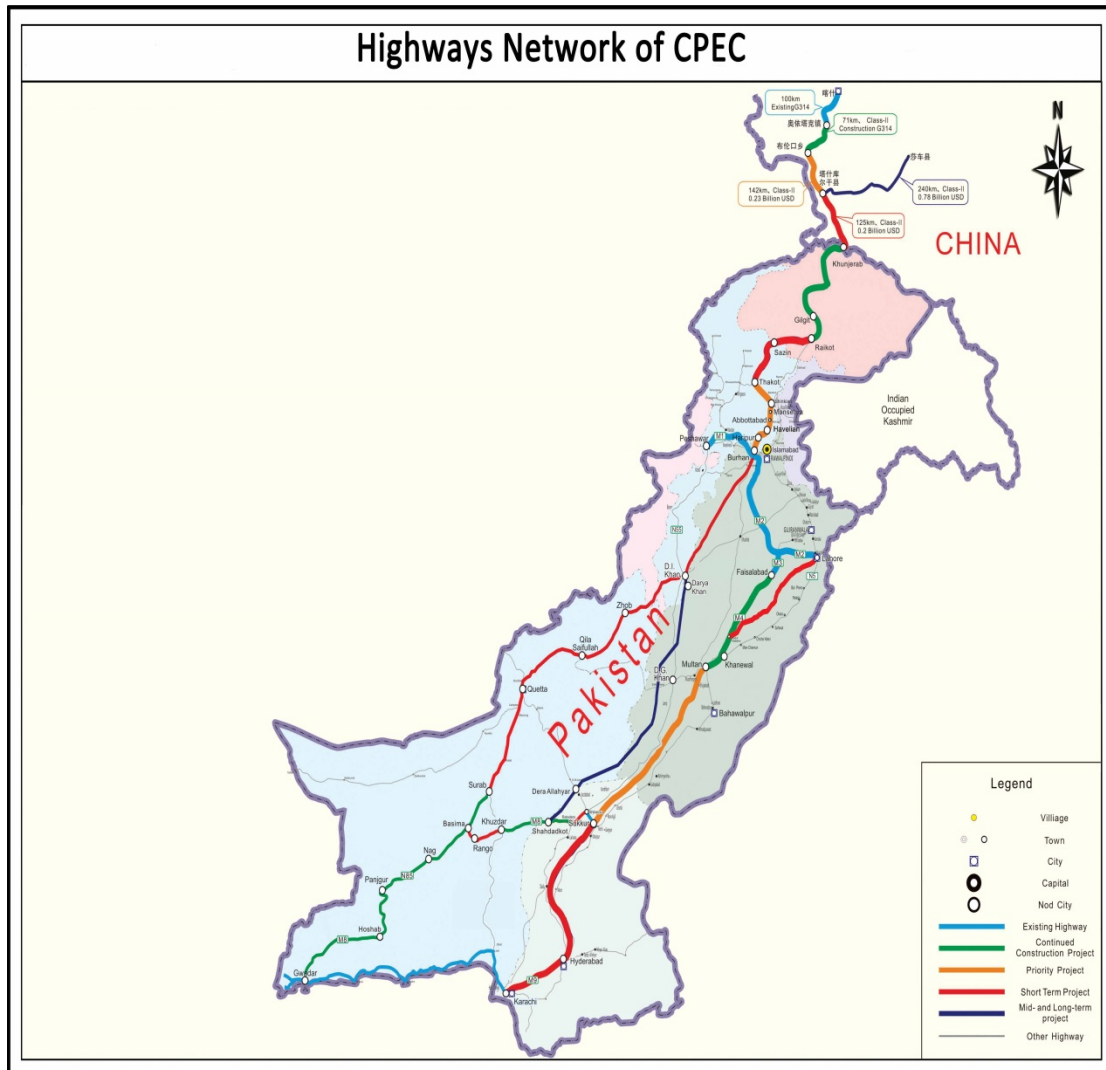
Projects	MW	Estimated Cost U.S.\$ million
2x660MW Coal-fired Power Plants at Port Qasim Karachi	1,320	1,980
Suki Kinari Hydropower Station, Naran, Khyber Pakhtunkhwa	870	1,802
Sahiwal 2x660MW Coal-fired Power Plant, Punjab	1,320	1,600
Engro Thar Block II 2x330MW Coal-fired Power Plant	660	2,000
TEL 1x330MW Mine Mouth Lignite-fired Power Project at Thar Block-II, Sindh, Pakistan	330	
ThalNova 1x330MW Mine Mouth Lignite-fired Power Project at Thar Block-II, Sindh, Pakistan	330	
Surface Mine in Block II of Thar Coal Field, 6.5 million tons/year		1,470
Hydro China Dawood 50MW Wind Farm (Gharo, Thatta)	50	125
300MW Imported Coal-based Power Project at Gwadar, Pakistan	300	600
Quaid-e-Azam 1000MW Solar Park (Bahawalpur)	1,000	1,320
UEP 100MW Wind Farm (Jhimpir, Thatta)	100	250
Sachal 50MW Wind Farm (Jhimpir, Thatta)	50	134
SSRL Thar Coal Block-I 7.8mtpa & SEC Mine Mouth Power Plant (2x660MW)	1,320	2,000+ 1300
Karot Hydropower Station	720	1,420
Three Gorges Second Wind Power Project	50	150
Three Gorges Third Wind Power Project	50	
CPHGC 1,320MW Coal-fired Power Plant, Hub, Baluchistan	1,320	1,940
Matiari to Lahore ±660kV HVDC Transmission Line Project		1,500
Matiari to Lahore ±660kV HVDC Transmission Line Project		1,500
Thar Mine Mouth Oracle Power Plant (1320 MW) & Surface Mine	1,320	1,300

<sup>302</sup> “CPEC-Energy Priority Projects,” CPEC: China Pakistan Economic Corridor, accessed on August 4, 2017, <http://cpec.gov.pk/energy>.

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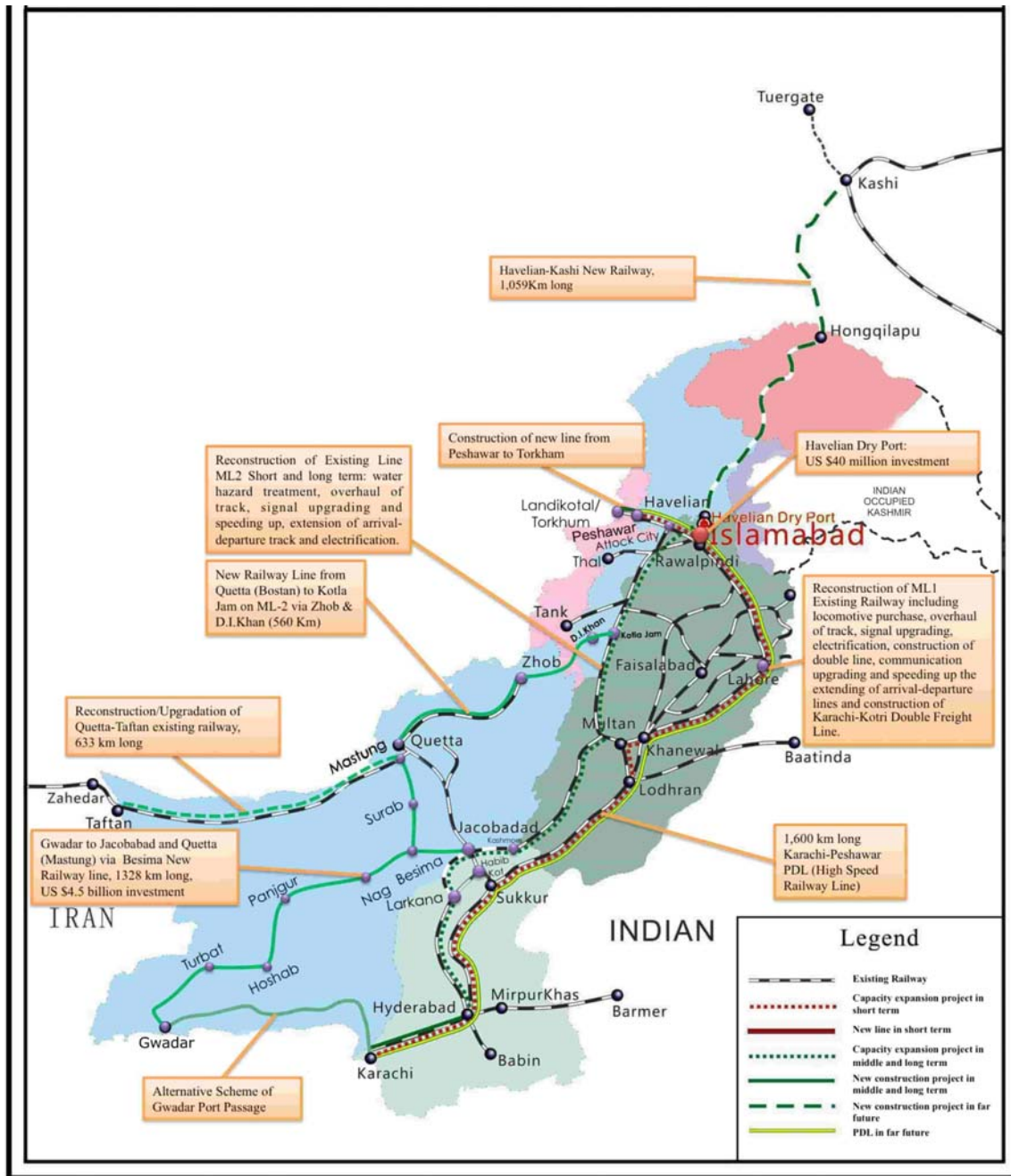
APPENDIX B. PAKISTAN HIGHWAYS NETWORKS. <sup>303</sup>



<sup>303</sup> “CPEC-Energy Actively Promoted Projects,” CPEC: China Pakistan Economic Corridor accessed on August 4, 2017, <http://cpec.gov.pk/energy>.

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## APPENDIX C. RAILWAY LINES PROJECTS <sup>304</sup>



304 "CPEC Infrastructure Projects," CPEC: China Pakistan Economic Corridor, accessed on August 4, 2017, <http://cpec.gov.pk/infrastructure>.

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## APPENDIX D. GWADAR DEVELOPMENT PROJECTS<sup>305</sup>

	<b>Project Name</b>	<b>Estimated Cost (U.S.\$ million)</b>
1	Gwadar East-Bay Expressway	140.60
2	New Gwadar International Airport	230.00
3	Construction of Breakwaters	123.00
4	Dredging of Berthing Areas and Channels	27.00
5	Development of Free Zone	32.00
6	Necessary Facilities of Freshwater Treatment and Water Supply	130.00
7	Pak China Friendship Hospital	100.00
8	Technical and Vocational Institute at Gwadar	10.00
	<b>Total</b>	<b>793.00</b>

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<sup>305</sup> "CPEC Gwadar Projects," CPEC: China Pakistan Economic Corridor, accessed on August 4, 2017, <http://cpec.gov.pk/gwadar>.

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