



THE CPEC AND THE CHINESE DISINVESTMENTS IN THE GWADAR PORT

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When it comes to infrastructure, environmental issues, food and energy security, Asia in general and South Asia, in particular, are affected by a tremendous lack of connectivity along with issues of endemic poverty, inequalities, mega-urbanization, and extraordinary challenges. As a result, Beijing's hopes from the execution of both the BRI and the CPEC are the subsequent creation and diversification of new trade channels and markets to improve its sluggish economy and succeed in developing its nation both nationally and internationally. Both the two infrastructural projects contain political, geostrategic and security calculations meant to preserve the high-priority national interest following Xi's idea of the 'Chinese Dream', derived from the former Chinese leader Deng Xiaoping's¹, aiming at a 'great rejuvenation of the Chinese nation'².

¹ Deng Xiaoping, during his leadership, aimed to spread the so-called 'xiaokang society', understood as a 'moderately prosperous society'.

² Siegfried O. Wolf, *"The China-Pakistan Economic Corridor of the Belt and Road Initiative - Concept, Context and Assessment."*, Contemporary South Asia Studies, Springer Books, Brussels, March 2019, pp. 1-21.



The reason why China has chosen Pakistan among all countries is that it is seen as a 'huge potential for economic growth and broad market prospects', even if remains open the question whether Pakistan will always be able to cooperate as to make its currency system more stable³ serving China's interests. Therefore, there was a lot of doubt once the Chinese and Pakistani leaders announced the commencement of the CPEC—it was unclear whether the corridor would ever be built or if it would just be wishful thinking on paper.

This article aims to analyze the main obstacles hindering the success of the CPEC. The first issue is the lack of natural resources both in Pakistan and China; secondly, the concern of a common political and economic instability in both countries together with China's growing lack of interest in the Gwadar Port; then, concluding the current debate and skepticism (and sometimes opposition) from the West regarding China's investment programs in her neighbor's countries.

China and Pakistan are much more alike than different: the lack of energy resources

Aside from China's renewed commitment to Pakistan, the latter was keen to resolve its energy issue, fix its deteriorating infrastructure, and improve overall connectivity. Islamabad has been facing deep, complex and energy problems since its creation in 1947⁴. For instance, in 2003 and 2004⁵, most provinces in the Pakistan region were often suffering from insufficient use of energy

³*Ibid.*

⁴ Pakistan's energy security situation during these decades has been influenced by the following factors: (1) Pakistan's political leadership never developed a comprehensive, integrated energy strategy; (2) Pakistan has always been an energy importer (especially of fossil fuels); (3) Pakistan faces immense electricity shortages. As a consequence, the country has witnessed the (4) Emergence of a vicious cycle revolving around energy deficiency, economic recession and lack of investments in the energy sector, all of which led to a downward economic spiral. (*Ibid.*, pp. 74-76)

⁵ Marco Rossi, *La Cina alla ricerca della sicurezza energetica*, "ISPI Policy Brief", numero 22, luglio 2005, p.1.



and experienced repeated power outages. Additionally, Since 2013, Pakistan has been in an energy deficit, and today, it also represents a problem for the implementation of the CPEC. About two-thirds of the China-Pakistan funds are earmarked for energy projects including gas pipelines, transmission projects, and power plants. However, since the same projects are also the most expensive, only 34% of them have been completed. The CPEC aims to build power plants and distribution networks across Pakistan using oil, gas, and coal. This will allow China and Pakistan to increase and diversify hydrocarbon supplies and optimize the supply and use of Pakistan's own coal reserves. The two states aim to improve renewable energy reserves, and the ultimate goal is to have at least 30% of 'green' wind and solar energy in the country by 2030.

At the same time, China's economic development has resulted in a major increase in energy demand. Chinese research into energy security (primarily for oil, gas, and carbon⁶) takes on particular importance as it is not limited only to affecting the economy but also extends its effects to international politics. Given the extensive use of oil in the region, the Chinese government, being a producer, has been an importer of it since 1993. About half of the oil imported into China comes from the Middle Eastern region, mainly from the Gulf area to the Far East. Precisely for this reason, the first Chinese projects focused in particular on improving the navigability of the Straits of Hormu and , above all , from Malacca. About 80% of Chinese oil imports pass through the latter, and for this reason, China is considering some options to circumvent it. Following the China-Pakistan strategic partnership, Islamabad provided a long list of potential projects for the CPEC initiative, most of which aligned with Chinese objectives. Nevertheless, most of the Chinese funds are earmarked for the construction of the port of Gwadar in Baluchistan, Pakistan. The *"National Commission for*

⁶ In China, the main energy source is by far coal (it is the first consumer in the world but also the first producer) through which more than two thirds of the total transformed energy are obtained. Oil is the second energy source (20%); followed by hydroelectric energy (5%) and finally gas (2.5%) and nuclear (1%).



*Development and Reform" (NDRC)*⁷ said that in 2030, Pakistan's power generation capacity should double once the CPEC energy projects are completed. On the one hand, this would profit the Pakistani government, and it could allow the growth of small and medium-sized enterprises and the main production units, which increase the country's economic prospects. In fact, by mid-2018, Chinese companies implementing CPEC projects had created 'over one hundred thousand jobs for Pakistanis'. On the other hand, for China, the CPEC Xinjiang-Gwadar alignment would serve as an alternative to the Strait of Malacca for cost-effective and time-efficient energy transport. Chinese investments in Gwadar have, however, increased the problems with India because they can 'counteract India's hegemonic projects in the Indian Ocean, the Arabian Sea, and the Persian Gulf'⁸.

Internal problems: differences between China and Pakistan

The CPEC was officially launched in April 2015, and immediately there was talk of a project outside the box; but five years later, when the first report was drawn up, it was seen that only a quarter of the projects were completed. The data show that the China-Pakistan economic corridor has yielded less than expected due to issues such as public debt and Pakistan's search for assistance from some countries such as Saudi Arabia and the United Arab Emirates. Out of one hundred and twenty-two projects announced by the CPEC, only thirty-two of these have been achieved, and moreover, only twenty billion dollars of available funds have been used compared to the estimated eighty-seven billion. However, the two countries' prime ministers argue that the CPEC has made enormous progress and helped develop the Belt and Road Initiative.

⁷ *The China-Pakistan Economic Corridor at Five*, "Center for Strategic and International Studies", aprile 2020, p. 2.

⁸ Ali S. Mahmud, *China's Belt and Road Vision - Geoeconomics and Geopolitics*, "Springer International Publishing", Prima Edizione, 2020, p. 191



Another problem linked to the Sino-Pakistani economic corridor is the unbalanced distribution of the projects announced for the Pakistani territory and provinces. For example, only 50% of the initiatives have been completed in the provinces of Punjab and Sindh; and to a lesser extent in the provinces of Ajk and Gilgit Baltistan, where no initiatives have been completed. The only province developing very quickly is Baluchistan, where the port of Gwadar (one of the SEZs) is located. The latter has more than 24% of the announced projects completed on the scheduled dates, and the monetary funds used are above the Pakistani national average. Despite the importance of the CPEC, its complete implementation has suffered some setbacks and political differences and funding challenges cast a shadow on the CPEC. Nevertheless, Chinese development companies are not interrupting their projects and are building state-of-the-art hospitals, schools, construction and telecommunications networks, especially in Gwadar.

Some other aspect to consider is the increase in terrorist attacks in Pakistan. Over the past decade, the country has been struggling every day against this phenomenon, although improvements have occurred, and terrorist attacks have dropped from nearly two thousand in 2009 to less than two hundred and fifty in 2019. The Prime Minister, Imran Khan, has promised zero tolerance for the extremists after several attacked a shrine in the province of Punjab. If Pakistan is to maintain relations with China, it must resolve the corruption that reigns in Pakistan and decrease the presence of Baluchi rebels in the region. China, due to Pakistani internal problems, remains highly concerned about the safety and security of its workers engaged in construction work on CPEC projects. Although Pakistan is setting up a special security division (comprising approximately fifteen thousand staff members) to ensure the security of the CPEC against terrorist attacks, the experience of Chinese dam building in Gilgit-Baltistan has shown that some soldiers of the "*Chinese People's Liberation Army*" (EPL 中国人民解放军) are also being recruited to ensure the safe implementation of the project. At the same time, over the past two



years, Pakistan has continued to invest in its security sector and has created new armed forces within the civilian and military police domains. To begin with, the new "*Special Security Division*" (DSS) was created consisting of regular armies and elements of the "*Civil Armed Forces*" (FAC), a federal paramilitary force within the Ministry of the Interior. The Pakistani navy has also assembled new forces for the protection of the CPEC, such as the "*Task Force-88*" (TF-88) for the seaward security of the port of Gwadar and the protection of associated sea lanes against conventional threats. Pakistan's economic problems, therefore, predate and are deeper than the CPEC, but the CPEC is an ambitious bet that could increase risks and contribute to Pakistan's financial woes. Faced with demands for heavy payments and a likely recession, Khan recently called on China to soften the terms of its power deals. However, in 2020, due to the effects of the coronavirus, Chinese commitment to the CPEC decreases because Beijing is in difficulty, and it is not surprising that it 'has turned off the taps', decreasing investments in the BRI.

Recently, during the Olympics in Beijing⁹, Pakistani Prime Minister Imran Khan promoted the mega-project and praised President Xi's visionary "*Belt and Road Initiative (BRI)*". He also stressed that the CPEC flagship project had contributed significantly to the Pakistan's economic and social development. In light of Western criticism of the project and the ebb of Sino-Pakistani relations, the statement was intended to reassure Beijing on Islamabad's commitment to the CPEC and its implementation. This is because due to frequent security issues of the CPEC project which are becoming a major obstacle to the 'tipping point', China is becoming increasingly skeptical of its direct investments in Islamabad. Moreover, the impact of the CPEC was somewhat counterintuitive, at least in the restless province of Balochistan. Despite promises of nationwide connectivity and development, the CPEC's projects became a target for separatists and terrorist

⁹ Rhea Sinha, "*CPEC and its (de)establishing effect on Pakistan*", Observer Research Foundation, Feb. 2022, <https://www.orfonline.org/expert-speak/cpec-and-its-destabilising-effect-on-pakistan/>.



groups as it was unable to address deep provincial tensions. The latter is partly manifested in the controversy over the CPEC route. The apprehensions of regional elites and locals have materialized since the Baloch complains that they come from a history of underdevelopment and exploitation of the province's resources. However, the recent wave of insurrection is reinforced by the massive development projects undertaken by the central government under the CPEC, particularly in Gwadar, which have excluded the local population. After the various attacks in the region, the BLA statement read 'we once again warn the Chinese to refrain from helping Pakistan plunder the Baluchi resources and occupy our motherland, otherwise, their interests will become our goals'. As such, Beijing will increasingly struggle to find good value for money considering the tensions in the region, coupled with its non-interference policy.

Why the West is 'unhappy' regarding the massive Chinese investment in Gwadar? - The doubts on China's use of Gwadar Port

Attempts from Beijing are expected to break the perceived US encirclement in Asia-Pacific and constraint rise of India, also Chinese investments in the BRI and the CPEC do not go unnoticed in the international arena and, above all, cause concern in India and the United States. India perceives China as a strategic rival and in the last thirty years the growing economic and military development of the latter and the constant, but cumbersome Indian pursuit have opened new theaters of competition between the two countries. In order to stem Chinese influence and try to connect to Southeast Asia, India has also strengthened its *"Look East"* policy inaugurated by Narasimha Rao in 1993 and revived by Narendra Modi with *"Act East"*. Meanwhile, Modi celebrated the revival of the *"QUAD"*¹⁰, the quadrilateral security dialogue

¹⁰ Lorenzo Di Muro, *"Cina-India, una Poltrona per Due"*, *"Limes"*, dicembre 2018, p. 1-3.



between the United States, India, Japan and Australia by attempting to propose an alternative project to the BRI. Given the relations between China and Pakistan, in the long term, the Chinese government may be able to allocate a fleet to Gwadar as well. In fact, in addition to the energy supply, the "*People's Liberation Army Navy*" (PLA Navy)¹¹ is expanding its military bases abroad. Crucial hinges of the Belt and Road Initiative such as Djibouti¹² and Gwadar have been employed by the Chinese government to strengthen the Chinese naval corps. A recent report¹³ shows that China is building its second military base in Pakistan. The facility will be built in Jiواني, a port near the Iranian border in the Gulf of Oman, and is shown to be a joint naval and air facility located a short distance along the coast of the commercial port construction facility at Gwadar, which is an important part of the Chinese strategic plans. Mainly, the project appears to be driven by Beijing's fear of a potential naval blockade of its maritime communication routes, but China has denied thinking at this moment of any plans for further establishment of a military base in Pakistan. On the other hand, a Chinese military analyst, Zhou Chenming, states that 'China needs to create another military base in Gwadar for its warships because Gwadar is now a civilian port'. Nevertheless, other Chinese analysts, such as Lin Minwang, have questioned this logic by saying that 'another military base in Pakistan is not needed at the moment'. In Pakistan, Beijing is still serving conventional military support as well as the country's nuclear and missile capabilities so as to help keep India off-balance and focused on threats emanating from Islamabad. Focusing on Gwadar, India fears that China could use it for military purposes, transforming it into a military base in the

¹¹ The "*People's Liberation Army Navy*" (中国人民解放军 海军), Marina PLA or PLAN, is the armed wing of the Chinese Communist Party.

¹² Rajeswari Pillai Rajagopalan, "*A New China Military Base in Pakistan?*", "*The Diplomat*", 9 febbraio 2018, (<https://thediplomat.com/2018/02/a-new-china-military-base-in-pakistan/>)

¹³ Bill Gertz, "*China Building military base in Pakistan*", "*The Washington Times*", 3 gennaio 2018, (<https://www.washingtontimes.com/news/2018/jan/3/china-plans-pakistan-military-base-at-jiwani/>).



future. In fact, according to the US defense analyst Zia Haider¹⁴, Gwadar has a strategic position that will help increase the political importance of Pakistan internationally and also adds that the considerable distance of the port from Indian enemy lines makes it safer and strategically significant to absorb any Indian air attacks. The Gwadar development project could help transform the Pakistani navy into a power that can hold its own against regional navies, especially the Indian one, and docking would facilitate the Chinese with a strategic foothold in the Arabian Sea and the Indian Ocean. Indubitably, Beijing's expansion into the Indian Ocean, primarily via Pakistani port facilities, is a determining geo-strategic and security rationale. China and Pakistan mutually use the port of Gwadar because both states are aware that it is the only port in the Pakistani region that can serve the interests of both and will also allow China to control India's growing influence in the Indian Ocean, the Arabian Sea, and the Persian Gulf. Gwadar remains the focal point of the corridor, but an important goal for both countries is to reduce the dependence on the Karachi port because it helps to reduce the negative impacts of potential blockade of the Karachi port in times of tension with India. This last-mentioned is also trying to strengthen the antagonist port of Gwadar, which is Chabahar¹⁵, built by India, Afghanistan, and Iran. If, in the future, the port of Gwadar is converted into a naval base, it will allow the "EPL Navy" (中国人民解放军) to maintain a permanent presence in the Arabian Sea and the Gulf of Oman. In this way, it can be seen that the Chinese maritime strategy is inspired by the theory of the domination of the sea by H. T. Mahan: 'whoever controls the Indian Ocean will dominate the whole of Asia. In this last year, while China and Pakistan try to focus more on Gwadar, it seems to lose the centrality it previously held in the CPEC. During the 6th meeting of the joint cooperation committee

¹⁴ Inayat Kalim, "Gwadar Port: Serving Strategic Interests of Pakistan", "A Research Journal of South Asian Studies", Vol.31, No. 1, gennaio 2016, p. 207-221.

¹⁵ Davide Carlini, "China, India and the Crossroads of 21st Century Infrastructure Competition", "IAI", marzo 2019 (<https://www.iai.it/en/pubblicazioni/china-india-and-crossroads-21st-century-infrastructure-competition>)



of the China-Pakistan Economic Corridor held in December¹⁶, Pakistan and China agreed to develop the Karachi coast by signing a memorandum of understanding for the '*Karachi Coastal Comprehensive Development Zone*' project. From this moment, Pakistani Prime Minister Imran Khan has defined the inclusion of the '*Karachi Comprehensive Coastal Development Zone*' in the CPEC. In addition, the latter includes the addition of new berths to the city's port, the development of a new fishing port, and a 640-hectare commercial area on the marshy land of the Karachi Port Trust. According to Nikkei Asia¹⁷, the initiative in Karachi could indicate a shift in attention from the port of Gwadar, located in Balochistan, which would prove to be a problem area for Chinese investments. Regarding Gwadar, his hypothetical loss of centrality could have implications for the wider New Silk Roads. Some analysts have argued that the way Pakistan and China are dealing with the Gwadar issue would imply that any troubled New Silk Roads project, regardless of its potential, can be abandoned or sidelined.

Both the BRI and the CPEC present China's vision of creating a comprehensive economic, political, and cultural network so as to promote multi-dimensional connectivity and cooperation among the participating countries and bounce back¹⁸ the US and India in the Asia-Pacific.

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¹⁶ <http://cpec.gov.pk/news/216>

¹⁷ <https://asia.nikkei.com/Spotlight/Belt-and-Road/Pakistan-and-China-unveil-ambitious-plan-to-develop-Karachi-coast>

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