

CPEC

An Explainer



**Center for
Research &
Security
Studies**

Rule of Law - Security - Governance





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ACRONYMS

CPEC	China-Pakistan Economic Corridor
BRI	Belt and Road Initiative
JWGs	Joint Working Groups
JCC	Joint Cooperation Committee
ECC	Economic Coordination Committee
MOU	Memorandum of Understanding
NEPRA	National Electric Power Regulatory Authority
B2B	Business to Business
G2G	Government to Government
FDI	Foreign Direct Investment
SOEs	State Owned Enterprises
CPPAG	Central Power Purchasing Authority Guarantee
EIAs	Environmental Impact Assessments
EPAs	Environmental Protection Agencies
BOOT	Built Own Operate Transfer
EFF	Extended Fund Facility
SBA	Small Business Administration
NLC	National Logistics Cell
FWO	Frontier Works Organization
PPIB	Private Power & Infrastructure Board
NHA	National Highway Authority
IA	Implementation Agreement
PPA	Power Purchase Agreement



Why This Explainer?

For years, a debate has surrounded the China-Pakistan Economic Corridor (CPEC) as to whether it is a mutually beneficial undertaking or primarily favorable to China alone. Disregarding the long history of cordial, time-tested, and trusted relations between Islamabad and Beijing, critics - largely foreigners - often speak of CPEC as a potential debt trap. They view this as China's broader strategy for expanding its influence both economically and strategically by imposing unfavorable conditions - on its own will - on the recipient countries through its Belt and Road Initiative (BRI), of which CPEC is the flagship project.

The situation on the ground, nevertheless, contradicts these views. If CPEC represented China's debt diplomacy or a zero-sum game, then all projects under it - power plants, transmission lines, road and rail infrastructure - were initiated on the demand of Pakistani leaders i.e., the then Prime Minister Nawaz Sharif when he and President Xi Jinping witnessed the signing of several contracts during the latter's Islamabad visit. Even many Pakistanis, too, have been misled by motivated, skeptical, and critical views of CPEC projects.

This report is an endeavor to clear some of the fog around CPEC by, a) briefly tracing the history of Pakistan-China relations, and b) addressing some of the most frequently asked questions around CPEC.

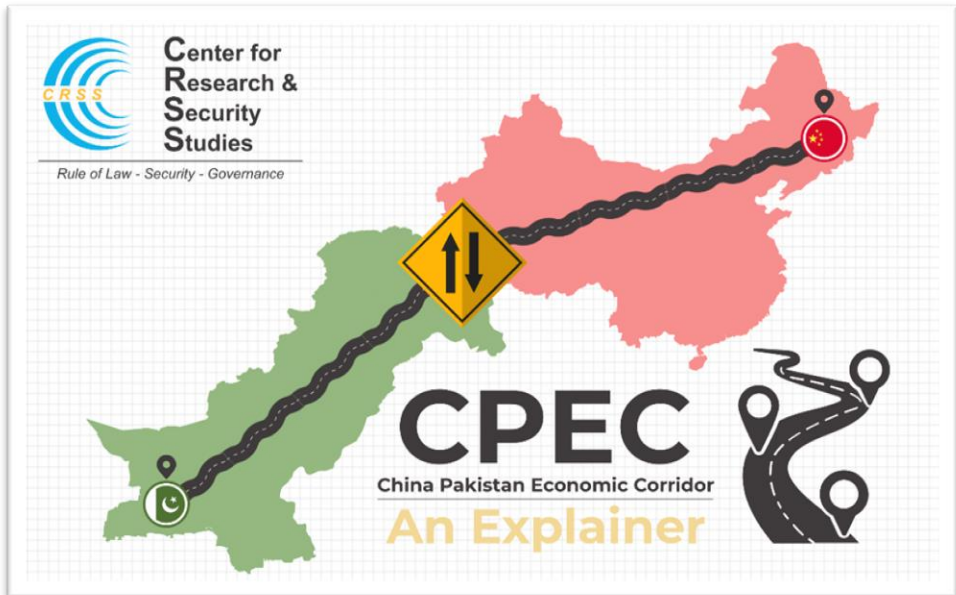


What is CPEC?

The China-Pakistan Economic Corridor (CPEC) is an economic cooperation framework under China's Belt and Road Initiative (BRI).

Both countries formally signed multiple agreements during the Chinese President Xi Jinping's visit to Pakistan in early 2015. China pledged to invest US\$46 billion in Pakistan's energy and infrastructure sectors.

Western and Pakistani media have been raising intriguing questions about CPEC ever since its signing. This document therefore is aimed at providing brief answers to some of the questions commonly raised in the media.



Background

CPEC stands as a symbol of the deep-rooted and unwavering friendship between Pakistan and China. Initiated as a flagship project under the BRI in 2013, CPEC was envisioned to revolutionize Pakistan's infrastructure, industries, and the energy sector in particular. Ever since the signing of initial agreements in March 2015, numerous infrastructure projects under CPEC have been launched, completed, or under construction as of August 2023. These include the construction of the Gwadar Port, motorways, the upgradation of



the Karakoram Highway, and several energy projects including both coal-fired power plants as well as renewable energy installations. The corridor is essentially an economic cooperation framework and not an undertaking of geopolitical trappings as projected in the Western media. It not only offers China more rapid and secure access to the Middle East, the Arabian Sea, and several African nations but has also helped the countries of these regions build crucial infrastructure projects.

As a whole, CPEC has achieved significant milestones and expanded beyond infrastructure and energy projects to include industrial zones and agricultural cooperation. In July 2023, CPEC completed a decade of cooperation. However, like any large-scale undertaking, it has faced challenges in its first phase which demands careful planning and collaboration as it moves into its second phase.

Evolution of Pakistan-China Relations and CPEC

A Brief Chronology

2000	The President of Pakistan visited China and proposed economic cooperation with Pakistan instead of aid.
2001	The Chinese Prime Minister visited Pakistan and signed six agreements and a Memorandum of Understanding (MoU) covering various sectors such as economics, railways, telecom, tourism, mining, and petroleum. The President of Pakistan also requested Chinese support for the construction of the Gwadar Port.
2002	The Chinese Vice Premier visited Pakistan to attend the ground-breaking ceremony of the Gwadar Port.
2003	The Beijing Declaration on Bilateral Cooperation was issued as an outcome of meetings between the two leaders. The areas of cooperation included economics, trade, investment, agriculture, science and technology, and tourism.



2005-06	The Planning Commission of Pakistan presented the first proposal on the CPEC route to the President and Prime Minister of Pakistan.
2006	A Free Trade Agreement was signed by the Presidents of both countries.
2013	The operations of the Gwadar Port were transferred from Singapore to China.
2015	During the visit of the Chinese President to Pakistan, a series of MoUs worth \$46 billion were signed, covering energy, infrastructure, and industrial cooperation projects.
2023	Vice Premier of the State Council of China, He Lifeng visited Pakistan and celebrated a decade of CPEC on July 31, 2023.

Most Frequently Asked Questions (FAQs)

This section addresses some of the questions most frequently asked and discussed in the media and among the members of the business community, local communities, think tanks, and academia.

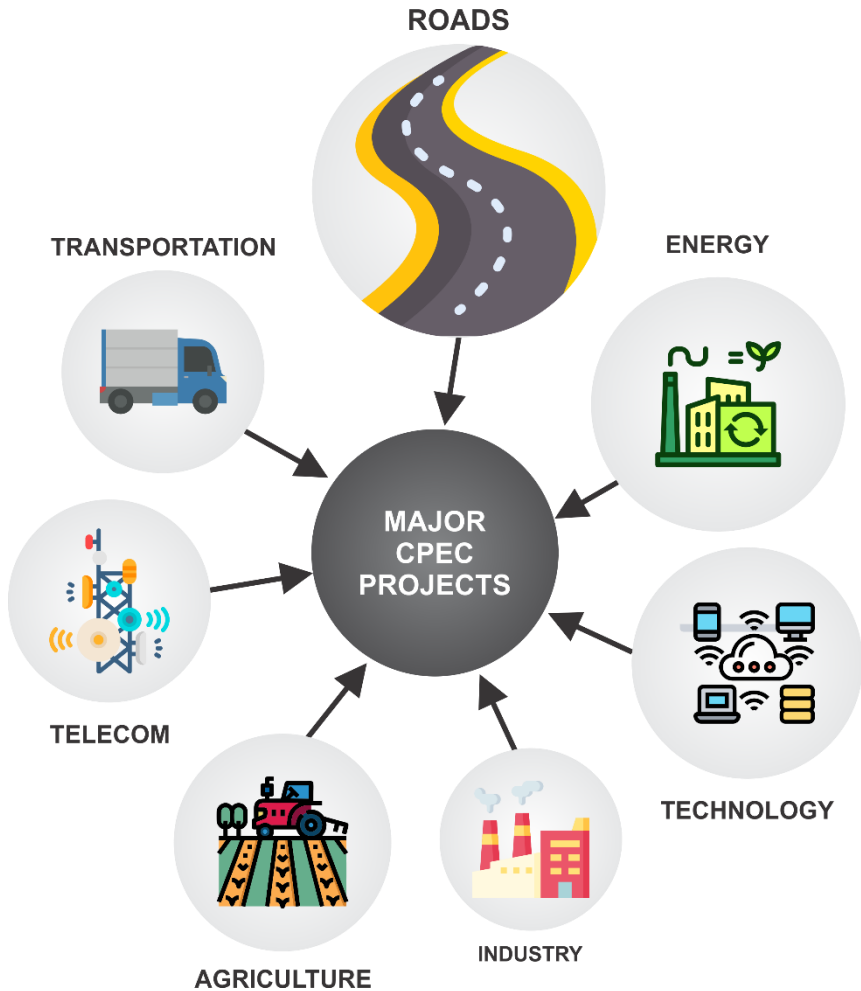
How are CPEC projects planned and executed?

The CPEC projects have been planned to be executed in four different stages:

- i. *Early Harvest from 2015-2018:* The majority of the projects related to the energy sector were largely completed by 2018-2019. These projects added approximately 5,000 MW of electricity to the national grid and thus easing the energy shortages and load shedding that had crippled the industry and exports.
- ii. *Short-Term Projects up to 2020:* Mainly comprising roads, Gwadar development, optic fiber network, hydel, coal mining, and power projects.



- iii. Medium-Term Projects up to 2025: ML-1 railway line and establishment of industrial zones.
- iv. Long-Term Projects up to 2030: Completion of industrial zones, agriculture, tourism, science and technology, information technology, water resources, oil and gas sector, mines and minerals, and socio-economic grant projects.





Which authority within Pakistan initiates the selection and approval process of CPEC projects? Are these need-based projects or return-based projects? Which authority grants the final approval? What, if any, due diligence/project assessment protocols are followed for each project?

The demand for projects originates in Pakistan where all secretaries (Principal Account Officers) of respective line ministries are responsible for initiating the process with their Chinese counterpart authorities in sectoral Joint Working Groups (JWGs). Once the project modalities are finalized at the JWG level, it is sent to the Joint Cooperation Committee (JCC) for approval.



JCC is jointly chaired by the Vice Chairman of the National Development and Reform Commission on the Chinese side, and the Federal Minister for Planning, Development, and Special Initiatives on the Pakistan side. In parallel, all JWGs are bound to take the approval of projects as per the local policies, e.g., the Power Division is bound to take the approval of the Economic Coordination Committee (ECC) and the Cabinet before signing any agreement on the power plant. It is obligatory for all the convenors of JWGs to submit the need-based



rationale of all projects before submitting them to the JCC and Cabinet. It means all projects were or are selected on need-based requirements.

As per local and international standards, Pakistan's independent regulators are responsible for checking the cost rationalization of projects, e.g., by the National Electric Power Regulatory Authority (NEPRA). This includes responsibility for verifying and approving every single penny of Power Plants under approved policies of the Government of Pakistan. All projects are processed through a transparent selection process as per the mandate of relevant government authorities.

How much cost per unit is Pakistan going to pay for power projects? What is the basic scheme of these energy projects? Is it a blend of conventional fuel as well as alternate energy projects? Are local banks engaged in the financing of these projects? What is the labor employment ratio; Chinese: Pakistani?

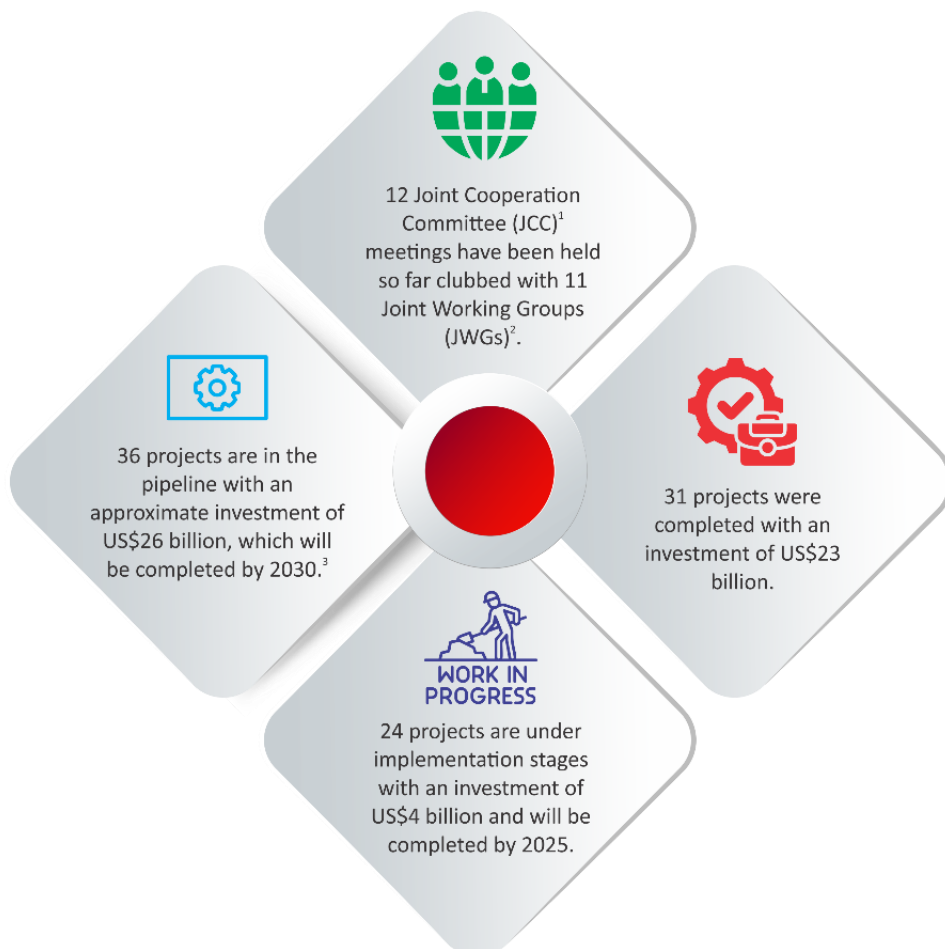
Costs per unit are a combination of fixed capacity and variable actual fuel prices. This price varies for all power plants and depends on timelines and cost components. These power plants have been executed as per the applicable power policies of the Government of Pakistan.

These policies were open to all local investors and local banks. However, local investors and local banks were reluctant to invest because of the economic situation of Pakistan. The Chinese government, nevertheless, took the lead once it began implementing the BRI, under which CPEC was born. During the construction phase, 100 percent of unskilled labor and nearly 60 percent of skilled labor were utilized in Pakistan.



What progress has been made since 2015?

The table below presents the data on the CPEC projects that were either completed or are under implementation:



¹ Highest Government to Government official forum between China and Pakistan for CPEC; co-chaired by Vice Chairman of National Development and Reform Commission of China, and the Federal Minister for Planning, Development and Special Initiatives of Pakistan.

² Technical Groups, co-chaired by secretaries of respected line ministries e.g., the Joint Energy Working Group is chaired by the Federal Secretary of Power Division, Pakistan, and the Vice Chairman of National Energy Administration of China.

³ Planning Commission of Pakistan



Areas	Projects	Share	Completed (Till May 2023)	Under Implementation (Till 2025)	In Pipeline (Till 2030)
Energy	24 (\$33B)	62%	16 Projects, 8020 MW, \$16B	01 Project, 884 MW, \$2B	07 Projects, 4144 MW, \$7.3B (Balance 3997 MW, \$7.5B)
Infrastructure	25 (\$18B)	34%	07 Projects, \$6.7B	06 Projects, \$0.9B	12 Projects, \$10.5B
Gwadar	07 (\$0.7B)	1.9%	03 Projects, \$0.304B	02 Projects, \$0.23B	02 Projects, \$0.15B
Special Economic Zones	09 (\$0.5B)	0.1%		04 Fast-track, \$0.5B	05 Projects
Socio-economic	27 (\$1B)	02%	06 projects, \$0.05B	11 Fast-track, \$0.26B	10 Projects, \$0.95B
International Cooperation	Newly added, planning stage for third-party participation				
Agriculture	Newly added as per the long-term plan of CPEC, the planning stage				
Science & Technology	Newly added as per the long-term plan of CPEC, the planning stage				
Total	91 Projects, \$53B	100%	31 Projects, \$23B	24 Projects, \$4B	36 Projects, \$26B
*Development cost					



What technological advantage has Pakistan derived from CPEC projects, e.g., transfer of technology, etc.? Which technology-based projects have been set up under CPEC?

In the early phases, the emphasis was on rail and road infrastructure as well as the setting up of modern power plants for which Pakistan lacked the technologies and expertise to run automated power plants. CPEC helped Pakistani engineers get hands-on experience, with almost 500 engineers receiving a six-month training in China before the operationalization of the power plants. This automated technology will remain in Pakistan forever. And now, in Phase II, new technological sectoral JWGs have been incorporated in line with the Long-Term Plan of CPEC in which technology transfer in business-to-business (B2B) exchanges will take precedence.

What financial impact/liabilities Pakistan is burdened with by China through CPEC?

As a whole Pakistan bears the financial burden of approximately \$25 billion (Out of this, \$15 billion is a private liability that will be paid by power companies, and the remaining \$10 billion is a direct government-to-government (G2G) loan liability).

One could argue that the \$15 billion private investment is not a liability, but it is essentially the responsibility of the government because the power companies operate under the Central Power Purchasing Authority Guarantee (CPPAG), which collects funds from the public and governmental subsidies.



Has CPEC added to our external debts and may develop into a debt trap?

Almost 25 billion dollars will need to be paid back by 2030 in installments as per signed agreements with CPEC companies and Chinese lending banks.

The BRI and CPEC model is primarily a cross-border “*Plant, Machinery, and Equipment*” based transaction model that does not involve real monetary transactions. Similarly, almost 33% of \$25 billion came in terms of real dollars to Pakistan from China as Foreign Direct Investment (FDI), grant, or loan which accounts for \$8 Billion, and the remaining \$17 Billion came in the form of “*Plant, Machinery, and Equipment.*” The payment for these assets had been made within China from buyer to supplier. However, real accumulation of capital in terms of immovable assets or monetary assets happened on Pakistani soil in different projects. As per agreements, the Government of Pakistan is bound to pay \$25 Billion along with its agreed profits and interest premiums to Chinese State-Owned Enterprises (SOEs).

The real issue facing Pakistan is that while it didn’t receive dollars, the repayments - principal and markup - to Chinese lenders MUST follow in dollars. Primarily, the generation of dollars was envisaged through the industrialization phase as per the Long-Term Plan of CPEC. But the economy has remained in trouble all these years, with little happening in the economic zones and industrialization.

Eventually, the blame falls on the CPEC as a whole whereas the problems - poor planning, little regard for the cost-benefit analysis and repayments - are related to Pakistan.

Out of 31 completed projects, 24 are from the energy sector, which is in trouble because of the spiraling circular debt. This essentially means that CPEC energy projects will add to Pakistan’s debt liabilities in the short as well as long run.



U.S. OBJECTIONS/RESERVATIONS ON CPEC

The U.S. has essentially anchored its criticism of the CPEC in notions such as sovereignty, transparency, freedoms, and models of development that it prefers as essential for the progress of nations. Good governance, long-term capacity building, and market policies are the factors that enable the private sector to flourish and are essential for sustainable development and growth, as per U.S. Officials. Whether it is Europe, Japan, the Asian Tigers, or India, the U.S. approach to development has driven unprecedented economic expansion since the 2nd World War, lifting billions out of poverty.

Ambassador Alice Wells, the former Principal Deputy Assistant Secretary of State for South and Central Asian Affairs at the U.S. Department of State, formally articulated these issues and her country's reservations with regard to BRI (previously known as the One Belt One Road (OBOR) initiative) and CPEC during a talk she gave at the Wilson Center on November 21, 2019.

Here are some of the major concerns she raised:

- We see Beijing pressing countries to sign OBOR MoUs emphasizing peace, cooperation, openness, inclusiveness, mutual learning, and win/win cooperation. However, there are reasons to question the Chinese Communist Party's largesse. For example, China offers substantial financing, usually as loans, but Beijing is not a member of the Paris Club and has never supported globally recognized transparent lending practices. According to an estimate released by the Kiel Institute, Communist China is the world's largest official creditor, lending over \$5 trillion worldwide, but China does not publish or even report overall figures on its official lending. So, neither rating agencies, the Paris Club nor even the International Monetary Fund (IMF) are able to monitor those financial transactions.
- The People's Republic stands outside of global efforts including those of the IMF and World Bank to improve transparency that enhances policy-making, prevents fiscal crises, and deters corruption.



- Lack of transparency also hides risk to borrowing countries that already face substantial fiscal challenges, particularly since Chinese state companies undertaking OBOR projects have a clear incentive to inflate costs and encourage corruption.
- Failure to repay those huge loans raises roadblocks to further development and leads to a surrender of strategic assets which diminishes sovereignty. (This has by the way not happened anywhere in Asia or Africa)
- Examples of Maldives and Sri Lanka show that such countries are being burdened with a debt trap in the name of development.
- According to Pakistani government statistics, for each megawatt generated by a completed CPEC thermal energy project, developers spent an estimated 1.5 billion. In comparison, the cost per megawatt of building non-CPEC thermal plants is half of that, 750 million.
- What are the long-term effects in Pakistan of Chinese financing practices? And what are the burdens that have fallen on the new government to manage...? It needs to be clear, that CPEC is not about aid. This is almost always the form of loans or other forms of financing, often non-concessional, with sovereign guarantees, or guaranteed profits for Chinese state-owned enterprises that are repatriated to China.
- China is going to take a growing toll on Pakistan's economy, especially when the bulk of payments start to come due in the next four to six years. Even if loan payments are deferred, they're going to hang over Pakistan's economic development potential.
- The lack of transparency can increase CPEC costs and foster corruption resulting in an even heavier debt burden for Pakistan.
- Pakistan's watchdog the National Accountability Bureau (NAB) has taken up some CPEC projects for investigation into alleged corruption.
- CPEC relies primarily on Chinese workers and supplies even amid rising unemployment in Pakistan. Chinese companies are importing materials and equipment from China, and even bringing in Chinese workers who earn money in Pakistan, rather than giving that business to Pakistani companies which would actually create jobs for locals.
- CPEC doesn't give Pakistani young people and Pakistani companies the same opportunities that the Chinese themselves enjoyed decades ago, and that's one of the reasons why Pakistan's trade relationship with the People's Republic remains so lopsided.



- The United States-Pakistan Business Development Partnership stands in contrast to CPEC. U.S. businesses strive to contribute to sustainable economic growth in Pakistan and U.S. government grants - and I underscore grants - have developed Pakistan's infrastructure and capacity in education, health, energy, agriculture, and law enforcement
- We hope Pakistanis will ask Beijing tough questions on debt, accountability, fairness, and transparency, and why it is pursuing a development model in Pakistan, that significantly deviates from what brought China its own economic success. ⁴

CHINESE RESPONSE TO U.S. RESERVATIONS

A day later, the Chinese Ambassador to Pakistan, Yao Jing hit back with unusually harsh words and claimed that CPEC is based on a mutually beneficial and win-win cooperation model.

"I would like to remind my American colleague that if you are really making this kind of allegation, please be careful, show your evidence, give me evidence; we will take action," said Yao Jing in an address to the 5th CPEC Media Forum, while emphasizing that the CPEC projects were investigated and there was no corruption in their affairs. *"CPEC is clean"*, he claimed.

He further said that Wells lacked *"accurate"* knowledge and relied primarily on Western media *"propaganda"* to level the accusations.

The Chinese diplomat reaffirmed that China and Pakistan are determined to ensure that the infrastructure project is free of corruption and stated that CPEC is open to investment from anywhere in the world and China would happily welcome U.S. investment in it. Yao described Wells' remarks as *astonishing*, saying he had personally briefed her twice on the program during her recent visits to Islamabad.

⁴ <https://pk.usembassy.gov/ambassador-wells-remarks-on-the-china-pakistan-economic-corridor/>
November 21, 2019



Some of the points the envoy made read as follows:

- Unlike Washington and West-governed lenders like the IMF, Beijing does not offer or suspend financial loans for "*political*" reasons.
- Why raise hue and cry over Chinese investments in Pakistan under CPEC? When in 2013, the Chinese companies were establishing power plants in Pakistan, where was the U.S.? Why it did not invest in Pakistan's power sector despite knowing that Pakistan was in dire need of electricity?
- I would be happier to see more investment coming from the U.S. in Pakistan.
- Why did the U.S. suspend its aid to Pakistan because of political priorities?
- Chinese aid or loans are meant only to help partner nations improve and stabilize their economies. China will never ask for these loan repayments as long as you are in need of this money. If Pakistan needs it, we keep it here.
- Under CPEC, China is determined to provide industrial cooperation to Pakistan and build the capacities of Pakistani businessmen and industrialists to boost productivity which would ultimately help in increasing local exports. In this regard, over two dozen leading Chinese and Pakistani manufacturers and industrialists were engaged to boost Pakistani production and exports.
- CPEC has provided more than 75,000 direct jobs to Pakistani workers and is expected to create as many as 2.3 million jobs by 2030.
- CPEC envisages several special economic free zones that can enable Pakistan to improve the quantity and quality of its exports, bring home much-needed dollars, and boost its foreign exchange reserves.
- The United States is the biggest loan taker in the world, and even China gave them about \$3 trillion in credit.⁵

⁵ https://www.voanews.com/a/economy-business_china-hits-back-us-criticizing-corridor-project-pakistan/6179895.html + <https://tribune.com.pk/story/2104737/china-dismisses-us-warning-pakistan-cpec>



INDIAN OBJECTIONS TO CPEC

The Indian objections to CPEC are primarily rooted in the dispute over the Himalayan state of Kashmir, part of which had been governed by a particular semi-autonomous status under Article 370 of the Indian constitution. On August 05, 2019, India abrogated that article and thereby abolished the special status to declare it a part of its union.

A commentary by Rajeshwari Pillai Rajagopalan at the Observer Foundation encapsulates the Indian objections to the CPEC, which are summarized below: India's opposition to the BRI primarily stems from the CPEC, which it sees as violating India's sovereignty and territorial integrity. The write-up quoted an Indian Ministry of External Affairs (MEA) spokesperson as saying: *"Such actions by any party directly infringe on India's sovereignty and territorial integrity. India firmly and consistently opposes projects in the so-called CPEC, which are in Indian territory i.e., the Indian state of Jammu & Kashmir that has been illegally occupied by Pakistan."*

In April 2017, India again explained its position, stating that China's pursuit of the CPEC reflected its *"lack of understanding and appreciation of India's concerns on the issue of sovereignty and territorial integrity."*

The statement further clarified that the government had repeatedly articulated, *"Pakistan has been in illegal occupation of parts of the Indian state of Jammu & Kashmir since 1947. Government has conveyed to the Chinese side, including at the highest level, its concerns about their activities in [Pakistan-occupied Kashmir] and asked them to cease these activities."*

Similarly, in 2018, an Indian MEA spokesperson reiterated, *"No country can accept a project that ignores its core concerns on sovereignty and territorial integrity."* The response also noted the earlier Indian articulation, *"Connectivity projects such as the BRI must be based on universally recognized international norms, good governance, rule of law, openness, transparency, and equality, and must be pursued in a manner that respects sovereignty and territorial integrity⁶."*

⁶ <https://www.orfonline.org/research/indias-latest-concerns-with-the-cpec/>, August 10, 2022



PAKISTAN'S RESPONSE TO INDIAN OBJECTIONS

On its part, Pakistan has repeatedly snubbed Indian objections to CPEC, calling them *“baseless and misguided.”*

In a similar rebuke, Pakistan's spokesperson called remarks made by the Official Spokesperson of the Indian MEA as an *“effort to politicize the China-Pakistan Economic Corridor (CPEC).”*

“CPEC is a transformational project and a harbinger of stability, mutual cooperation and shared development for the region. As a flagship of the Belt and Road Initiative and hallmark of the Pakistan-China All-Weather Strategic Cooperative Partnership, CPEC provides a vehicle for the people of the region to break from zero-sum approaches. China's investment in CPEC has helped Pakistan overcome the energy and infrastructural bottlenecks that once constrained growth and development,” said a statement issued by Pakistan's Ministry of Foreign Affairs.

“While rejecting India's fallacious assertion that CPEC impinges on its “sovereignty and territorial integrity”, it is pointed out that it is, in fact, India that is illegally occupying the state of Jammu & Kashmir for over seven decades while perpetrating gross and widespread human rights violations and effectuating blatant territorial and demographic changes in the occupied territory in complete contravention of international law and relevant UNSC resolutions.”

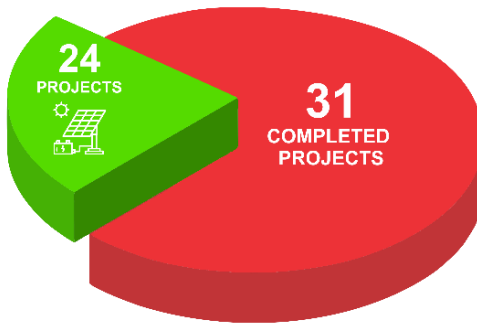
“India's attempts to mislead the international community about the status of Jammu and Kashmir and to hide its atrocities against the Kashmiri people will never succeed. India is cautioned to desist from falsehoods and baseless claims over a territory that it continues to illegally occupy through brute force. The Jammu and Kashmir dispute remains an internationally recognized dispute on the UN agenda and its solution lies in exercise of the right of self-determination in accordance with the relevant UN Security Council”⁷.

⁷ <https://mofa.gov.pk/pakistan-categorically-rejects-indian-meas-preposterous-remarks-on-cpec/>, July



Why was the focus not on technology-driven manufacturing and industrial undertakings capable of earning foreign exchange?

A comprehensive power planning framework would have prioritized improving governance and investing in transmission and distribution infrastructure first. Pakistani planners failed to adequately address this, neither did the Chinese experts sufficiently consider the medium and long-term impacts of their investment before committing to these projects. Nonetheless, the greater responsibility for the ensuing repayment and settlement issues lies with Pakistan. Power plants were commissioned without the necessary upgrades to the distribution and transmission systems.



Gwadar Port: Were the terms of operations for Singapore identical to those for China? Were there any special concessions offered to China in this regard?

Yes, the terms of operations for the Singapore Port Authority were the same as those for the China Overseas Port Holding Company Limited. No special concessions were offered to China in this regard.

Have all projects under CPEC undergone environmental impact assessments? Have any CPEC projects been rejected?

All projects are subject to formal Environmental Impact Assessments (EIAs) carried out by relevant Environmental Protection Agencies (EPAs). Two major projects, namely 1320MW Rahim Yar Khan Coal Power Plant and 1320MW



Muzaffargarh Coal Power Plant, were shelved, apparently due to ecological concerns.

Nearly 96% of investment or financial allocations are towards energy and infrastructure, how many industries (in specific sectors) have been set up under CPEC, and how much FDI has Pakistan attracted in this regard?

In Phase I of CPEC, the primary objective was to fix bottlenecks in the economy, such as power generation, transmission, and road infrastructure. In Phase II, special economic zones (SEZs) are being developed to attract industrial FDI. This is how the government of Pakistan pursued these projects under CPEC, without asking for experts' advice or conducting thorough feasibility assessments appropriate for projects of this magnitude.⁸

Energy projects will only exacerbate Pakistan's debt trap, when set up with a disorganized, corrupt, and inefficient bureaucratic structure that faces huge financial losses on account of circular debt, coupled with an ailing economy struggling to generate foreign exchange to meet monthly needs. Given that 62% of capital is tied up in energy projects, has this scenario ever been studied by experts?

All CPEC power plants were commissioned and installed in accordance with the priorities set by the then Prime Minister Nawaz Sharif. They were approved regulations and policies of the Government of Pakistan, which were duly ratified by the ECC.

While the argument about increasing circular debt is valid, it is not specific to CPEC power plants. It is an issue of Pakistan's governance in poorly handling the power sector.

At first glance, it seems no comprehensive analysis was conducted on the repercussions of over-emphasis on the acquisition of more power plants to

⁸ The power policy, under which CPEC projects were approved, was deeply flawed as it made the energy tariffs unaffordable, both for residential and industrial consumers, created massive circular debt and the currency mismatch. A country cannot heavily borrow in foreign currency while the revenue generation is in local currency – a basic flaw since the inception of the power policy during Prime Minister Benazir Bhutto's second tenure (1993-1996).



meet energy demands. Consequently, Pakistan commissioned more energy than it required and far more than its national grid could efficiently transmit.

We cannot attribute our governance and due diligence shortcomings to CPEC. Our approach lacked a proper power planning framework. A well-thought-out framework would have first prioritized fixing governance i.e., feasibility, affordability, decision-making, and urgently needed investment in transmission & distribution infrastructure.

What kind of financing is China providing for CPEC projects?

It is a mix of all three types. The major portion is FDI in power projects, followed by soft loans, interest-free loans, and grant projects respectively.

What documents and agreements have been made with China concerning CPEC?

Two significant framework agreements exist between the Government of Pakistan and the Government of China: The China-Pakistan Economic Corridor Framework Agreement, and the Long-Term Plan Agreements. Beyond these, individual line ministries have specific project agreements with Chinese companies at the operational level.

What was shared with the IMF, if at all?

During the previous PTI Government⁹, all the details of CPEC-related loans were reportedly shared with the IMF, though it is not clear to what extent. The general project information is already public on the NEPRA website¹⁰.

How many CPEC projects are actually under Pakistan's control and under what terms?

Management of all projects is with the Chinese companies under 25-30 years of Build Own Operate Transfer (BOOT) concession agreements. After the

⁹ <https://profit.pakistantoday.com.pk/2021/10/06/asad-umar-dismisses-report-on-china-debt-problem/>

¹⁰ <https://www.nepra.org.pk/>



completion of the respective concession periods, all these projects will be handed over to respective provincial governments for nominal charges.

Who owns the CPEC projects? Are Chinese companies allowed to own land and resources in Pakistan?

All concession agreements are based on BOOT/BOT, which means that these CPEC companies do not possess any ownership rights over land or its resources in Pakistan.

What impact will CPEC projects have on our environment and local population? Has there been any displacement of the population or land acquisition related to CPEC that may be deemed unfair or detrimental to the people of Pakistan?

CPEC projects have provided almost 80,000 local jobs translating to an improvement in the lives of 80,000 families. The connectivity infrastructure has also created new opportunities in port, IT, and trading-related businesses for the locals. Developments in Thar and Gwadar are attributed to CPEC. All CPEC energy projects are environmentally compliant, and duly approved by internal and local relevant environmental authorities. No cases of land acquisition issues have been reported. All acquisitions followed existing regulations, and local stakeholders, such as those in Thar and Karot, have been compensated generously.

Are private businesses in Pakistan and their Chinese counterparts given equal opportunities in bidding for projects and infrastructure development?

Yes, all projects have been executed as per government-approved policies which are, and have been equally accessible for local companies. There was a myth that SEZs are exclusively for Chinese companies, but they are open to all.



Are the National Logistics Cell (NLC) and Frontier Works Organization (FWO) given preference over private contractors?

No, all CPEC projects have been executed by Chinese companies directly. However, FWO and NLC received preference due to their competencies in remote areas in non-CPEC Chinese projects, such as the Basha Dam and remote projects in Baluchistan, among others.

CPEC is projected as a game changer, but for whom? Who are the real beneficiaries?

There is a pervasive myth surrounding this. All details on CPEC are transparent. Admittedly, given its vast scope, there may be issues in grasping it fully, but the information is readily available on the websites of the Private Power & Infrastructure Board (PPIB), CPEC Authority, National Highway Authority (NHA), and other relevant government authorities.

The various elements contained in the CPEC Long Term Plan can indeed be a game-changer if Pakistani authorities manage them adeptly. The bigger onus lies with the Pakistani side, not the Chinese. When an entity offers support through investments, it's natural for them to anticipate and merit profits in line with the agreements signed. Regrettably, our domestic political turbulence has destroyed the pace, and eroded sentiment and trust of current and prospective investors, including those from China.

Labeling the loans Pakistan obtained from China as a "debt trap" is a mischaracterization. Pakistan, already indebted with loans from the PARIS Club members as well as IMF, World Bank, and Asian Development Bank, sought loans and grants to enhance its power and communications infrastructure. In response, China provided funds and machinery where needed.

We were supposed to set up and operationalize SEZs with the assistance of Chinese companies, but things did not progress as our Chinese counterparts had anticipated. The issues were internal politics and the absence of coherence in policies and actions – as far as CPEC is concerned.

It is not fair to fault China for our tardy decision-making, sloppy implementation, and bureaucratic hiccups.



Is Pakistan in a position to question any aspect of CPEC? Did Chinese companies dominate the entire CPEC project, and if so, why?

When Pakistan faced a severe economic crisis, no local or foreign investors were willing to invest in Pakistan because of the heightened risks. Disregarding those risks and in the pursuit of the BRI, the Government of China extended its support through the CPEC.

Several challenges that accompanied the CPEC project can largely be attributed to Pakistan's policies, which in certain instances strained relations. In some cases, Pakistan did not fully uphold signed contracts, even those underwritten by the government. For instance, Pakistan refused to provide dollars to CPEC power companies for fuel procurement, as stipulated in the signed Implementation Agreement (IA). Contrarily, the government department penalized these CPEC power companies for not generating electricity as per the signed Power Purchase Agreement (PPA).

Notably, neither Chinese officials nor representatives from power companies publicly expressed grievances about such treatment.



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The Center

CRSS Background

The Center for Research and Security Studies (CRSS) is a think tank/advocacy center launched in September, 2007. Founded by noted security expert and media personality Imtiaz Gul, it is committed to the cause of independent research, nonpartisan analysis, and informed advocacy. The goal is to help people inside and outside Pakistan understand this nation of 212 million people.

As an advocacy center, CRSS is dedicated to trigger critical thinking through discourse anchored in global democratic values such as socio-political diversity, rule of law, equal citizenry, and acceptance of diversity, fundamental human rights, all at the intersection of empirical research in security studies.

Core Values

CRSS strives to embed the national conversation in constitutionalism, and rationalize it over extremism and sectarianism. CRSS believes the path to peace is through embodying fundamental human rights, specifically:

- strict adherence to the rule of law, and stringent implementation
- informing the public on civic education, especially good governance and public accountability
- promoting equal rights for all citizens of Pakistan
- championing women empowerment
- providing training and opportunities to youth to veer them away from radicalization through critical thinking

CRSS' programming reflects its core values, which CRSS believes can, along with time-tested methodologies in strategic communications, impactful message development, research and advocacy result in a more tolerant and cohesive Pakistan.

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