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# An Abbreviated Leap: The Geopolitical and Geoeconomic Significance of the China – Pakistan Economic Corridor to the New Silk Road

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*SIT Study Abroad*

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An Abbreviated Leap: The Geopolitical and Geoeconomic Significance of the China – Pakistan  
Economic Corridor to the New Silk Road

Emma Nichols

Fall 2017

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## ABSTRACT

The objective of this analysis is to reveal the geopolitical and geoeconomic significance of the China – Pakistan Economic Corridor of the Belt and Road Initiative to its major stakeholders; Pakistan and China. In 2013, Chinese President Xi Jinping unveiled one of the most ambitious international infrastructure plans in modern history. The plan, in its earliest stages, is currently underway with its first portion, the China – Pakistan Economic Corridor (CPEC). Through careful preliminary analysis of the greater Belt and Road Initiative, the the China – Pakistan Economic Corridor, and history of Sino-Pak relations, the motivations of the collaborating nations are then manifested. This report examines a variety of geopolitical and geoeconomic subject matter; including domestic security, resource management, economic development, and inter state of both Pakistan and China. In order to capture the myriad of interests and complexity of the CPEC, four expert interviews are included in this report that captures the breadth of perspective surrounding the Belt and Road Initiative.

### **Acknowledgement**

I would like to express my thanks to Suddha Chakravarti, Jean-Francois Di Meglio, Jean-Pierre Lehmann, and Shuaihua Cheng. Their willingness to participate in my research as interviewees and share their expansive knowledge is an act of kindness I will be forever grateful for. To Dr. Gyula Csurgai, Dr. Heikki Mattila, and Aline Dunant, both your craft of the program and constant guidance is much appreciated. To parents, Alice and Fred, thank you for the chance to research and study in Switzerland.

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## Introduction

Revealed by Chinese Communist Party President and Secretary Xi Jinping in 2013, the Maritime Silk Road Initiative (MSRI) and the Silk Road Economic Belt (SREB) appear to be the most ambitious development strategy of the modern day. This plan, just years old, has the potential to rewrite current geopolitical context. Reviving the Great Silk Road of the past would effectively reestablish the physical transport and the maritime routes that transformed China into a regional power many centuries ago. The Silk Road Economic Belt would utilize Central Asia for land transit connecting China and the EU, while the Maritime Silk Road portion would tap various sea routes connecting China to Africa, the Middle East, and Southeast Asia. This is undeniably the largest proposal in modern history in that “ostensibly territorial actors are using their ability to control geographic entities to make decisions about economic investments.”<sup>1</sup> There is one collection of projects has been considered the cornerstone of the entire Belt and Road Initiative, The China-Pakistan Economic Corridor (CPEC), which will be a combination of both railway and highway transit networks that are to be completed in the coming years. This plan offers vast opportunities to Pakistan, China, greater Asia, Europe and across the globe.

This article will seek to examine the geopolitical and geoeconomic significance of The China-Pakistan Economic Corridor for the collaborators, China and Pakistan. The preliminary part of this paper introduces existing literature on both the Belt and Road Initiative and the CPEC. Within the analysis section of the paper, a historical analysis of Sino-Pak relationship will be explored before an extensive analysis of geopolitical and geo-economic interests of both China and Pakistan. This investigation concludes by speculating the future implications of

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<sup>1</sup> Blanchard, J., & Flint, C. (2017). The Geopolitics of China’s Maritime Silk Road Initiative. *Geopolitics*, 22(2). Retrieved September 16, 2017.

outcomes of CPEC's immense investment in Pakistani infrastructure and for the next BRI projects to be completed. This multibillion dollar project is the defining venture of the twenty-first century trade.

### **Literature Review**

Since the first disclosure in 2013 of the Belt and Road Initiative plan, literature regarding the project has been produced at a rapid pace as organizations around the world aim to analyze one of the world's most complex and broad infrastructure projects in the world. It is clear that mass media, academia, private firms, and think tanks have demonstrated an extreme interest in understanding the plan, hoping to uncover its true interests, economic implications, and impact on the future of the world order. A large body of work lies in investigating the Belt and Road initiative as a whole. Much of the trailblazing work centers on uncovering China's motives, as seen in "Understanding China's Belt & Road Initiative: Motivation, framework and assessment" by Huang and "Chinese views and commentary on the 'One Belt, One Road' initiative" by Michael Swaine.

For the purpose of this body of research, literature focused singularly on The China-Pakistan Economic Corridor was insightful. In sum, this report utilizes a broad range of peer-reviewed literature, academic journals, think-tank reports, and government documents. Journals such as "The China-Pakistan Economic Corridor: an assessment of potential threats and constraints" by Safdar Sial and "CPEC: Challenges and Opportunities for Pakistan" by Abid and Ashfaq are some of the preeminent, original CPEC analyses immediately following the CPEC plans being publicized in 2013. These articles capture challenges in the road ahead for CPEC development and devote close attention to the merits of the project for Pakistan. However, little

work has been completed on the geopolitical and geoeconomic relevance of the project for the world and its main stakeholders.

The main theoretical approach in this report involves the combination of the concepts of geoeconomics and geopolitics. Geopolitics serves as a new, advanced means for understanding global politics and the geographies that are products of complex state relations. Literature by French geopolitician, Yves Lacoste, is incorporated into this paper's theoretical analysis portion. Lacoste is a preeminent figure in the popularization of geopolitics in the international relations sphere. According to Lacoste, a geopolitical situation is any given "moment in historical evolution, by rivalries between powers on a relatively large scale, and by relationships between forces in different parts of the territory in question."<sup>2</sup> Much of the recent geopolitical analysis covers topics pertaining to Europe and Western cultures, however, with China emerging as the new global power, these geopolitical rules may be rewritten. Further work regarding geopolitics of the CPEC as a geopolitical topic is necessary for this world-changing infrastructure undertaking. Additionally, economist Pascal Lorot is considered to be an important figure in the development of geoeconomics as a type of international relations analysis. His work, including "Introduction à la Géoéconomie," clearly develops the geoeconomic framework with which states are analyzed in this report. In addition to work of geoeconomist Dr. Gyula Csurgai, this just decades-old theoretical framework provides the necessary tools to analyze a world of deep integration of trade and commerce. However, little research has explored the geopolitical and geoeconomic implications of such a project from these closely tied nations.

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<sup>2</sup> Lacoste, Y. (2007). Rivalries for Territory. *Geopolitics*, 5:2, pp.120-158, retrieved from: <http://dx.doi.org/10.1080/14650040008407683>

## **Research Methodology**

In an effort to understand the CPEC from a variety of lenses, both geopolitical and geoeconomic, this analysis utilizes both primary and secondary sources. By seeking out experts most knowledgeable about the BRI and CPEC realm, invaluable primary data was integrated into this investigation. These conversations, which were held in Geneva, Lausanne, and Paris, gave insight into current theories from a variety of institutions including international organizations, universities, and think tanks. Thereby, a comprehensive survey of a variety of perspectives was formed, allowing for an accurate understanding of the varied dialogue surrounding the CPEC and BRI at the moment. With the pace at which the Belt and Road initiative continues to grow and morph, such interviews served as a vital measure to capture current realities of the project not included in academic journals just months old. Ethical considerations in this study are negligible, however, necessary steps were taken to ensure adequate consent for the usage of interview content was granted. Every interviewee was consulted for their consent to be recorded and for their statements to be used in this report.

Additionally, official documents released by the People's Republic of China and Pakistani government on the Belt and Road Initiative and CPEC were crucial to this analysis. Pakistan's Ministry of Planning, Development & Reform provides materials on the project including detailed maps and long-term plans that provide a lens into the official plan of the CPEC.

Secondary data sources were also collected, including articles written by the experts necessary in order to understand both the greater Belt and Road initiative and specifically, the primary stakeholders involved in the CPEC project. Though the BRI is just years old, a plethora of studies and journals have been completed. These analyses and interpretations of the CPEC

provided context of the current themes Further, as economic interests are analyzed, quantitative data was also used in this report to capture their bilateral trade relationship, projections of plan costs and benefits, and insightful economic analysis of both China and Pakistan.

## Definitions and Explanations of Main Concepts

### The Belt and Road Initiative

As a whole, the initiative represents a more active foreign policy stance by the China's government than ever before, far different from Deng Xiaoping's famous words of a former chapter of China's foreign policy book that warned to "hide your strength, bide your time." The high profile proposal involves nearly 65 countries across Asia, Middle East, Europe, and Africa. In an effort to foster flows of investment and trade across the region, the Chinese government has sponsored the project that if successful, would connect roughly a third of global GDP, two-thirds of the world's population, and more than a quarter of all the goods and services.<sup>3</sup> This project comes at a timely nexus, as there is a clear and proven demand for the necessary finances to transform Asia's crippling infrastructure, with the Asian Development Bank estimating there is nearly \$23 trillion in infrastructure needs through 2030 across Asia's developing nations. This mega-project has potential to be the greatest regional cooperative effort in history, building new pipelines, highways, railways, and port systems spanning many international borders. As experts hope to better understand the ambitions and aspirations of this strategy, the Belt and Road initiative appears to be a manifestation of the recent Chinese economic and political context. Many around the world are watching to see where China falls on the "fine line between exerting influence and shaping the preferences of others and exercising more coercive and controlling functions" as the BRI project moves further towards completion.<sup>4</sup> While often portrayed as a

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<sup>3</sup> Ngai, J., & Sneader, K. (2016, July). Chinas One Belt, One Road: Will it reshape global trade? Retrieved from <http://www.mckinsey.com/global-themes/china/chinas-one-belt-one-road-will-it-reshape-global-trade>

<sup>4</sup> Swaine, M. D. (2015). Chinese Views and Commentary on the "One Belt, One Road" Initiative. *Hoover Institution* .

regional strategy, many policy researchers argue that at its core, the new Silk Road initiative is an approach to further open China to international markets.

### **The China - Pakistan Economic Corridor**

With the construction of nearly a 3,218-kilometer route, the China Pakistan Economic Corridor is a project with high aspirations for construction over next two decades. Its span will reach from “Gwadar on the Arabian Sea near the border with Iran and pass from the area of Gilgit Bultistan in North and connect to Kashgar to Xinjiang in the Western province of China.”

<sup>5</sup> The project now estimated to cost nearly US\$75 billion, in planners attempt to reach the goal of completion.<sup>6</sup> This investment will be spent new avenues for energy generation in Pakistan and the necessary infrastructure development for the corridor. The project is set to be completed in two phases, the first will involve the Gwadar port region and the second portion will involve the highway that serves as the vital connecting feature between Pakistan and China.<sup>7</sup> This port will become an ideal location for goods and energy resources to be connected to the land corridor. In fact, the project will reduce the current closest port distance from Chinese borders by 75% percent.<sup>8</sup> Thus, China will be able to benefit from increased efficiency and cost of the transport of goods while Pakistan will become a paramount transit point in the Eurasian and African region.

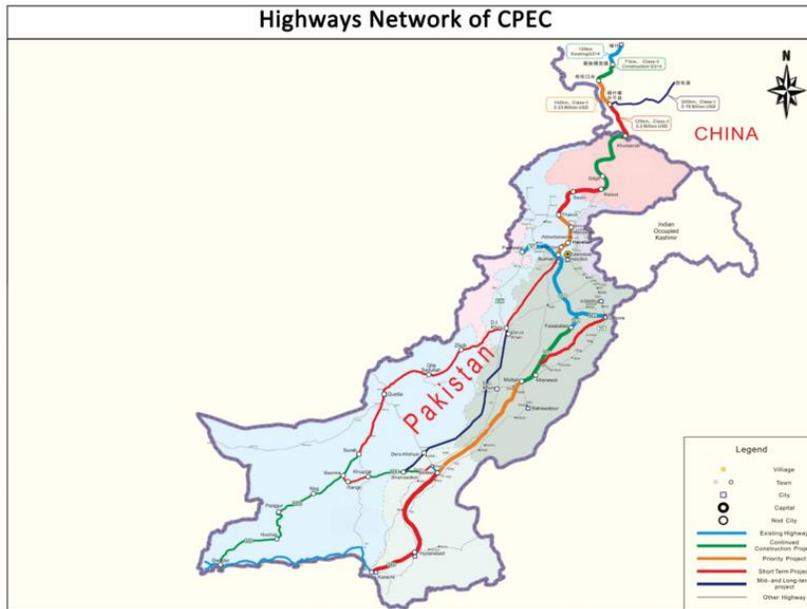
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<sup>5</sup> Ashraf, M., Shafiq, A., & Batool, S. (2017). China Pakistan Economic Corridor (CPEC): Analysis of Internal and External Challenges. *International Journal of Business*, 4(5), 106-111.

<sup>6</sup> Di Meglio, Jean-Francois. President of Asia Centre and Sciences Po Professor. 27 Septemeber 2017. Formal Interview. The Asia Centre, Paris.

<sup>7</sup> Di Meglio, Jean-Francois. President of Asia Centre and Sciences Po Professor. 27 Septemeber 2017. Formal Interview. The Asia Centre, Paris.

<sup>8</sup> Lehmann, Jean-Pierre. President of Evian Group and IMD Professor Emeritus. 9 November 2017. Formal Interview. Cafe Pre-Fleuri, Lausanne.

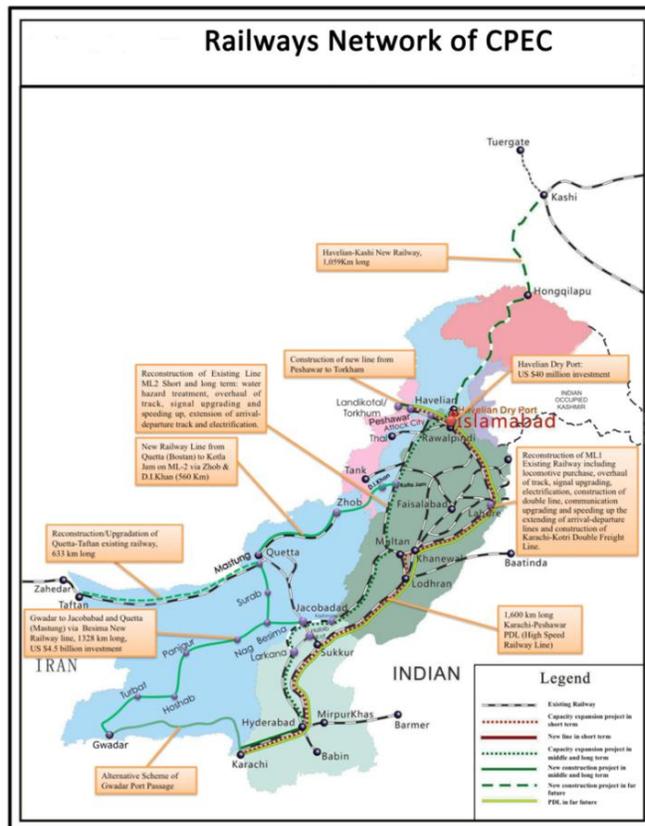


Source: Pakistan Ministry of Planning, Development, and Reform

Pakistan's Federal Minister for Planning and Development has outlined the main components of the project as the Gwadar Port, extensive communication infrastructure, energy infrastructure, and various industrial zones across the country<sup>9</sup>. The project commenced in April of 2015, and is well under its way. In sum, when the corridor reaches completion in what is estimated to be 2030, leaders of the project argue it will serve as the “primary gateway” for trade and commerce amongst China, the Middle East and Africa<sup>10</sup>.

<sup>9</sup> Ahmar, D. M. (2015). ,“Strategic Meaning of the China-Pakistan Economic Corridor”. *Institute of Strategic Studies Islamabad*2014 and, 39.

<sup>10</sup> Abid, M., & Ashfaq, A. (2015). CPEC: Challenges and opportunities for Pakistan. *Journal of Pakistan Vision*, 16(2), 142-169.



Source: Pakistan Ministry of Planning, Development, and Reform

## Geopolitics and Geo-economics

In recent years, foreign policy analysts have begun to recognize the enormous value of the geopolitical field. In a world of increasing complexity, geopolitics has emerged as an inferential means of political science. The central theme of geopolitics is the analysis of international relations within the context of a particular geography. It recognizes certain geographical conditions and their influences on the outcomes amongst a set of governing bodies. However, geography alone is not sufficient for an analysis, motivations of parties at stake must be considered.<sup>11</sup> Numerous factors are considered in a geopolitical analysis, including infrastructure, political stability, population size, natural resources, and values. Thus, with a

<sup>11</sup> Lacoste, Y. (2007). Rivalries for Territory. *Geopolitics*, 5:2, pp.120-158, retrieved from: <http://dx.doi.org/10.1080/14650040008407683>

geopolitical lens in this report, the CPEC will be analyzed as an act of politics on the global level, while giving the necessary attention to the factors at stake and new geographies which will become the outcome of this project. Because a project of such scale is set to change geographic boundaries and old limitations, it is vital to consider the geopolitical shift in the region that will result from the CPEC. With the Belt and Road initiative involving more than 60 countries, millions of square miles, and an amalgamation of state interests in the deal, a geopolitical framework for the purpose of identifying state interests is requisite.

Additionally, with this mega-project that is representative of the shift towards multilateral and bilateral economic action amongst states, this report incorporates a framework in which the states role in the public-private partnership interests are examined.<sup>12</sup> This concept of Geoeconomics involves the “analysis of economic strategies – notably commercial - decided upon by states in a political setting aiming to protect their own economies or certain well-identified sectors of it, to help their national enterprises acquire technology or to capture certain segments of the world market.”<sup>13</sup> Geoeconomics consider a breadth of factors including financial strength, export balance, human capital and international market share. From this perspective, nations work to manage fast-changing factors in a new world where globalization makes economic status a type of domestic security. To exemplify, China has steadfastly embraced the concept of the strategic state, paving the way for dozens of East-Asian and African nations to scale geoeconomic capacities. Further, this concept of geoeconomics has become an increasingly important framework for the global scene because of accelerating interconnectedness of states and international firms.

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<sup>12</sup> Csurgai, G. (2017). Geoeconomic strategies and economic intelligence. *Advances in Geoeconomics*, 287-296.

<sup>13</sup> Lorot, P. (1999). *Introduction à la géoéconomie*. Paris, France: European Institute of Geoeconomics.

## Analysis

### History of The China-Pakistan Relationship

The PRC and Pakistan's alliance date originates in 1950, just years after the creation PRC. The long history of camaraderie and mutualistic measures is rooted in their strategic geopolitical necessity to remain on good terms with one another. "In spite of believing in an absolutely opposing ideology it possible for two states with different socio-political systems to establish durable ties."<sup>14</sup> Therefore, Sino-Pak relations were founded on a very cordial footing and have been followed by decades of both public and private maintenance of their foreign relations with China. Their history of economic cooperation began "in January 1963 when both signed the first bilateral long-term trade agreement" and more recently with additional in 2006 and 2009<sup>15</sup>. Today, China is now Pakistan's major trading partner, with Pakistan's exports to China increasing by 400% in just the past six years.<sup>16</sup>

Pakistan is known as the only nation which China refers to as an "all weather strategic partner," bestowing great opportunity for Pakistan as China sets its sights on greater world influence in the century to come. With this relationship, it is reasonable to understand why the CPEC was chosen as the first project of the overall New Silk Road vision. Further, many consider that the two nations' history of collaboration on "major infrastructure projects in Pakistan in the past, including Gwadar Port and the Karakoram Highway" has considerably influenced their plans for CPEC<sup>17</sup>. Attempts of a tremendously smaller scale have been made in

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<sup>14</sup> Javaid, U., & Javaid, R. (2016). Strengthening Geo-Strategic Bond Of Pakistan And China Through Geo-Economic Configuration. *Pakistan Economic and Social Review*, 54(1), 123-142.

<sup>15</sup> Abid, M., & Ashfaq, A. (2015). CPEC: Challenges and opportunities for Pakistan. *Journal of Pakistan Vision*, 16(2), 142-169.

<sup>16</sup> Sial, S. (2014). The China-Pakistan Economic Corridor: an assessment of potential threats and constraints. *Conflict and Peace Studies*, 6(2), 24.

<sup>17</sup> Ritzinger, L. (2015). The China-Pakistan Economic Corridor. *Regional Dynamics and China's Geopolitical Ambitions. The National Bureau of Asian Research*.

the past to increase border connectivity between the two nations. It is likely that this massive undertaking will only strengthen the Sino-Pak bond that has grown over the years.

## Significance for China

### Economic Slowdown

In the recent years, the Chinese economy has demonstrated a fall towards more typical levels of growth in contrast to its era of explosive growth following the years of Great Leap Forward and after. Since 2015, the Chinese economy has stabilized and is no longer experiencing GDP growth of upwards of 9% of the past.<sup>18</sup> Many experts believe this slowing domestic production has likely been caused by “overproduction, a declining return on capital coupled with excess reliance on capital investment, and rising labor costs.”<sup>19</sup> Additionally, China’s West and Central provinces have demonstrated weaker performance due to the geographic issue of proximity to ports and central transport locations.<sup>20</sup> With their economy losing momentum, the CPEC would help reconfigure geographic domestic trade orientation towards untapped surrounding regions that are better accessed by the Gwadar Port. Also, the rising middle class of developing nations in Northern Africa and Eurasia would serve as a new consumer base for Chinese goods, allowing China to continue its record of unmatched growth.<sup>21</sup> Thus, China’s geoeconomic interests in CPEC development lie in the desire better access new markets to ensure continued growth of exports.

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<sup>18</sup> OECD: Economic Survey of China 2017. (2017). Retrieved from <http://www.oecd.org/china/economic-survey-china.htm>

<sup>19</sup> Blanchard, J., & Flint, C. (2017). The Geopolitics of China’s Maritime Silk Road Initiative. *Geopolitics*, 22(2). Retrieved September 16, 2017.

<sup>20</sup> Li, M. (2015). China’s “One Belt, One Road” Initiative: New Round of Opening Up.

<sup>21</sup> Huang, Y. (2016). Understanding China's Belt & Road Initiative: Motivation, framework and assessment. *China Economic Review*, 40, 314-321.

## IMF EXPECTS CHINA GDP GROWTH TO SLOW IN COMING YEARS



Note: Estimates start after 2014

Source: IMF

Source: International Monetary Fund, 2017

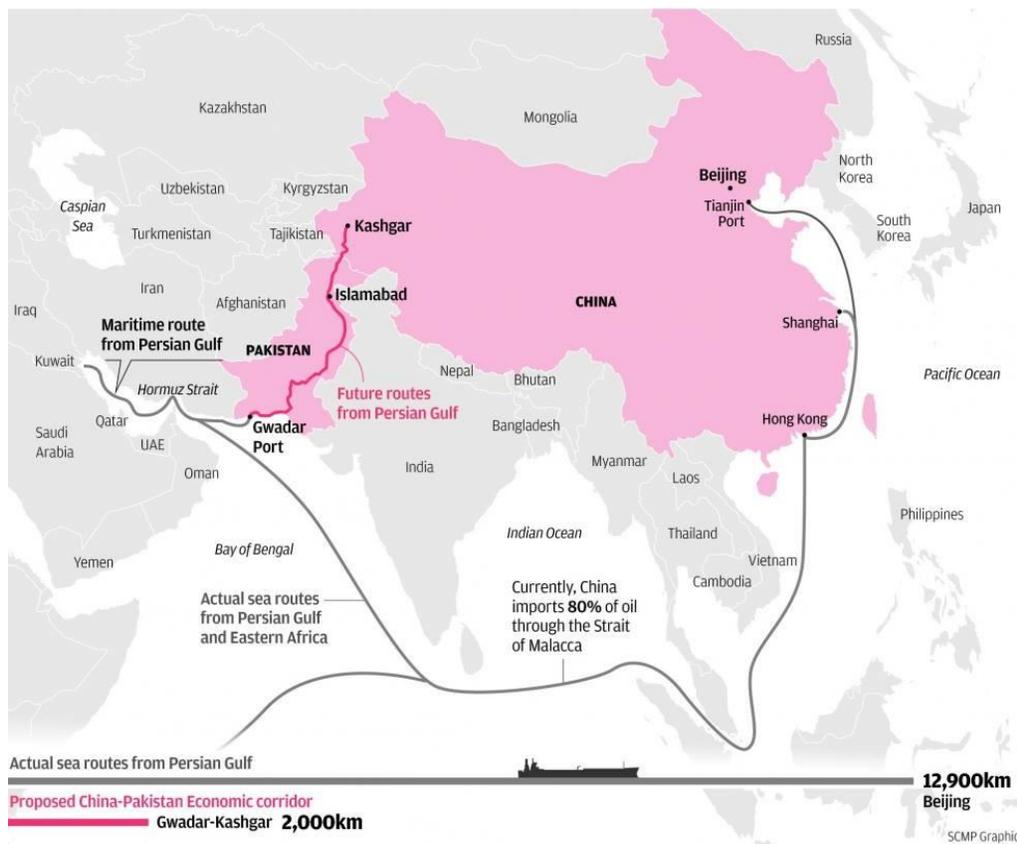
### Geography

For China, the ultimate geographic goal is the creation of a strategic port that allows access to the sea without US and Indian influence and the construction of a port to allow for the faster land transit of goods. This “is the development of Gwadar port and Gwadar region...a firm and trustworthy long-term foothold in the Indian Ocean and adjacent to the Persian Gulf, efficiently making it a two-ocean power”<sup>22</sup>. Thus, Pakistan is a crucial partner for China as it links China to the Central Asia, Southern Asian region and the Middle East and its major deep-sea port Gwadar offers direct access to the Indian Ocean and beyond. Further, Chinese ports have continued to be overwhelmed by sheer volume of their trade levels, which fuels their desperate need for additional inland route improves.<sup>13</sup> The creation of the Gwadar port would

<sup>22</sup> Irshad, M. S. (2015). One Belt and One Road: Dose China-Pakistan Economic Corridor Benefit for Pakistan's Economy?.

<sup>13</sup> Brugier, C. (2014). China's way: the new Silk Road. *European Union Institute for Security Studies, 1*.

reduce the overflow that is currently in all Chinese ports. Additionally, it should be noted that the CPEC will connect Pakistan with China’s western region, a territory in need of economic development.<sup>23</sup> This will be very beneficial to the region that is fraught with separatist movements and inadequate levels of commerce. In sum, the geographical implications of the project are economically advantageous for China, since it will lessen distance and time for goods to reach the Middle East, Africa, and Europe. The geostrategic level of connectivity will bring China closer with new trade partners and consumers in these regions.



Source: Pakistan Ministry of Planning, Development, and Reform

<sup>23</sup> Chakravarti, Suddha. EU Business School Professor. 30 October 2017. Formal Interview. The Warwick Hotel Café, Geneva.

## Energy Deficits

One of the key merits of the mega-project the possibility of reduced reliance on the Strait of Malacca. Currently, much of China's oil supply passes through the Strait of Malacca. However, this region is confronting critical challenges such as international territory disputes and growing levels of pirate attacks. Yet, the Pakistan–China Energy and Economic Corridor will allow China to bypass the Strait of Malacca and circumvent all of the challenges plaguing the Strait of Malacca. Additionally, investing in a pipeline to avoid the South China Sea and the Indian Ocean will allow them also to bypass “strong U.S. naval presence could allow for blockades at choke points”<sup>24</sup>. Energy is a crucial resource, and as a nation which has recently overtaken the position as the greatest net consumer of oil in the world, secure channels are vital to their growing economy and consumption levels. Additionally, in the early 2000s, China increased its dependence on Russia for oil nearly thirtyfold in efforts to limit its reliance on the Middle East amidst its instability. Now, many experts postulate that a serious incentive of the Belt and Initiative is to ensure new connectivity to Central Asian energy producers, thereby eliminating the ability of Russia to utilize its energy resources as political pressure.<sup>25</sup> Thus, from a geopolitical lens, it can be inferred that China is seeking greater sovereignty for its commerce. The CPEC allows direct, undistracted transit to and from the sea. It is free from international influence and allows China to reduce influence from rival powers.

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<sup>24</sup> Ritzinger, L. (2015). The China-Pakistan Economic Corridor. *Regional Dynamics and China's Geopolitical Ambitions. The National Bureau of Asian Research.*

<sup>25</sup> Brugier, C. (2014). China's way: the new Silk Road. *European Union Institute for Security Studies, 1.*

## Chinese Firms

In recent decades, Chinese firms have generated over capacities that could either be mitigated by the expansion of markets or shrinking of capacities. In an attempt to analyze China's recent moves in a geoeconomic lens, it can be noted that both the BRI and CPEC foster the ideal environment for national enterprises to capture new markets and expand internationally. Chinese firms cannot continue to spend domestically, as they have exhausted the market and must look elsewhere for further growth that mirrors the growth which they had a decade prior.<sup>26</sup> Further, it is likely that Chinese contractors will serve as project managers in both the CPEC and a majority of greater BRI mega-projects due to their expertise and capacity to produce high-quality infrastructure. To exemplify, Pakistan made the "decision in February 2013 to award the contract for construction and running of the Gwadar Port to a Chinese state-run company"<sup>27</sup>. It is clear that both the CPEC and BRI create favorable conditions in which Chinese state-owned enterprises can be awarded projects. By carrying out the construction of the CPEC, Chinese SOEs serve to benefit from this step toward internationalization.

## International Terror Threat

The initiative can also be analyzed as a strategic move to promote security in the Eurasian region that as seen outbursts of extremism and terror attacks. With growing transnational security threats in the region, Chinese leaders believe that economic despair could be at the root of these unstable and radicalized nations.<sup>28</sup> China cares about the long-term stabilization of Pakistan and riddance of these terror groups that the international community has

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<sup>26</sup> Chakravarti, Suddha. EU Business School Professor. 30 October 2017. Formal Interview. The Warwick Hotel Café, Geneva.

<sup>27</sup> Rizvi, H. A. (2015). The China-Pakistan Economic Corridor: Regional Cooperation and Socio-Economic Development. *Strategic Studies*, 34(4), 1-17.

<sup>28</sup> Minghao, Z. (2015). China's new Silk Road initiative. *Istituto Affari Internazionali, Rome*.

suspected to be there.<sup>29</sup> President Xi has noted how the project can help build an Asian security architecture, with greater cohesion across networks. In an assessment of the geopolitical impact of the proximate security threats, it is crucial to consider how pressing vulnerabilities in the region shape the vision of the initiative. Within this framework, the CPEC can be considered a tool against extremism that is born out of poverty and destitution in some regions of Pakistan. Within this context, it is clear through Xi's speeches that Beijing presumes increased connectivity with Pakistan is the answer to reduce overflow of terror threats to China.

### **Political Influence**

Additionally, the desire to increase China's international political influence, outward-oriented regional strategies have steadily become a focus on Chinese leaders. The initiative would serve as a "multitier inter-governmental mechanism for macro-policy dialogues, deepen shared interest, reach new consensus and promote political trust"<sup>30</sup>. With this push for a cooperative platform, China still remains the initiator and funder, making its interests supreme in this new cooperative arena. In assessing Chinese inward political concerns, it is important to note China remains of few Communist systems in the world. Leaders of the regime are motivated to preserve positive growth in order to keep protests and democratic movements at bay.<sup>31</sup> Successfully investing in means to increase the bandwidth of demand for Chinese goods would sustain growth the nation has experienced for years, keeping citizens satisfied with the People's Republic.

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<sup>29</sup> Cheng, Shuaihua. Managing Director of International Centre for Trade and Development China. 13 November 2017. Formal Interview. Starbucks, Geneva.

<sup>30</sup> Huang, Y. (2016). Understanding China's Belt & Road Initiative: Motivation, framework and assessment. *China Economic Review*, 40, 314-321.

<sup>31</sup> Aris, S. (2016). One Belt, One Road: China's Vision of "Connectivity".

## Financial Motives

Financing a grand infrastructure project such as the Belt and Road initiative requires an unparalleled amount of capital than ever before seen in world history. Thus far, key financing needs appear to be sourced from an amalgamation of Chinese Banks and multilateral development banks. Meant to complement the World Bank, the creation of the Asian Infrastructure Investment Bank (AIIB) has been led by the Chinese who have contributed nearly one-third of its initial capital totaling \$100 billion.<sup>32</sup> Similarly, the Silk Road Fund, created purely for the backing of Belt and Road projects, is also funded by a variety of Chinese institutions. Multilateral development banks typically offer a variety of advantages to participating parties; including shared risk and co-financing of benefits of reaped from mutually beneficial projects such as infrastructure. Further, the Chinese Development Bank and the Bank of China have risen as the clear majority funders of the project. Regardless of the institutional source, Chinese-led banks and institutions will be funding the majority of development prerequisites. There is a diplomatic desire to gain influence and respect of these nations by their willingness to invest more heavily than any other project participant. In a geoeconomic lens, these investments abroad are a major tool of soft power for China.<sup>33</sup> The Chinese government's funding and shepherdship of the BRI and CPEC is a large-scale mobilization of investment overseas. As China works and invests in bringing better global connectivity, it can be inferred that they expect significant returns.

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<sup>32</sup> Chin, G. T. (2016). Asian infrastructure investment Bank: governance innovation and prospects. *Global Governance: A Review of Multilateralism and International Organizations*, 22(1), 11-25.

<sup>33</sup> Chakravarti, Suddha. EU Business School Professor. 30 October 2017. Formal Interview. The Warwick Hotel Café, Geneva.

## Significance for Pakistan

### Internal Infrastructure

For decades, Pakistan has dramatically benefited from China's commitment to helping foster a stable economic atmosphere in their country. It is evident that China views a Pakistan as a worthwhile venture because of its strategic location geopolitically. For Pakistan, the potential of more efficient means of transport will further allow them to absorb market share from China. Over 80% of the world will reside in a developing nation by 2020, most of which live in the Eurasian region affected by Belt and Road initiative.<sup>34</sup> Bringing the necessary capital and construction capabilities to Pakistan will provide the necessary climate for increased transnational firm presence and international foreign investment. Pakistan has struggled to attract international investment from other nations, making China a vital benefactor as it looks ahead to further economic development. Lack of infrastructure stock in Pakistan is a pressing issue, with its population growth and mass urbanization. The initiative serves a solution to issue that neither local Pakistan governments or private Pakistan firms could solve alone.

### Energy Crisis

In any nation, the source and stability of its energy are crucial to its economic engine. Pakistan, however, has suffered from severe power shortfalls. Businesses experience frequent "power blackouts and load shedding (deliberate blackouts) in every area around Pakistan."<sup>35</sup> This CPEC is the first concrete plan for solving the energy crisis that will help the nation fully realize its growth potential. It has been estimated that shortages prior to the CPEC outset reached nearly 40% of necessary capacity. The CPEC energy projects are apart of the highest priority plans of

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<sup>34</sup> Minghao, Z. (2015). China's new Silk Road initiative. *Istituto Affari Internazionali, Rome*.

<sup>35</sup> Abid, M., & Ashfaq, A. (2015). CPEC: Challenges and opportunities for Pakistan. *Journal of Pakistan Vision, 16*(2), 142-169.

the megaproject, ideally being complete by the projected 2019. Any nation's geoeconomic strategy must ensure that adequate resources that serve as precursors to growth are accessible and reliable. This will perhaps be a transformative outcome of the BRI, bringing necessary energy resources to nations such as Pakistan, allowing businesses to flourish and millions of Pakistani people have access to steady energy.

### **International Investment**

With estimates of the total cost of the entire CPEC project now totaling \$75 billion, this is the highest concentrated and most enormous foreign direct investment into the Pakistani economy in the nation's history.<sup>36</sup> The total investment cost represents more than a quarter of Pakistan's GDP. Thus, the overall impact on Pakistani economy as a whole will be unprecedented. Pakistan has struggled to attract foreign direct investment due to the instability troubling the country for years. However, for Pakistan, their participation in this project can be viewed as the necessary strategic geoeconomic precedent for a future of drawing greater international investment attention. China is already Pakistan's largest investor, and this development of major sectors such as telecommunications and energy will set Pakistan up for easier feasibility of trade.<sup>37</sup> Pakistan's economic development will continue to accelerate when it becomes a transit hub in the region for Central Asian countries, such as Afghanistan and Uzbekistan.

### **Internal Security**

For decades, Pakistan has long been riddled with internal security risks. Terrorism and civil strife from separatist groups have and will continue to be Pakistan's significant barrier to

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<sup>36</sup> Di Meglio, Jean-Francois. President of Asia Centre and Sciences Po Professor. 27 Septemeber 2017. Formal Interview. The Asia Centre, Paris.

<sup>37</sup> Cheng, Shuaihua. Managing Director of International Centre for Trade and Development China. 13 November 2017. Formal Interview. Starbucks, Geneve.

pursuing necessary economic development. Firstly, Pakistan has been a hot bed for terror groups due to their lack of good governance.<sup>38</sup> Leaders and experts believe the continued existence of these toxic groups lies in Pakistan's unfortunate high poverty rates; almost every 4 out of 10 Pakistanis subsist in poverty. Bringing prosperity across can be considered a geopolitical interest to combat terror groups by working to combat the causal linkage between poverty and violence that has plagued Pakistan. In addition, the project is set to cross Pakistan's most volatile area, including that of the ethnic minority the Balochs.<sup>39</sup> However, the geoeconomic strategy of the CPEC can be understood as a means to bring new opportunities for Balochistan people. Their desperate need for economic growth concentrated in the geographic region in the minority territory may lead to higher satisfaction with the Pakistani government and its leaders.

### **Tensions with India**

With the Gwadar Port becoming a predominant economic zone, the role of India in trade in the Indian ocean will inevitably be diminished to a degree. The creation of the port will likely absorb a portion of economic activity from Indian ports, curtailing India's influence in the seas. The completion of the CPEC will cause a greater economic pivot in the region, in Pakistan's favor and away from India. Additionally, it must be recognized that a portion of the CPEC crosses contested lands between India and Pakistan dating to 1947, a move by India's regional foe, Pakistan, and economic foe, China, against their favor.<sup>40</sup> With the CPEC currently being constructed in the contested Jammu and Kashmir regions, the project is ripe to bring prosperity

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<sup>38</sup> Chakravarti, Suddha. EU Business School Professor. 30 October 2017. Formal Interview. The Warwick Hotel Café, Geneva.

<sup>39</sup> DJANKOV, E. B. S., & Miner, S. (2016). China's Belt and Road Initiative. *Motives, Scope and Challenges, PIIIE Briefing*, 16-2.

<sup>40</sup> Lehmann, Jean-Pierre. President of Evian Group and IMD Professor Emeritus. 9 November 2017. Formal Interview. Café Pre-Fleuri, Lausanne.

to the region under the claim of Pakistan. This construction on contested land is just one of many geopolitical statements towards India with the CPEC, further injuring their bilateral relations. Thus, a geoeconomic framework would suggest that such financial strength in the region would increase the newfound potency of Pakistan's claim.

### **Conclusion**

China's proactive decision to fund and shepherd the creation of twenty-first connectivity in the Eurasian region must be analyzed with a closer look at individual development projects and stakeholders. It is clear that despite the globalized world of 2017, geography remains a driving force for major powers. In the analysis of regional dynamics, it is clear that China's contemporary strategy accounts for these processes. The People's Republic has been stern in stressing that there are no special political conditions or rationale behind the revival of ideals of the historic Silk Road. Pakistan has been a key relationship for China for many years, but the CPEC represents further advance to access a new gateway to the Middle East.

For China, it is clear the People's Republic is principally motivated by geopolitical/geoeconomic desires including to reinvigorate economic growth, rewrite geography of Asia's economic hubs, remedy energy, facilitate domestic firm expansion, pursue their "go-out" economic policy, and seek soft power political influence. For Pakistan, it seems the nation is most driven by geopolitical/geoeconomic desires including to improve infrastructure, solve their energy crisis, promote foreign direct investment in their country, mitigate internal security threats, and reduce India's relative power in the region.

As the trails of the various land and maritime routes are developed, many will still question whether the greater Belt and Road project is a result of the People's Republic global

benevolence or a tool to escalate China's domination of the Asian region and beyond. However, the CPEC is only a further product of a decades-long relationship between Pakistan and China that has proved to be mutually advantageous. The world stage will be watching as the CPEC continues to mature, and allows for "a deeper understanding of the New Silk Road by looking at how the CPEC develops and impacts Pakistan and its neighboring countries."<sup>41</sup> The real value obtained with the design and implementation New Silk Road is the soft power it develops. By working alongside and initiating the cooperation of over 60 governments, China will gain a new level of international clout in all arenas. However, the CPEC will certainly reposition China in the global geopolitical landscape. It can now be concluded that the CPEC is not an act of pure bilateral relations, but rather a project with expansive geoeconomic and geopolitical interests that affect dozens of nations across the world. China is now the dominant world player in active multilateral development and financial diplomacy, and the nation is ushering in a new era of globalization.

Looking ahead to the future and possibly completion of the CPEC project, future studies could examine challenges faced by Pakistan and China in the development of the CPEC, a first of its kind. Further, as plans are fulfilled, economic outcomes and marginal changes for the two nations should be examined closely. Understanding the relative economic benefits of the CPEC and the marginal gains will reveal whether China will gain as much as it invests in the region. Additionally, its outcomes and implications are precepts for the greater New Silk Road initiative and its success. The world is waiting to see how this opening chapter of the Belt and Road Initiative concludes.

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<sup>41</sup> Esteban, M. (2016). The China-Pakistan Corridor: a transit, economic or development corridor. *Retrieved February, 9, 2017.*

## **List of Abbreviations**

CPEC: The China – Pakistan Economic Corridor

BRI: Belt and Road Initiative

MSRI: Maritime Silk Road Initiative

SREB: Silk Road Economic Belt

PRC: People’s Republic of China

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