

## Question No. 1

China and Pakistan are celebrating the decade of CPEC. Critically evaluate success and failures of project.

### 1. Introduction:

China launched Belt and Road Initiative in 2013 as part of a global development strategy. Having "All Weather Friendship" with Pakistan, China launch CPEC (China Pakistan Economic Corridor) which is the heart of BRI in Pakistan. This multi-billion dollar project was termed as a "gamechanger" for both the countries involved as well as regional development. CPEC will help Pakistan in improving its economy and trade, regional connectivity, developing infrastructure and modernization. In the same way, China's connectivity to the Indian Ocean through Pakistan will not only benefit it in trade (an alternative route to Malacca Strait), but also in connecting with the Middle East as part of its push to be a dominant power in the region. The first phase was due to complete in 2020 but the pandemic and other economic crisis led to delay and now in 2024, China is ready to upgrade CPEC to Phase II. With <sup>more than</sup> 70,000 new jobs and many energy projects nearing completion, CPEC is still lagging behind on its 2030 vision. Additionally, being the 3rd largest recipient of Chinese loan, Pakistan debt burden is mounting.



## 2. Success Metrics of CPEC.

a) - More than 50 projects worth \$25 billion are completed under CPEC in Pakistan.

With major focus of China Pakistan Economic corridor on infrastructure development to increase connectivity, the early fruits of CPEC has yielded favourable results. The pledged ~\$25 billion have been utilized in development of road and railway projects with M1, M2 and M3 railway nearing their completion phase. The "Gwadar airport" under CPEC will also soon be inaugurated. Additionally the clean energy projects under CPEC are also expected to be completed in next 4-5 years.

b) - Completion of Gwadar Smart Port City Master Plan: Increased connectivity with Middle East.

The master plan for Gwadar Smart Port city was to ensure modernization and sustainable development of Gwadar city and port by creating more local jobs and inclusive environment that contributed to socio-economic uplift of Makran coast through trickle down effect. So far, the Gwadar Development Authority has created more than 90 jobs and a governance model for better administration.



c): Vocational Institutes and technical training programmes launched at Gwadar.

With the help of Chinese government grant, many modern vocational and training institutes are set up in port city which equips the local with desirable skills and also created more than 200 jobs.

d): Free zone completion and boost in export base of Pakistan.

Following the creation of free zone in Gwadar, the trade with Pakistan saw a push. Pakistan exported its first shipment of red chillies to China in CPEC agriculture cooperation - with a potential of \$20 billion exports to China, Pakistani products range from vegetables like red chilli, to seafood market worth \$500 Million.

e): Under Construction Projects:

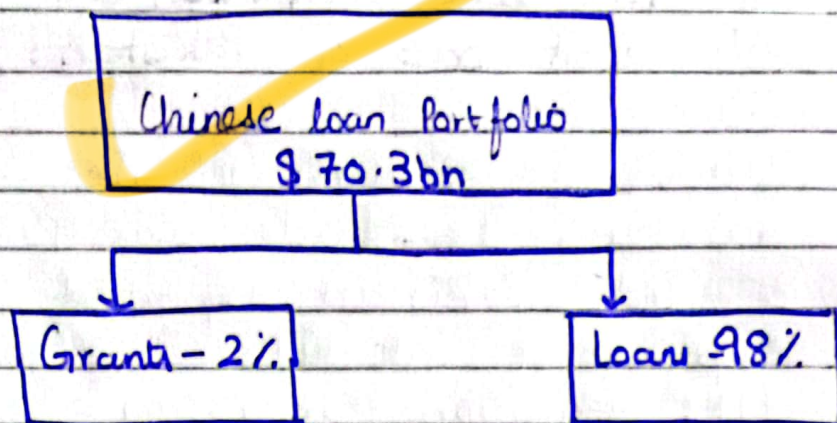
Many projects under CPEC are nearing completion in the coming year - For example, the Desalination plants to solve water crisis to some extent, New Gwadar International Airport to increase accessibility, coal-fired power projects to deal with the energy short fall etc.



### 3. Failures of CPEC:

a): Debt trap: Pakistan being the third biggest recipient of Chinese loan:

According to AidData, Pakistan is in a debt trap under CPEC. Pakistan's public debt exposure to China exceeds \$67 billion which is approximately 19.6% of GDP.



Considering the sector wise distribution, energy portfolios owe the biggest debt i.e. 40% of total loans followed by general budget support and transport.

b): Governance failure: red-tapism leading to delay in projects implementation thus increasing cost.

The delays in the project implementation has led to increase in cost of CPEC. The first phase expected to be completed in 2020, is just now completing and upgradation to second phase is underway.



c): Lack of <sup>tax</sup> reforms: revamping of circular debt could have saved the additional cost.

Lack of privatization of Discos and revamping of tax regime has led to an additional \$28 billion burden on loan repayment due to circular debt. The potential \$30 billion worth energy projects to be launched by CPEC have lost their ground because of implementation by IPPs (Independent power producer) and not government itself due to irregularities.

d): Terrorist attacks on Chinese nationals - cause of delay and friction between two countries.

The Anti-state elements in Pakistan have been launching terror attacks on Chinese Nationals especially since 2021 to sabotage the projects. This has been a cause of friction / concern between both Pakistan and China and has led to multiple delays.

e): Political and economic instability in Pakistan and China's own slow economic growth:

The political unrest in Pakistan followed by the worst economic crisis in 2021-23 has been a reason why



CPEC can't bear fruit. Because of China's own economy slowdown, since COVID-19 has led to cutdown of overall BRI financing by upto 20% since 2020.

#### 4) Conclusion:

Before it was formally launched, CPEC was perceived as a gamechanger for the region. It was an alternative route for Chinese trade in case of choking of Malacca route and hence a very essential step by growing China's dominance in the region. Following the pandemic, economic and political instability of Pakistan, CPEC has been unable to bear the fruits it promised but still is underway. The failure of CPEC can only be temporary if policy reforms are introduced and proper governance structure implements it.

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## Question No. 3

KSA-Iran rapprochement ..... Discuss.

### Introduction:

In 2023, the historic rapprochement between Iran and Saudi Arabia, mediated by China has set the stage for changing regional and global dynamics. The diplomatic ties between Iran and KSA was restored and both states agreed to respect the sovereignty of their lands and non-interference in internal matters. The China-brokered deal has brought positive implications for the middle Eastern landscape.

Iran and Saudi Arabia, once a long standing conflict, can now contribute to regional stability being the dominant forces in the region. The bloc politics of Shia-Sunni sectarianism will also diminish.

The USA's plan to sanctionize Iran and isolate it has also failed following the rapprochement and China has taken the stage as a "mediator". With better Iran-Muslim relations between two states, the impacts on Pakistan can also be positive. ~~Better~~ Better ties with Iran and Saudi Arabia will help boost the economic growth, agricultural exports, investment and tourism in Pakistan.



## 2. Positive implications on the Middle East conflict

a): China replaced the USA's role of mediation in Middle East, Changing "Regional Dynamics"

China brokered deal has set a precedent for the region that peace is still possible and Middle East can gain stability to prosper in every field. The diminishing USA influence especially the military presence will help solve conflicts in Lebanon, Syria etc.

b): End to sectarian violence and proxy wars by Iran and KSA.

The Shia-Sunni conflict dominating the proxy wars by both states will be ~~decrease~~ diminished and other states will no longer be used as a weapon to impact one state's dominance in the region. The diplomatic ties between Saudi Arabia and Iran will also facilitate ease of tension in the neighboring states of Jordan, Lebanon and Syria etc.



### c): Muhammad Bin Suleman's Vision 2030 and "New Europe".

According to Saudi Arabia's vision of 2030, Middle East will evolve as a region of reform and prosperity will spread in all states. Talking to World Economic Forum, Muhammad Bin Suleman said

"The Middle East will become the new Europe."

### d): Impact on Lebanon crisis & Prospects for ceasefire.

The proxy war in Lebanon can also come to an end following the rapprochement between two states. The Houthi rebels and non-state actors will also be eradicated eventually.

### e): Israel - Palestinian conflict - chances of ceasefire and two state solution.

Following the Israel's aggression on Palestine state, the KSA - Iran rapprochement will have a positive aspect on the crisis. The Middle East will finally have a dominating power nexus which supports peace and prosperity. Iran and KSA have called for a ceasefire respectively and a diplomatic approach will help in ceasefire and bringing two-state solution possible.



## Implications on Pakistan :

a): Prospects of Investments in Pakistan from middle east - Industrial zones and agricultural fields :

b): Better trade relations with Iran and expansion of trade market.

c): Investments in technological field with the aid of KSA and UAE etc .

d): Chances for resolution of Kashmiri conflict by China mediation .

e): Oil refinery set up by Iran and KSA in Pakistan.

f): Special economic zones and reducing border tension with Iran .