Date: Current Affairs-02 Day:

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Q4- "CPEC Phase-II : Challenges, Prospects and Policy Measures"

1- Introduction:

CPEC is a multi-billion dollar flagship project of China's Belt and Road Initiative (BRI). Initiated in 2015 with $62 billion investment, it has officially entered into its phase II. While, the phase-I focused on energy and infrastructure projects, Phase II is focused on technology, trade, agriculture development and regional connectivity. Thus, it serves as geo-economic, geo-strategic powerpack for Pakistan. However, economic and financial constraints, security issues, sovereignty concerns etc. pose major challenges. Therefore, Pakistan needs to adopt policy reforms to maintain a strategic balance particularly with the USA as well as local economic and skill development are also essential.

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1- Prospects of CPEC Phase II:

Following are its major opportunities.

i) Economic growth and infrastructure development:

CPEC provides huge potential to boost economic growth by accelerating infrastructure development like roads, highways, railways and industrial projects. According to the Research and Planning Department of Pakistan, CPEC will bring 2 million jobs by 2030.

ii) Energy sector development:

CPEC phase-II provides energy potential by energy sector reforms. It has initiated the development of:

- Quaid-e-Azam Solar Park (1000MW)
- Jhimpir Windfarms.
- Port Qasim Power Plant (1320MW)

It will boost industrial sector as well as provide energy for domestic consumption.

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iii) Highways and Railway line project:

CPEC also ensures highway and railway projects to boost transportation and connectivity. It has proposed Main Line-1 (ML1) railway line to empower Pakistan's railway sector. Moreover, Multan-Sukkur and Karakoram Highway also ensure connectivity.

iv) Special Economic Zones:

CPEC also proposed nine special economic zones to:

- boost industrial growth.
- export diversification
- value addition of goods
- job creation.

Out of these nine, Rashakai Economic Zone and Allama Iqbal Industrial Project Punjab have been initiated.

v) Agriculture Sector development:

CPEC aims to strengthen Pakistan's agricultural sector by transfer of technology, irrigation projects, cold

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storage, AI based farming techniques etc. providing opportunity to boost agricultural output.

iv) Technology transfer and industrial development:

CPEC aims to transfer Chinese technology in Pakistan to boost industrial growth. It aims to reform manufacturing especially pharmaceuticals, market etc. to boost GDP growth by 2-2.5%..

v) Regional connectivity:

CPEC is not only a bilateral economic project to benefit Pakistan and China. It is meant for regional connectivity. It aims to incorporate Afghanistan and land-locked Central Asian states to connect to Gwadar to strengthen regional trade and connectivity. Moreover, Iran is also interested in joinning its Chabahar port with Gwadar.

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viii) ~~Port Gawa~~

viii) **Gwadar Port project:**

CPEC, with Chinese overseas port development authority, aims to develop Gwadar port i.e. deep sea port and open ocean port. A package of $700 is proposed to develop it to assume an annual 200 million cargo handling capacity. By the proximity of Gwadar to Strait of Hormuz, it brings a strategic leverage for the country.

3- Challenges to CPEC-II:

Following are the major challenges in this regard:

i) **Economic and financial constraints:**

Pakistan faces chronic economic challenges which hider development. The over reliance on Chinese loans have created a threat of debt trap and sustainability issues. Hence, Pakistan has to choose alternate institutions i.e. Asian Development Bank, which has increased fiscal

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constraints.

ii) **Security issues:**

The terrible security environment in Pakistan due to terrorism, insurgency and militancy, particularly targeting CPEC has worsened the situation. In Balochistan, groups like Baloch Liberation Army (BLA) pose major challenge. Between 2014-2021, 500 attacks, targetting Chinese workers have been reported. For this purpose, Pakistan has created a CPEC security force of 1000 personnel, still the condition is same.

iii) **The US and Indian factor:**

The US calls CPEC a "debt trap" posing sovereignty challenges. It creates a situation of imbalance for Pakistan in managing US-China ties. Moreover, India is critical of CPEC as it passes through the disputed territory of Kashmir. It also considers it as strategic encirclement of India.

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iv) Political instability and governance issues:

Consistent political instability with frequently changing governments and non-continuity of policies hinders the development. Moreover, governance issues with bureaucratic hurdles and red tapism stagnats growth.

v) Implementation gaps and delay in infrastructure development:

CPEC suffers from implementation gaps and infrastructure delays. Despite, efforts, only one special economic zone of nine could be completed. Moreover, ML-1 (Main Line) railway project also suffers delays.

4- Policy Reforms:

To operationalize and accelerate projects, Pakistan needs to introduce policy reforms som of which are as:

i) Economic fundamentals strengthening:

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- Macroeconomic stability: Improve fiscal discipline, structural reforms, export diversification and industrial growth to reduce over-reliance on external borrowing.
- Export-diversification: Through special economic zones, Pakistan needs to diversify exports and attract market beyond China for Pakistani goods to strengthen economy.

ii) Addressing insecurity:

Pakistan needs to strengthen security environment to accelerate development and attract investment. It can be done through joint intelligence cooperation to reduce insurgency.

iii) Boost local ownership:

Pakistan needs to leverage CPEC projects for local employment, technology and skill enhancement and giving confidence to local and foreign investors.

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iv) Transparency in policies:

Pakistan needs to focus on building transparency regarding CPEC policies. By equipping joint cooperation committee and working groups with clear timelines, performance metrics, and transparent reporting, investor confidence can be enhanced.

v) Navigating the US-China strategic competition:

- Strategic autonomy: Pakistan needs to adopt strategic autonomy in its foreign policy to maintain a balance and diplomatic engagement with both the US and China.
- Trade and investment with the US:
  Pakistan needs to enhance trade with the US, attracting investment in technology, energy and infrastructure domains. It will strengthen ties with the US, creating an environment of mutual trust.
- Diplomatic engagement to reassure non-alignment and explore cooperation.

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5- Conclusion :

CPEC Phase-II, initiation in 2024, brings challenges as well as opportunities for Pakistan. Its prospects are multiple in domain of energy, agriculture, trade diversification and economic cooperation etc. But, Pakistan's unstable economic, governance and security environment pose challenges, especially the US concerns regarding Pakistan's alignment. Hence, Pakistan needs to adopt comprehensive policy reforms to ensure diplomatic engagement with the US, countering terrorism, introducing fiscal discipline and policy continuity. It will enable Pakistan to seek benefits proposed by CPEC.

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