



Future Prospects and Scope of China Pakistan Economic Corridor in Modern Maritime Silk Road

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ABSTRACT

The China Pakistan Economic Corridor (CPEC) stands as a master project within the broader framework of the Belt and Road Initiative (BRI), envisioning connectivity and economic cooperation across the Eurasian landmass. With a focus on the maritime dimension, this study explores the future prospects and scope of CPEC within the context of the Modern Maritime Silk Road (MSR). By examining key infrastructure projects, policy frameworks, and geopolitical dynamics, it assesses the potential impacts and opportunities arising from enhanced maritime connectivity between China and Pakistan. The analysis begins by demarcating the strategic importance of maritime routes in economic development and facilitating trade, mainly in the framework of global maritime trade patterns. Additionally, the study explores the consequences of CPEC for regional dynamics, mainly in the Indian Ocean region, where geopolitical competition and maritime security concerns intersect. It examines the potential for transshipment opportunities, economic integration and the growth of regional supply chains helped by CPEC-linked maritime infrastructure.

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1. Introduction

The China Pakistan Economic Corridor (CPEC) has seemed as a main framework of economic collaboration and connectivity between Pakistan and China. As a top project within the Belt and Road Initiative (BRI), CPEC also drives to create a network of infrastructure, energy and trade routes crossing Europe, Asia and Africa. Although traditionally observed through the lens of overland connectivity and the maritime dimension of CPEC, particularly its amalgamation with the Modern Maritime Silk Road (MSR), holds massive potential to reshape regional dynamics and foster greater economic integration. In the recent years, the Modern Maritime Silk Road has gained importance as a strategic framework for enhancing maritime connectivity and cooperation along the ancient trade routes. With its strategic location at the crossroads of the Indian Ocean and the Arabian Sea, Pakistan occupies a pivotal position in the MSR, offering access to key maritime routes and providing a gateway to landlocked Central Asian countries (Faisal, 2018).

2. Literature Review

Though China Pakistan Economic Corridor has a significance importance for the economic development of both countries. This corridor is also a symbol of regional prosperity and connectivity. Different individuals and institutions are working, despite it there remains a notable gap in the literature regarding the future prospects and scope of China Pakistan Economic Corridor within the framework of the Modern Maritime Silk Road. This research paper aims to bridge this gap by conducting an inclusive analysis.

3. The Maritime Silk Road

The Maritime Silk Road began in the major Chinese port cities of Guangzhou (Canton) and Quanzhou. Guangzhou (Canton), situated on the Pearl River Delta, which was one of the most important maritime centers in ancient China. From these ports, Chinese merchants and traders set sail on their ships, embarking on voyages that would take them to various destinations along the Southeast Asian coastline (Bellina, Favereau, & Dussubieux, 2019). From the Indian subcontinent, the Maritime Silk Road extended to the Arabian Peninsula. Arab traders were crucial intermediaries in this maritime trade, facilitating the exchange of goods between the East and the West. Ports such as Aden and Muscat served as major transshipment points, where goods were offloaded, and new cargoes were taken on board for further trade. The Maritime Silk Road also extended further south along the East African coast. Ports like Mogadishu, Kilwa, and Mombasa were thriving trade centers, attracting merchants from the Arabian Peninsula, Persia, India, and China. African commodities such as ivory, gold, and slaves were among the goods transported along this maritime trade route (Faisal, 2018).

4. The China-Pakistan Economic Corridor

The China-Pakistan Economic Corridor (CPEC) Project is a network of infrastructure that is extending across approximately 3000 km within Pakistan. By circumventing the vulnerable route through the Straits of Malacca, situated between Indonesia and Malaysia, China aims to mitigate potential disruptions to its energy supply in the event of conflicts that might hinder passage through these waters. This strategic maneuver seeks to safeguard China's energy-dependent economic interests (Abbasi, 2016, December 3). The cornerstone of CPEC is the development of a deep-water port at Gwadar, strategically situated along the Arabian Sea. This ambitious infrastructure project holds the potential to significantly streamline trade routes between Europe and China. By shortening the distance and reducing transit times, it presents a compelling alternative to existing trade pathways. This strategic realignment could contribute to bolstering economic ties between these two major regions of the world (Abid & Ashfaq, 2015). Within Pakistan, CPEC carries profound socioeconomic implications. It aims to address key challenges such as the electricity shortfall, infrastructural deficiencies, and the modernization of transportation networks. Additionally, CPEC envisions a shift in Pakistan's economic structure, transitioning from its predominantly agricultural base to a more robust industrial foundation. By fostering industrialization and providing the necessary infrastructure, CPEC can potentially catalyze economic growth, create employment opportunities, and uplift various sectors of the Pakistani economy (Adrew, 2015). This ambitious initiative has evoked expectations among Pakistani officials, who foresee its far-reaching impact. Projections suggest that CPEC could yield substantial benefits, including the creation of over 2.3 million jobs spanning from 2015 to 2030. Additionally, CPEC's contribution to Pakistan's annual economic growth is anticipated to range from 2 to 2.5 percentage points (Ahmad, 2017). As of 2022, tangible progress has been witnessed. CPEC has already begun to shape Pakistan's economic landscape by augmenting its exports and bolstering developmental capacity. Notably, this initiative has emerged as a significant player in the country's energy sector, providing approximately one-fourth of Pakistan's total electricity generation capacity. This infusion of energy has crucial implications for Pakistan's economic growth, industrial development, and overall infrastructure enhancement (Ahmad, 2017). The ambitious scope of CPEC extends beyond economic benefits. By facilitating job creation, fostering economic growth, and fortifying the energy sector, CPEC stands to empower Pakistan's economy in ways akin to the transformative impact of the Marshall Plan on post-war Europe.

The comparison underscores the magnitude of CPEC's potential in driving Pakistan's socioeconomic advancement and positioning the country on a trajectory of sustained development. However, as with any large-scale initiative, CPEC also presents challenges, requiring vigilant management to ensure equitable distribution of benefits, environmental sustainability, and the fulfillment of its long-term objectives. CPEC also holds strategic significance for China in addressing a pressing national security concern. By fostering economic development in the Xinjiang region, it aims to curtail the influence of militant factions on local Uyghur Muslim separatist movements. The inception of this project can be traced back to Chinese President Li Keqiang's proposal in 2013. Subsequent to this, a preliminary study was conducted in 2014, acknowledging the complex geographic conditions and challenging environment. However, the study emphasized the necessity of establishing a China-controlled port in proximity to the Gulf of Oman, a critical route for oil tankers (Durani & Khan, 2018).

Once operational, the corridor will drastically reduce the arduous 12,000-kilometer journey for oil transportation to China to a mere 2,395 kilometers. This efficiency is projected to result in an annual savings of approximately \$2 billion for China. Notably, China had secured control of the Gwadar Port on May 16, 2013, a strategic move that aligned with the burgeoning ambitions of CPEC. While the original valuation of CPEC projects was estimated at \$46 billion, its value had expanded to \$62 billion by 2020. Subsequently, in 2022, the Chinese investment in Pakistan surged to \$65 billion. Termed as the revival of the Silk Road by China, CPEC encompasses a comprehensive vision. The initiative aims to rapidly elevate Pakistan's essential substructure, thereby bolstering its economy through the building of modern transportation grids, an array of energy projects, and the establishment of special economic zones. The multifaceted nature of CPEC not only positions it as a transformative economic venture but also underscores its significance as a strategic endeavor. It is a manifestation of China's commitment to regional connectivity and economic growth while addressing its own national security imperatives (Abbasi, 2016, December 3). The prospective industries envisioned within the CPEC special economic zones encompass a diverse array, cooking oil production, spanning food processing, ceramics manufacturing, gem and jewelry crafting, marble extraction, mineral processing, agriculture machinery production, steel and iron manufacturing, motorbike assembly, electrical applications production and automobile manufacturing. This diverse range of industries highlights the comprehensive economic vision behind CPEC's special economic zones, aiming to establish a diversified industrial landscape that aligns with both countries' economic strengths and development goals (Ahmad, 2017). Since the early 1990s, Pakistan has turned to the International Monetary Fund (IMF) for over a dozen bailouts as a remedy for its struggling economy. Over the course of 30 years, Pakistan has faced challenges in meeting the stringent austerity measures prescribed by the IMF, grappling with economic instability for nearly 22 of those years. This cyclical pattern of seeking IMF assistance has become a familiar trend, where the government, with the IMF's approval, embarks on borrowing sprees to fund costly projects, further accumulating debt and inefficiencies. Subsequently, the nation finds itself in another crisis, leading to the initiation of yet another IMF program (Faisal, 2018). In light of this pattern, the Pakistani establishment has begun to view Chinese loans as a viable alternative to the conventional reliance on IMF aid. The extensive initial \$46 billion worth of projects associated with CPEC holds significant implications.

If these projects were to be successfully implemented, their collective value would approximate the entirety of foreign direct investment (FDI) in Pakistan since 1970. Furthermore, this amount would equivalently represent around 17% of Pakistan's gross domestic product (GDP) in 2015. The promise of CPEC emerges as a substantial departure from traditional avenues of economic relief, presenting an alternative route towards infrastructure development and economic revitalization (Tharoor, 2018). CPEC's significance extends beyond being a mere economic venture; it stands as flagship endeavor of China's far-reaching Belt and Road Initiative (BRI). This interconnected network of trade, infrastructure, and development projects reflects China's vision for global connectivity and collaboration, positioning CPEC as a central component within this expansive framework (Jan, 2015, December 3). The financial arrangement extended by China to Pakistan within the framework of CPEC entails a composite of both Debt and Equity components. The Debt portion is projected to carry an interest rate ranging from 7% to 8% per annum, whereas the Equity component is anticipated to yield an estimated Return on Equity (ROE) of around 17% annually. However, there exists a disparity between these estimations and the claims put forth by the Pakistan government. According to Pakistani officials, the Chinese loans will be paid over a span of 20 to 25 years, with an interest rate set at 2%. Facing challenges in repaying the loans, Pakistan has initiated negotiations with China to alleviate its debt obligations. The aim is to secure terms that are more accommodating in relation to both the repayment period and interest rates for projects under CPEC. As of 2022, Pakistan's debt owed to China stands at approximately \$30 billion, a considerable fraction constituting almost 30% of its foreign debt.

5. Future prospects and scope of China Pakistan Economic Corridor in Modern maritime Silk Road

CPEC's infrastructure projects, including roads, railways, energy pipelines and special economic zones, are anticipated to enhance the overall connectivity and economic potential of the MSR. Efficient transport networks will help the movement of goods and people across borders, fostering economic growth and regional cooperation. The development of energy infrastructure will also address energy deficits in the region, promoting industrialization and

trade along the MSR. Pakistani officials expect that The China-Pakistan Economic Corridor (CPEC) is poised to generate over 2.3 million employment opportunities from 2015 to 2030, while also contributing an additional 2 to 2.5 percentage points to the nation's yearly economic expansion. By 2022, it has already bolstered Pakistan's export capabilities and developmental capacity, while furnishing a quarter of the country's total electricity supply (Rehman, 2023, January 9). CPEC's success in addressing infrastructure and connectivity challenges could attract other countries to participate in the MSR, expanding its reach and impact. Neighboring countries such as Afghanistan, Iran and the states of Central Asian could potentially link their own infrastructure projects to CPEC, creating a more comprehensive network of economic corridors. This collaborative approach would strengthen regional integration and stability, diminishing geopolitical tensions through economic interdependence (Abid & Ashfaq, 2015). However, CPEC's role in the MSR also comes with challenges. Environmental concerns, geopolitical complexities and debt sustainability issues must be carefully addressed to ensure the corridor's positive impact. Balancing economic development with ecological preservation and local community interests is essential for sustainable growth (CPEC Secretariate, 2022, March 1).

6. Conclusion

The China Pakistan Economic Corridor project is a game changer project for the region of South Asia. This project has not only the potential to improve regional connectivity but also for the development of regional trade and economic prosperity within the framework of Modern Maritime Silk Road. By the help of different associated infrastructure schemes including the development of Gwadar Port, the CPEC project aims to improve trade, increase maritime connectivity and also to promote economic integration. Within the framework of MSR, CPEC needs to address the various kind of challenges including security issues, economic issues, environmental issues and regional conflicts. Despite all these challenges, CPEC has the potential to support economic revolution and regional cooperation. The future prospects and scope of CPEC within the framework of MSR, offering several opportunities for the development of maritime connectivity and also supporting for the development of regional economy. CPEC also has the potential to reshape regional trade, foster greater integration and contribute to the realization of broader objectives of the Belt and Road Initiative.

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