

Impacts of CPEC on Political Economy of Pakistan: From Terror Victim to Regional Economic Hub

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Abstract

Pakistan, a strategically important country with an uncertain past, could not focus on its development and prosperity due to the international environment, internal instability, regional security conditions, and external security threats. Cold War, Afghan War, repercussions of 9/11, and Global War on Terror (GWOt) added fuel to the fire. In such erroneous circumstances, China Pakistan Economic Corridor (CPEC) in 2015 proved to be a breather for Pakistan and the third world countries to uplift their economy, basic state structure, and welfare of their people. Unconventionally, CPEC believes in mutual benefits and creating a win-win situation. GWOt affected Pakistan's whole society, so it took a strategic shift by enhancing economic relations with China on the principle of functionalism theory. The theory spotlights that cooperation in low politics can spillover in high politics, leading to regional integration. The CPEC has had pleasant impacts on Pakistan's political economy and made it a focal point in the region. With the project in full swing, Pakistan may become an economic hub for regional countries and gel other regions for international peace. This paper examines how CPEC helped Pakistan to come out of the nightmare situation of GWOt, develop its economy, and become an economic hub for the region.

Introduction

Pakistan, the 5th most populated country globally, has had an uncertain economic situation since independence and could not focus on its internal development. The Cold War, Afghanistan War, and GWoT led by the West after the 9/11 attacks on the World Trade Centre (WTC) put some extra burden on its economy and stability as it had a leading role in the war. Unexpectedly the war proved to be a dilemma for Pakistan as the West left it in the middle of the sea with hands tight on its back. It took every measure to come out of this paranoia, and things started improving after a couple of successful military operations to eliminate terrorism (Shaukat, 2020). Since then, Pakistan changed its approach and worked on functionalism by cooperating with many countries in low political areas. In 2015, China-Pakistan signed CPEC, a flagship project of the Belt and Road Initiative (BRI) which provided Pakistan with multiple options to improve its socio-economic condition (Rizvi, 1993). The low political cooperation has spilled over to high politics between China and Pakistan and established cooperation patterns for the region. South Asia's patterns will develop a supranational body to bind the other regions for high political collaboration. This will unite the world with the least connected and interdependent region to find ways to integrate and solve their outstanding issues. As the cornerstone of the CPEC project, Pakistan will become a regional economic hub and may unite the world in the economic web. Functionalism theory provides basis for theoretical framework of the research paper. The paper is divided into five segments. First, the researcher will discuss functionalism theory as the foundation of cooperation. In second, the damages of terrorism will be observed on Pakistan's economy and how it halts the integration process. The third segment will discuss the history of Pakistan-China relations. The fourth segment will focus on the benefits of the CPEC on Pakistan's political economy, and the last part will discuss the spillover effects CPEC can generate for the region and the world.

Functionalism Theory

The article's theoretical framework revolves around the functionalism theory, which has liberal roots. The theory evolved around the mid-war period and focused on promoting common interests and global integration of state and non-state actors' economic and political functions. It is based on Richard Cobden's ideas, and later on, David Mitrany developed it as a theory of international

relations. According to functionalism, peace and prosperity are the main goals of a state which could be achieved through economic integration (Alexandrescu, 2007).

In the past, the state had built a structure of authority on territorialism, which gives authority in the territory. Functionalism provides the new concept of authority on the ideas of G. D. H. Coles, which states that authority must be based on needs and functions, not on a state called functional sovereignty. Functionalism rejects the realist arguments, which gave authority in the hands of the state, and believes in the ramification process, in which authority is slowly transferred from state to agencies. The effect will present a domino effect where cooperation in one area could lead to other areas.

According to Richard Cobden, states could avoid conflicts and wars if politicians are kept out of policy-making and technicians are given the main role. Non-politicians and non-officials should start cooperation in low politics areas like economy and trade, which will spill over to high politics. According to functionalism theory, international integration, collective governance, and material interdependence create internal dynamics as states cooperate in limited areas like economy and technology. International agencies or supranational bodies will emerge, which will meet the human needs of expertise and knowledge (Hands, 1976). It will keep human loyalty intact through benefits, increasing integration and functional linkage between states. The supranational bodies will get decision-making authority. It assumes that cooperation in low politics would spill over and create an environment for cooperation in high politics. In this way, major issues will be resolved, and regional integration will be achieved. Regional peace will lead towards international peace.

Functionalism works on the three main assumptions:

1. The process of integration would take place in the framework of human freedom.
2. Knowledge and expertise are available to meet the needs for which international agencies are made.
3. The state will not sabotage the process.

European Union is the best example where low politics make spillover effect between members, and now it has become a single internal market with a common currency, policy, and law. The Composite Dialogue Process between India and Pakistan in 1997 is the other example of functionalism.

Damages of GWoT on Pakistan's Economy

After the 9/11 attacks on the WTC and Pentagon, West led the GWoT against terrorists in the Muslim countries, spread worldwide. The war affected the Muslim countries, especially Pakistan, as it was a frontal ally of the West in the war. The war brought terrorism to Pakistan, which impacted it a lot. The impacts can be classified into four categories: economic, social, political, and psychological (Abbasi, 2014). All these were interlinked and destructive, but economic impacts proved to be a nightmare for Pakistan as it fatigued a layman's mentality. In GWoT, Pakistan faced drone attacks from the US, bomb blasts and suicide attacks that put a black spot on its economy and society. The terrorists attacked all socio-economic development projects, especially Gwadar's road connectivity with Pakistan, Central Asia, and China. In the war, Pakistan's economy faced a problem with GDP growth as extra money was injected to purchase arms to win the war (Rahman, 2018).

The terrorist attacks in Pakistan damaged the physical infrastructure, put terror on an ordinary man's mind, and caused insecurity. The war hampered exports, reduced imports, tax collection, prevented foreign investment, diminished the tourism industry, and slowed down the overall economic activity of Pakistan. According to Pakistan's economic survey, it has never witnessed such a devastating social and economic upheaval in its industry throughout its entire history (Yaseen & Awan, 2017).

Pakistan's finance Ministry, in its Poverty Reduction Strategy Paper (PRSP)-II, has pinpointed five major direct and indirect costs of GWoT on Pakistan's economy. First and foremost is the economic slowdown, which decreases foreign direct investment (FDI), industrial output, tax collection, and exports. Secondly, an increase in the country's credit risk as loan repayment capacity was reduced to international financial institutions (IFIs). Third, increased unemployment in terror-affected areas of Khyber Pakhtunkhwa (KPK). Forth, the high cost of displacement of locals in the country. Fifth, delay in implementing a development project in the country, which increased the cost of projects.

According to the data, in this period, industry from Pakistan was shifted to neighboring countries due to terrorism, which ultimately increased the unemployment from 3.12 million in 2009 to 3.40 million in 2011. In 2019, the unemployment rate in Pakistan was 4.45% which was a bit high from 4.08% in 2018.

In 2006, Pakistan's investment to GDP was 22.5 % which declined to 13.4% in 2011 with a severe job creation problem due to GWoT. According to the Economic Survey of Pakistan, the war put a

direct and indirect cost of \$123 billion on Pakistan's economy from 2001 to 2017, and in 2018 it reached \$180 billion in 2018. According to Hafiz Ahmad Pasha, the estimate of Pakistan's economic losses was not properly calculated.

According to an estimate by Hafiz Ahmad Pasha, the cumulative cost of GWoT on Pakistan's economy was \$252 billion, in which the direct cost was \$72.7 billion, and the indirect cost was \$179.1 billion (Shabbir, 2018). On the other hand, Pakistan received \$33 billion from the USA under different funds, but the cost was almost eight times higher than US assistance (Pasha, 2018). In FDI, Pakistan lost \$0.15 billion in 2001, which increased to \$2.11 billion in 2011. In the start, FDI increased in Pakistan from 2003-07 and then started declining in 2008 and fell to 0.62% in 2011. Pakistan faced a 9.9% decline in private investment of its GDP in 2016-17.

According to the Global Terrorism Index, in 2011, Pakistan was the 2nd most terrorism-affected country globally. Over 70,000 people have been killed in GWoT; it is estimated that 35% are civilian, 11% security personnel, and 54% are terrorists. The indirect cost increased with a boost in military expenditure to purchase weapons for war, as Finance Minister Ishaq Dar claimed in the 2016 post-budget conference. He stated that defense budget allocation has increased, and Pakistan had suffered \$118 billion in GWoT. According to a study, initially, the military expenditure of Pakistan was less than 1% of its GDP, but it rose 1.3% and later on 3.1%, and now it is in its highest position of 6.1% in 2020-2021 (Pasha, 2018).

In 2014, Pakistan made a national consensus to eliminate terrorists; therefore, in 2014, Pakistan's military force started joint operation "Zarb-e-Azb" to clear militants from North Waziristan along the Pakistan-Afghanistan Border (Ghazanfar, 2016). In this period, the comprehensive operation improved the security situation of Pakistan, and terrorist attacks decreased to the lowest number since 2008. In 2017, a more inclusive military operation, "Radd-ul-Fasaad," was launched to disarm and eliminate the sleeper cell of terrorist organizations and consolidate the gains of operation Zarb-e-Azb. Both operations improved the border and overall security situation of the country.

History of Pak-China Relations

The improved security situation in Pakistan and a major shift of Chinese foreign policy at the international level paved the way for a dream project for Pakistan in CPEC. The project is part of the BRI; China launched its global reach through connectivity projects in almost 70 countries (Stokes, 2015).

Functionalism is a guiding principle in Pak-China relations. Hence, both countries established their formal relations in 1950 when earlier finished its diplomatic relations with the Republics of China (ROC) and established with the People's Republic of China (PRC). Since the beginning, both countries respected and helped each other in every good and bad time. In 1956, Prime Minister of Pakistan Huseyn Shaheed Suhrawardy and Chinese Premier China Zhou Enlai started a low political relationship by signing the Treaty of Friendship between China and Pakistan (Kataria & Naveed, 2014). The low political cooperation between both countries started spillover impacts on every sector from strategy to diplomatic and economic. Both countries improved their relations quickly that they aligned to counter India in the 1962 Sino-India War. China openly supported Pakistan in the 1965 and 1971 wars against India and played a major role in Pakistan's nuclear infrastructure, especially when the Western countries created hindrances (Hafeez, 2018). The best military collaboration between both countries is a joint venture of JF-17 Thunder combat aircraft.

Impacts of CPEC on Pakistan's Economy

In 2015, both countries' relations took a new turn when Chinese President Xi Jinping visited Pakistan and officially signed CPEC, a \$46 billion connectivity project roughly 20% of Pakistan's annual GDP. The project focused on connectivity infrastructure, energy projects, and the establishment of special economic zones (SEZs) in Pakistan. At the time, Pakistan was suffering from the repercussion of GWoT, and every sector was affected, especially infrastructure, and energy shortage was at its peak. China, under CPEC, launched several infrastructure and energy projects and helped Pakistan to overcome the 6000 MW electricity shortage (Khan, 2017). According to a report, CPEC projects will provide 16,400 MW of electricity to Pakistan. The project will bring short-term and long-term benefits for both countries, especially for Pakistan.

In the short term, CPEC will benefit Pakistan in the shape of a fee; it will charge for the transportation of goods through the trade corridor. The benefits would be similar to those available to Panama from Panama Canal and Egypt from the Suez Canal, but Pakistan would get more if adequately managed. In the long term, it can improve education, health, skill indicator, which will pave the way for future investment in the complex-tech industries of Pakistan.

CPEC is resolving the problem of FDI in Pakistan, which was on the lower side in the past few years due to GWoT. According to an estimate, in fiscal year (FY) 2015-16, Pakistan received US 1016.3 million of FDI under CPEC, a 167% high compared to 963.8 million in 2014. It is expected

that CPEC will attract \$150 billion of FDI as it strengthens the pre-requisite to FDI like, regional connectivity, macro-economic indicators, and law and order situations of the country.

The Terrorism Index of Pakistan (TIP) has been improving since military forces started operation in 2014. It reached its lowest position of 7.54 in 2019 from its highest position of 9.07 in 2014.

Unemployment and the inability to create jobs for the people have remained Pakistan's primary concern, which CPEC has almost solved by creating jobs in every sector (Javaid, 2019). According to the Chinese embassy in Pakistan, CPEC will create 1.2 million jobs for locals after completion (CPEC will be, 2019).

China, under CPEC, is laying cross-border fiber optic cables in Pakistan that will create Digital Silk Road (DSR) (Ghiasy & Krishnamurthy, 2020). The cable will link to Pakistan East Africa Connecting Europe (PEACE) submarine cable in the Arabian Sea. The line costs \$240 million, which is in partnership with China's Huawei technologies (Haq, 2021). The PEACE cable will minimize the data sharing time; create a direct link between member countries, and modernize the Pakistan Telecommunication sector. The cable will provide Pakistan with an additional route for internet connectivity.

China is helping Pakistan in every sector; recently, both countries have established agriculture and industrial cooperation information platforms to promote in-depth business cooperation. China is an industrial country with expertise in the agriculture sector that will help Pakistan develop both sectors. CPEC Authority Chairman Asim Saleem Bajwa stated that "this platform will optimize the true potential of agriculture cooperation." After completion, the project will boost the country's agriculture production, minimize food security problems, and enable it to export agricultural products.

CPEC will increase trade and revenue for Pakistan. In its full swing, many regional and extra-regional countries will join it. This will improve Pakistan's stature at the international level due to its strategic location, which was on the lower side in GWOt. The number of allies will improve at the region and international level.

Pakistan is a beautiful country and people from every country want to visit, but in the past few years, due to GWOt, tourists were hesitating, but after CPEC and improved security situation, Pakistan's tourism industry is flourishing. CPEC mainly focuses on infrastructure development in the Early Harvest Phase, positively impacting Pakistan's tourism industry as it improves and eases out connectivity with visiting points. The government of Azad Jammu and Kashmir (AJK)

declared to make a tourism corridor with \$22 billion under CPEC, which will attract tourists from all over the world (AJK to build, 2017). In 2017, 1.75 million tourists visited Pakistan and increased the industry's share in Pakistan's GDP. According to the World Travel & Tourism Council (WTTC), in 2019, tourism contributed 5.9% to Pakistan's GDP and created 3.9 million jobs. According to an estimate, it can contribute from 5.1% to 11% of Pakistan's GDP and produce 2.37 million jobs if adequately managed.

CPEC had changed the whole country's perception and has proved to be pleasant air for Pakistan when it was feeling the heat of terrorism. All domestic investors were leaving the country due to a bad security situation and energy shortage, and foreign investors were not coming, so FDI was decreasing very quickly. On the other hand, CPEC helped Pakistan to improve its large-scale manufacturing and provided opportunities to small and medium-size business people for production. Historically, Baluchistan was the least developed province of Pakistan, but CPEC has given it a new life (Saleem, 2017). Baluchistan is now gaining the fruits of CPEC as many sectors like mining, real estate, and transportation are flourishing. When Investors hesitated to invest in Baluchistan due to the uncertain security situation, China funneled a lot of money to show the world that it is a safe place for investment, so now things are improving for the country with every passing day.

Spillover Impacts of CPEC

According to Baldwin and Wyplosz, global markets are interlinked, and change in one market affects the other's economy, which directly or indirectly offers links with each other by interplaying the concept of economic integration. South Asia is the least integrated and least interdependent region globally due to a lack of connectivity projects. According to the 2016 World Bank report, poor transportation conditions, infrastructure, connectivity, and inadequate facilities for trade and commerce are the main reasons for South Asia's backwardness. CPEC provides it with an opportunity to increase connectivity and facilities to start interdependence.

The CPEC project is the best example of functionalism, and it has changed the economic and geopolitical landscape of South Asia. The region with 24.89% of the world population is plagued with intractable disputes and numerous internal and external problems. South Asia's inter-regional trade volume is deficient due to a lack of interdependence between countries, which is vulnerable to recurring crises and instability. CPEC could be a unifying force for the region and propel development and integration to lead to more significant economic growth and cooperation among

the member countries. This will create interdependence among the countries and will minimize their mutual differences.

The cooperation between China and Pakistan under CPEC will spill over to other countries of the region and will help to achieve regional integration. After South Asia's integration, it will spill over to the neighboring regions like Central Asia, the Middle East, and Europe (Hussain, 2018). The region can benefit from proposed connectivity under CPEC through railways, roads, sea lanes, and pipelines (Rizvi, 2015). It will defuse tensions between member countries and regions by creating integration. CPEC can bridge the connectivity gap of the region and could prove to be a helpful supply chain for neighboring countries. It can tie several countries and regions in a web like Iran, Afghanistan, CARs, Russia, and South Asia (Amir, 2015). Gwadar Port, the hub of CPEC, is located near the Middle East's oil-rich countries provide them the best opportunities to export oil to the world. The project will improve regional development, integration, and cooperation, facilitating regional and international trade through modern infrastructure and improved connectivity. It is likely to create a global market and attract different agencies to invest in South Asia, helping the region decrease poverty and backwardness. In these circumstances, Pakistan will be center stage to connect regional economies through its territory, making it a conduit for regional and international trade. There are already available platforms like the Shanghai Cooperation Organization, South Asia Association for Regional Cooperation (SAARC), and Association for Southeast Asian Nations (ASEAN), which Pakistan and China can use to increase integration at the international level.

The only missing link in South Asia's integration is India, which hesitates to join CPEC and work on the wishes of status quo powers to sabotage the dream project, despite the benefits of being a member. India has border disputes with China and Pakistan; therefore, it feels that the project's success will make both stronger, and that could be a stumbling block for the realization of its dream as a regional hegemon. However, both countries did not have any such intentions. Some Western powers are backing India on the anti-CPEC agenda, but it should understand that neighbors cannot be changed.

The project could be the basis of functionalism between India and Pakistan to start cooperation in low politics and solve their major issues in the long run. Both countries should start a dialogue to resolve the outstanding problems and work for the betterment of their 2 billion people. If both countries find any workable environment (Rizvi, 1993), it will benefit the whole region and pave

the way for other countries to join. It will open Afghan and Central Asian markets for it, which it has been trying for many years. The benefits of joining CPEC are more for India than for the opposition.

Conclusion

Pakistan, a severally affected country by GWOt with every sector affected, took a major shift in 2015 by joining CPEC, a flagship project of BRI. The project provided Pakistan with a position it had been waiting for for a long period and put it on the right track through integration with China. The project lifted it from the second-most terror-affected country to the future economic hub for the region by improving its economic situation. The CPEC improved the economic and security status of the country and presented its soft image to the world. The situation increased its global reach due to its strategic location; therefore, both established unique cooperation patterns under functionalism which proved beneficial for both and a role model for others. States and regions around the country are founding a missing link in the shape of CPEC due to its potential, where they can unite, solve all outstanding problems peacefully and work for their people's wellbeing. The status quo powers are conspiring against the project, but neighboring states must be aware of the opportunity's rarity as these are available once in a blue moon.

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