

CPEC- A Lesson in the Perils of Alliance with Major Powers

After the established bilateral agreements with the United States, the China Pakistan Economic Corridor (CPEC) marks a significant bilateral agreement. Indeed, the political and military leadership of Pakistan have tried to lay claim of success for their involvement in it arguing that CPEC is a major turning point in Pakistan's history. It has been defined as a fundamental game changer, citing the energy and infrastructure benefits. Ahsan Iqbal stated on 12 December 2017, "CPEC will prove as a game changer in energy, economic and infrastructure development in the country. Ahsan Iqbal said rail and road network is being laid across the country to connect Gwadar with China and other parts of the country which will boost regional connectivity and generate economic benefits." The Chief of Army Staff (COAS) General Qamar Javed Bajwa said on 12 July 2017, "CPEC would bring an economic revolution in the region...the COAS said that it is considered to be a game-changer, adding that the Army would fully guard the CPEC plan..." Yet, the beginning of the year 2018 marked fundamental financial crisis faced by Pakistan, in which our foreign reserves were down to cover for no more than two months of imports. Further, we have now been placed on the FATF making things not so rosy. So one has to wonder as to exactly what is the game changer that is being referred to.

From a strategic perspective, exactly what is the benefit of CPEC to the major world powers, China and the United States?

In many articles, CPEC is cited to be a strategic benefit for China in terms of solving the Malacca Dilemma. 80% of Chinese energy supplies go through the Malacca straits and in the event of a conflict with the US, the Chinese would suffer heavily from the US blockade of the straits. But if we look at the capacity of the CPEC corridor, it does not have the capacity to be an alternative source in the event of a US blockade of the Malacca Straits. Energy hungry, China's oil import demand was about 8.4 million barrels per day in 2017. One of the largest crude oil tanker ships carry over 500,000 barrels of oil. This would equate to 16 crude oil tankers docked at Gwadar followed by thousands of 18 wheel tankers to transport them across the Karokaram Highway every day. These simple figures indicate the lack of plausibility of this alternative. The Chinese are desperate for access to the deep sea port of Gwadar in order to have a docking port for their maritime fleet. This would give them the ability to patrol the Indian Ocean and counter US maritime presence in the Indian Ocean and South China Sea. It is known in security circles that the Chinese are desperate for this.

As for CPEC delivering security through development, it requires an appreciation for China's security concerns, especially those stemming from its restive western region of Xinjiang. The "One China" principle has led Beijing to clamp down on Xinjiang's ethnic Uighur community and has met political violence with an expanded security presence and push for economic development schemes. These efforts implicate Pakistan because Uighur militant groups, like the East Turkestan Islamic Movement (ETIM), have sought refuge in the Pakistan-Afghanistan border areas, where they have established links with al-Qaeda and the Taliban in Afghanistan and Pakistan. So by investing in CPEC, the Chinese will have influence over the Pakistan government to rein in the so called Jihadists on behalf of China.

The stance of the US is an interesting one. Washington has not openly made statements against CPEC. The only explicit statement against CPEC came in October 7, 2017, when Secretary Mattis said that the US opposed the One Belt, One Road policy which was officially countered on October 21, 2017 with the statement, "We believe that the China-Pakistan

Economic Corridor (CPEC) — and particularly its focus on transportation infrastructure and energy development — has the potential to contribute to stability and prosperity in Pakistan and the region,” a US State Department spokesperson stated. Hence, within the context of the intense regional rivalry between China and the US, there seems to be congruence on CPEC between the two. The operative statement is “stability and prosperity in Pakistan and the region”, which is in resonance with the Chinese security concerns discussed above. For the US, this will primarily benefit India and its project of Normalization between India and Pakistan. Hence whilst Modi may openly attack CPEC, there is a quiet confidence that the Chinese will settle the issue of cross border militancy in India by putting pressure on Pakistan via China. So it is almost as if the US is a silent partner in the CPEC agreement.

As for Pakistan, the minor partner in the agreement, the reality is quite different. The Pakistani leadership’s justification is that of the economic perspective and the large amounts of Foreign Direct Investment being poured in by the Chinese. The basic rationale for the foreign investment is that this will lead to growth in the economy.

The economy has been in difficulty since Musharraf strengthened alliance with the US to unprecedented levels. Pakistan has generally been low on foreign reserves as successive regimes have failed to address Pakistan’s lack of substantial industry. Due to the War on Terror reimbursements, followed by remittances, the foreign currency holdings remained enough. After the departure of Musharraf, when the dollar payments from the US began to come with more strings, Pakistan’s rulers fell deeper into debt with the IMF.

Since mid-2017, the rupee has been systematically devalued to make imports more expensive and exports cheaper. The stated objective is to increase our foreign currency holdings which have declined significantly. The argument is that if we don’t have dollars, we cannot pay for imports and hence we are in trouble. To pay for imports and debt servicing, we have to borrow money from the IMF. These come with crippling interest repayments of course. So the economy needs to grow to not only pay for future imports, but also pay for the interest payments that accrue. In an article entitled “Financing Burden of CPEC”, published in the Dawn on Feb 11, 2017, Dr Ishrat tries to put a positive spin on the CPEC. He stated, “Exports have to grow by 14pc annually in dollar terms” to compensate for the outgoing foreign exchange revenues. He adds, “This is not unprecedented as Pakistan has previously recorded this growth rate”. The meaning of growth is as follows: Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another.

So our capacity to increase the value of goods and services we export needs to increase by 14% minimum, measured by the dollar rate. This primarily means we have to be competitive enough to export. Other than our expertise such as software developers, engineers and doctors, what have we actually exported? The economy has not really grown over the past seventeen years in essential capital intensive areas such as heavy industry and electronics, what is the hope that it will grow enough to cover rising imports and interest payments. Moreover, the guaranteed return to the Chinese power companies is in the range of 17% to 20% and this is in addition to the high commercial interest rates for Chinese loans. These are guaranteed returns and will keep the price of energy high, keeping the cost of goods and services high. How will we then become competitive in the international market to gain increased exports?

Consider also that only 25% of the work under CPEC has been outsourced to Pakistani firms, the rest is going to Chinese firms. The Pakistani firms are being paid 40% of the rate being paid to Chinese firms. Chinese firms will bring their own cement, steel, trucks and labor. So what scope is there for expansion of our local cement, steel and labor market? So

the actual growth as a consequence of CPEC will accrue to China and Chinese firms. The money coming from the Chinese will go back to the Chinese, with an added 20% top up courtesy of the Pakistani economy. Where does Pakistan benefit in all of this?

As for the mounting debt, debt repayments are already high, and the economy is not strong enough to sustain more debt repayments. Rapid roll out of CPEC projects has ramped up the need to borrow more just to pay back more. The IMF essentially lends in US dollars. Increased borrowing has led to the issuing of more treasury bonds and a constant and marked devaluation of the Rupee against the dollar, adding to greater generalized inflation and all its negative impact on Pakistan's economy.

Through alliance with the US, American control and leverage over Pakistan has increased to alarming levels. Now a Chinese Raj is in the making alongside. Consider the Sri Lankan Hambantota port expansion began with loans from China. However, when Sri Lanka could not pay back the loans, Beijing converted these loans to equity, in essence turning Sri Lanka into a "semi-colony," in a subtle way."

As the minor partner in alliances with major power, Pakistan is clearly grabbing the short end of the stick. The US and Chinese congruence in policy is on how the CPEC can be used to achieve their interests, regardless of the costs to Pakistan itself. The US and Chinese are both interested in countering "Islamic extremism" which in reality is the rising tide of support for Islam and Khilafah. The Chinese see an opportunity to benefit themselves via a corrupt Pakistani leadership that has agreed to such harmful agreements for personal interests. CPEC is less of a "game changer" and more of a "game over."

Alliances with major powers are a means to exploit the weaker states, in order to allow the major powers to increase their dominance on the world stage. All agreements, dialogues and engagements are made on this basis and this can be seen in the case of any country that falls into this trap, from South America through to Africa and the Middle East and onwards to South East Asia. Not a single country has ever emerged stronger through such alliances to rival the major powers. It has not occurred and will never occur because the alliance is to exploit the weaker state militarily and economically, such that its situation worsens every year.

Allah (swt) said, ﴿وَلَنْ يَجْعَلَ اللَّهُ لِلْكَافِرِينَ عَلَى الْمُؤْمِنِينَ سَبِيلًا﴾ **“And Allah does not permit the Believers to have Kafirren in authority over them”** [Surah an-Nisa'a 4:141]. Pakistan will never be able to achieve the honor and dignity it deserves until it ends alliance with all enemy nations, whether the US, Russia or China. Allah (swt) said, ﴿لَا يَتَّخِذِ الْمُؤْمِنُونَ الْكَافِرِينَ أَوْلِيَاءَ﴾ **“Let not the believers take the disbelievers as allies (awliya) instead of believers.”** [Surah Aali Imran 3:28]. Prosperity and security lies in the Deen of Allah (swt) alone, thus it is incumbent upon the people of power in Pakistan to end the system of humiliation and subjugation, by abolishing democracy and establishing the Khilafah (Caliphate) on the Method of Prophethood in its place, which will secure dignity, prosperity and security for Muslims.

Written for the Central Media Office of Hizb ut Tahrir by

Khalid Salahudin – Pakistan