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Examining the CPEC through the Lens of South-South Cooperation

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Abstract

Worth over \$62 billion USD, the China-Pakistan Economic Corridor (CPEC) is one of the largest infrastructure partnerships between two developing states and is lauded by China and Pakistan as a model of development cooperation. By viewing the program from the perspective of a South-South Cooperation (SSC) framework, this paper analyzes the extent to which the CPEC operationalizes the principles of the SSC paradigm. In examining the CPEC's relation with the standards of mutual benefit, equality, non-interference, and non-conditionality, China and Pakistan's claims that the program is a blueprint for South-to-South development cooperation is tested by this research. Though the details of the CPEC are in many ways hidden behind closed doors, available data and documents indicate that the CPEC does fulfill the burden of mutual benefit and equality among partners. However, the program diverges when non-interference and non-conditionality are considered as its implementation has shown signs of coercive and power-stratified relations. On balance, the CPEC is one of the best examples of development guided by an SSC framework that exists despite areas in which it serves more as a cautionary tale than an example to be replicated.

Introduction

The China-Pakistan Economic Corridor (CPEC) stands as one of the most prominent and expansive development partnerships in the world. With more than \$62 billion USD in funding from China alone (Siddiqui 2017), the controversial program has been pivotal in shaping the Pakistani-Chinese relationship since its inception. The CPEC is designed to connect China directly to the Sea of Oman with a network of infrastructure through Pakistan, aiming to provide geopolitical and economic benefits to China and massive investments in Pakistan, which has long lacked funding from foreign investors (Mardell 2020).

As a joint infrastructure and investment program between two developing nations, an important question surrounding the CPEC and the Belt and Road Initiative (BRI) projects under its umbrella surrounds its relationship with goals and paradigms of South-South cooperation theory (SSC). Although a development project can be a cooperative venture between two nations in the Global South, it would not necessarily be a project that embodies the tenets of South-South cooperation. In order to understand if and how the CPEC intersects with SSC theory, this paper will scrutinize the CPEC and systematically compare it to the normative framework of SSC, seeking out how it reflects or rejects some of the key elements of SSC. This will require outlining some of the key tenets of SSC development, and the use of scholarly and media sources in order to conceptualize this massive, complex, and sometimes opaque project, and to compare theory with practice. An investigation into the extent to which the CPEC operationalizes SSC theory is

deeply important, first, because one of the key justifications for the CPEC is South-South cooperation in and of itself. Government messaging has planted the legitimacy and direction of the project firmly within SSC paradigms, so a study of if the CPEC fulfills these metrics is inherently pertinent to the program (Quadir 2013, 325). Second, it is important to understand if the CPEC should serve as a model for South-South cooperation and development, or if the flaws in its aspirations or implementation mean it should be regarded as a cautionary tale.

Ultimately, this research will demonstrate that the CPEC largely fulfills the principles of SSC, although there are some areas in which the implementation of the program has strayed from the framework of cooperation between countries in the Global South.

What is the CPEC?

Following decades of close geopolitical relations, China and Pakistan deepened their alliance and interdependence in 2015 with the announcement of plans to build an economic corridor of transport networks, renewable and non-renewable energy infrastructure, and port expansions (Mardell 2020). The CPEC largely consists of projects planned and built by Chinese contractors, and many of these projects, particularly energy infrastructure projects, are subsequently run by Chinese firms (Shah 2018, 381). The corridor is funded by both Pakistan and China, with the latter providing a large majority of the financing (381). Chinese funding is likely a mix of commercial and concessional loans and grants, though the highly confidential nature of the CPEC agreements makes exact details inaccessible (381). The program has faced multiple schedule changes and cost increases but is currently slated to be complete by 2030 at a cost of at least \$62 billion USD (Siddiqui 2017; Mardell 2020).

A working definition of South-South Cooperation

Key to an understanding of South-South cooperation is that there is no single, perfectly comprehensive definition of SSC. It could be argued that, by design, SSC is not supposed to have a universal definition that can apply to all nations and paths of development. With the overlaps and differences of the many understandings of SSC, the approximation used for this research will combine a definition given by an institutional actor in development, and an understanding taken from academia. The United Nations Office for South-South Cooperation states that SSC should be guided by “the principles of respect for national sovereignty, national ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit” (United Nations Office for South-South Cooperation *n.d.*). Turning towards an academic definition about the broad goals of SSC, Isaac Odoom defines it as “the processes, institutions and arrangements designed to promote political, economic and technical cooperation among developing countries in pursuit of common development goals” (Odoom 2017, 77)

Using these broad outlines of the SSC framework, this research paper will amalgamate the ideas present in each to form a broad checklist of important metrics for analyzing the CPEC. The metrics that will be used to categorize areas of adherence to or rejection of SSC will be (1) Mutual benefit in common development goals; (2) Equality; (3) Non-interference; and (4) Non-conditionality.

By using these four broad categories, which aim to balance the multifaceted nature of SSC development with a consideration of the limitations in this research, a categorical understanding of the CPEC and underlying BRI projects can be created.

Mutual benefit in common development goals

The concept of mutual benefit in SSC differentiates the approach from traditional understandings of development aid. Deborah Bräutigam's paper on Chinese development points to the fact that there is a complex mix of funding, some of which is aid-styled funding, and some of which seems more business oriented (2011, 757). This fits the messaging from China on CPEC projects, which highlights the goal of "win-win cooperation" (Farwa and Siddiq 2017, 81). It also indicates that, at least publicly, the CPEC is not simply a foreign aid program — as the provider of a majority of the funding for this project, China is expecting to receive benefits in return. For example, some of the transport networks being constructed as part of the CPEC will directly connect China's Xinjiang province to the Strait of Hormuz via the Gwadar port, which is also being extensively upgraded under the program (Hilali 2019, 95). This provides China more direct and guaranteed access to key shipping routes compared to relying on passage through the Malacca Strait, and access to reliable infrastructure built and operated by its own firms (Farwa and Siddiq 2017, 87). From these CPEC projects, China will attain economic and geopolitical advantages that can only come through direct cooperation with neighboring developing countries (Farwa and Siddiq 2017, 87).

For Pakistan, the CPEC has undoubtedly had benefits — the World Bank estimated in 2016 that it contributed to the highest economic growth Pakistan had achieved in nearly a decade (Shah 2018, 380). The corridor has made strides towards securing more stable power supplies for the country, a lack of which has cut around 2% of potential GDP each year (380). The benefits of this investment are particularly significant given the unwillingness of other international actors to invest in Pakistan, a problem that itself can be addressed by making Pakistan more appealing to investors with more reliable and expensive energy and transport infrastructure (Shah 2018, 380). When considering how vital access to basic infrastructure such as a reliable energy grid is to human development and the fulfillment of the Sustainable Development Goals (Odoom 2017, 81), the CPEC has key benefits for Pakistan. From both an economic perspective, through the analysis of metrics such as providing employment opportunities (Hilali 2019, 100), or provision of services that can advance human development, Pakistan does receive benefits from the CPEC.

The deep integration of China and Pakistan also represents an opportunity to shift away from Western dependencies and institutions. The SSC framework can draw its roots back to dependency theory (Hughes and Morvaridi 2019, 868), and the CPEC itself exhibits examples of ways in which the Global South can extricate itself from some of the modes of Northern hegemony. For example, the US dollar (USD) has been the world's reserve currency since the creation of the Bretton-Woods institutions, and today the majority of cross-border trade and international debt is in the American currency (Bank for International Settlements 2020). However, it has long been the goal of China to elevate the renminbi (RMB) to levels at which it can compete with the USD in international transactions, creating a multipolar monetary system (Safdar and Zabin 2020).

For Pakistan, CPEC loans in USD are becoming untenable in the face of dwindling USD reserves and a persistent current-account deficit. As such, a transition to loans in RMI presents the opportunity to reduce the economic strain of the massive loans (Bank for International Settlements 2020). This led to Pakistan pushing for loans in RMI, and in the fall of 2019 it was announced that all future CPEC projects would be funded by loans in China's currency (2020). Both states were able to achieve a development goal through cooperation that would not otherwise be possible through institutions governed by the global North like the World Bank (which only insures loans in USD, EUR, JPY, and GBP). China is able to internationalize the RMI as a loan and reserve currency, and Pakistan is able to pay for development projects using a more accessible foreign currency (The World Bank 2020). Through the CPEC, China and Pakistan are able to achieve goals of common interest and operate independently of systems underpinned by Western control, which not only demonstrates tertiary areas of cooperation but also links back to SSC's roots in dependency theory.

Equality

A commitment to mutually beneficial cooperation, however, does provide clarity on the extent to which each party benefits. Although Pakistan has some clear benefits from CPEC development, some argue that China's modes of development funding tend to favour itself (Odoom 2017, 80). For example, there are indications that some CPEC projects afford Chinese firms the right to charge relatively high tolls or fees on transport and electricity services in Pakistan. This could, in the long term, severely undercut Pakistan's economic growth, its goal of being a hub for low-cost power in the region, and overall human development within its borders (Mardell 2020; Odoom 2017, 81).

Furthermore, an important question is who within Pakistan benefits from the CPEC project? Research suggests that BRI projects are centralized around larger cities and near border crossings or shipping routes, meaning that despite the breadth of the CPEC project, most of the actual developmental benefits will be geographically stratified (Gill *et al.* 2019). Additionally, provinces in Pakistan have accused the federal government of directing projects and funding towards Punjabi-majority regions (Shah 2018, 383) — this highlights the fact that development can be divisive along ethnic lines. These tensions have spilled over in regions such as Balochistan, where local militias have formed in order to push back against what they perceive as an “expansionist and oppressive” China (Chaudhary 2020). This potentially underscores the impact of a lack of conditionality in BRI funding, allowing states to allocate funding with relative impunity compared to the requirement brought by funding from institutions like the IMF or World Bank. The anger of locals at the exploitation of the resource-rich Balochistan highlights the fact that development through the CPEC can be created as a project of mutual benefit, though equality between and within states is far from guaranteed.

Non-interference

A concerning way in which the BRI, and CPEC specifically, has come under scrutiny is in terms of broad non-compliance with the norms and governance practice of China's development partners (Odoom 2017, 86). Compared to other development institutions, China is relatively unconcerned with the bureaucratic or legislative norms of

the states hosting development projects, and this is observable in the CPEC program. For example, Pakistan has adjusted tariffs as a result of Chinese pressure, even though this will result in higher electricity prices for Pakistanis (Shah 2018, 381). This kind of internal interference to ensure the protection of Chinese interests is likely a diversion from the goals of South-South cooperation, which aims to allow states to develop without buckling to coercive pressures from other states.

Furthermore, Chinese diplomats have frequently become involved in the responses to criticism of the CPEC within Pakistan; labels such as “enemies of Pakistan” and accusations of a “hidden agenda” from Chinese state officials have been noted by Shah in his analysis of the CPEC (2018, 382). Even more significantly, some argue that the CPEC agreements, which remain highly secretive, force the Pakistani government to circumvent their own policies on procurement contracts by awarding projects to only a select number of Chinese firms who, in some cases, are more expensive than outside contractors (Shah 2018, 383). Not only does this potentially undermine the sovereignty of Pakistan, it also demonstrates that the concept of interference is not binary.

The line between compromise and coercion in a negotiation with China is unclear. Likewise, such a line is not definitive when states accept the structural adjustments imposed by the IMF in exchange for bailouts. The exact extent of Chinese interference in the internal affairs of Pakistan is also difficult to discern, as BRI projects are negotiated in secret and much of the information surrounding the procurement process are classified (Nurgozhayeva 2020, 261; Shah 2018, 381-382). Although it is unlikely that China interferes in Pakistan to the extent that it can necessarily be categorized as coercion, it is still important to note the ways in which China exerts pressure on Pakistan in certain policy areas and intervenes in discourse on CPEC projects.

Non-conditionality

A defining element of development aid from Western institutions has been the imposition of conditions on the recipients of loans, an element China is proud to reject in the CPEC (Farwa and Siddiqi 2017, 87; Shah 2018, 379). In the most recent IMF bailout to Pakistan in 2019, a number of conditions were imposed including measures like increases on electricity tariffs, cancelling tax exemptions, and reductions in subsidies, which are designed to stabilize Pakistan’s economic and financial situation (The Economic Times 2020; International Monetary Fund 2019). These conditions on the internal policies of Pakistan represent a norm for economic support from multilateral financial institutions which is not reflected in the underlying principles of SSC. Despite the many areas of disagreement in discourse around the BRI and the CPEC, it is broadly agreed that China does not impose conditions on partner states. This can be argued to derive from two root motivations. The first underlying motivation is that of the SSC framework itself. Fundamentally, SSC is not a top-down system in which the ‘donor’ is positioned to impose on the agency of the ‘recipient’, as exists within the relationship between Pakistan and the IMF (Hughes and Morvaridi 2019, 870). It is argued that this leads to symbiotic practices that are removed from power structures which enable one party to impose conditions on development.

The second underlying motivation is the opportunity to build partnerships in ways that reduce the need for paternalistic conditions. Most BRI projects are undertaken on the basis of a tradeoff between China and its partner: China needs access to resources, while resource-rich but underdeveloped states need access to financing and expertise for infrastructure construction (Odoom 2017, 79). Because both sides rely on the exchange embedded within these agreements, each can be trusted to maintain a positive working relationship in order to continually receive the benefits of the agreement. Because both Pakistan and China are positioned as equals who each have something to gain from the exchange embedded within the CPEC, processes such as conditionalities or imposition of policies that seek to change the nature of one party are not present. China is not trying to fundamentally change the economic structure of Pakistan, so it will not apply the same conditions as the IMF.

Still within question is if some elements of the CPEC reflect new forms of conditionalities. Hughes and Morvarindi point to examples of better development practices under SSC such as using local development experts, rather than requiring experts from the global north to be flown in to advise developing countries, as is common for aid and development programs originating in the global North (880). They also highlight how China has invested in training programs in partner nations, which is reflective of the pillar of technical cooperation that Odoom presents in his definition of South-South Cooperation (77). However, where the CPEC may be different is in the understanding that many of the key CPEC projects are planned, built, and then operated by Chinese firms (Shah 2018, 383) and designed to increase China's access to natural resources (Hughes and Morvaridi 2019, 882). This brings into question whether China is truly operating on the principle of non-conditionality if it is also using requirements within its CPEC agreements that are designed to benefit itself. Although this may not be the form of conditionalities that institutions like the IMF impose, the precondition that Pakistan must concede areas such as procurement contracts and project design to Chinese actors is still principally a precondition.

Some scholars argue that non-conditionality is rarely practiced within SSC, as states such as China seek to extract benefits, such as access to resources, which requires some degree of conditionality (882). Given the unrivaled scale of investment provided to states like Pakistan, and the fact that the BRI and CPEC are not aid programs, it is not unreasonable that China is able to secure some benefits before undertaking these projects. Critics of China's conditionality practices argue that without true non-conditionality, SSC is simply a new manifestation of the neoliberal world order and does not truly represent the partnership of equals to which SSC aspires (883). This requires a strict interpretation of the line between conditionality and reasonable concessions, but is still a reasonable caution against projects like the CPEC becoming replications of the power relations that exist between the global South and institutions like the IMF. Although forcing Pakistan to only allow Chinese firms to bid on projects in order to receive financing is a form of conditionality, it likely stands as a less pernicious form of conditionality compared to structural adjustment policies that can have wide reaching impacts on the government, economy, and human development of a nation. Though procurement contracts are important, they are less significant

conditions compared to, for example, the IMF's austerity measures that impact the lives of many Pakistanis.

Conclusion

The CPEC is a massive, complex, and ever-changing development program that is not short in its ambitions nor uncontroversial in its execution. It has presented both China and Pakistan with economic, geopolitical, and security benefits, and has opened up new avenues of partnerships for the global South. It also broadly operates under the principle of partnership among equals, though it does present areas of contention within Pakistan over who is able to access development. Particular controversy surrounds the pillars of non-interference and non-conditionality. In interference, it is not unusual for China to apply political pressure to partner states, and the secrecy surrounding the CPEC ultimately means it is unlikely that a definitive understanding of the extent to which China has become enmeshed in the internal politics of Pakistan can be reached. Turning to non-conditionality, China undoubtedly does not impose conditions in the same ways as the IMF or other institutions seated in the global north do. However, there are valid concerns that China imposes new forms of conditionalities that, if unchecked, risk replicating the power differentials that are present in the IMF-Pakistan relationship.

Given that the CPEC: (1) fulfills mutual cooperation and embodies equality where it can, despite stark areas of conflict; (2) operates under a framework of equal partnership, though has issues of equality of access within Pakistan; (3) has an imperfect record on non-interference; and (4) successfully departs from the conditionalities that SSC aims to prevent, though presents risks of new conditionalities; it is generally true that the project largely fulfills its normative requirements to be considered South-South Cooperation. Although not an embodiment of the full potential of SSC, the China-Pakistan Economic Corridor is still a major step forward for development partnerships in the global south. Many of the flaws of the CPEC, particularly with regards to non-interference and non-conditionality, represent problems present in the implementation of the CPEC project and BRI projects, rather than a reflection of flaws present in the framework of the CPEC itself. Comparatively, these problems are also smaller in scale than the extent to which it fulfills the practices and goals of South-South cooperation. Therefore, the CPEC can and should be taken to be a model of good SSC in some respects, and a demonstration of the difficulties of applying the theory of SSC to real circumstances in others. Although imperfect, it is nonetheless one of the largest and most consequential implementations of South-South cooperation theory in the field of development to this day.

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