Center for Economic Institutions

Working Paper Series

No. 2020-2

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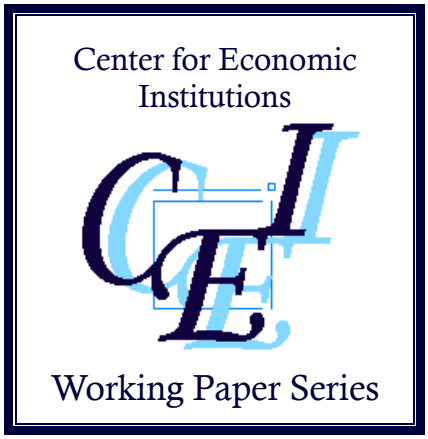
April, 2020



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The Prospects of the China-Pakistan Economic Corridor (CPEC): The Importance of Understanding Western China

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April 2020

Abstract: The China-Pakistan Economic Corridor (CPEC) announced in 2015 is a $60billion package of Chinese-led investment in roads, railways, energy and industry in Pakistan. It is part of China's new Eurasia-wide Belt and Road Initiative (BRI). The likely impact of CPEC is controversial. Some scholars argue that CPEC will generate prosperity, regional equality and rapid economic growth in Pakistan. Others argue that CPEC will lead to debt and to the economic and political subordination of Pakistan to China. The existing discussion of CPEC has a near exclusive inward-looking focus on Pakistan. Some scholars, mainly from outside of Pakistan, have looked in more detail at China, but principally from an International Relations perspective. Missing from all of this discussion is how economic change in China, particularly in Western China, will influence the likely economic outcome of the CPEC. This paper makes an effort to start fill this gap. The paper demonstrates the likely competitive nature of the emerging economy of Xinjiang with that of Pakistan. Careful attention needs to be paid to the evolution of thinking and policy practice in Beijing.

Key words: China, Pakistan, Economic Growth, Investment, Infrastructure

1. Introduction

The Government of Pakistan is officially optimistic about the China-Pakistan Economic Corridor (CPEC) proclaiming it to be "a growth axis and development belt featuring complementary advantage, collaboration, mutual benefits and common prosperity." (2017:4). This view is supported by many independent scholars. CPEC "will be a harbinger of economic prosperity and well-being for Pakistan, China and the neighbouring states." (Hali et al, 2015:160). There is clear and widespread support for CPEC in Pakistan which was sustained through the change of government in Pakistan in the 2013 and 2018 national elections. Survey evidence shows that people expect CPEC to generate more employment and reduce poverty (Saad et al, 2019). The military have also gone public with their strong backing. The main publicised exception are a number of minor regional-nationalist parties in

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I would like to thank the generous academic hospitality and friendship from the Institute of Economic Research (IER) at the University of Hitotsubashi where much of this paper was researched and written, in particular Professor Takashi Kurosaki and Michie Kano.

Balochistan (Sial, 2014). There *are* good reasons for this optimism, the total value of CPEC (first costed at $46 billion and now projected at more than $60 billion) is a massive multiple of the cumulative Foreign Direct Investment (FDI) Pakistan received between 1970 and 2001 (around $7 billion) (Atique et al., 2004:709). CPEC builds on Pakistan's long-standing government aspirations towards boosting infrastructure investment, especially in energy. There is good evidence that the quality of infrastructure in Pakistan is poor relative to other large developing countries and has become a significant constraint on economic growth (Loayza and Wada, 2012). Some have seen the explicit long-term commitment of China to CPEC as a refreshing antidote to the recurring short-term IMF stabilisation and adjustment packages and the alternating tendency of the US to embrace and reject Pakistan in accordance with fluctuating US foreign policy interests (McCartney, 2011).

Much of the existing writing on CPEC has a near exclusive inward-looking focus on Pakistan, looking for example at finance and implied debt burdens, policies relating to the proposed Special Economic Zones (SEZs), or Pakistan-China trade policies - to gauge the likely success of CPEC. This literature is reviewed in section 3. Some scholars, mainly from outside of Pakistan, have looked in more detail at China, but principally from an International Relations perspective. These scholars, discussed in section 4, have focused on questions about whether CPEC is really intended to benefit Pakistan or is a cover for Chinese foreign policy goals. These goals they argue include efforts to get direct access to oil from the Middle East and to gain control over the deep-sea port of Gwadar in South-west Pakistan. Missing from all of this discussion is how economic change in China, particularly in Western China, will influence the likely economic outcome of the CPEC. This paper makes two main original contributions, firstly, exploring how economic development in Western China, particularly Xinjiang, is likely to impact economic development in Pakistan, and secondly, exploring how Chinese motivations for investment in BRI-CPEC and its Western Development Prorgamme (WDP) may have different implications for Pakistan. A third point, noted, but explored in less detail, is the presence of significant excess capacity in much of Chinese industry. The implications of this for the functioning of CPEC have not explored in detail.

This paper is organised as follows, section 2 gives a brief background to China-Pakistan relations; section 3 reviews some of the factors likely to influence whether CPEC is a success; section 4 reviews some of the extensive international relations literature about China and China and argues there is not enough consideration given to economic changes in

(Western) China; section 5 examines the two Chinese initiatives, the BRI and the WDP; section 6 examines whether there are complementary or competitive economic relations between Pakistan and Western China; section 7 looks at the implications for Pakistan of excess capacity in Chinese industry; section 8 concludes.

2. From China-Pakistan Trade to CPEC

Pakistan established a diplomatic relationship with the People's Republic of China (PRC) in 1951, unusually early for a country belonging to the capitalistic side of the globe. It was mostly motivated by the need to confront India. PRC (China here after) and Pakistan first established bilateral trade and commercial ties in January 1963. This culminated in the November 2006 signing of a Free-Trade agreement, initially in goods and extended to services in 2009 (Sial, 2014). China first financed the construction of big infrastructure in Pakistan in the 1960s with the construction of the 1300km Karakoram Highway to connect Hasan Abdal in the Punjab to the Khunjerab Pass in Gilgit-Baltistan where it crosses into China. Infrastructure links culminated in the 2013 announcement of the nearly 3,000km (1,800 mile) infrastructure link from Kashgar in Western China to the deep sea port of Gwadar in South-west Pakistan. This became known as the CPEC and includes oil and gas pipelines, railways, highways, SEZs and fibre optic networks (Sial, 2014). CPEC was initially projected to cost $46 billion, of which 71% ($32 billion) was to be invested in energy, 4% in the Gwadar port, 8% in rail and 13% in road links. By 2017 this total had been raised to $62 billion (Boyce, 2017:12). The CPEC is part of a huge infrastructure project that will involve by some estimates more than 150 countries, known as the Belt and Road Initiative (BRI). BRI has become an integral part of Chinese foreign policy under President Xi Jinping (Boyce, 2017).

3. Will CPEC be a Success?

This section reviews existing economic discussions that have touched on the likely impact of CPEC in Pakistan, on local employment, the burden of financing CPEC, Pakistan-China trade policy, the role of the state and industrial policy and other factors (beyond the concerns of CPEC) which may be the most important long-term constraints on economic growth. There is much less consideration of how economic changes within China will impact on CPEC.

3.1. Boosting local employment

There is some writing about whether CPEC will generate linkages and spillovers that benefit the domestic, Pakistani economy, in particular whether it will create local employment. There is a widespread suspicion that Chinese labour and managers are being brought to Pakistan to work on the various construction projects and that Chinese contractors are sourcing their inputs of construction materials from Chinese firms (Griffiths, 2017:Ch6). Hijazi et al (2017) relying on lots of newspaper reports construct an implausible but oddly precise estimate of 389,405 jobs created in CPEC construction projects to date. Pakistan could learn here from Turkmenistan who mandate that 70% of the workers on any project must be local or from Uzbekistan who permit only project managers and not labourers to be recruited from China. It is true that Chinese loans often insist on the use of a Chinese contractor who tend to have established Chinese networks for subcontracting labour and construction materials (Griffiths, 2017:Ch3).

3.2. Financing

The most pessimistic views of CPEC see it as being designed to ensure the financial dependence of Pakistan on China for the long-run benefits of China. Pakistan is argued to be vulnerable in terms of its existing debt burden and weak export performance so would not be able to meet the repayment conditions for CPEC lending. This would leave Pakistan potentially vulnerable to losing formal control over the Gwadar port, land and other domestic assets, as has happened with the Chinese-invested Hambantota port in Sri Lanka (Husain, 2017).

Scholars acknowledge the difficulty of undertaking any rigorous analysis of this question as China does not report cross-border lending in a systematic or transparent manner beyond headline investment numbers (Hurley et al, 2018). The general feeling is that infrastructure projects (roads, railroads, port expansion) are mostly financed through concessional Chinese loans (Husain, 2017) paying around 2% interest (Ahmad, 2017:56). Government and energy projects appear to be financed by foreign investment under contracts that involve sovereign guarantees relating to rates of return for investors (Husain, 2017). The guaranteed returns have been estimated at 17 percent, in dollar terms, which adds an exchange rate risk to energy

financing. This expense is likely to be offset by reducing the previous losses to national income due to energy shortages which were estimated at around $6 billion annually (Husain, 2017; Ahmad, 2017). One report divides up the financing burden optimistically as FDI 64%, concessional loans 24%, commercial loans 6% and grants 1% (Ahmad, 2017:56) which looks sustainable. The peak outflows to finance debt, profit and dividend outflow have been forecast to reach $3.5-$4.5 billion in 2024-5, then subsequently to decline (IMF, 2017). To finance this outflow would require export growth of around 10-14 percent p.a. which is well above recent export growth (Husain, 2017). Another study identifies eight countries for whom the BRI projects would leave them vulnerable to debt. They determine vulnerability relative to existing international credit rating, size and conditions of implied Chinese lending and existing debt-to-GDP ratios (Hurley et al, 2018). Pakistan is among those eight countries and does have a long record of problems with international debt, for example requesting debt re-scheduling six times from the international organisation for creditors, the Paris Club (Hurley et al, 2018).

3.3. Pakistan-China Trade Policy

The Free Trade Agreement (FTA) between China and Pakistan became operational on the 1st January 2006 and both countries expanded mutual market access, cut many tariffs and reduced tariffs to zero on 767 items (China) and 356 items (Pakistan) (Shabir and Kazmi, 2007:180). Some have been optimistic that the FTA combined with CPEC infrastructure and energy will give exporters a boost in Pakistan. Under the FTA for example Pakistan gained a 50 percent tariff reduction on products in which it should have ample opportunities to export, including fish, dairy products, leather products, knitwear and woven garments (Shabir and Kazmi, 2007:189). The easier access to imported Chinese machinery could help Pakistani producers upgrade technology in sectors like cement and textiles. The access to cheap Chinese produced inputs such as filament yarn for use by the textile sector and fertilisers for use by the agricultural sector could further boost the competitiveness of Pakistani exports.

Others are less optimistic and argue that the FTA has facilitated rapid growth in imports from China which has destroyed small and medium firms producing for the local market. They argue that this did not represent ‘efficient trade’ as these imports were often of poor quality and imitations of established local brands and gained market share only because they were able to avoid taxes and so undercut local producers (Hamid and Hayat, 2012:279). Between

2006 and 2017 there was a sharp decline in the domestic production of goods such as heavy machinery and equipment, bicycles, TV sets, electric transformers, electric meters, sewing machines and deep freezers (Kamal and Malik, 2017:17). Pakistan's exports to China grew from US$0.4 billion in 2005 to US$1.7 billion in 2016, even declining after 2011. The structure of Pakistan's exports to China, has remained unchanged since 2000 with 80% of the total consisting of raw cotton and rice (Hamid and Hayat, 2012:275). Even in sectors where Pakistan has a well-established international market presence such as denim and surgical goods, the zero tariffs charged on exports to China stimulated only a negligible growth of exports (Chaudhry et al, 2017:6). Chinese exports to Pakistan grew from US$1.8 billion in 2005 to US$13.9 billion in 2017 (Kamal and Malik, 2017:5). This data even underestimates the trade deficit. Unscrupulous Pakistani importers and Chinese exporters have found it relatively easy to misclassify imports from China and understate their value to evade import duties and taxes. One estimate holds that in 2010 actual imports from China amounted to $7billion as opposed to $5.2billion in the official data (Hamid and Hayat, 2012:279).

One problem for Pakistan is that as of 2013 Pakistan's exports were still subject to higher tariffs than ASEAN countries in areas of potential comparative advantage for Pakistan. This included goods such as cereals, dairy produce, meat, fruits, wool, cotton, knitted or crocheted apparel, and made up textiles (Abbas and Ali, 2017b:8). While the FTA does provide zero-duty market access for key Pakistani products such as cotton fabrics, bed-linen and other home textiles, leather articles, sports goods and fruits and vegetables exports remained constrained by various non-tariff barriers (NTBs) (Hamid and Hayat, 2012:276).

There was some good news for Pakistan when the second phase of FTA negotiations concluded in September 2017. By the end of this phase the FTA with China covered more than 7000 tariff lines with zero tariffs. Pakistan has secured improved market access for exportable products such as blended fabrics, cotton fabrics, synthetic yarn and fabrics, home textiles, minerals, cutlery, minerals, sports goods, and surgical goods. China has further eased exports of Pakistani agricultural products especially citrus and mangoes by dropping the condition of pre-clearance. This measure could benefit fruit growing areas, including Gilgit-Baltistan (Abbas and Ali, 2017a). More remains to be done to clear away some of the non-tariff barriers to trade. Trade between China and Pakistan via the Karakoram Highway has suffered due to logistical bottlenecks. Transport trucks travelling from Pakistan to China are stopped at Tashkurgan for offloading onto different trucks to complete the journey to

Kashgar. Visas have remained as a problem for Pakistani transporters causing delays (Shafqat and Shahid, 2018).

3.4. The Role of the State and Industrial Policy

Motivated by the economic failures related to productivity, structural change, technological upgrading and learning (from FDI) there has been a general call for Pakistan to utilise an industrial policy, some of this has come about completely independently of thinking about CPEC (Speakman et al, 2012; Chaudhry and Andaman, 2014; Noman, 2015). Others have called for an industrial strategy specifically to complement and maximise the benefits from CPEC. Chaudhury et al (2017) provide a long list of what that industrial policy should comprise including joint ventures, export promotion, and technological upgrading. Focusing on international trade Ahmad (2017) argues that Pakistan needs to utilise the opportunities of CPEC to diversify out of cotton textiles to more high value added sectors. To do so Pakistan he argues should invest in sectors where world demand is growing and should shift from import substitution to export promotion. Mehmood (2017) argues that the development of the CPEC SEZs should be made part of the overall growth strategy of Pakistan. He argues that Pakistan should make a careful choice of industries to be invited into these zones to boost exports and local employment. There is a tendency in these calls to neglect the question of how Pakistan, a state with weak capacity and in negotiation with China is going to be able to suddenly implement a world-class industrial policy. These studies tend to be more wish lists than a practical agenda for reform.

3.5. Other Factors are Important Constraints on Industrial Growth

Chaudhry et al (2017) examine both firm-level and sector-level data from before and after the FTA was signed. They find that productivity has fallen in most of the sectors that faced the largest reductions in protection following the FTA. The few exceptions were leather, pharmaceuticals and rubber. Clearly, the FTA and initial CPEC projects have not been enough to dynamise exports, productivity and investment in Pakistan.

This is hardly surprising as drawing from academic studies not directly dealing with CPEC it is apparent that there are many other constraints on Pakistani industry that CPEC (or studies of CPEC) are not engaging with. These include competition from ASEAN countries who

have easier access to the Chinese market, corruption where in 2013 Pakistan ranked 127 from 175 countries in the Corruption Perception Index produced by Transparency International (TI), regulatory burdens, the business climate, political instability, and the availability of skilled labour (Amjad et al, 2015). A 2018 survey of business confidence did conclude that energy shortages were an important constraint on the growth of manufacturing firms, but not other infrastructure. Political stability access to finance, law and order, provincial tax policies, import and customs duty policies were all seen as more important (Lahore School of Economics, 2018). The continued failure to mobilise tax and other revenues (total government revenue was only 15.5% of GDP in 2017) led to budget deficits stubbornly above 5% of GDP in the years up to 2017 (Burki, 2017:10). The commendable efforts of the government to boost developmental spending in the recent past is not likely to be continued due to the pressure, in part supported by the 2019 IMF mission, to reduce the budget deficit.

3.6. Economic Changes in China and CPEC?

There is much more limited attention to how economic changes in China will impact on the likely success of CPEC. Kamal and Malik (2017) is one exception, and they note that the growing shortage of agricultural land will mean China increasingly has to import land-extensive crops (such as wheat and rice) to feed its population. They also note that China is upgrading out of low value-added industries and that this offers Pakistan an opportunity, particularly through Chinese FDI, to expand their own production and export of such items. Hamid and Hayat (2012) agree and note that China is moving up the value chain as labour intensive industries are losing their competitiveness in face of rising wages. This they argue provides a window of opportunity for Pakistan, which has a large textile sector, as well as strong clusters in sports goods, surgical instruments and light engineering. Pakistan should try and attract Chinese investment into these labour intensive export industries.

4. Consideration of China and CPEC: Lots of International Relations and not Enough Economics

When attention turns to China and CPEC the focus is near exclusively from the perspective of international relations and not economic changes in China. Much of this debate in the field of international relations is between Liberal and Realist theorists. Liberals argue that Beijing is seeking to create a positive sum game in which China and its South Asian and other

neighbours mutually benefit through increased trade, investment and cooperation. Realists argue that China is attempting to create a Chinese-dominated regional order, where Chinese power expands at the expense of the power of other nations (Mearsheimer, 2010) and CPEC is one element of this wider strategy (Nicolas, 2015). For Realists CPEC is about projecting Chinese power to protect its own energy security. Since 2009 China has been a net importer of oil, natural gas and coal which has led to greater Chinese dependency on the supply of resources from the Middle East and Africa to China's eastern coast (Nicolas, 2015). 80 percent of China's oil needs come through the Straits of Malacca across nearly 10,000 miles of ocean. Pakistan's geo-strategic location provides Beijing alternative routes for oil and gas supplies from the Middle East. The crucial component of CPEC in this view will be both the direct import of oil either unloaded at Gwadar or through a pipeline from Iran through Pakistan. Recent discussions about incorporating Afghanistan into CPEC may help facilitate China accessing mineral wealth from Afghanistan. For some scholars Gwadar also represents one among a 'String of Pearls' or strategic naval bases in the Indian Ocean, including Chittagong (Bangladesh), Hambatota (Sri Lanka), and Woody Islands (Paracel Islands) among others (Jan and Granger, 2016:293). CPEC can facilitate China getting a long term presence in the Indian Ocean close to the Persian Gulf so transforming China into a two-ocean power (Chaziza, 2016). A Chinese presence in the Indian Ocean would provide a hedge against Indian ambitions to do the same (Garlick, 2018). Other research has noted that almost none of these ports have even the minimal facilities necessary to support combat (Nicolas, 2015:35). Boni (2016) examines the motivations of the civilian and military elite in Pakistan, arguing that they are seeking to create a secure environment for Chinese investment in order to benefit from Chinese military and diplomatic support for Pakistan's wider geo-strategic interests.

China hopes to leverage its close relationship with Pakistan as a gateway to influence other Islamic countries in Central Asia and the Middle East. This has helped China supress separatist groups such as the East Turkestan Islamic Movement formed among Uighur militants in Xinjiang. The group had links outside China and so combating them requires inter-regional cooperation. While Uighur separatists have received training and support inside Pakistan, the government of Pakistan has also suppressed these militants under pressure from Beijing (Jan and Granger, 2016). The crackdown on militants holed up in the Islamabad Red Mosque in 2007 is one such example. Pakistan also supported China and used its influence in the Islamic world to head-off any criticism of China's handling of the 2009 Uighur ethnic

riots in Xinjiang which left 200 people dead and 1,600 injured (Jan and Granger, 2016). Pakistan is also supporting China in helping to ensure there is no spill-over of radical Islam from Afghanistan into Xinjiang, particularly since the US decision to pull troops out of the region (Chaziza, 2016). Trade and transport links with Pakistan are also seen through the prism of China's own problems with terrorism and unrest in Western China (Small, 2015:Ch4). Wolf (2019) explores the (potentially negative) impact of CPEC on religious extremism in both Pakistan and China.

5. China Initiatives: The Belt and Road Initiative and the Western Development Programme

5.1. Two Contrasting Chinese Initiatives

While CPEC has been celebrated and much discussed in Pakistan this section introduces another long-standing major Chinese initiative that is often neglected in discussion, but may be equally important for Pakistan. This is the Western Development Programme (WDP). The WDP was launched in the late 1990s to promote economic growth in western China. After 2010 the WDP became increasingly focused on promoting economic growth and employment in Xinjiang. Xinjiang is important because it is the Chinese province bordering Pakistan and so the starting point of CPEC. The other initiative, the BRI, is about China building infrastructure and re-locating industrial capacity overseas and encouraging both exports from and imports to China. The principles of the WDP are very different, this is an effort to boost industrialisation in Xinjiang and to ensure the growth of a productive base in the province through a mixture of export promotion and import substitution. Which principle pre-dominates in the Chinese relationship with Pakistan has a crucial implication for the success or otherwise of CPEC.

5.2. The Belt and Road Initiative (BRI)

The BRI represents a new aspiration for China to consciously re-shape the world order rather than adapting to the changing world (Yu, 2017). The stated aims of the BRI are three-fold. Firstly, to help other countries to modernise their infrastructure and improve cross-border transport and other infrastructure. This will help China promote trade and economic integration with its Asian neighbours and further afield. Greater connectivity will make it

easier for China to re-locate lower end production to BRI countries and to import the (cheaper) production back to China. Secondly, to gain more profit and expand global business operations Chinese companies have been given strong incentives under BRI initiatives to invest overseas, re-locate production and transfer technology to pursue what has been called a 'Going-out Strategy'. Thirdly, BRI initiatives could enable China's inland western provinces such as Xinjiang and Yunnan to improve internal economic integration and participate in global trade (Yu, 2017).

The BRI is explicitly outward looking and seeks to ultimately create a new Eurasian super-continent. This supercontinent will comprise a network of ports, roads, railways and Chinese-dominated industrial parks that unites China, Central Asia, the Middle East and Europe. China is equally keen to export to this new Eurasian common market, to import goods that can no longer be profitably produced within China, and for Chinese firms re-located outside of China to sell into Eurasian markets. Soon after the launch, the Chinese province of Hebei announced plans to move the capacity to produce 20 million tonnes of steel, 5 million tonnes of cement and 3 million units of glass overseas by 2023 (Macaes, 2018). There is evidence that the announcement of the BRI policy by China led to an increase in outward FDI from China in 2014 and 2015. State and non-state owned companies increased investment in overseas infrastructure and non-infrastructure firms across Eurasia. Chinese firms tended to shift FDI from greenfield investment to acquisitions after 2014 to capture the investment opportunities more quickly (Du and Zhang, 2018). Pakistan has yet to benefit from this process. Compared to this large investment in Xinjiang, there is no indication Chinese producers are re-locating textile production to Pakistan. Total FDI in Pakistan textiles (including China and everyone else) fell steadily from only $60million in 2007 to $15million in 2017 (Pakistan Business Council, 2018:13).

This generous and outward looking nature of the BRI is proclaimed by the Chinese government, "The connectivity projects of the initiative will help align and coordinate the development strategies of the countries along the BRI, tap market potential in this region, promote investment and consumption, create demands and job opportunities, enhance people-to-people and cultural exchanges, and mutual learning" (Government of China, 2015:2a). In practical terms this can be seen in guidelines issued by China's State Council in July 2018, companies were instructed "to 'look to Belt and Road countries as new sources of imports, strengthen strategic cooperation, and increase imports of high-quality products that meet the

needs of upgraded domestic consumption in order to expand the scale of trade." (Macaes, 2018:173). A practical example for Pakistan is the promise that a "household appliance industrial park should be built near Lahore through joint venture. Household appliances, such as refrigerator, ice tank, washing machine, air conditioner, TV, microwave oven and small appliances, can be produced by absorbing foreign capital, adding investment and introducing technology." (Government of China, 2015:14b). If the BRI principle dominates the functioning of CPEC Pakistan can look forward to FDI, production facilities being re-located to Pakistan and greater opportunities to export to China.

5.3. The Western Development Programme (WDP)

In the 1980s Deng Xiaoping declared that some regions of China should be allowed to get rich before others. This marked a dramatic break with the Maoist effort between 1949 and 1978 to maintain regional equality (Lu and Deng, 2011). After 1978 certain eastern coastal SEZs were permitted to pursue economic reform and opening up to the outside world (Lu and Deng, 2011). The western provinces helped promote industrialisation in the east by selling their raw materials at low state-planned prices and by purchasing industrial consumer goods from the coastal provinces at rising market prices. By the end of the 1990s there was a growing concern about a widening economic gap between the western region and the rest of China. The western region had failed to benefit from the decade long boom in FDI inflows into China (Christoffersen, 1993). There was mounting domestic pressure for something to change.

In 1999 President Jiang Zemin emphasised the need to accelerate the development of western China. The resulting Western Development Programme (WDP) (also known as the Open Up the West campaign) was intended to address the region's economic, regional, ecological and security concerns (Lai, 2002). The WDP was an effort to direct state investment, outside expertise, foreign loans and private capital into western China. The policy changes included increased central government fiscal transfers, reduced income taxation, and tariff exemptions on imported equipment used for investment. The construction of the Qinghai-Tibet railway for example was exempted of almost all tax assessment (Lu and Deng, 2011). When launching the project in the 2000s Chinese authorities drew comparisons with the development of the American west in the early 1900s (Moneyhon, 2003).

By the end of 2010, almost a quarter of loans from the China Development Bank were going to Western China, a rapid rise from 2001 (Lu and Deng, 2011:6). The early initiatives of the WDP included eight national highways of 12,600km to connect the eight major cities in the region, upgrading and building more than 200,000km of inter-provincial and local highways and 150,000km of more minor roads between townships and villages. The railway system was also expanded. In 2002 the state started construction of the Xi'an-Hefei section of the Xi'an-Nanjing railway, in 2000 the Chongqing-Huaihua Railway and in 2001 the Qinghai-Tibet railway (Lai, 2002).

In some respects, the WDP was an immense success. The western economy grew by 13.58 percent p.a. between 2000 and 2010, and after 2006 was the fastest growing region in China. The value added share of industry in GDP increased sharply, reaching 41 percent in 2010. Inward FDI grew from less than $2 billion in 1999 to almost $20 billion in 2010 (Lu and Deng, 2011:10-12). The province of Sichuan was transformed into a regional hub for business and trade. Sichuan reinforced its position as one of the major agricultural production bases in China. Output of rice, wheat, rapeseed, citrus fruit, peach, sugar cane, sweet potato, and Chinese herbs all now accounted for a significant share of Chinas' total. Sichuan also diversified its economy. While traditional heavy industries such as coal, energy, iron and steel remained dominant, Sichuan established a light manufacturing sector comprising electronics, building materials, wood processing, food, and silk processing. Helped by the citing of numerous state level key laboratories and high-tech industrial zones high-tech industry in Sichuan also developed rapidly. By 2016 exports of new and high-tech products accounted for 56.8 percent of total exports. These high-tech zones have attracted a number of leading global IT such as Microsoft, Cisco, Intel and IBM to set up R&D centres. Sichuan has also developed a number of famous local enterprises and brands including Changhong Electric Group Co Ltd, Panzhihua Steel Group, Wuliangye Group, Jiannanchun Group, Luzhoulaojiao, Di'Kang Group, Di'ao Group and New Hope (HKTDC, 2018b:3).

For the most extreme west, on the border with Pakistan, there was more disappointment with the WDP. Lai (2002) was sceptical about the WDP by the early 2000s arguing that it was encountering economic, political and cultural obstacles including official corruption, governmental inefficiency, ethnic division and low economic returns. Western rural development remained backward and by 2009 the rural population still accounted for over 60 percent of the total population in Western China. The incidence of poverty in particular

remained much higher than in other regions (Lu and Deng, 2011). The WDP did not bring social harmony to Xinjiang.

Xinjiang is one of five autonomous regions in China and covers 1.6 million km-square with a population of around 23 million people (Griffiths, 2017). “Xinjiang is largely a desert wasteland cleaved in two by the Tianshan Mountains…..the physical environment of the region is simply too harsh to support large populations (by Chinese standards), even with modern agricultural and industrial technologies.” (Strafor, 2013:3). On the periphery of China the province has long had an unstable relationship with Beijing. After its conquest in 1759 Xinjiang was incorporated into the Qing Empire. When the Qing dynasty collapsed in 1911 Xinjiang remained with the new Chinese Republic until the 1930s when a separatist Muslim-Turkik rebellion in the south-west briefly established the First East Turkestan Republic before it was defeated by Kuomintang forces. A second rebellion in 1937 prompted the intervention of Soviet troops who held the region for the next decade. When WWII ended the USSR supported the creation of the Second East Turkestan Republic until it was forcibly re-assimilated by Chinese troops (Griffiths, 2017:Ch5). In 1991 the collapse of the USSR saw the emergence of independent Central Asian states which spurred growing separatist movements in Xinjiang. In 1990 Han police and soldiers clashed with Uyghurs belonging to the Islamic Party of East Turkestan, and most estimates suggest that dozens were killed (Moneyhon, 2003).

By 2003 the central government had invested more than $8.36 billion in building highways, power plants, dams and telecommunications facilities in Xinjiang (Becquelin, 2004). This included a $1.4 billion 2,500km pipeline running from Xinjiang gas fields to Shanghai (Moneyhon, 2003). Xinjiang has rich natural resources that include 30% of all-China oil reserves, 34% of gas reserves and 40% of coal reserves (Government of China, 2007). The combination of a rich resource endowment and investment in transport infrastructure tended to strengthen the role of Xinjiang as either a transit route or source of raw material supply for manufacturing on the eastern coast. The West-East Pipeline for example transferred energy from the Xinjiang-Kazakhstan border to cities in the Yangtze and Pearl River deltas (Strafor, 2013). There was initially less success in bringing production and employment to Xinjiang. In 2010 while 71% of exports from China to Central Asia exited through Xinjiang, the bulk of these were produced outside of Xinjiang. The provision of new infrastructure had actually led to a declining market share of Xinjiang exporters in all-China exports to Central Asia. By

boosting domestic connectivity, the coastal regions of China were able to displace Xinjiang producers and capture more of the export market to Central Asia (Xu, 2016).

Many of China's 55 minority groups live in the west, especially in Xinjiang. In the 1950s the Han Chinese constituted about 6 percent of the population of Xinjiang and by 2000 more than 40 percent (Becquelin, 2004). By 2000 approximately a quarter of the population of Xinjiang remained in poverty and a disproportionate number of these were Uyghurs. What jobs were created tended to go to migrant Han workers rather than indigenous Uyghurs, particularly among more skilled positions open to University graduates (Becquelin, 2004:375). In the Taklamakan Desert oil exploration project only 253 of 4,000 technical workers came from minority groups (Moneyhon, 2003). There has long been a widespread perception in Xinjiang that Beijing was extracting Xinjiangs oil, coal, aluminium, wool and cotton to benefit the coastal region without adequate compensation. This has been a long-standing cause of local resistance to Beijing, as was the case argued in the early 1990s (Christoffersen, 1993).

In 2009 conflict over perceptions of inequality and relative deprivation spilled over into street demonstrations and riots in Urumqi which led to a state crack-down (Griffiths, 2017:Ch5). There was also an increase in terrorist attacks in Xinjiang. These included an assault on a train station in Kunming in March 2013 which left 29 dead and over 130 wounded (Brugier, 2014:2). These attacks have been concentrated in southern Xinjiang which are home to the vast majority of the provinces 9.5 million Uyghur Muslims. Kashgar (the starting point of CPEC) has a total population of 3.9million people (almost 90 percent of whom are Uyghur) and has long served as a base for Islamist elements (Strafor, 2013).

To reduce local discontent Beijing launched a strategy of regional economic development in 2010 (Brugier, 2014). The new effort was much larger than the decade old WDP. The region was granted 'extraordinarily important strategic status', an SEZ was created in Kashgar and special trade zones in Alatau and Khorgas, China's main gateway to Central Asia. To encourage FDI the central government granted tax incentives to foreign investors and import tax breaks on imports of technology (Griffiths, 2017:Ch5).

There are echoes in the renewed Xinjiang oriented WDP in China's own recent history. The Third Front Strategy between 1964 and 1971 was a massive programme of investment in the remote regions of South-west and West China. The strategy aimed to create a huge self-

sufficient industrial base to serve as a strategic reserve in the event of China being drawn into international conflict (motivated in part by the increasing presence of the US in Vietnam from the early 1960s). At its peak in the late 1960s the Third Front absorbed more than half of all national investment (Naughton, 1988). Some were critical of the Third Front arguing that it created a high cost industrial base in difficult terrain, the fragmented and remote construction locations reduced any potential benefits from industrial clustering and that the construction was hasty and poorly planned. The integrated steel mill built at Jiuquan in western Gansu had cost over one billion yuan by 1980 without ever having produced any steel (Naughton, 1988). Others were more positive. Those counties that received industrial investment continue to be more developed in terms of urbanisation and shares of employment in manufacturing and services, even two decades after end of the Third Front. Those counties that received more Third Front investment in state enterprises had larger non-state manufacturing sectors in 2000 which were also more efficient than their state-owned counterparts. This suggests there were spillovers from the state to the non-state sector after reforms from 1978 onwards. The spillover effects were likely to have taken the form of transmitting know-how through participating in production and management activities. The opportunity to learn from practical experience at a nearby Third Front firm and the pool of skilled local workers made it easier for potential entrepreneurs to set up their own business (Fan and Zou, 2015).

Like the Third Front before it the WDP has very different implications from the BRI for CPEC and Pakistan. The WDP seeks to build industrial capacity in Xinjiang, to build up both import substituting industries, to reverse the outward migration from the region to eastern China that occurred in the 1990s and to promote exports. The fiscal system in China gives every state government a massive incentive to promote local industrialisation and Xinjiang is no exception. After fiscal decentralisation in 1994 local governments keep all business and income taxes and 25% of VAT levied on local enterprises. This gives both an incentive to promote and then to protect local industry against competition from other states (Lu and Tao, 2009:168). Production for local consumption, import substitution or exports does earn local states revenue, importing according to the dictates of comparative advantage is a revenue loser. The WDP is more inward looking than the BRI and prioritises the creation of productive capacity and employment. A survey of Nordic firms that had invested in Western China for example, found that the attraction of the local market was the most important motivation, incentives and assistance from the Chinese government also helped as did low wages, good levels of local education among workers, and provision of decent infrastructure.

None of the companies surveyed mentioned the possibility of sourcing inputs from or exporting to Pakistan (Gyllestal and Ekstrom, 2013).

6. Complementarity: Xinjiang and Pakistan

This paper has raised an important question here. Will one of the two principles – the BRI or WDP - come to dominate the operation of the CPEC in years to come? There is clearly evidence that both are currently affecting Chinese government policy making and the practice of Chinese firms. For example, much of the emphasis on industrialisation in the Sichuan-Chongqing industrial heartland of the western region has been that "local governments are now upgrading local and regional transportation networks in order to set up efficient logistics systems to further link local industries with supply chains in the coastal regions." (HKTDC, 2016:9). At the same time the same cities are building international airports and strengthening the freight-train service to Europe. During 2010-2015 outbound FDI from Sichuan increased by 72% and from Chongqing by 300%. Much of this was directed to expanding sales networks as local businesses seek markets and resources from overseas (HKTDC, 2016).

This means that at most we can only derive some preliminary suggestions about how economic growth in Xinjiang will likely impact on CPEC and Pakistan. A key question here is whether Pakistan and Xinjiang are complementary or competitive economies. A 'complementary' economic relationship is one between two countries or regions that have very different comparative advantages. This could variously be in terms of natural resource endowments, skill levels of the population, availability of land, or accumulated patterns of learning in production. In the complementary case existing and potential patterns of production and exports are likely to be very different between two countries or regions leading to potentially large gains from trade. The opposite is a 'competitive' economic relationship where patterns of comparative advantage and existing and potential patterns of production and exports are similar enough that there exist fewer potential gains from trade. Are Pakistan and Xinjiang complementary or competitive economies?

The Government of Pakistan is clear about this and argues that China-Pakistan is an "all weather strategic partnership of cooperation, concepts of harmony, inclusiveness, mutual benefits and sustainability." (2017:11). China they argue has advantages in infrastructure

construction, high-quality production capacity in equipment manufacturing, iron and steel and cement industries as well as financing for investment. Pakistan they note is rich human and natural resources, has a large domestic market and a geo-strategic location (Government of Pakistan, 2017). While this may be true for China as a whole the discussion rather ignores the specifics of Western China, Xinjiang in particular, and the goals of the WDP.

Xinjiang does have an enormous petrochemical industry which currently produces around 60% of the provinces industrial value added. This is structured around four major oil fields, petroleum refining and spin-off petrochemical-based industries. These spin-offs produce chemical fertiliser, plastics and chemicals such as ethane, sodium hydroxide, soda ash, carbamide, sulphuric acid, and resin. The Xinjiang coal sector has similar potential with three coal bases in Urumqi, Hami and Aiver Valley (Government of China, 2007). Pakistan does not have any similar resource endowments and could benefit from importing from these industries, for example importing plastic to manufacture household consumer goods.

The problem for Pakistan is looking forward as the WDP seeks to change the structure of Xinjiang's economy. The petrochemical sector is capital-intensive and the Chinese government is seeking to promote more labour-intensive sectors to create employment in Xinjiang. The Chinese government have been clear in the 12th Five-year Plan (2011-2015) and other documents that the WDP aims to "restructure and move to higher value-added areas of economic activity; for the inland regions to attract domestic and international companies to move operations inland, including the establishment of trade processing base (in other words becoming part of transnational production networks in the way that coastal regions did in earlier decades" (Summers, 2016:1632). To this end the Chinese government since the 1990s and with a renewed effort since 2010 has been promoting SEZs in Xinjiang. These include the Urumqi Economic and Technological Development Zone, Urumqi Hi-Tech Industrial Development Zone and Shihezi Economic and Technological Development Zone. These have tended to focus on advanced technologies such as IT, biotechnology, electronics, bio-medicine, and scientific research. Others such as Xinjiang Kuytun Economic Development Zone, Xinjiang Hoxud Economic Zone, Xinjiang Huocheng Economic Development Zone and Xinjiang Miquan Industrial Park have focused on cotton textiles, processing of agricultural products, building materials, and processing minerals (Government of China, 2007). Outside of these specific zones the sectors targeted for development in Xinjiang include cement and other construction materials, processing of silk products, textiles and

garments, development of applied technologies for coal processing and production of coal-to-chemical products, production of power generation equipment solar, wind and other new energy, upgrading top-grade cotton and wool products, mica, graphite, asbestos, vermiculite, packing containers and glass products (US-China Business Council, 2010; Government of China, 2015b:11).

Xinjiang has become one of the most rapidly growing and competitive textile regions in China. China formulated a ten year plan for textiles in Xinjiang in 2014 to establish textile industrial parks and clothing factories. This was backed by a dedicated $3.2billion fund as well as subsidies to electricity, cotton and bank credit (Yarns and Fibres, 2017). Starting in 2014 China's leading garment and apparel makers including Ruyi Group, HoDo Group and Huafu Fashion Co invested in Xinjiang and built factories (Xinhua, 2019). In 2014 the Korla Economic and Technological Development Zone was set to become the largest production base of rayon viscose in China (Globaloue, 2015). In 2015 Henan Xinye Textile Co opened a 110,000 spindle plant, the third such factory it had opened in 12 months. Employment in the three factories was expected to reach 3,000 people within 5 years (China Daily, 2015). In 2018 the world's largest textile mills for spinning coloured yarn was set up in Xinjiang. The mill cost $735million and was expected to have one million spindles by the end of 2018 (Business Recorder, 2018). In 2018 a plant with an annual output of 100,000 tonnes opened in Xinjiang to produce nylon from corn, rather than the usual petroleum (Xinhua, 2019). An industry source was quoted as saying that in 2018 a textile factory was set up every two days in Xinjiang and by 2017 the province hosted more than 1,800 such factories (China Daily, 2017) or 2,700 factories (Xinhua, 2018). In 2017 alone employment in textiles in Xinjiang rose by an estimated 112,000, by 2019 400,000 people were working in the industry (Xinhua, 2019). The 2014-2023 ten-year plan aimed to boost this to one million by 2023 (Sourcing Journal, 2014). Output in the industry was planned to rise from 30billion yuan in 2014 to 400billion yuan in 2023, by which time Xinjiang will have the largest cotton textile base in China and the most important clothing export base in Western China (Macaes, 2018:101). The textile industry in Xinjinag industry is now globally efficient and price competitive after heavy investment in blowing-carding machinery, combining machines, automatic winders, and shuttle-less looms (Macaes, 2018:100).

The National Development and Reform Commission and the China Development Bank argue, "China can make the most of the Pakistani market in cheap raw materials to develop

the textiles and garments industry and help soak up surplus labour in Kashgar, to develop the city into an industry cluster area integrating textiles, printing and dyeing, cloth weaving and garment processing." (Macaes, 2018:100). There is little reason to suppose this effort will promote industrialisation in Pakistan, "The garment and textile industry should be greatly developed in the Kashgar (Xinjiang, China) Economic Development Zone through importing raw materials from Pakistan." (Government of China, 2015b:14).

These sectors are uncomfortably close to many of the sectors that traditionally dominate the manufacturing in sector in Pakistan, such as cotton, knitted or crocheted apparel, and made up textiles (Abbas and Ali, 2017b). The Government of Pakistan offer a long list of sectors they claim will expand as a result of CPEC, these include, chemical and pharmaceutical, engineering goods, iron and steel, light manufacturing and home appliances, and construction materials (Government of Pakistan, 2017). The government's goals regarding the domestic textile industry are also clear. Pakistan should use CPEC to "Promote the quality, value addition, competitiveness and efficiency improvement of the textile and garment industry, expand the size of the textile industry, and increase the supply of high value-added products' to adopt the means like export processing to establish a regional cooperation and development model based on complementary advantages, and mutual benefits." (Government of Pakistan, 2017:16). This aspirations reveal a remarkable similarity to those that are being promoted for domestic production and export from Xinjiang.

Xinjiang offers an environment rich in sunlight, heat, water and fertile soil. The local climate offers long sunshine, high accumulated air temperature, and a frost free period which is conducive to the growing of crops (Government of China, 2007). The leading crops are cotton, grain, beet, fruit, and horticulture and also livestock husbandry. In the early 2000s the cotton output of Xinjiang made up more than one-third of China's total and 8percent of the world total. Xinjinag was also the biggest producer of tomatoes in China and the third in the world (Government of China, 2007). Xinjiang has China's second largest area of pastureland so is perfect for sheep farming and hence fine-wool production (HKTDC, 2018a:2).

Abbas and Ali (2017b) catalogue the key agricultural products they suggest can thrive alongside the promotion of SEZs in Pakistan. The Rashakai Economic Zone in Khyber-Pakhtunkhwa (KP) they suggest can boost output of wheat, maize, tobacco, rice, and sugar beets and natural resources such as oil, gas, mines of marble, gems stones, emeralds,

uranium, electricity, salt, lithium and steel. Ahmad (2017) argue that the northern zone of CPEC due to its seasonal and elevation advantages will produce high value crops such as apricots and grapes and stimulate the development of a fruit processing industry. Other agricultural products include mangoes, guavas, potatoes, and onions in the Punjab, dates and bananas in Sindh, peaches and tomatoes in KPK and peaches, citrus, strawberries, apples, melons, and apricots in the Peshawar region (Ahmad, 2017:98). Again the list of agricultural sectors with potential in Pakistan is uncomfortably close to the list of those sectors being promoted in Xinjiang.

The real success of the WDP focus on Xinjiang can be seen in more recent trade statistics. The exports from the 23 million people of Xinjiang are rapidly catching up with the exports of the 200 million people of Pakistan. In 2016 Xinjiang was exporting $15,607 billion and importing $2,051 billion. As noted in Section 3.3. Pakistani exports to China by contrast have stagnated at less than $2 billion over the last decade and shown no sign of diversification. Since the 2000s more than 80 percent of these exports consist of rice and raw cotton. By contrast exports from China to Pakistan have surged. In 2016 major exports from Xinjiang included garments, shoes and textiles. At present the major export markets from Xinjiang include Kazakhstan, Kyrgyzstan and Tajikistan which in 2016 accounted for 68percent of Xinjiangs total exports (HKTDC, 2018a:4). The development of the CPEC trade links will enable exporters to turn greater attention towards the large market in Pakistan and the emerging competitive trade relations are likely to spell competitive dangers for Pakistani industry and agriculture.

7. Excess Capacity in China

The problem of excess capacity in Chinese manufacturing is of profound importance to the Chinese economy but its existence and implications have not yet been discussed in the predominantly Pakistan-centric writing on CPEC. Whether the principles of the BRI or the WDP dominate the operation of CPEC the issue of over-capacity in China could have profound implications for Pakistan.

Many state enterprises in China are not subject to market based disciplines such as profit maximisation and cost minimisation but rather are tasked to fulfil broader political goals.

These goals include pursuing market share, expanding local employment and technological modernisation. Local governments have long tolerated non-performing loans and low profitability while pushing state-owned banks to extend new credit and provide cheap energy and land in pursuit of these goals. In response to the 2008 Global Financial Crisis the central Chinese government instituted a large lending programme that generated a new round of investment in low-return manufacturing projects. There are other pressures intensifying the expansion of industrial capacity. The career and promotion prospects of party and government officials is closely influenced by their demonstrated ability to promote local industrial production. While the majority of locally-generated taxes must be passed on to Beijing local governments can keep business taxation so have an incentive to encourage local investment and production to maximise output and so boost local tax revenues (European Union Chamber of Commerce, 2016).

Since 2000 China's steel sector has grown to over 2,300 million tonnes (MT). From 2000 to 2015 steelmaking capacity grew by an average of 82MT per year, roughly equivalent to total annual US production. China's overcapacity grew from about zero in 2000 to 336MT in 2015 (Brun, 2016:8-9). Even then China planned to add another 41MT of steelmaking capacity by 2017 (Brun, 2016:12). In part this has been caused by strong domestic demand from infrastructure construction, real estate, and the automobile industry (European Union Chamber of Commerce, 2016). Much of this expansion reflects excess capacity. Capacity utilisation ratios declined from 95 percent in 2002 to around 70 percent in 2015 (Brun, 2016:23). Local officials continue to provide implicit lending guarantees to companies to attract investment without consideration for existing overcapacity. The Chinese steel industry now has $480billion in outstanding loans (Brun, 2016:28). China has made efforts to export steel, often at very low prices. Steel exports from China to the world quadrupled between 2005 and 2016, to 111.6MT, doubling in the four years alone after 2012 (Brun, 2016:15). During this period India, Malaysia, Indonesia, South Africa and Thailand responded with attempts to protect their markets from Chinese exports (European Union Chamber of Commerce, 2016). The pressures towards increasing output and capacity have thwarted continued attempts by the central government to curb expansion of the industry (United Steel Workers, 2017). In 2009 when China's planning agency ordered several blast furnaces to be closed Hebei Tianzhu Iron and Steel Group received a $750,000 bonus for dismantling four blast furnaces then used the compensation to build a larger blast furnace and so expand capacity (Brun, 2016:39). In October 2013 the Chinese government issued a guideline

requiring that steelmaking capacity in China should be reduced by 80MT by 2018 or about 10 percent of China's 2013 production. Instead capacity continued to grow (Brun, 2016; European Union Chamber of Commerce, 2016). There are similar problems with massive capacity growth and resulting over-capacity in China's electrolytic industry where capacity utilisation rates declined to 78percent in 2015, in cement 73 percent in 2015, in construction glass to 79percent in 2014, and paper and paperboard to 84percent in 2014. In the petroleum industry for key chemical by-products capacity utilisation rates were all below 80percent (European Union Chamber of Commerce, 2016:3).

It is clear from initial pronouncements that China sees expansion abroad as a way to manage domestic industrial overcapacity including in the steel sector. The new China-led Asian Infrastructure Investment Bank (AIIB) and $40 billion Silk Road Fund provide funds for the policy. He Yafei the former vice minister of the Overseas Chinese Affairs Office of the State Council and former vice minister at the Chinese Ministry of Foreign Affairs argued in an article (published in the South China Morning Post in 2014) that it had been agreed the solution to the problem of industrial overcapacity problem in China was to implement the 'Going Out Strategy' for Chinese enterprises and export the overcapacity. He argued that this would be a win-win situation, moving production from China with excess capacity to those countries with inadequate capacity. Chinese banks have been instructed to assist in this process through credit, trade finance, and international insurance (Yafei, 2014). Hebei Iron and Steel Group, one of the largest steelmakers in China signed an agreement to develop 5MT of steelmaking capacity in RSA by 2019 (Brun, 2016:43). While this may be good news and capacity in steel, glass and other sectors could be transferred to Pakistan it could also be worrying. The Chinese government are very clear that the BRI "is designed to uphold the global free trade regime and the open world economy" (Government of China, 2015a:1). What cost to Pakistan of further deepening free trade with a country that has massive over-capacity and is ready to export that output at extremely low cost to key economic sectors in Pakistan?

8. Conclusion

This paper began by noting the widespread optimism about CPEC that is prevalent among the government, political parties, the media and academic commentators. Business groups do

seem to be more sceptical but discussion of this has to be left to follow up research. There are some solid reasons to be optimistic, CPEC is large when compared to previous FDI flows, is targeted to key energy and infrastructure sectors and comes with a long-term Chinese commitment. As noted in the introduction, this paper made two original contributions, relating to how economic development in Western China, particularly Xinjiang, is likely to impact economic development in Pakistan, and secondly, exploring the potentially conflicting Chinese motivations for investment in BRI-CPEC and the WDP.

A key problem with much of the analysis of CPEC is that it is very inward looking. Typically, a CPEC paper or presentation will include a map where CPEC stops at the China-Pakistan border. Where is the analysis of China? There is some discussion of China, but this tends to be structured around questions from international relations, the military value to China or Gwadar or the energy security implications of importing oil through the Middle East and via Pakistan to China. There is a need to integrate an economic analysis of what is happening in China, particularly Western China with the economic analysis of CPEC in Pakistan.

This paper identified two big principles in China. The BRI is generously outward looking and its implications for Pakistan are the acquisition of new industrial capacity and technology and greater opportunities to export to China. The WDP is more inward looking, aiming through both import substitution and export promotion to build productive capacity in Western China, particularly Xinjiang, as part of a wider effort to provide the employment and livelihoods that the Chinese government anticipates will cool ethnic and religious conflict in the province.

In practice these two principles are neither unified, coherent nor completely distinct. The WDP has been described as “meandering through a cluster of diverse, sometimes competing agendas bearing the stamp and serving the interests of many different agents.” (Holbig, 2004:350). The two principles are probably better thought of as broad trends in policy making rather than two rigidly separate alternatives. The implications for Pakistan are though very different, particularly when we consider the likely competitive nature of the emerging economy of Xinjiang with Pakistan. In this case CPEC is likely to facilitate increasing exports from Xinjiang of industrial and agricultural products that are very similar to those already produced in Pakistan or that are targets for expansion under recent government

initiatives. A crucial and generally forgotten aspect of the contemporary Chinese economy is the massive over-capacity in key economic sectors such as steel and glass making.

This paper asks key questions. Will the BRI or WDP strategy be the key strategy determining the operation of CPEC in Pakistan? Will the over-capacity of much of China's industrial sector lead to FDI and transfer of capacity to Pakistan (BRI) or will increasing free trade lead to the decimation of these sectors in Pakistan as a result of a flood of hyper-competitive imports (WDP)? While this paper only makes some preliminary answers to these questions the paper has sought to make clear that economic developments in (Western) China are crucial for the likely success or otherwise of CPEC. Policy makers and analysts in Pakistan need to pay careful attention to the evolution of thinking and policy practice in Beijing.

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