Assessing the Success of the China-Pakistan Economic Corridor

Insights from the Power Projects

By Erica Downs

This essay is based on Erica Downs' The China-Pakistan Economic Corridor Power Sector Projects: Insights into Environmental and Debt Sustainability (2019).

This white paper was commissioned by the CSIS Energy Security & Climate Change Program as part of its Energy Spheres of Influence project. It informed the project's workshops and ultimately its final report, Race to the Top.

This piece was written in 2019; as such, elements of this paper that were contemporaneous when written may now be dated.

In April 2015, Chinese president Xi Jinping and then-Pakistani prime minister Nawaz Sharif launched the China-Pakistan Economic Corridor (CPEC), which Chinese officials have identified as a flagship project of China's Belt and Road Initiative (BRI). CPEC is often billed as a grand plan for forging greater connectivity between China's western region of Xinjiang and Pakistan's Arabian Sea with a price tag of $62 billion. However, CPEC is more accurately characterized as a collection of energy and internal transport projects that so far have cost less than the headline number. According to China’s Embassy in Islamabad, 22 CPEC projects worth $18.9 billion had been initiated or completed by the end of 2018.

Power sector projects loom large in the CPEC project portfolio because Sharif's party won the 2013 elections on a platform that prioritized ending Pakistan's widespread electricity shortages. Generation and transmission projects accounted for 13 of the 22 CPEC projects completed or under construction at the
end of 2018. In addition, the power sector projects that comprise the list of “CPEC Energy Priority Projects” maintained by Islamabad represent more than half of the total value of all of the projects on the government’s CPEC website with estimated costs ($20.9 billion out of $38.6 billion).

Beijing and Islamabad initially had high hopes for CPEC advancing Chinese and Pakistani interests in and beyond the power sector. In February 2015, during a visit to Pakistan, China’s foreign minister Wang Yi indicated that Beijing viewed CPEC as a bellwether for the BRI, stating that if One Belt, One Road is like a symphony involving and benefiting every country, then construction of the China Pakistan Economic Corridor is the sweet melody of the symphony’s first movement. In August 2016, Sharif described CPEC as not only a game changer for Pakistan that would help put the country on the path to sustainable development but also a fate changer for the entire region that would guarantee development and prosperity for half the world’s population.

The early enthusiasm for CPEC in China and Pakistan partly reflected the multiple complementary objectives both countries sought to advance, starting with the power sector projects. Islamabad’s determination to quickly add substantial new generation capacity and achieve its longstanding goal of producing power from domestic coal (and Sharif’s ambition to be reelected in 2018) aligned with Beijing’s intent to export excess power generation equipment and use CPEC as a “pilot project” for the broader BRI. In the longer term, Pakistan’s goal of ensuring adequate and reliable electricity supplies to spur broader economic growth dovetailed with China’s expectation that a more prosperous Pakistan would be a better security partner and better able to curb the growing extremism within its borders.

Now that it has been nearly five years since the launch of CPEC and the 2020 deadline for the completion of the energy priority projects is approaching, some tentative conclusions can be drawn about how Beijing and Islamabad have fared in achieving their initial CPEC objectives. The main argument is that CPEC has delivered some positive outcomes but also created some new challenges for both countries as of this writing in November 2019.1

- Pakistan eliminated its power generation capacity deficit and is producing some power with domestic coal, a longstanding goal for Islamabad. However, new generation capacity alone is unlikely to end the country’s blackouts. Moreover, the import of equipment and machinery for CPEC projects exacerbated Pakistan’s balance of payments crisis and probably accelerated its turn to the International Monetary Fund (IMF) for another bailout.

- China has succeeded in generating new contracts for Chinese power companies and demonstrating its ability to execute BRI projects quickly. However, these achievements arguably have been overshadowed by concerns about the environmental and debt sustainability of CPEC and the BRI.

- Given Beijing’s characterization of CPEC as a bellwether for the entire BRI, China’s government and companies are likely to apply lessons learned from the development of the CPEC power sector projects to the broader initiative. Although Chinese officials and executives have not officially defined what constitutes a successful BRI, a list of indicators of success can nonetheless be derived from the execution of these projects. They are likely to include profits for Chinese firms, maintaining good relations with host countries, regaining control of the global narrative about the BRI, more responsible lending, and a greener project portfolio.

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1 The author thanks Talha Khan for a very helpful conversation that informed the development of this argument, especially with respect to Pakistan.
The CPEC Power Projects

The power sector projects that are the subject of this piece comprise the list of 15 “CPEC Energy Priority Projects” on the government of Pakistan’s CPEC website (see Table 1). These 15 projects initially targeted for completion by 2020 include 13 generation projects and two high-voltage direct-current transmission lines. The generation projects will add 11,900 megawatts (MW) of new capacity, which is 45 percent of Pakistan’s total installed capacity of 24,823 MW on June 30, 2015 (two months after the launch of CPEC). Coal-fired power plants account for nearly 75 percent of this new capacity.

The fact that there is a defined list of CPEC projects stands in contrast to the BRI writ large, about which there is much uncertainty both inside and outside of China about what constitutes a BRI project. That said, neither Beijing nor Islamabad have explained why some Chinese-supported power projects in Pakistan are part of CPEC while others are not. (The nuclear reactors probably have been excluded to avoid calling unwanted attention to the fact that China’s development of them violates the spirit if not the letter of the Nuclear Supplier’s Group.)

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2 Email from Andrew Small, April 2, 2019.
Table 1: CPEC Energy Priority Projects

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Fuel Type</th>
<th>Capacity (MW)</th>
<th>Estimated Cost (U.S.$ million)</th>
<th>Commercial Operation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Port Qasim coal power plant</td>
<td>Imported coal</td>
<td>1,320</td>
<td>1,912.2</td>
<td>April 2018</td>
</tr>
<tr>
<td>2</td>
<td>Suki Kinari hydropower station</td>
<td>Hydro</td>
<td>870</td>
<td>1,707</td>
<td>December 2022</td>
</tr>
<tr>
<td>3</td>
<td>Sahiwal coal power plant</td>
<td>Imported coal</td>
<td>1,320</td>
<td>1,912.2</td>
<td>October 2017</td>
</tr>
<tr>
<td>4</td>
<td>Engro Thar Block II coal power and mine project</td>
<td>Domestic coal</td>
<td>660</td>
<td>995.4</td>
<td>July 2019</td>
</tr>
<tr>
<td></td>
<td>TEL Thar Block II coal power project</td>
<td>Domestic coal</td>
<td>330</td>
<td>497.7</td>
<td>July 2019</td>
</tr>
<tr>
<td></td>
<td>Thalnova Thar Block II coal power project</td>
<td>Domestic coal</td>
<td>330</td>
<td>497.7</td>
<td>July 2019</td>
</tr>
<tr>
<td></td>
<td>Thar Block II surface mine</td>
<td></td>
<td></td>
<td>1,470</td>
<td>December 2018</td>
</tr>
<tr>
<td>5</td>
<td>Hydro China Dawood wind farm</td>
<td>Wind</td>
<td>50</td>
<td>112.65</td>
<td>April 2017</td>
</tr>
<tr>
<td>6</td>
<td>Gwadar coal power project</td>
<td>Imported coal</td>
<td>300</td>
<td>Not yet determined</td>
<td>Not yet determined</td>
</tr>
<tr>
<td>7</td>
<td>Quaid-e-Azam solar park</td>
<td>Solar</td>
<td>1000</td>
<td>1,302</td>
<td>August 2016 (300 MW)</td>
</tr>
<tr>
<td>8</td>
<td>UEP wind farm</td>
<td>Wind</td>
<td>100</td>
<td>250</td>
<td>June 2017</td>
</tr>
<tr>
<td>9</td>
<td>Sachal wind farm</td>
<td>Wind</td>
<td>50</td>
<td>134</td>
<td>April 2017</td>
</tr>
<tr>
<td>10</td>
<td>SSRL Thar Block I coal power and mine project</td>
<td>Domestic coal</td>
<td>1,320</td>
<td>1,912.2</td>
<td>Expected 2018/2019</td>
</tr>
<tr>
<td>11</td>
<td>Karot hydropower station</td>
<td>Hydro</td>
<td>720</td>
<td>1,698</td>
<td>December 2021</td>
</tr>
<tr>
<td>12</td>
<td>Three Gorges second and third wind power projects</td>
<td>Wind</td>
<td>100</td>
<td>150</td>
<td>June and July 2018</td>
</tr>
<tr>
<td>13</td>
<td>Hub coal power plant</td>
<td>Imported coal</td>
<td>1,320</td>
<td>1,912.2</td>
<td>February 2019 (660 MW) August 2019 (660 MW)</td>
</tr>
<tr>
<td>14</td>
<td>Matiari-Lahore HVDC transmission line</td>
<td></td>
<td></td>
<td>1,658</td>
<td>March 2021</td>
</tr>
<tr>
<td>15</td>
<td>Matiari (Port Qasim)-Faisalabad HVDC transmission line</td>
<td></td>
<td></td>
<td>1,500</td>
<td>2018/2019</td>
</tr>
<tr>
<td>16</td>
<td>Thar Mine Mouth Oracle power plant and surface mine</td>
<td>Domestic coal</td>
<td>1,400</td>
<td>Not yet determined</td>
<td>Not yet determined</td>
</tr>
</tbody>
</table>

Complementary Objectives

The prominent role that power sector projects occupy in the CPEC project portfolio reflects complementary objectives in Islamabad and Beijing. One of former prime minister Sharif’s top priorities upon assuming office in 2013 was to end the country’s chronic electricity shortages before he stood for reelection in 2018 and to increase Pakistan’s use of coal for power generation in the process. These goals aligned with Beijing’s preference to export China’s excess power generation equipment rather than warehouse it and to use CPEC as a pilot project for the broader BRI. Moreover, Sharif’s longer-term objective of using CPEC power generation and transport projects to help revitalize Pakistan’s economy dovetailed with Beijing’s view that a more prosperous Pakistan would be a more effective security partner.

PAKISTAN’S GOALS

*Keep the lights on for longer:* Sharif regarded CPEC as a vehicle for making good on his campaign pledge to end the electricity shortages plaguing Pakistan and setting the stage for his reelection in 2018. When he was elected prime minister in May 2013, Pakistan was facing a **power deficit of 6,000 MW**. The lights went out for at **least 10 hours a day in cities and as many as 22 hours in rural areas.** These blackouts have taken a toll on the economy; the World Bank estimated in 2017 that power cuts had **reduced Pakistan’s GDP by 2 percent** in recent years. Sharif’s **2013 election manifesto** called for the development of at least 5,000 MW of new coal-fired power plants and investment of about $20 billion to generate 10,000 MW of electricity over five years to stimulate economic growth.

*Burn domestic coal:* Islamabad has had a long-standing objective of diversifying Pakistan’s power generation mix away from imported oil products and toward domestic coal in a bid to generate cheaper electricity and conserve foreign exchange. In Pakistan’s fiscal year 2014, **40 percent of the country’s generation capacity was based on residual fuel oil and 0.1 percent was based on coal.** During that year, the cost of electricity generated by residual fuel oil was **four times that of coal.** Successive Pakistani governments have maintained that the key to lowering electricity costs and the country’s import bill lies in the development of **the vast coal reserves in the country’s Thar Desert,** which remained largely unexploited until the launch of CPEC.

The Sharif administration regarded coal-fired power plants as the best way for Pakistan to bring online a large amount of new generation capacity in the short- and medium-term. The stated reasons for this included the **country’s depleting natural gas reserves and the long lead times required** for the development of hydropower projects. Despite Pakistan’s vast wind and solar potential, officials had concerns about the ability of the country’s **overutilized transmission system** to incorporate large amounts of **new variable generation.** Moreover, solar and wind were more expensive sources of electricity than coal when China and Pakistan launched CPEC, which made them less attractive sources of electricity than coal to Islamabad given its goal of **generating more affordable electricity.**

*Revitalize the economy:* The Sharif administration viewed the construction of new power generation capacity as the first step toward achieving Pakistan’s longer-term goal of using CPEC to bolster the sustainable development of Pakistan’s economy. The government of Pakistan’s high hopes for CPEC are reflected in the **Long Term Plan for China-Pakistan Economic Corridor (2017-2030)** that was drafted by the Chinese and Pakistani governments, which states that Pakistan has the potential to become a “tiger of Asia,” a reference to the export-led growth enjoyed by other Asian countries including South Korea and Singapore. The logic was that the elimination of the electricity shortages that have hampered Pakistan’s **economic growth would spur investment in agriculture and industry,** which would support exports. Increased exports, in turn, would have a positive impact on Pakistan’s balance of payments. (Pakistan’s demand for dollars for
imports, especially of energy, and loan repayments generally exceeds its ability to earn dollars through exports and remittances.)

CHINA’S GOALS

Export excess power generation equipment: China’s coal power companies are looking abroad for new sources of demand for coal power equipment in the face of constrained opportunities to expand their customer base at home as China continues to green its electricity mix. China produced far more generator sets—which are used in thermal, hydro, and nuclear power plants—than it installed domestically over the period of 2008 to 2018. The Chinese government has encouraged Chinese manufacturers to export excess generator sets rather than warehouse them. When Premier Li Keqiang visited the Guangdong Electric Power and Design Institute in January 2015, he said it is necessary for China’s power sector to lead the globalization of China’s equipment industry, citing overcapacity in generation equipment as one of the reasons.

Develop a BRI pilot project: During a visit to Pakistan in February 2015, China’s foreign minister Wang Yi described CPEC as both a “pilot zone and a demonstration zone for China’s Belt and Road Strategy.” This concept is also enshrined in the Long Term Plan for CPEC, which states that “the experience accumulated from the CPEC will be promoted to other countries along the Belt and Road.” In short, CPEC effectively represents the internationalization of China’s practice of launching local pilot programs to test out new policies before launching them nationally.

One reason Beijing may have been inclined to view Pakistan as a “pilot zone” is because the country had already performed this function for the internationalization of some of China’s power companies. For example, the Guddu Thermal Power Plant, which was built by China Machinery Engineering Corporation in the 1980s, was the first thermal power plant constructed overseas by a Chinese company. Similarly, China National Nuclear Corporation began its international expansion in Pakistan in the 1990s with the construction of a nuclear power plant at Chashma.

Advance security goals: The Chinese government regards economic development as a tool for bolstering security. In the case of CPEC, the construction of power plants and transport infrastructure is a first step towards fulfilling China’s broader objectives of reducing the threat to China from growing extremism in Pakistan and bolstering Pakistan’s capability to function as a security partner. China’s leaders probably expect that a more prosperous Pakistan will be less likely to function as a hub for growing militancy in South Asia. After all, Premier Li Keqiang reportedly characterized China’s development projects in Pakistan as a way to wean the populace from fundamentalism. In addition, the Chinese government likely regards a more prosperous Pakistan as better able to act as a counterbalance to India by both supporting a larger military budget and a more measured foreign policy.

How Has CPEC Fared for Pakistan and China?

In the nearly five years since the launch of CPEC, the power sector projects have been a mixed bag for Pakistan and China. Islamabad can point to new generation capacity and the use of domestic coal to generate electricity. However, CPEC-related imports have exacerbated the country’s balance of payment crisis, and new power plants alone are unlikely to keep the lights on for longer and put Pakistan on a sustainable economic development path. Meanwhile, China generated business for power sector firms, which demonstrated an ability to quickly execute projects. But questions about the environmental and

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3 This paragraph is based on Andrew Small, “First Movement: Pakistan and the Belt and Road Initiative,” Asia Policy no. 24 (July 2017), 80-87.
The debt sustainability of the CPEC power projects run counter to China’s portrayal of the BRI as a “win” for China and host countries.

**THE STATE OF PLAY FOR PAKISTAN**

Power plants developed as part of CPEC are helping eliminate Pakistan’s power deficit. Since the launch of CPEC in 2015, Pakistan’s **installed generation capacity and maximum generation capacity** have continued to increase, narrowing the gap between the amount of electricity that can actually be produced and peak demand from **6,758 MW hours on June 30, 2012**, to 1,063 MW hours on June 30, 2019. The National Electric Power Regulatory Authority (NEPRA) expects the country’s maximum generation capacity to **exceed peak demand after 2020**.

Islamabad can also point to progress on its longstanding goal of using more coal—especially domestic coal—to generate electricity. Before CPEC, Pakistan had one coal-fired power plant. As of June 30, 2019, the country had added **five more coal-fired plants** via CPEC, three of which use domestic coal, with a combined capacity of 4,950 MW. NEPRA expects that the share of coal in Pakistan’s generation capacity mix will increase from **3 percent on June 30, 2017**, to nearly **20 percent on June 30, 2025**, with most of the increase coming from coal projects in the Thar Desert, which include six CPEC coal power plants.

CPEC has yet to put Pakistan on the path to sustainable economic development. Although the CPEC power plants helped to close Pakistan’s power generation deficit, the addition of new generation capacity alone is not enough to end the blackouts that have hampered the country’s economic growth. This is because there are other factors hampering the country’s ability to provide adequate and reliable electricity supplies that need to be addressed.

The underlying cause of Pakistan’s electricity shortages is **the liquidity crisis in Pakistan’s power sector** known as circular debt. The term refers to the fact that entities in the power sector generally do not have enough money to pay each other for long periods of time. The sole buyer of grid-connected electricity is the government-owned Central Power Purchasing Authority (CPPA). The CPPA buys electricity from the generation companies and sells it to the distribution companies, which sell it to consumers. However, the distribution companies are often unable to pay the CPPA in full due to factors such as the failure of the government to compensate them in a timely fashion for below-market tariffs, customers unable or unwilling to pay their bills in full, theft, technical losses, and distribution losses. As a result, the CPPA does not have the funds to pay the generation companies, which then do not have enough money to pay the fuel suppliers. The fuel suppliers, in turn, cut off supplies, forcing the generators to shut down for extended periods of time.

The CPEC power sector projects also played a role in **exacerbating strains in Pakistan’s economy and its most recent turn to the IMF**. The construction of the power plant projects stimulated demand for power generation machinery and equipment, which contributed to a surge in the country’s imports and the depletion of its foreign exchange reserves. According to the State Bank of Pakistan, CPEC-related imports, the rebound in oil prices, and increased fiscal expenditures pushed the country’s current account deficit to **the unsustainable level of $19.9 billion** during Pakistan’s fiscal year 2018 (July 1, 2017 to June 30, 2018). In July 2019, the IMF approved a $6 billion bailout package for Pakistan.

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In addition, the CPEC power projects may increase Pakistan’s sovereign debt even though the sovereign is not the borrower. First, the government of Pakistan has issued sovereign guarantees to back the development of these projects—the debt financing for which primarily involves loans from Chinese banks to project companies wholly or partly owned by Chinese firms. Second, electricity generated by new power plants is likely to increase circular debt if the percentage of transmission and distribution losses remains constant and electricity consumption and bills increase.

**THE STATE OF PLAY FOR CHINA**
The CPEC power projects have certainly created new business opportunities for Chinese power companies, especially firms involved in the development of coal power plants. The CPEC power sector projects are driving the export of Chinese equipment. For example, Chinese firms manufactured 99 percent of the equipment used in the Port Qasim coal power plant, including the steam turbines, boilers, and generators. The construction of the power plant drove the export of more than RMB 7 billion ($1.1 billion) worth of equipment. Similarly, the Hub coal power plant was expected to drive the export of $900 million of equipment, including boiler systems, fuel systems, and circulating water systems.

Some of the CPEC power projects have also enhanced the reputation of Chinese banks and firms as speedy deliverers of infrastructure projects that many countries regard as critical to their economic futures. One of the appeals to emerging economies of power plants and other infrastructure financed and constructed by China is that these projects can often be developed much faster than projects supported by traditional development finance institutions. This quickness is often highly valued by governments who are focused on fostering economic development in the near-term.

Pakistan, of course, is a case in point. One of Sharif’s top priorities after being elected prime minister in May 2013 was making good on his campaign pledge to eliminate the country’s widespread power shortages before he stood for reelection in 2018. His government pressured Chinese companies to complete coal power plants on accelerated timetables. For example, Pakistani officials insisted that PowerChina accelerate the construction of the Port Qasim coal-fired plant and connect it to the grid six months ahead of schedule in light of the country’s power shortages and the 2018 elections. Although PowerChina’s chairman initially told his Pakistani interlocutors that their proposed timetable was impossible to achieve, the Port Qasim plant was nonetheless able to commence commercial operation in April 2018, three months before Pakistan’s general election.

That said, CPEC also has turned out to be a different sort of bellwether for the BRI than Beijing intended, at least in non-Chinese narratives about the initiative. Specifically, CPEC projects have raised questions about the BRI’s debt and environmental sustainability. Concerns that the BRI might result in unsustainable levels of debt in host countries and undermine global efforts to combat climate change run counter to China’s portrayal of the BRI as a global public good.

Pakistan features prominently in discussions about whether Chinese loans will create debt problems in borrowing countries because of its heavy and increasing debt burden. Some critics maintain that China is intentionally seeking to saddle countries with unsustainable debt levels in order to gain control of strategic infrastructure or assets when borrowing countries can’t pay them back. For example, in August 2018, a group of U.S. senators warned that China might use debt as leverage to establish naval bases in countries unable to pay loans where Chinese firms hold concession agreements to operate ports, including Pakistan and Sri Lanka.

Meanwhile, CPEC also appears in discussions about the likely negative environmental impacts of the BRI, primarily because of the coal power plants Chinese firms are building in Pakistan. Experts have warned
that the development of coal power plants and other carbon-intensive infrastructure by Chinese firms as part of the BRI threatens global efforts to combat climate change. For example, a study by researchers in China, the United Kingdom, and the United States concludes that if 126 countries participating in the BRI follow historical carbon-intensive growth patterns, the resulting growth in greenhouse gas emissions may render unachievable the Paris Agreement goal of keeping global warming below two degrees Celsius.

**What Does CPEC Tell Us about How Beijing Defines BRI Success?**

The Chinese government has not provided an official definition of what constitutes a BRI project, let alone a successful one. However, several criteria for success can be extrapolated from the CPEC power sector projects that are consistent with broader changes Beijing is making to the BRI to emphasize the quality of projects over the quantity. After Xi announced the BRI in 2013, numbers—of projects announced and completed and loans disbursed—appeared to be a barometer of success as Chinese firms and financial institutions scrambled to demonstrate that they were doing their part to implement Xi’s signature foreign policy initiative. Today, numbers are arguably less important than criteria such as ensuring that Chinese firms make (or at least do not lose) money on BRI projects, keeping host countries happy, controlling the global narrative about the BRI, lending more responsibly, and supporting greener projects.

**Make (or at least don’t lose) money:** The CPEC power sector projects suggest that Beijing wants Chinese firms to profit from BRI projects. Chinese officials and executives were especially concerned about the exposure of Chinese power companies to circular debt. According to a PowerChina executive, the company, together with China’s National Energy Administration, pressed the Pakistanis to guarantee that Chinese generating companies operating in Pakistan would be paid in a timely fashion for the electricity they produced. Specifically, the Chinese officials and executives pushed for the establishment of a revolving fund to be included in the intergovernmental agreement on CPEC energy cooperation. Islamabad agreed to establish a fund backed by sovereign guarantees to ensure uninterrupted payments to Chinese power producers in the event the CPPA defaulted on payments. However, Pakistan never created it and Chinese companies have faced delayed payments. As of July 2019, eight CPEC power sector projects reportedly were in financial trouble due to nonpayment.

**Keep the customer satisfied:** The CPEC power sector projects suggest that Beijing wants to ensure that host countries have positive views of the BRI and is willing—to a certain extent—to shift the content of the BRI in response to changes in host country preferences. After Imran Khan became prime minister in 2018, Chinese officials indicated a receptivity to shift the focus of CPEC away from projects aimed at fulfilling Sharif’s campaign promise of ending electricity shortages and toward projects that honored his campaign promise of increasing social spending. In November 2018, at the time of Khan’s visit to Beijing, China’s vice foreign minister Kong Xuanyou stated that CPEC would “tilt in favor of areas relating to people’s livelihoods.” During the meeting of CPEC’s Joint Cooperation Committee in December 2018, the two countries agreed to expand its scope to include industrial, agricultural, and social projects. Beijing also committed to providing a grant of $1 billion for projects in areas including education, health, and irrigation.

Beijing’s efforts to ensure continued Pakistani support for CPEC extends to Pakistan’s provincial governments. After China’s foreign minister Wang Yi met with Prime Minister Imran Khan in September 2019, China’s Ministry of Foreign Affairs stated that China is willing to “extend the CPEC to the western and other regions of Pakistan to make benefits reach the entire country.” The phrase “western and other regions” undoubtedly refers to the provinces of Balochistan and Kyber Pakhtunkhwa, which have been disappointed about the lack of CPEC projects in their provinces. Balochistan, for example, can only claim two projects, the Hubco coal power plant and Gwadar port.
Control the global BRI narrative: The Chinese government seeks to counter narratives about the BRI that portray the initiative as hurtful rather than helpful to other countries. In the case of CPEC, China’s foreign minister Wang Yi has touted the virtues of CPEC to include the number of “early harvest” projects completed or initiated (22), the number of jobs created in Pakistan (tens of thousands), and the role the corridor is playing as a catalyst for economic growth. He has also stated that the CPEC projects have not added to Pakistan’s debt burden, noting that only 4 of the 22 projects are funded by concessional loans to the government of Pakistan.

China’s state-run media has mounted a similar defense of CPEC. It refutes the argument that the corridor is a “debt trap” for Pakistan by providing details of how CPEC projects are financed (in response to the “misquoting of CPEC’s financial figures and achievements” by opponents of CPEC), showcases the employment opportunities for Pakistanis created by CPEC projects, and highlights the role Chinese firms are playing in helping to eliminate Pakistan’s electricity shortage. Similarly, Chinese media reports attempt to dismiss concerns about the threat CPEC coal power plants pose to the environment by portraying the projects as “clean” and “green,” often noting that some of the CPEC coal power plants meet the World Bank’s environmental standards.

Lend responsibly: Beijing responded to criticisms that it is saddling Pakistan and other countries with unsustainable levels of debt by unveiling a debt sustainability framework at the second Belt and Road Forum in April 2019 that is virtually identical to that of the World Bank and IMF. China’s minister of finance, Liu Kun, said the objective is to “prevent and solve debt problems” associated with BRI projects. Although the framework “is a non-mandatory policy tool” for Chinese and host country financial institutions, its release indicates that Chinese financial institutions are likely to pay more attention to the debt vulnerabilities of borrowers. Indeed, the week after the second Belt and Road Forum, former IMF director Christine Lagarde commented that the IMF worked with the Chinese “for weeks and weeks … to explain how debt sustainability matters.”

Champion greener projects: Beijing is likely to champion more green projects along the Belt and Road. The Chinese government released guidance on greening the BRI at the first BRI forum in May 2017. Xi himself highlighted green development at the second BRI forum in April 2019, stating “we may launch green infrastructure projects, make green investment and provide green financing to protect the earth which we all call home.”

That said, CPEC indicates that China’s definition of what constitutes a green energy project is likely to include coal power plants, especially if they emit fewer greenhouse gases and other pollutants than alternative projects. A PowerChina executive, for example, has stated that the Port Qasim coal power plant is more environmentally friendly than the fuel oil plants Pakistan is seeking to replace with ones that burn coal. (The Asian Development Bank has said the same about the coal power plant it is supporting in Pakistan, noting that it will emit less carbon dioxide per kilowatt-hour than the fuel oil plant it is replacing.)

Conclusion

As of November 2019, the CPEC power projects have been a qualified success for Pakistan and China in terms of meeting the original goals of both countries. The power plants helped former prime minister Sharif deliver on his promise to build new generation capacity to address the country’s electricity shortages. However, the import of large amounts of equipment for the construction of the power plants exacerbated strains on Pakistan’s economy and arguably hastened the country’s turn to the IMF for a bailout. Similarly,
the CPEC power plants generated new business for Chinese power companies, demonstrated meaningful progress on implementing the BRI, and reinforced that China can execute large infrastructure projects quickly. But these successes have contributed to perceptions that the BRI is a threat to debt and environmental sustainability, undercutting Beijing’s message that the BRI is a global public good.

Now, nearly five years after its launch, CPEC is at a turning point. The energy and transport infrastructure phase of CPEC is coming to an end. Pakistan’s priorities for “CPEC 2.0” will likely include a greater focus on social spending, local employment, more equitable distribution of benefits across Pakistan, and more joint ventures. Meanwhile, China has indicated a willingness to be flexible with respect to the next phase of CPEC. In addition, China’s apparent conception of the BRI is changing, in part due to concerns about the initiative’s debt and environmental sustainability in Pakistan and elsewhere. As a result, Chinese financial institutions and firms are likely to be more prudent lenders and investors.

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6 Interview with Talha Khan, November 12, 2019.