

CPEC: Role in Regional Integration and Peace

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ABSTRACT

Regional economic integration through highways, railways, pipelines and ports (dry and sea) leads towards interdependence which in turn develops stakes for regional states in each other stability and ultimately the goals of development, peace and prosperity are achieved. This particular paper aims to discuss the prospective role of CPEC in regional and intra-regional integration and its potential to positively influence the regional peace and prosperity. The focus is on the pattern of integration's structure which the CPEC offers and which has not been adequately analyzed in the literature so far. The paper argues that CPEC offers an open model of regional integration, increases regional security through interdependence and facilitates regional and global trade in contrast to close and tight regionalism where protectionist measures are adopted for non-member or non-regional states.

Key Words: CPEC, Regional Integration, Central Asia, China, South Asia, Middle East

Introduction

China-Pakistan Economic Corridor (CPEC henceforth) is an important component of Chinese Belt and Road initiative. CPEC is one of the three routes of Belt and Road initiative which (Belt and Road) aims to connect the Asian, African and European continents by filling the infrastructure gap. Located at the cross roads of huge supply and demand markets, Pakistan through CPEC provides outlet to the landlocked regions of Central Asia and Western China to the Arabian Sea and beyond. CPEC which is the southern and shortest route of One Belt One Road initiative provides effective and efficient regional and intra-regional connectivity. CPEC in comparison to the other routes of Belt and Road initiative, includes only one country i.e. Pakistan and cuts a distance of 13000 km to just 2500 km for China to Middle East and therefore it is a priority for China. For Pakistan this has been termed as lifeline for the economic revival. So both the states will continue to implement the Project regardless of any future government change in any state. The Project would ultimately be instrumental and beneficial to South and Central Asia, Africa and Middle East because CPEC and these regions are complementary.

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The regions of Western China, South Asia and Central Asia are confronting multiple socio-economic, political, security and development challenges such as corruption, under-development and acts of terrorism. A region-specific approach is imperative to identify growth opportunities, address constraints to prosperity and tackle security issues for the common cause of economic rise of the regions as whole. Regional peace, security and development are inextricably linked to regional integration and cooperation while shared growth and peace promotion are the main objectives of regional economic integration. Strong economic foundation generates resources to pursue strategic and security related policies effectively. Nothing compromises security like a weak economy does. Weakness of regional economies is born in large part to the lack of inter and intra-regional integration. Likewise weakness of Pakistan's economy is born in large part to the lack of its integration with regional states. That is why for the last decade or so main objective of Pakistan's regional pivot, based on its geographical location is being to serve as regional trade and energy corridor. Peter Frankopan, author of 'The Silk Roads: A New History of the World' writes that "Pakistan is the Crossroads between East and West and between North and South because trade and transportation routes that weave Asia together intersect in Pakistan" (Frankopan, 2006).

CPEC translates Pakistan's dream of regional transit hub into reality. Much has been written about CPEC which is termed as a game changer not only for Pakistan but for the whole region; however, this particular research paper only deals with its role in regional integration. The main purpose of CPEC is to connect diverse regions and in that lays its strength and attractiveness. CPEC derives its strength and significance from providing inter and intra-regional connectivity which is a pre-requisite for regional economic, social and political integration. In this work an attempt is made to understand the concept of regional integration, its various forms and the form of regional integration that CPEC offers. Main aim of the research is to describe the role of CPEC in regional integration keeping in view the types and levels of regional integration.

Globalization and Regionalization

Globalization as a concept refers to liberalization of trade i.e. free trade across borders, production, investment and even cultural exchanges. Globalization has its origin in the post Second World War period which implies the formation of a 'world market' dominated by multi-national companies. The process of globalization allows increased penetration of national economies through Bretton Woods' twins IMF, World Bank and GATT, later on WTO and intensively transnationalizes economic, social and political problems whether states like it or not. Globalization is based on capitalism and principals of lezzie ferrie. However faltering status of capitalist based globalized world is threatening further marginalization of developing countries. Globalization is flawed as it seems inclined to transfer the perils of faltering capitalism to the developing countries in

exchange for the best resources (Masood, 2016). The developed countries continue to keep the developing countries in perpetual recession while trying to make themselves more prosperous. The world is producing more than enough but the problem lays in its skewed distribution as a consequence of exploitation.

Regionalism can be defined as organized cooperation (economic, security) with in a geographical unit based on distinct identity (e.g. Asian, European). Globalization has been developed, created or imposed from above usually by superpowers while regionalism develops with in region (Hettne, 1996). It is a spontaneous and multidimensional process where the constituent states of region now experience the need for cooperation in order to tackle the challenges of globalization. According to an article published in the United Nations University “a region is territorially based sub-system of the global system while regional integration refers to a process where these territorial based sub-systems develop cooperation and coordination” (Bradley and Felício, 2006).

Regional Integration: The Concept

Regional integration refers to the regional connectivity through the development of communication infrastructure, regional cooperation, coordination, interdependence and converging efforts to compete successfully and efficiently in the global economy. According to the theory of economic integration it is a process which encompasses measures designed to abolish discriminations i.e. tariff, quantitative restrictions and restrictions on factor movement between different states or national economies (Balassa, 2008). The process of regional integration is political as well as economic issue because political motives may prompt the first step in economic integration and similarly if the initial motives are economic gains, the need for political unity can arise at a later stage (Balassa, 2008). In the post-World War II era, the economic gains of integration were the chief motives for continuing the process of integration. It must be noted that the solution of many important economic questions is connected with political means and processes for instance exploring and exploiting the advantages of regional economic potential affects the decision making process while changes in decision making process becomes political issue.

There are different levels of regional economic integration. The most basic form is a free-trade area, such as EFTA (European Free Trade Association) which eliminates or greatly reduces tariff and quantitative restrictions between its members but each country retains own tariffs for non-members. Customs union is another form of regional integration where tariffs amongst member states are abolished and adopt a uniform tariff rate for non-member states while a common market adds to these arrangements by allowing the free movement of capital and labour. Economic and currency union is yet another form of regional integration which necessitates a high degree of political accord between member states, aims at full economic integration through a common economic policy, a common currency, and the elimination of all tariff and nontariff barriers (Moon, 2016).

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Regional integration is a states led process and these forms of regional integration are distinguished by the level of integration regional states are involved.

European model of integration presents important lesson for the regions of Central and South Asia though European model of integration refers to close regionalism or tight integration where supra-national institutions have been established. Open regionalism may not need that kind of integration nonetheless each country in this region needs a firm commitment and undertaking to concerted efforts in favor of regional integration through connectivity infrastructure and interdependence on European pattern. This kind of efforts would create a win win situation for all the regional states. Each region's growth path is a function of many factors unique to it and the resource endowment factor must not be overlooked.

The regions which would be integrated by CPEC i.e. Central and South Asia, Iran, Afghanistan, Western China and Middle East possess huge hydrocarbon resources while produce the most wanted agrarian products like cotton and grain in contrast to Europe. This region does not need any Marshall Plan but just needs sincere efforts on the part of regional governments to integrate these regions while underpinning regional and intra-regional economic integration by strong political will. Along the political will, secure environment with peace through the development of interdependence have to be established. The success of transforming resources into sustainable comprehensive development depends on coordinated efforts and linkages among wide range of stakeholders regionally and intra-regional. CPEC provides market connectivity between the resource full and the resource hungry regions. The coordinated efforts regarding connectivity help linking demand and supply markets bring down cost of doing business across borders and therefore enhance cross-border trade and investment. Through regional integration states mingle and mix with other regional states, intensive inter-dependence develops which in turn cultivates stakes in each other stability, regional states, therefore, avoid conflict and if conflict develops they acquire new ways and techniques for resolving conflict. CPEC's form of regional integration, besides strengthening trade integration and stimulating economic growth, augments region's interaction with other regions of the world. This kind of regional integration enables the coherence of a number of constituent states to enhance regional attractiveness, to sustain its economic prospects and to successfully integrate into the world economy. Regional integration must be accompanied by region-wide progress through improved infrastructure connectivity, competitive logistics, production value chain integration, convergence in regulatory policies and effective support to trade and trade related policies.

Role of CPEC in Regional Integration

Main currency of the current era is strong economic connectivity, mutual interaction and regional cooperation where the concept of economic integration is

broader than economic or trade block. Regional geo-economic realities on ground also shaping possibilities for regional integration and therefore focus should be on geo-economics rather geo-politics. The industrialised economies of US, Europe, Japan and South Korea did not develop through the policies of IMF, World Bank and WTO but rather a mix of protection, regulation, intervention by national governments and importantly through the access to supply and demand markets. The regional states i.e. China, Pakistan, Central Asia, Afghanistan, India and Iran can develop an unmatched momentum of growth for the rise of Asia provided that they forged unity and developed stakes in each other stability through economic integration. CPEC provides a vital opportunity for these states to be integrated with each other as well as with other regions. The principal focus must be of pursuing synergies derived from combining human, financial and natural resources of regional states in the development effort. It provides an opportunity to fast track regional integration through functional cooperation as functionalists focus on common interests and needs shared by states. Functional theory regards one functional area as a necessary beginning step for regional integration and it gains momentum thenceforth. In case of European Union it was cooperation in steel and coal that provided momentum to the European integration. Functional cooperation is a cross cutting element and a driver of regional integration for development (Greene, 2011). In the case of South and Central Asia, Western China, Iran and Afghanistan, all the regional states need to follow the common cause of economic integration while cooperating in the energy pipelines as a functional area for the energy demand and supply security. The functional areas would be cover by collective-decision making.

The kind of regional and intra-regional integration that CPEC offers is thus beyond of a mere trade or economic block. CPEC's structure of economic integration and interdependence in a multipolar world reflects a sophisticated network of various channels amongst the established economies and developing countries with greater freedom to pursue independent foreign policies. CPEC offers a more open model for regional integration by advancing international trade and commerce of regional states instead of closed regionalism which in contrast impose protectionist measures to limit non-members' or extra-regional states' access to the markets of regional states. In open form of regional integration there are no elements of exclusion or discrimination against the non-members or extra-regional states instead trade liberation is its main characteristic feature (Moon, 2016). Open model of regional integration or open regionalism means a coordinated integration rather than collective retreat from the world economy for the regional countries. This model is out-ward oriented i.e. increased regional and intra-regional trade as well as facilitating global trade through a step by step, gradual process by addressing diversity in geographic, political, linguistic and economic sense (Niekerk, 2005).

Surrounded by huge supply and demand markets, CPEC would be the best supply chain for previously un-connected or poorly connected regions of South Asia, Central Asia, Middle East, Afghanistan, Iran and China. Eventually CPEC

can be the back bone for integration between the diverse regions particularly for the emerging economies of China and India with other countries of the region in order to sustain their high economic growth rates (Hussain, 2016). According to the Assistant Foreign Minister of China, “China-Pakistan Economic Corridor (CPEC) has not only set up the strategic framework for increasing cooperation between China and Pakistan but it would also contribute to development and prosperity of the whole region” (Ahmad, 2015). CPEC facilitates agglomerative and deglomerative tendencies by integrating adjacent countries and by reducing transportation cost drastically making use of locational analysis’ tools. In fact the regions of Central and South Asia are the least integrated regions of the world (Ahmed and Ghani, 2007). Poor transport connectivity and poor trade facilitation policies are the main reasons for poor regional integration in South and Central Asia (World Bank Report, 2016). The development of transport corridors has been identified as a key to bring down the cost of transport of people and goods and improve the competitiveness especially of landlocked countries (Llanto, 2015). CPEC undoubtedly will be instrumental in removing these barriers to regional integration. These regions are at the same time challenged by multiple socio-economic and development problems and security threats. Dr. Ahmad Rasheed has presented an interesting observation regarding regional integration in historical perspective. According to him all the imperial powers; France, British, Spaniards, Portuguese, Russian and Americans exploited their spheres of influence rather than genuinely integrating East Asia, China, South Asia and Central Asia (Malik, 2016).

CPEC identifies the new realities of regional and global politics by promoting a more systematic, upgraded and need-based interaction for socio-economic, industrial, energy and trade development. CPEC will ensure trade gains for regional states, increased returns and investment through market enlargement (access to regional and international markets). Regional trade arrangements (RTAs) i.e. harmonization and coordination of policies, are to be placed once the connectivity infrastructure across the borders is achieved. Regional trade arrangements are a political choice of any state which can be based on political, social, geographic and economic consideration (Niekek, 2005). In an open model of economic integration, regional trade arrangements are mostly project/activity specific as in the case of CASA 1000 (Central Asia South Asia Electricity Transmission Project), IPI (Iran-Pakistan-India gas pipeline) trade arrangements i.e. finances, transit fee, price, tariff, quantity) are trilaterally settled while in case of APTTA (Afghanistan-Pakistan Transit Trade Agreement) and Pak-China Free Trade Agreement, bilaterally settled and regarding TAPI (Trans-Afghan Pakistan India gas pipeline) and Quadrilateral Transit Trade Agreement, trade arrangements settled multilaterally. It means a sectorial cooperation approach to regional integration where different type of activities would require different type of multi-country collaboration scheme. Harmonization and coordination imply a higher degree of cooperation and commitment. Harmonization, however does not need supra-national entity as countries may harmonize tariff and tax policies and agree

to use a common legal frame work but still retain national custom, fiscal and Judicial administration (Niekek, 2005). In the mid to long term, multi-country collaboration may also be supplemented by the establishment of a Regional Integration Cell. Entering regional trade arrangements, harmonizing trade/business legislation and regulation (tariff and trade facilitation) such as quadrilateral transit trade agreement, TAPI, IPI, APTTA etc. not only increase trade but also link states in a web of positive interaction and interdependence. This in turn builds trust, raise the opportunity cost of war and hence reduce the risk of conflicts between countries.

The benefits that regional integration and regional cooperation will bring can be far too great to be sacrificed at the altar of geopolitics. Besides a network of highways connecting different states of the region for movement of goods, a regional market for electricity can be created through CASA 1000 by including Iran, India and China. Power transmission lines could carry bulk quantities of electricity from Iran and China for the same cost that is being incurred on CASA 1000 or coal-fired power plants i.e. Rs 9.5 per kilowatt hour (Hussain, 2016). Likewise a regional market for natural gas can be developed through the IPI, TAPI and IPC (Iran-Pakistan-China pipeline). There will endless benefits and a win situation for all the regional states from greater regional integration and cooperation.

So the model of regional integration that CPEC offers is an open regionalism based on coordinated integration rather than collective retreat from the world economy for the regional states. CPEC's model is outward-oriented which guarantees increased intra-regional trade as well as facilitating global trade. This approach of regional integration is step by step gradual process to address diversity in geographic, political, linguistic and economic sense. Another important outcome of CPEC will be the growth spillovers of one country to the other in the region. Spillover refers to a situation where the achievement of one goal creates need for further action which in turn creates further condition for more action and so on (Laursen, 2008). Regional integration between Western China, Iran, Afghanistan and Central and South Asia can develop cross-border production chain by leveraging each other's comparative advantages and subsequently exporting finished goods outside the region. An example can be a joint venture between Uzbekistan, China and Pakistan along the corridor in the field of leather and cotton where the respective economies are complementary in nature. At the technologically advanced stage, regional states can develop different brands on the pattern of Europe like Mercedes, BMW, Ford, etc. developed by Europe in automobiles.

Role of Regional Integration in Security

The world is moving rapidly towards multipolarity where the regional states matter more and regional integration is considered key to regional peace and prosperity. Solutions to regional peace and prosperity must involve regional social, political

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and economic integration. As the social, political and economic crises may transcend national borders and territories rapidly across the region, therefore crises management and resolution require the cooperation of different states across the region which is maximally possible through regional integration. The causes and consequences of violent conflict are not bound by national borders and there is broad consensus that a regional approach is essential to effectively ensure not only regional but global security also (Bradley and Felício, 2006). Similarly as conflict among neighbors tends to be frequent, regional integration is an important advance toward reducing the incidence of war (Husain, 2016).

A strategic corridor augments the cooperation at multi-dimensional level, promotes connectivity between diverse regions and establishes economic stakes to facilitate the process of peace (Ahmar, 2015). One can simply observe the rise of European Union as one of the most prosperous and stable regions in the world since World War II. Prior to that, the European nations were at wars with each other and it was only after the WWII that European nations developed interdependence through increased economic integration which created stakes for European states in each other stability. The ultimate goal of peace and prosperity was thus achieved. According to S W Polachek, “a doubling of trade between two countries lowers the risk of conflict between them by 17 percent” (Polachek, 1992). David Mitrany, a Romanian scholar who initially worked on the concept of shared interests for better ties and cooperation between states, was of the view that creating peace does not depend on inter-state treaties, formal agreement or organized structure rather it is imperative to advance pragmatic cooperation based on economic and social needs (Tripathi, 2012).

Conclusions/Recommendations

Areas of common and shared interest or functional areas to begin integration with are electricity, oil and gas pipelines and transportation.

Regional projects i.e. CPEC, TAPI, IPI and CASA 1000 are significant to integrate the least integrated regions of the world and will ensure regional peace and prosperity in short to mid-term.

Peace and security are indispensable for the realization of integration and development objectives. It is imperative to incorporate peace and security components into regional integration program in a systematic and sustainable manner through a regional security arrangement.

In the mid to long-term, once the aim of regional economic integration is achieved, a regional security arrangement can also be developed through the union of regional states or under the umbrella of a regional Organization for instance under the Shanghai Cooperation Organization (SCO) in this case. This kind of arrangement under the auspices of SCO will be based on a collective treaty or charter of SCO and consistent with the principles of United Nations whose primary task must be to manage and resolve conflicts in region and maintain regional peace and security.

By integrating diversified regions, CPEC would be instrumental in building ‘partnership of civilization’ by promoting mechanisms for bridging dividing lines among different societies. Regional economic integration would also reduce the gap between economic growth and development intra-regionally.

Least resource and time consuming as well as business friendly procedures, rules and regulations at borders would maximize the benefits of physical infrastructure of CPEC.

As regional integration is states led process therefore sole responsibility lays on the governments of regional states. Governments have unique capacities which allow them to solve problems that markets could not solve on their own. Regional governments have the primary role in regulating and making arrangements for regional integration. Governments of regional states have to stop playing in the hands of extra-regional states for the common cause of regional uplift. Modern growth has occurred where and only where activist governments emerged (Hacker and Pierson, 2016). Thus shared commitment and collective actions are required on behalf of regional governments.

One can observe that it was not geopolitical but economic interest which paved the way for regional integration in Europe and shaped the region one of the most stable and prosperous in the world.

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