

Saturday, 13th May, 2017

Dear Mustafa,

On this trip to a steaming Karachi I was expecting to hear similarly warm words about CPEC, the China-Pakistan Economic Corridor that stretches from the port of Gwadar in the south west of Pakistan up to Kashgar in western China. The construction of this 2,400 kilometre new silk road will attract \$46bn of Chinese infrastructure spending on road, rail, power and economic zones.

China is now in Pakistan in a big way. This investment makes Pakistan the beneficiary of China's largest foreign direct investment to date, and, on the surface of it, this investment adds 2% per annum to Pakistan's GDP. What's not to love - right?

Well, speaking to a number of good friends here, the feelings of most of them are of unease as they feel Chinese tentacles imperceptibly wrapping around the organs of their country. China brings in bonded labour for their projects and they are allowed to import the materials they need - duty free. The industries affected are legion, from basic manufacturing to banking - and their voices are starting to be heard. They quite rightly realise that they are unable to compete and the longer this goes on the more their businesses will get hollowed out.

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CPEC has the feeling of China's expansion into Africa during the first decade of this century. In fact there is an even more worrying parallel. In Botswana the Chinese built a brand new, but untested, coal-powered power station. What happened? It blew up - the new German owners are now starting from scratch.

Outside Karachi the Chinese are building a brand new, but untested, nuclear power station. What could happen? Who knows - but this power plant is downwind of one of the globe's largest urban populations - 26 million souls.

This may be the worst case scenario but what is clear is that if you are in service of the Honorable East China Company you, along with your equity and land prices, will continue to go up in value. However, if you manufacture goods, problems lie in wait. CPEC is a 'game changer' as it is the key link for China's 'One Belt, One Road' initiative. Attention is required from those of us in cooler climates.

See you next week - Chris