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## The China-Pakistan Economic Corridor: An Assessment of its Feasibility and Impact on Regional Cooperation

### Abstract

The China-Pakistan Economic Corridor (CPEC), a multi-billion dollar infrastructure investment project, is heralded as a game changer for Pakistan's economy and for regional cooperation more generally(1). As a crucial part of the major development initiative led by China, known as 'One Belt, One Road' (OBOR), to connect Asia with Europe, the Middle East and Africa, the CPEC is widely linked to hopes, interests, as well as regional and global geopolitics. However, such a mega-project also raises numerous questions, especially with regards to the feasibility of its implementation, the impact on the region and, India's stance vis-a-vis the endeavour. Therefore, this Research Paper seeks to shed light on involved interests and challenges, potential impact on regional development and makes special reference of India's role in it.

1. Daily Capital, 2.10.2015; Fazil, 15.2.2016; Khan, 13.6.2015; Sahgal, 24.4.2015.

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Reg. Num. BE  
833606320

**Keywords:** CPEC, China-Pakistan Economic Corridor; CPEC; Economic Corridors; Regional Cooperation; Pakistan-China Relations; Foreign Policy Pakistan

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## Introduction

Regionalism in South Asia has focused on collective efforts to overcome mostly weak, congeneric economies, political fragmentation, socio-religious cleavages and the deep-rooted conflicts that exist among its member states and societies. To enhance regional cooperation, the *idea* of an Economic Corridor (EC) is finding its way into foreign policy strategies as it becomes a buzzword in plans for stimulating economic growth and deepening integration of Asia's sub-regions.<sup>2</sup> This idea has taken root early on in South East Asia, spearheaded by the Greater Mekong Subregion (GMS) initiative in 1992. In South Asia, prominence of economic corridors is a more recent phenomenon, currently the most advanced example is that of the China-Pakistan Economic Corridor (CPEC).<sup>3</sup>

Against this backdrop, this research report will focus on following questions: Firstly, will the CPEC have an impact on the integration of the politically and economically disadvantaged provinces such as Balochistan, Khyber Pakhtunkhwa (KPK) and the Federally Administered Tribal Areas (FATA)? Secondly, can we expect CPEC to serve as a pioneer project for further regional economic cooperation and integration beyond the Pakistan-China nexus? In other words, will this bilateral endeavour be an impetus or rather another hindrance for current regional cooperation? Thirdly, what are the perceptions, expectations, interests, and challenges regarding CPEC in the larger context of China's major development strategy of 'One Belt, One Road' (OBOR) on both the provincial and central level in Pakistan? Who are the driving forces behind the CPEC? Fourthly, what might be the positive or negative social, economic and political impact of government's Pakistan's current policy approach to CPEC? Fifthly, will CPEC live up to its ambitious aim as an economic corridor or will it not move beyond the stage of a transportation corridor for Chinese and Pakistani goods and people? Will CPEC be able to fulfil all functions of an economic corridor?

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<sup>2</sup> Safitri, 2012:1.

<sup>3</sup> Mahar, 24.4.2015.

## Conceptualising Economic Corridors

The focus on economic corridors has become a trend of strategic development in various countries and regions worldwide.<sup>4</sup> Basically, one can state that an economic corridor is a project of economic development targeted at increasing economic growth over a certain period of time and in a specific area.<sup>5</sup> Nevertheless, despite the increasing scholarly engagement, there is no agreed upon definition. Rather, one could describe its nature as an emerging but fluid concept, embedded<sup>6</sup> in shared characteristics that provide a common ground.

Subsequently, from a conceptual point of view, ECs link economic agents along a defined geographical entity and provide important connections among economic nodes or hubs (usually) centered in urban landscapes<sup>7, 8</sup>. More concretely, ECs link production, trade and infrastructure within a specific geographic framework of the centre of economic activities and extend benefits to rural areas through transport development and expansion of production activities.<sup>9</sup> As such, a corridor is designed to create global, regional and domestic value chains, connect economic nodes and (ideally) has a positive multi-sectoral spillover effect. In order to achieve this a corridor must move beyond simply serving as a ‘passage for the transit of goods and commodities (and people?)’. It must function as an ‘industrial corridor’ and “develop a sound industrial base, served by competitive infrastructure as a prerequisite for attracting investments into export oriented industries and manufacturing”.<sup>10</sup>

Keeping all this in mind, in order to realise its full potential an economic corridor requires economic-, organisational-, institutional-, behavioural-, political- and planning aspects:

First of all, one must conceptualise a growth zone/region/sub-region based on cultural, historical, ecological and economic commonalities.

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<sup>4</sup> Safitri, 2012.

<sup>5</sup> AGIL, 2000:2; Safitri, 2012.

<sup>6</sup> Brunner, 2013:1.

<sup>7</sup> Areas characterised by the availability of remarkable, concentrated amount of economic resources and actors. Furthermore, the urban landscapes offering economic hubs/nodes opportunities for regional connectivity and network effects. cf. Brunner, 2013.

<sup>8</sup> Brunner, 2013.

<sup>9</sup> Ishida/Isono, 2012:11.

<sup>10</sup> SAIR, 12.4.2015.

Secondly, one must conduct a survey to identify economic nodes or industrial centres or clusters of the region. Ideally, the identified locations encompass a “large amount of economic resources and actors”.<sup>11</sup>

Thirdly, these centres and clusters must be linked through various connectivity projects and production chains.<sup>12</sup> This connectivity between the nodes in the corridor is crucial, without strong functional links no significant economic movement and interaction between the nodes will/can take place.<sup>13</sup> This also implies the existence of an efficient feeder system to improve the connectivity, like an integrated train, tram, metro, and bus system and a system to facilitate pedestrian movement.<sup>14</sup>

Fourthly, an economic corridor must be endowed with “an enabling industry, one that is able to meet goals inherent to transport as well as other pressing national and social objectives”.<sup>15</sup>

These objectives include “economic growth, creating a high and rising standard of living for all citizens, increased trade, especially with neighbouring countries; improved access to employment opportunities; and increased social integration”.<sup>16</sup> In this context, it is most important that an economic corridor does not merely function as a transit corridor for goods and commodities, especially not predominantly for the donor country(ies). Such a ‘container in – container out economy’ stands in stark contrast to the idea of economic corridors as development enhancing factor. In order to avoid such a trajectory, the successful establishment of full-fledged Special Economic Zones (SEZ) and industrial parks are of great importance.

Fifthly, there must be a pre-existence of economic viability.<sup>17</sup> More concretely, the area in which a corridor is to be developed must (1) show pre-existent strong economic growth, (2) show a natural propensity and strong effective demand for further mixed-use development

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<sup>11</sup> Brunner, 2013.

<sup>12</sup> Brunner 2013; Marrian 2001; Srivastava, 2011.

<sup>13</sup> Roeseler/von Dosky, 1991: 338; Marrian, 2001.

<sup>14</sup> Roeseler/von Dosky, 1991: 338; Marrian, 2001.

<sup>15</sup> NDoT, 1999:6, 17, 18; Marrian, 2000.

<sup>16</sup> NDoT, 1999:6, 17, 18; Marrian, 2000.

<sup>17</sup> Marrian, 2001.

and (3) be free of inhibitors.<sup>18</sup> Simply put, this means that the development of a corridor in the region must make ‘economic sense’, if they are not economically feasible and do not offer investors a ‘satisfactory cash return’ on their investment - especially if weighed against an array of opportunities - they will not become a reality<sup>19</sup>

Sixthly, all actors involved must possess the political will to implement the necessary measures. Decision makers on all levels of government and sector representatives need to be fully committed to the corridor-project. This requires a co-operative, constructive mindset among all major players, without it, a successful and comprehensive implementation of the corridor remains unlikely.<sup>20</sup>

Seventhly, the economic corridor development must be based on an integrated and comprehensive planning. In other words, there needs to be a co-operative and overarching direction to oversee and execute the corridor vision, the respective plan, the planning process, and the implementation of the plan. In order to devise and administer such a centralised approach, all relevant socio-economic and socio-political realities have to be taken into account.<sup>21</sup> Additionally, actions by governmental- (like sectoral agencies/departments responsible for land use policy and management, transportation planning and infrastructure investment and maintenance, security sector agents among others) and non-governmental actors are imperative to ensure all the realisation of the corridor-vision.<sup>22</sup> Any actions that run counter to the vision will need to be adequately addressed.

Against this backdrop, there must be an independent body able to manage and ensure comprehensive implementation and regulation.<sup>23</sup> Anybody responsible for the planning and the implementation of the corridor and respective projects needs the necessary capacity and mandate to function properly<sup>24</sup> and will likely require an institutional transformation<sup>25</sup> in all levels of government. In addition to the establishment of effective planning bodies, the

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<sup>18</sup> Roeseler/von Dosky; 1991; GPMC; 1997: 6; Marrian, 2001.

<sup>19</sup> Roeseler/von Dosky, 1991: 336, 342; Marrian, 2001.

<sup>20</sup> Roeseler/von Dosky; 1991; NDoT, 1999: 30; Marrian, 2001.

<sup>21</sup> Marrian, 2001.

<sup>22</sup> Roeseler/von Dosky, 1991:329.

<sup>23</sup> Hall, 1983:73; Marrian, 2001.

<sup>24</sup> Marrian, 2001.

<sup>25</sup> Hall, 1983: 73.

corridor would also greatly benefit from the reduction of excessive regulations, rigid conformity to formal rules and regulations and, other bureaucratic hindrances imposing on the decision-making- and implementation processes. In brief, it is rather senseless to prepare corridor plans without enforcing or implementing them, or hamper their plans because of unnecessary red tape.<sup>26</sup>

Eighthly, the corridor proposal must include a concrete action plan with a complementary time-frame. The action plan should outline exactly when key investments (like energy, infrastructure among others) in the corridor will be made to ensure private sector trust and involvement.<sup>27</sup>

Ninthly, the success of a corridor development depends significantly on geographic stability and security. Without guarantees to the security, stability and planning reliability in the medium to longer term, potential investors will be hesitant to make any investments at all.<sup>28</sup>

In this context, one should also note that the success of an economic corridor depends greatly on a favourable, positive image and perception among the broader public, the media and potential investors of both a corridor and the wider area in which it is located.<sup>29</sup>

Last but not least, economic corridors must have an inclusive and comprehensive character, it is not enough that economic corridors are integral to the economic fabric and the economic actors surrounding it. If this were to be the case, economic corridors would generate limited economic benefits as they remain isolated (understood as a narrow, exclusive area of operation). In order to achieve maximum benefits, economic corridors must pervade into larger economic networks, such as global and regional value chains and production networks.<sup>30</sup>

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<sup>26</sup> NDoT, 1999:22; Marrian, 2001.

<sup>27</sup> Roeseler/von Dosky, 1991:329; Marrian, 2001.

<sup>28</sup> Roeseler/von Dosky, Marrian, 2001.

<sup>29</sup> Marrian, 2001.

<sup>30</sup> Brunner, 2013:1.

## The overarching idea of the CPEC - China's 'One Belt and One Road' initiative

The China-Pakistan Economic Corridor (CPEC) represents a significant part of a bigger regional initiative led by China, known as 'One Belt, One Road' (OBOR) or New Silk Road Economic Development Corridor.<sup>31</sup> Basically, the OBOR plan aims to revive ancient trade routes connecting Asia with Europe and Africa, a vision that was announced by the Chinese President Xi Jinping in 2013. Since then, Xi's notion is making headway and is proving to be a major focus of Chinese diplomacy. Led by Beijing, the OBOR concept refers to two ambitious development proposals: the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Route Economic Belt (CMSR).<sup>32</sup> The SREB is a vision to revive the ancient Silk Road that once connected China with Europe via high speed railroads, highways, energy- and distribution networks, as well as fibre optic networks.<sup>33</sup> The Silk Road Economic Belt (SREB) consists of three separate corridors: Firstly, the *Northern Corridor* to Moscow and Germany that starts from Beijing, passes through Russia, and links it to European cities.<sup>34</sup> Secondly, the *Central Corridor* to Europe via Iran that starts in Shanghai and links the country to Tashkent, Tehran and onwards to the Bandar Imam Khomeini Port of Iran by the Persian Gulf. One of this Iranian port branches also stretches up towards Europe. This last route is the longest one and could provide an alternative in case the CPEC is not implemented in time by Pakistan; or CPEC appears unachievable because of security risks<sup>35</sup> and/or lack of management capacity. Lastly, the *Southern Corridor* begins from Guangzhou, the third largest city of the People's Republic in South Central China. This trail moves towards western parts of the country (Xinjiang province) and connects the city of Kashgar with Pakistan at Kunjarab pass. From this mountain saddle at the northern border of Pakistan's Gilgit-Baltistan Hunza - Nagar District, China looks to link its Southern Corridor to Gwadar port, a gateway to the Indian Ocean, Arabian Sea and Persian Gulf.<sup>36</sup> This (southward orientated) extension of the Southern Corridor will be implemented through the CPEC.

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<sup>31</sup> Ranjan, 2015:1; Bethany, 22.4.2015.

<sup>32</sup> Ze, 18.10.2014; Tiezza, 21.4.2015.

<sup>33</sup> OHK, 15.6.2015.

<sup>34</sup> Rana, 17.5.2015; Sahgal, 24.4.2015.

<sup>35</sup> Rana, 17.5.2015.

<sup>36</sup> Rana, 17.5.2015; Sahgal, 24.4.2015.



The CMSR - a sea based path through the South China Sea, South Pacific Ocean and Indian Ocean - complements the SREB. It is the modern-day equivalent of old sea lanes and aims to link China with the Mediterranean Sea via the Persian Gulf.<sup>37</sup>

Both projects (SREB and CMSR) mark the completion of two fundamental phases in China's economic development: the 'bringing-in' (or hitching a ride) period with the 'bringing out' phase. During the first period, Beijing was primarily opening up to receive international assistance, foreign investment and technology; during the second phase, China pushed its enterprises and companies to get engaged outside the country and to "Go Global". Ever since the "Go Global" policy was launched in 2001, various economic reforms have been introduced, like the relaxation of foreign exchange controls, investment restrictions and approval procedures.<sup>38</sup> In 2003, Beijing allowed privately held companies to apply for permission to invest internationally.<sup>39</sup> Now, with the OBOR, the Peoples Republic is entering a new phase of domestic economic development and international cooperation by combining and extending the original two development strategies of 'bringing in' and 'bringing out'. Another innovation is the introduction of the new concept of 'mutual benefit'. In this context, Beijing's development strategy is aiming for win-win cooperation with partners and neighbouring countries, ensuring they are also benefitting from China's economic growth to assure their 'mutual and equal pace of development'.<sup>40</sup> In order to make the OBOR work, Beijing is funding the bulk of New Silk Road Projects. Chinese analysts are careful to emphasise that this sponsoring policy is guided by the concept of the 'Three No's': China will not interfere in the internal affairs of other nations; China does not seek to increase its so called 'sphere of influence'; and, China does not strive for hegemony or dominance.<sup>41</sup> Compared to other projects, China has signalled that CPEC is a priority because it provides China with a direct connection (the shortest possible land route) to the Strait of Hormuz and the Arabian Sea.<sup>42</sup> As such, the CPEC is a 'flagship project' and is essential insofar it

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<sup>37</sup> OHK, 15.6.2015.

<sup>38</sup> Bhattacharjee, 2015:3.

<sup>39</sup> Buckley et al, 2008.

<sup>40</sup> Ze, 18.10.2014.

<sup>41</sup> Ze, 18.10.2015.

<sup>42</sup> Ze, 15.6.2015.

provides a link between the overland SREB and the CMSR.<sup>43</sup> Originally, the idea of a corridor was proposed by Premier Li Keqiang during a visit to Pakistan in May 2013. However, it really started to pick up steam in the months thereafter as Beijing unveiled its ambitious plans for an inter-continental Silk Road. Shortly thereafter, China and Pakistan signed a Memorandum of Understanding (MoU) on China-Pakistan Economic Corridor on July 5, 2013 during Prime Minister Nawaz Sharif's visit to China.<sup>44</sup> However, the most important step towards the actualisation of the CPEC project was the April 2015 visit of Chinese President Xi Jinping to Pakistan; during this visit he announced a \$46 billion commitment for the implementation of this multi-faceted network.<sup>45</sup> This far-reaching financial promise was accompanied by 51 agreements (MoUs) for projects totalling \$28 billion.<sup>46</sup> Despite several bouts of criticism and concern with regards to Pakistan's ability to implement such a mega-development measure, construction works have started and several projects are currently underway.<sup>47</sup>

### Initial conditions: Pakistan-China relations

The Islamic Republic of Pakistan and the People's Republic of China (PRC) have long enjoyed strong and friendly ties, especially since Pakistan was the first Muslim country and the third non-communist state to recognise the PRC in 1950.<sup>48</sup> Furthermore, Pakistan was the first country to establish official ties with China and since then, it continues to provide China with diplomatic assistance on important issues. This includes support for China's seat in the UN in 1961, backing of Beijing's "One-China Policy"<sup>49</sup>, as well as support in the aftermath of the bloody crackdown by the government during the Tiananmen protests in 1989 (*June Fourth incident*) in which thousands of the 'pro-democracy', 'pro-reform movement'<sup>50</sup> lost

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<sup>43</sup> Tiezza, 21.4.2015.

<sup>44</sup> Rana, 17.5.2015; Tiezza, 21.4.2015.

<sup>45</sup> Vandevale, 2015:1.

<sup>46</sup> Khan, 28.5.2015; Haider/Haider, 20.4.2015, Ranjan, May 2015.

<sup>47</sup> Khan, 28.5.2015.

<sup>48</sup> Blood, 1995; Allen-Ebrahimian, 22.4.2015; Zingel, 2015.

<sup>49</sup> This is touching the question of China's sovereignty like Taiwan, Xinjiang, and Tibet (on the expense of the autonomy and/or sovereignty of latter ones). (PRC, 21.2.2000).

<sup>50</sup> Also known as the '89 Democracy Movement', see also McCormick et. al, 1992.

their lives or got injured. Another example of Islamabad's remarkable support for Beijing was its role facilitating the Sino-American rapprochement in the early 1970s.<sup>51</sup> As a result, Pakistan is remarkably self-confident when it comes to its ties with China and points out that it "played a pioneering role in introducing the reality of China to the contemporary world"<sup>52</sup>.

China emphasises these close ties on any and all official occasions and refer to the relationship as 'all-weather friends' who are sharing a relationship which is "is higher than mountains, deeper than oceans, sweeter than honey, and stronger than steel".<sup>53</sup> Despite this flowery rhetoric, China and Pakistan do not have much in common.<sup>54</sup> Their mutual interest are limited to a shared (albeit weakening Chinese) antagonism towards India and a shared border of more than 520 kilometres.<sup>55</sup> One has to be aware that, in many ways, Sino-Pakistan ties do not reflect a relationship of equal partners.

Since both countries signed a Free Trade Agreement in 2006, China has become Pakistan's largest trading partner.<sup>56</sup> However, the volume of trade with Pakistan "is a drop in the bucket for Beijing".<sup>57</sup> Furthermore, Pakistan and China "have never been treaty allies, do not share any cultural reference points or values, and their militaries come from radically different traditions".<sup>58</sup> In this context it is interesting to mention that while Pakistanis view China in an overwhelmingly positive light, it seems that most Chinese either look down on their South Asian neighbours or at least share a far less enthusiastic attitude towards Pakistanis.<sup>59</sup> The fact that some Chinese believe Pakistan is a violent, lawless, chaotic, and poorly governed, run-

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<sup>51</sup> This led to US President Nixon's visit to China in 1972 helping to 'normalise' the relations between both countries, and to end both, China's isolation and the Vietnam war (Ladley, 2002; Zingel, 2015).

<sup>52</sup> Javed Jabbar quoted in Muzaffar (18.6.2015).

<sup>53</sup> Tharoor, 21.4.2015.

<sup>54</sup> Tharoor, 21.4.2015.

<sup>55</sup> Vandevale, 2015.

<sup>56</sup> Ashraf, 9.4.2015.

<sup>57</sup> Tharoor, 21.4.2015.

<sup>58</sup> Andrew Small quoted in Dominguez, 15.1.2015; see also for more details: Small, 2015, 3.7.3015.

<sup>59</sup> A July 2014 Pew Research Center survey found that 78 percent of respondents view China favourably but only 30 percent of Chinese view Pakistan favourably (Allen-Ebrahimian, 22.4.2015; Tharoor, 21.4.2015).

down place partly explains this discrepancy.<sup>60</sup> Nevertheless, most Chinese acknowledge the close ties between the countries and despite ideological differences and differing perceptions among its respective populations, the cooperation between China and Pakistan has continued to grow in decades' past.

Today, Beijing is Pakistan's top supplier for military hardware and nuclear technology.<sup>61</sup> Furthermore, the two neighbours are more deeply engaged providing aid to each-other in the wake of natural disasters.<sup>62</sup> Nevertheless, in recent years, China has adopted a more critical stance towards Pakistan, stressing the need for more security in South Asia,<sup>63</sup> especially with regards to domestic and cross border terrorism<sup>64</sup>, and urges the Pakistan government to make peace in Afghanistan a top priority on its foreign policy agenda<sup>65</sup>. Having said this, it is clear that China is not satisfied with Pakistan's current counterterrorism capabilities and the way in which it handles Chinese Uighur militants operating from its soil.<sup>66</sup> Beijing also expresses indignation regarding Islamabad's failure to prioritise stability in Afghanistan rather than focusing its efforts keeping India out of Afghanistan and establishing a pro-Pakistani government in Kabul.<sup>67</sup> Nevertheless, one can state that despite disagreement on these political issues, the economic and military cooperation has persistently grown in recent decades.

In sum, while major Chinese investments in Pakistan are nothing new it has taken some time to find a project to enhance economic ties and ensure lasting cooperation.<sup>68</sup> In this context, China's move to open-up its western province to trade and investment from Pakistan by

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<sup>60</sup> Allen-Ebrahimian 22.4.2015; Tharoor, 21.4.2015.

<sup>61</sup> For example, besides Pakistan's nuclear weapon programme, China has helped Pakistan to build six nuclear reactors (The Economist, 20.4.2015).

<sup>62</sup> For example, after the Great Sichuan Earthquake (the deadly 2008 earthquake in China's southwest Pakistan donated \$2 million worth of emergency aid, including 30,000 tents (Allen-Ebrahimian, 22.4.2015).

<sup>63</sup> Vandevale, 2015.

<sup>65</sup> Iqbal, 27.4.2015.

<sup>66</sup> Joscelyn, 9.10.2008; Wolf, 15.7.2015.

<sup>67</sup> Wolf, 27.4.2012; 20.4.2012; 2012.

<sup>68</sup> Rahman, 2007.

supporting the construction of the Karakorum Highway (KKH)<sup>69</sup> was a significant step towards closer economic cooperation between both countries. In other words, the construction of the KKH helped not only to overcome one of the greatest physical barriers to the corridor (the highly glaciated mountainous range of the Karakoram), it also created useful collaborative experiences that can serve as catalysts for future and ongoing joint enterprises.<sup>70</sup> Therefore, the subsequent decisions to modernise the KKH and build the 1,240 km Karachi-Lahore motorway<sup>71</sup> (among many other projects) are major contributing factors that help bring the new CPEC to life. In sum, CPEC is not starting from scratch.

### **The China-Pakistan Economic Corridor – The Implementation**

As indicated above, the CPEC must be understood as a crucial part of the China's OBOR initiative and its aims to establish the Silk Road Economic Belt and Maritime Silk Road through Pakistani port facilities. Praised as a new economic lifeline, the CPEC is the essential link between the belt and road. In order to provide this connection, the CPEC should connect Kashgar in China's Xinjiang Uygur Autonomous Region with Gwadar port on the Balochistan coast in Pakistan's south-western region.<sup>72</sup> According to the plan, the CPEC will be implemented through a '1+4' cooperation structure<sup>73</sup>: the Economic Corridor at the centre and Gwadar port, energy, infrastructure and industrialisation as its four key areas of collaboration. In order to operationalise this endeavour, the corridor combines several cross-sectional components such as infrastructure, trade, connectivity, transport, energy and services. More concretely, it consists of different infrastructure measures. First and foremost: roads, railways and pipelines for oil & gas. For example, the upgrade and expansion of Gwadar port includes the construction of an international airport and a hospital. In this context, in addition to building completely new supporting infrastructure to create connectivity, several major upgrades of existing outdated infrastructure systems are required.

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<sup>69</sup> The KKH is also known as N-35 (in Pakistan) or China National Highway 314 (G314). Furthermore, the KKH is a part of the Asian Highway AH4.

<sup>70</sup> Khan, 28.5.2015.

<sup>71</sup> A six-lane, high speed corridor expected to be completed in the fall of 2017 (Detsch, 21.4.2015).

<sup>72</sup> Aamir, 7.2.2015.

<sup>73</sup> Khan, 28.5.2015.

Besides infrastructure, the major focus will be on the increase of energy capacities, including renewable and non-renewable such as solar-, wind-, hydropower energy (dams) and coal. The planned pipeline projects are also expected to improve the imports of gas and oil. Additionally, all the projects are flanked by substantial security measures to guarantee a secure environment for the CPEC development.<sup>74</sup>

Essentially, the CPEC encompasses three routes through Pakistan, plus a northern extension: First, the so called *Eastern Alignment*: This route mainly passes through central Punjab and Sindh, connecting the cities Thakot-Mansehra-Islamabad-Lahore and Multan. From Multan, the trail will link up at Hyderabad through Rohri and Dadu. The Hyderabad-Karachi part will be linked through the M-9 super highway and finally Karachi will then be linked to Gwadar on the Arabian Sea through N-10 Coastal East Bay Express Highway along the coastline.<sup>75</sup> Second, the *Central Route* passes partly through Khyber-Pakhtunkhwa (KPK), and hitherto unconnected parts of Punjab and Sindh. The third route - the *Western Alignment* - passes through the relatively underdeveloped areas of KPK and Balochistan.<sup>76</sup> This route will most likely run through Dera Ismail Khan and Fort Sandeman- or Dera Ghazi Khan and Zhob to Quetta and onward to the Makran coast in order to connect with Gwadar.<sup>77</sup> Finally there is the so called *Northern route*, which will connect all the three Pakistani alignments with the Pakistani-China border at Kunjarab and continues on Chinese territory.

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<sup>74</sup> BBC 22.4.2015; Haider, 3.7.2015.

<sup>75</sup> Rana, 17.5.2015.

<sup>76</sup> The largest of Pakistan's provinces, Balochistan covers 347,190 sq km, around 42% of Pakistan's total area. An extreme, arid terrain and scarcity of water in the region contributes to the harsh living conditions there. Basic development indicators in Balochistan are among the lowest in Pakistan. Balochistan became part of Pakistan in 1948. Armed uprisings by separatist forces have been a continuous phenomenon in this region, in 1948 itself and again in 1968 and 1973–77, but they have repeatedly been suppressed by the Pakistan military. Mitra/Wolf/Schöttli 2006:20; Rana, 26.7.2015.

<sup>77</sup> Zingel, 2015.

## Interests: Expected benefits from the Economic Corridor for China and Pakistan

A multi-faceted development project like the CPEC influences many aspects of state and society, it relates to the economic, political, and social spheres as well as foreign policy objectives and geopolitics.

### *Pakistani interests*

From an economic point of view, Pakistan's main interest is to attract foreign capital. In other words, the CPEC comes at a time when a surge of major investments in the country is imperative.<sup>78</sup> Through the successful implementation of the respective projects Islamabad hopes to improve the infrastructure and energy situation and to generate a positive spill-over effect in all other economic sectors. In this context, through the build-up of special economic zones, the CPEC aims to be a transit route for commodities and raw materials but also to become a catalyst for industrialisation and spur the development of manufacturing hubs. These hubs must boost Pakistan's underperforming economy and create opportunities for entrepreneurs. By identifying economic nodes in established industrialised-urban centres as well as disadvantaged rural areas, the government hopes to generate a nationwide economic boost that reaches Pakistan's poorer provinces.<sup>79</sup> In order to reach these goals Pakistan will link of country's major cities to serve as junctions in a new nation-wide infrastructure. Islamabad hopes that this addresses the problems of unemployment, lack of knowhow, and lacking trade capabilities. Keeping these goals in mind, CPEC might also initiate an impetus to reverse negative processes of brain drain and capital flight that are reaching alarmingly high levels at the moment.<sup>80</sup>

If the projects proves successful, CPEC could have a positive impact on the population's overall mind set: On the one hand attracting educated youths abroad as well as getting those who were planning to leave the country (re-)engaged in Pakistan's future. On the other hand it could convince non-state investors to provide venture capital. In the context of Pakistan's

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<sup>78</sup> Chang, 10.12.2014.

<sup>79</sup> Rafi, 29.4.2015.

<sup>80</sup> Wolf, 16.3.2016.

overall financial indicators, one is hopeful that foreign exchange reserves will significantly increase as CPEC progresses. Needless to say that Islamabad wishes to further deepen Pakistani and Chinese cooperation as the Chinese are finally willing to broaden bilateral ties beyond geopolitics and towards mutually entrenched economic- and socio-political relations. Or in the words of Ahsan Iqbal, Pakistan's minister for planning and development, who believes that the CPEC will change the scope of Sino-Pakistan ties: “from geopolitics to geo-economics” which will have “significant transformative effect on Pakistan's economy”.<sup>81</sup> As the CPEC is implemented, “the entire geo-strategic importance of Pakistan will change.”<sup>82</sup>

The increase in trade and transit activities will not only increase Pakistan's revenues but also intensify people-to-people contact and cultural exchange. Importantly, it will also diversify Pakistan's foreign aid- and investment portfolio. Traditionally, US financial support was a major source for inflow of financial assets, however, provision of capital by the US (and Europeans) is usually linked to political conditions or prerequisites. After the cool-down in US-Pakistan relations, Washington reduced its engagement in the region and left Islamabad looking to replace ‘unreliable’ US support. However, the CPEC investments by China do more than simply filling this void, Pakistan's decision makers are convinced that China is not just an ‘all-weather friend’, but also a valuable ally that will transform into a political and economic superpower within the next decade. Therefore, Islamabad will further strengthen its relationship with Beijing at the expense on its ties with the US. Taking into account the different perspectives of Washington and Beijing on issues such as the South China Sea, Taiwan, China's approach to counter-terrorism, and the repatriation of Uighurs militants seeking (mostly illegal) shelter outside China, one can also see a broader alignment of Pakistani and Chinese views than exists between Pakistan and the US.

There is no doubt that the above mentioned economic opportunities will have significant political and social impact. One may expect: Firstly, improving relations between different provinces as well as better centre-state relations. Secondly, the notion that a successful

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<sup>81</sup> Ahsan Iqbal quoted in Shamil Shams, 20.4.2015.

<sup>82</sup> Ahsan Iqbal quoted in Shahzad, 8.3.2015.



(complete) implementation of the CPEC will improve the credibility and capacities of the (civilian) government and as such strengthen processes of (good) governance. Thirdly, all this could potentially lead to a new international status and improved regional standing<sup>83</sup> for Pakistan based on the emergence of a “new economic self-confidence”. With this in mind, Islamabad’s decision-makers aim to overcome the country’s regional ‘diplomatic isolation’<sup>84</sup> and to subsequently improve the economic and political cooperation with Afghanistan, Iran, Central Asian States and Russia.<sup>85</sup> Finally, extraordinary growth predictions will generate positive results for the common people. In this context, there is great hope that the subsequent improvement of the living conditions will also help contain political radicalization, Islamisation, militancy, and jihadism. In brief, the CPEC might help to eradicate terrorism in Pakistan.<sup>86</sup>

### *Chinese interests*

According to analysts, China has plenty of incentive to unleash these vast investments, despite facing a multitude of threats that challenge the establishment and smooth functioning of the CPEC.<sup>87</sup>

Beijing is convinced that in the light of its many security problems, Pakistan is in need of major development projects to bring stability to the country.<sup>88</sup> From Beijing’s point of view, this will protect Chinese economic interests and reduce the terrorist threat coming from Pakistan. It believes that sustainable economic prosperity in Pakistan will help to contain the terrorism that challenges Chinese economic interests, territory and security. In other words, it aims secure a win-win situation by eradicating the threat within Pakistan and protect its economic interests in the country.<sup>89</sup> As reported by Andrew Small: "Chinese investments have been constrained by Pakistan's instability and security threats to Chinese workers. By

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<sup>83</sup> Rafi, 29.4.2015.

<sup>84</sup> Fazil, 29.5.2015.

<sup>85</sup> Barber, 27.2.2014.

<sup>86</sup> Haider, 3.7.2015.

<sup>87</sup> Andrew Small quoted in Dominguez, 15.1.2015.

<sup>88</sup> Small, 2015; 3.7.2015; Tiezzi, 21.4.2015.

<sup>89</sup> Fullerton, 20.4.2015.

some measures, “Pakistan has been the most dangerous place to be an overseas Chinese”.<sup>90</sup> Therefore, China demands a clear commitment from Pakistan accompanied by clear and concrete actions to protect the sovereignty and territorial integrity of the People’s Republic and Chinese citizens on Pakistani soil. Namely, to undermine all efforts from Pakistan based terrorists and separatists to destabilize ‘mainland China’, especially Xinjiang province.<sup>91</sup> Furthermore, Beijing expects that Pakistan continues its diplomatic support for the ‘One-China policy’.<sup>92</sup>

Additionally, the land-based CPEC provides China with another access route to the Indian Ocean and allows it to by-pass the Malacca straits to reach Africa and the Middle East<sup>93, 94</sup>. Strategists have long perceived the corridor as a strategic liability; they look to insulate China from a potential blockade.<sup>95</sup> The current increasing tensions in the South China Sea are an indicator for the likelihood of such a scenario. This so called ‘Malacca-Dilemma’ further gains significance if one takes into account that around 80 percent of Chinese energy imports flow through the Malacca route.<sup>96</sup> While CPEC is expected to be shorter, cheaper and avoid the risk of piracy<sup>97</sup>, it is doubtful that any land corridor could fully substitute the economic purpose of the Malacca Strait. Nevertheless, it would significantly reduce Beijing’s reliance on the Malacca passage.

Another reason why an improved connection with the Middle East and Africa is gaining significance is the presence of thousands of Chinese firms, employing tens of thousands of

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<sup>90</sup> Andrew Small quoted in Dominguez, 15.1.2015.

<sup>91</sup> Daily Times, 21.4.2015; The New York Times, 23.4.2015.

<sup>92</sup> Xinhua, 20.1.2016.

[http://www.china.org.cn/world/2016-01/20/content\\_37627112.htm](http://www.china.org.cn/world/2016-01/20/content_37627112.htm)

<sup>93</sup> “China could also be trying to find alternative trade routes to by-pass the Malacca straits, presently the only maritime route China can use to access the Middle East, Africa and Europe. Apart from being long, it can be blockaded in times of war” (BBC, 22.4.2015); Chang, 10.12.2014.

<sup>94</sup> Pillalamarri, 24.4.2015; BBC, 22.4.2015, Dawn, 28.8.2013.

<sup>95</sup> Joshi, 12.8.2013.

<sup>96</sup> Sahgal, 24.4.2015.

<sup>97</sup> Detsch, 21.4.2015; Daily Times, 21.4.2015; Rakhmat, 11.6.2015.

Chinese workers involved in entrepreneurial and development activities in the region.<sup>98</sup> As such, the CPEC also touches on China's overseas organisations and entities and would provide additional logistic support and coordination to Chinese business activities abroad.<sup>99</sup>

China hopes that the CPEC can also provide a boost to China's slacking economy, especially in the western, landlocked province of Xinjiang.<sup>100</sup> The project should help bridge the development imbalance between the prosperous eastern and underdeveloped western parts of the country.<sup>101</sup> The corridor should create incentives for both state- and private enterprises to expand economic activity, create jobs, and raise consumption levels in this under-developed region.<sup>102</sup> By doing this China similarly expects to stabilise the region by improving the economic conditions in the western periphery, the region currently constitutes one of Beijing's top domestic security concerns.<sup>103</sup> However, Uighur militants, who are leading a separatist movement in Xinjiang, might perceive its development as a way to exploit the region's resources. Overall, China expects that improving economic conditions in Xinjiang will bring socio-politically stability and subsequently help undermine the 'three evils': Separatism, terrorism and religious fundamentalism.<sup>104</sup>

## Challenges

While the project clearly raises expectations for opportunities and progress, in order to implement the CPEC successfully, Pakistan faces severe challenges and problems related to the patterns of Pakistan's traditional realpolitik.

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<sup>98</sup> BBC, 22.4.2015.

<sup>99</sup> Ze, 15.6.2015.

<sup>100</sup> Tharoor, 21.4.2015.

<sup>101</sup> Ze, 2014; Weihong, 5.7.2015.

<sup>102</sup> BBC, 22.4.2015.

<sup>103</sup> Dominguez, 15.1.2015.

<sup>104</sup> Davis, January 2008.

First of all, Pakistan has a troubling record of ruining major development projects<sup>105</sup> with internal political bickering, and there's a fear that CPEC may meet the same fate.<sup>106</sup> Due to Pakistan's provincial rivalries, struggles between political parties as well as centre-region conflict there is a lack of consensus and harmony among the key players involved in the project. Mega-projects like CPEC all too frequently run aground, either they fall prey to a lack of vision, or they stall on political tussles and lack of political will to share power with the regions and grant ownership to local people.<sup>107</sup>

One of the most critical policy-related issues is the concrete route of the corridor. One of the major concerns of the architects of the CPEC is the deeply entrenched tensions between the different provinces, especially Balochistan, KPK (including FATA<sup>108</sup>) and Punjab, as well as the tensions between the central government and the provinces/regions.<sup>109</sup> Partly due to these conflicts, one of the largest disputes pertains to whether the route passes through X or Y. For the longest time it seemed "the only points of agreement are that it should go from Kashgar to Gwadar".<sup>110</sup> However, there are claims that the original route was supposed to go mostly through western Balochistan and Khyber Pakhtunkhwa/FATA (Western alignment/route), and to a must lesser extent Gilgit-Baltistan and Punjab (Eastern alignment/route). While the government of Pakistan has denied any changes to the route, voices from within Balochistan, KPK and FATA allege that the Punjab dominated 'establishment'<sup>111</sup> in Islamabad replaced the original 'Western alignment' with an 'Eastern oriented alignment'.<sup>112</sup>

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<sup>105</sup> For example, the Kalabagh Dam project or the motorway alignment (Dawn, 16.10.2015; Malik, 20.2.2015; Shahzad, 15.2.2015).

<sup>106</sup> Fazil, 15.2.2016.

<sup>107</sup> Fazil, 9.5.2015.

<sup>108</sup> Pakistan's Federally Administered Tribal Area (FATA), consisting of seven administrative agencies spread over about 27,000 sq km, is outside the legal, judicial and geographical jurisdiction of all of the four provinces of Pakistan. Bordering on Afghanistan, its population is mainly Pashtuns who are ruled according to a traditional *jirga* system (meetings of tribal elders and religious leaders for conflict & judicial solutions), with the Pakistani government exercising only nominal control through a political agent. As a whole, the region is underdeveloped, with low literacy rates and little infrastructure. Its rugged mountainous terrain and special legal status has traditionally made it a favourite hideout for outlaws. Mitra/Wolf/Schöttli 2006:116, 199.

<sup>109</sup> Iqbal, 25.5.2015.

<sup>110</sup> Pillalamarri, 24.4.2015.

<sup>111</sup> Understood as family based networks with interweaved economic, political, social interests.

<sup>112</sup> Wasim, 2015; Ranjan, 2015; Pillalamarri, 24.4.2015.

Following Chinese pressure to depoliticise the project<sup>113</sup>, in an attempt to calm down the heated debate, Prime Minister of Pakistan Nawaz Sharif conducted an All-Party Conference (APC)<sup>114</sup> on 28<sup>th</sup> May 2015 to clarify issues with regards to the CPEC route.<sup>115</sup> At this APC, a ‘national consensus’ emerged to develop the western route first and for the project to include all provinces, which was subsequently announced by Prime Minister Sharif. In return, all political parties pledged full commitment to the CPEC.<sup>116</sup> It is interesting to note here, that Islamabad appears quite keen “to send a good message to China that the entire Pakistani nation is committed to the economic corridor project”.<sup>117</sup> Despite these announcements critics remain sceptical. In sum, if there is no satisfactory solution taking all the provinces’ interests into account, the project runs the risk of falling victim to provincial rivalries, competition between the different political parties, and tense centre-province relations.<sup>118</sup>

Furthermore, there is a lack of transparency<sup>119</sup> and communication between Islamabad and the provinces, adding to an atmosphere of secrecy and confusion surrounding the CPEC project.<sup>120</sup> For one, the decision-making process needs to be clarified, especially considering the fact that provinces are not adequately included. Subsequently the smaller provinces are wondering how they can benefit from the CPEC, if at all.<sup>121</sup> In this context, one should be aware that neither Pakistan nor China have any remarkable record of promoting transparency<sup>122</sup> and accountability. In result, China faces the same problems as the U.S. and other foreign investors, namely corruption and incompetence.<sup>123</sup>

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<sup>113</sup> Ashraf, 25.6.2015.

<sup>114</sup> Rather a ‘multi-party conference’ than a ‘All-Party’ one.

<sup>115</sup> TET, 28.5.2015, Manan, 14.5.2015.

<sup>116</sup> Haider, 28.5.2015.

<sup>117</sup> TET, 28.5.2015.

<sup>118</sup> Pillalamarri, 24.4.2015.

<sup>119</sup> Dawn, 16.5.2015; Kazmi, 22.4.2015.

<sup>120</sup> Zaman, 12.5.2015.

<sup>121</sup> Malik/Naseer, 30.4.2015a; 30.4.2015b.

<sup>122</sup> BBC, 22.4.2015.

<sup>123</sup> The New York Times, 23.4.2015.

Secondly, the overall lack of security is worrisome. Among many others<sup>124</sup>, there are two major challenges towards implementing the CPEC: The unrest in Balochistan province and domestic as well as global Islamist militancy. The ongoing insurgency in the Balochistan province makes up the most crucial challenge for a successful implementation of the CPEC project as Gwadar port is instrumental to its success.<sup>125</sup> In this context, it is important to note that the Baloch people's relationship with the central government has been strained from the get-go.<sup>126</sup> Feeling militarily oppressed, economically exploited, socially and politically marginalized, the Baloch people have been involved in several armed uprisings against Islamabad.<sup>127</sup> One of the major points of contention is that despite being rich in energy and mineral resources,<sup>128</sup> as well as strategically well placed, Balochistan remains the country's least developed and least industrialised region with the lowest level of literacy and income. More than half of the population continues to live below the poverty line.<sup>129</sup> Baloch insurgents consider the CPEC a foreign occupation of their homeland and an attempt to further marginalize the native Baloch people in the name of economic development.<sup>130</sup> Furthermore, the Economic Corridor is seen as Punjabi expansionism and a strategy by the central government to strengthen its grip on Baloch's resources. As such, concerns that the project will only benefit Islamabad and serve Chinese interests, with little to offer the Baloch in return, are rising.<sup>131</sup>

Besides the problems stemming from the Baloch insurgency, there is also a fear that Pakistani based Islamic terrorists might use the upcoming opportunities of the CPEC to carry out attacks that damage the country's economy but also intensify their attacks on Chinese development projects, companies, and workers on Pakistan's soil. Terrorists targeting Chinese

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<sup>124</sup> Sial, December 2014.

<sup>125</sup> The Economist, 6.6.2015.

<sup>126</sup> Jetly, 2009:213; Wolf, 2.11.2012.

<sup>127</sup> Wirsing, April 2008.

<sup>128</sup> Wirsing, April 2008; Mitra/Wolf/Schöttli 2006:20.

<sup>129</sup> Naveed/Ali, 2012.

<sup>130</sup> Baloch, 13.2.2016.

<sup>131</sup> Baloch, 28.9.2015.

projects are an additional security threats within Pakistan as they have the potential to destabilize China's Xinjiang province.<sup>132</sup>

The Pakistan Taliban (Tehrik-i-Taliban Pakistan/TTP) are another major cause for concern. Although the TTP have yet to specifically threaten the CPEC, they are identifying and targeting important government and military installations that could inflict economic loss on the country.<sup>133</sup>

Uighur militants from the western Chinese Xinjiang province, mainly organized in the East Turkestan Islamic Movement/ETIM and affiliated with the TTP, make up an additional security threat.<sup>134</sup> The Eastern-Turkic speaking Uighur militants that feel closer to Central Asian States (CAS) are favouring separation from China<sup>135</sup> and wish to form their own state, described as 'East Turkistan (Republic)'.<sup>136</sup> Many of the Uighur fighters are organized in an umbrella group, called East Turkestan Islamic Movement or ETIM<sup>137</sup>. In 2002 ETIM was listed as one of the 'more extreme separatist groups' and as a terrorist organization by the US.<sup>138</sup> Also, more and more Uighur militants intermingle with international Jihadist networks such as al-Qaeda and the Islamic State (IS) to reach their goal of separation of Xinjiang from China.<sup>139</sup> Besides serving al-Qaeda and Islamic State as fighters in various countries, ETIM's main focus remains planning attacks in- and outside China, specifically against Chinese people and projects in the Af-Pak region.<sup>140</sup> Over the last years, Al-Qaeda and the Islamic State have increasingly employed aspirations of 'East Turkistan' to justify global Jihad. In this context it is important to note that that al-Qaeda joined the Islamic state, an organisation that declared Jihad against China and openly condemned Beijing for its (alleged)

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<sup>132</sup> Desch, 21.4.2015.

<sup>133</sup> Hassan, 8.2.2016; Fazil, 15.2.2016.

<sup>134</sup> Joscelyn, 9.10.2008; Wolf, 15.7.2015.

<sup>135</sup> Keck, 22.10.2014.

<sup>136</sup> Pantucci/Schwarck, 2014; Chang, 10.12.2014.

<sup>137</sup> Another large Uighur militant group is the Turkestan Islamic Party (Hizb al Islam al Turkestani), aiming to establish a territorial entity that stretches beyond the borders of today's Xinjiang; Pantucci/Schwarck, 2014.

<sup>138</sup> Xu/Fletcher/Bajoria, 4.9.2014; U.S. Department of State, 2002.

<sup>139</sup> Keck, 22.10.2014.

<sup>140</sup> Tiezzi, 15.1.2015; Mehsud/Golovnina, 24.3.2014; Reuters, 14.1.2015; Kucera, 1.8.2011.

mistreatment of its Uighur Muslim population.<sup>141</sup> Both organisations hail the fight against the Chinese as their “Islamic responsibility” describing them as “enemy of all Muslims”<sup>142</sup>. Subsequently, a mega-project like CPEC might very well attract unwanted attention from Pakistan based terrorists and Uighur militants but also from global jihadist networks, such as al-Qaeda and the Islamic State.

At this time it seems that there are some improvements in the security situation especially in “high risk areas” such as restive areas of Balochistan.<sup>143</sup> However, to ensure a smooth functioning of the CPEC, Pakistan needs a permanent state of security and rule of law. Reviewing the unfortunate record of the country’s security forces in dealing with the sources of instability compared with the grow and resilience of anti-state actors, one questions whether the Pakistani government is able to provide an appropriate security environment for an effective functioning Economic Corridor. In this context it is relevant to review the happenings in the wake of the Zarb-e-Azb military operation.<sup>144</sup> As the army reduces its engagement and shifts responsibility back to civilian law enforcement agencies (which should be the norm, not the exception) the number of terrorist attacks might increase once more.

Thirdly, the project has to deal with severe geographical obstacles and natural calamities that especially affects CPECs its northern route (Karakorum Highway/KKH)<sup>145</sup>.

Despite the fact that the government managed to address several significant geographical obstacles<sup>146</sup> in the mountainous areas of northern Pakistan, some others remain unaddressed.

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<sup>141</sup> Nash, 27.10.2014.

<sup>142</sup> Mehsud/Golovnina, 24.3.2014.

<sup>143</sup> Hamid, 8.6.2015; Lieven, 16.10.2015.

<sup>144</sup> The operation Zarb-e-Azb was launched in North Waziristan (NWA) on June 15, 2014, following a major terrorist attacks (especially attacks on Karachi's international airport & Peshawar school attack) and the failure of peace negotiation between the government/army and Tehreek-i-Taliban Pakistan/TTP. The campaign has been bolstered by a surge of 170,000 troops, almost a third of Pakistan’s entire military. Besides the TTP, the major targets were the Lashkar-e-Jhangvi, Al Qaeda, Islamic Movement of Uzbekistan (IMU) and the East Turkestan Islamic Movement. Sial, December 2014; Wolf, June 2015; Zahid, 10.7.2015.

<sup>145</sup> Hodge, 30.7.2015.



First and foremost, the Khunjerab Pass remains closed from November to May due to heavy snow;<sup>147</sup> these extreme weather conditions also bring with them an array of technical difficulties for transportation companies which prove to be especially problematic for Pakistani trucks running on older (diesel) engines. These old trucks would not be able to operate optimally in such a high mountainous area; therefore, they have to offload around 30 percent of their cargo.<sup>148</sup> Furthermore, there is the persistent threat of natural calamities like quakes and slides making the KKH impassable. In sum, analysts wonder if an upgrade of certain roads might help solve these difficulties implementing the KKH.<sup>149</sup>

Fourthly, CPEC implementation struggles with a lack of time and insufficient managing capacities by Pakistani authorities. This brings into focus one of the most important questions: how realistic is the implementation of such a mega-project in an underdeveloped, politically unstable country with an extraordinary weak institutional, political-administrative infrastructure. Furthermore, endemic corruption, lack in planning and management, such as problems of land acquisition and slow progress on numerous projects have already tremendously increased the costs.<sup>150</sup> Pakistani authorities already admitted that some projects envisioned by China and Pakistan in 2010 might not reach completion. “If that turns out to be the case, they admit it will mostly have been due to incompetence, corruption and lack of transparency”<sup>151</sup>. Subsequently, many observers are stating that the Chinese investments “are being distributed inefficiently”.<sup>152</sup> While ongoing energy shortages<sup>153</sup> and inefficient planning

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<sup>146</sup> For instance, the bypassing of the Attabad Lake with the help of a tunnel was for a long time hampered through an adjacent mountain and the widening and rehabilitation of the KKH all the way from Chinese border” (Khan, January 2015).

<sup>147</sup> Khan, January 2015; Xinhua 2.12.2014.

<sup>148</sup> Khan, January 2015.

<sup>149</sup> Khan, January 2015.

<sup>150</sup> For example, “that delay in various projects related to Gwadar had increased their costs from Rs8 billion (around \$79 million) to Rs100 billion (around \$992 million) in six years. He specifically mentioned lack of progress on the construction of a power grid, the failure of Pakistan Railways to acquire land for the railway lines, and the failure of the Civil Aviation Authority (CAA) to acquire land for connecting roads for the airport”. Khan, June 2014; CFI 21.4.2015.

<sup>151</sup> BBC, 22.4.2015.

<sup>152</sup> TET, 28.5.2015.

will not render the implementation of the CPEC impossible, they continue to hamper its progress and add to the costs of individual projects. In this context it is helpful to lay out the reasons for the continuing energy shortages. While there is undoubtedly an urgent need for energy supply and production, energy shortages persist due to disastrous payment practices, behaviour and morale. If these issues do not change, even with a significant increase in energy production, the problems of energy shortages will be not solved in the long run. As a result, many of the on-going CPEC projects face delays and extra costs, which provokes additional domestic criticism. Herein lies the main crux of the matter: China wants to implement the CPEC as soon as possible but they also need it to be supported by a national consensus. At the moment it seems that Beijing is not only concerned about the security of its investments and workers but also regarding the disharmony among the provinces and persisting centre-region tensions. The fact that Pakistan focusses mainly on infrastructure and energy projects as it neglects the build-up of industrial centers does not please China either. As such, Pakistan faces the imminent threat that China will start to consider alternatives, for example a potential Iran-China Corridor.<sup>154</sup>

Fifthly, another major challenge for Pakistan development problem is the inefficient use of existing infrastructure. The country has a record neglecting the potential of land-based routes with all its neighbours but especially with China. Unsurprisingly, land based trade between Pakistan and China represents only a small a fraction of bilateral trade. This problem persists despite a 1993 “international road transport agreement” which finally became operational in 2006.<sup>155</sup> “Similarly, while Pakistan has transit, transport, and communication with a host of regional countries, its trade with them still remains minuscule”<sup>156</sup>. In sum, overall application of the existing mechanism for intra-regional trade is clearly lacking.

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<sup>153</sup> Some areas in the country are suffering from serious power shortages leading to cuts of up to 18 hours per day (Vandewalle, 2015).

<sup>154</sup> Iqbal, 27.4.2015.

<sup>155</sup> Khan, January 2015.

<sup>156</sup> Khan, June 2014.

Finally, there are several administrative procedures hampering the effectiveness of trade and economic cooperation between China and Pakistan. Especially in the context of land-based transport of goods and passengers, and general movement of people: Delays issuing visas for transporters, high quarantine facilitation fees, as well as delays at respective quarantine checks, and the requirement to offload at Tashkurgan instead at Kashgar, are factors that need to be reassessed and addressed to ensure a ‘smooth functioning’ of the economic corridor.<sup>157</sup>

### **The CPEC and India: Challenge or Opportunity?**

Without a doubt the CPEC has significant strategic implications for India. Conservative security analysts in India identify CPEC as a long-term strategy of Beijing not only to increase its leverage in Pakistan and to counter US influence but especially to contain Indian influence in Afghanistan, Iran and in Central Asian States (CAS).<sup>158</sup> Some have argued that the build-up of an economic prosperous and socio-politically stable Pakistan would not only help to bring security and stability to Xinjiang<sup>159</sup> but also strengthen China’s influence in South Asia as well as its position towards India, keeping its rival New Delhi busy and focused on “local difficulties”.<sup>160</sup> Needless to say, India has severe concerns with regards to Chinese development projects in Pakistan in general and CPEC in particular. As such, if the corridor succeeds and overcomes its challenges, it will be a remarkably valuable strategic asset for Beijing.<sup>161</sup>

Firstly, for a long time now China has been investing significantly in Gilgit-Baltistan and in an area known in Pakistan as ‘Azad Kashmir’, both regions are the subject of territorial disputes between Pakistan and India. Islamabad claims de facto autonomous control over both regions but Gilgit-Baltistan and ‘Azad Kashmir’ are parts of the former princely state of

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<sup>157</sup> Khan, January 2015.

<sup>158</sup> Barber, 27.2.2014.

<sup>159</sup> The New York Times, 23.4.2015.

<sup>160</sup> The Economist, 20.4.2015.

<sup>161</sup> The Economist, 20.4.2015.

Jammu and Kashmir on which India also lays claim.<sup>162</sup> In this context, it is worrying for New Delhi that Pakistan is considering to upgrade the constitutional status of Gilgit-Baltistan. Up until now, Gilgit-Baltistan was not mentioned by name in the country's constitution. A 'constitutional upgrade' of this region would determine a significant step towards formally absorbing Gilgit-Baltistan as the fifth province of Pakistan.<sup>163</sup> The obvious rationale behind such a highly disputable move is to provide CPEC with legal cover, at least from a Pakistani and Chinese point of view.

Nevertheless, despite differing claims over the territories, Pakistan and China continue to push development projects in the areas and the CPEC and a potential increase in cross-border connectivity with India would revive trade and economy in the region.<sup>164</sup> Major power projects<sup>165</sup> aside, the construction of the Karakorum Highway (KKH) benefited much from Chinese investment and concrete development activities on the ground. The KKH makes up the central piece of the Northern route of the CPEC, passing through Gilgit-Baltistan which some Indian analysts protested.<sup>166</sup> It is interesting to note that Beijing abandoned its acclaimed neutrality<sup>167</sup> on the issue of the disputed area. Xinhua, China's official media outlet, stated the Khunjerab Pass "is a strategic point on the Karakoram Highway, which links China's Xinjiang with Pakistan's Gilgit-Baltistan region".<sup>168</sup> These statements can be interpreted siding with Pakistan<sup>169</sup> at the expense of supporting India's claim over the territory. Additionally, the fact that these major projects involve the presence of several thousands of Chinese personnel that belong to the construction corps of the People's Liberation Army (PLA) represents another threat to India's security interests, especially

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<sup>162</sup> Fazil, 15.2.2016; Qadir, 15.6.2015.

<sup>163</sup> The Express Tribune, 7.1.2016.

<sup>164</sup> Sering, 5.6.2014.

<sup>165</sup> Ashiq, 3.9.2015.

<sup>166</sup> Ians, 21.4.2015.

<sup>167</sup> Chang, 10.12.2014.

<sup>168</sup> Xinhua, 2.12.2014.

<sup>169</sup> Sharma, 4.12.2014.

because it looks like Beijing is planning to build-up a military presence in the disputed areas.<sup>170</sup>

Secondly, the prospect that Gwadar may one day become a Chinese naval base and the increasing Pakistan-China security cooperation alongside the CPEC rattles the Indian government.<sup>171</sup> This also means that CPEC will help Beijing to expand its maritime capabilities, particularly in the Indian Ocean Region, increasing its influence and control over key maritime trade routes, improving access to energy sources, and massively extending its influence in central and south Asia.<sup>172</sup> Both New Delhi and Washington feel uneasy about a potential Chinese military presence beyond the Indian Ocean and into the waters of the Arabian Sea or the Persian Gulf. However, it remains to be seen whether China would want to create such a strong presence and risk antagonising the US. China's maritime expansionism is fostering fears in New Delhi of a Chinese encirclement of India by a so called 'string of pearls' or 'pincer strategy', understood as a series of strategic naval ports.<sup>173</sup>

Thirdly, CPEC plans fuel assumptions that the Sino-Pakistani partnership poses a challenge to India's regional standing. As mentioned earlier, Pakistan and China will also increase collaboration in strategic and security matters in order to ensure the safety of the 3000 km CPEC and related projects.<sup>174</sup> The Chinese president Xi Jinping explicitly pointed out that "Our [Pakistan-China] cooperation in the security and economic fields reinforce each other, and they must be advanced simultaneously".<sup>175</sup> While Islamabad promised to dedicate a special army division for this mission<sup>176</sup> to protect Chinese workers in Balochistan<sup>177</sup>, one should expect that China will insist on the deployment of its own security forces in the area. This could create further grievances among CPEC critics and could instigate debate about the

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<sup>170</sup> Chansoria, 27.4.2015; Chang, 10.12.2014.

<sup>171</sup> Ashraf, 9.4.2015; Talwar, 22.6.2015; Wolf, 24.3.2013.

<sup>172</sup> BBC, 22.4.2015; CFI, 21.4.2015; Sahgal, 24.4.2015.

<sup>173</sup> Rahman, 22.3.2012; Barber, 27.2.2014.

<sup>174</sup> Tiezzi, 21.4.2015; Daily Times, 21.4.2015.

<sup>175</sup> Xi quoted in Daily Times, 21.4.2015.

<sup>176</sup> BBC, 22.4.2015, Ahmed, 21.7.2013.

<sup>177</sup> Tiezzi, 21.4.2015.

limits of Pakistan's sovereignty and independence vis-a-vis Beijing (some refer to Pakistan as a Chinese 'satellite state').<sup>178</sup> Furthermore, as indicated above, Pakistan's economy is in urgent need of capital and foreign investment. US aid is shrinking and another major supporting, traditional partner of Islamabad, Saudi Arabia says it "can't be big as an investor as China".<sup>179</sup> While China definitely has the capital handy, several analysts point out that Chinese aid does not come with a 'carte blanche' and assume there are most likely many political strings attached. Keeping in mind the unequal economic relations between China and Pakistan, there is the threat that Beijing will take over most of the Pakistani income-generating sectors, potentially turning the country into an 'economic colony'.<sup>180</sup> All the same, "Islamabad has no other option but to increase cooperation with Beijing and do what it says."<sup>181</sup>

However, to deepen the security-military cooperation, Islamabad and Beijing agreed to intensify collaboration in defence, counter-terrorism, and space and maritime technology.<sup>182</sup> To live up to this additional agreement, alongside the pledge funds for CPEC, China promised the delivery of eight submarines, worth around \$4-\$5 billion.<sup>183</sup> This, of course, enforces Indian and US concerns that Gwadar will simply be used for economic purposes but will also serve as a major naval base for Chinese and Pakistani Navy. The fact that China helped to build-up Pakistan's capabilities in nuclear weapons and that the new deal includes further cooperation in civil nuclear energy,<sup>184</sup> adds more fuel to the fire of New Delhi's concerns. In addition to this and to further enhance ideological and intellectual cooperation, Beijing and Islamabad plan to launch a new joint Pakistan-China think tank. The research centre will focus solely on research and development of the CPEC and is called "Research and

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<sup>178</sup> Shams, 20.4.2015; Wolf, January 2014, 22.3.2013.

<sup>179</sup> Maqsood Ahmad Jan quoted in Shams, 20.4.2015.

<sup>180</sup> Maqsood Ahmad Jan quoted in Shams, 20.4.2015.

<sup>181</sup> Maqsood Ahmad Jan quoted in Shams, 20.4.2015.

<sup>182</sup> Daily Times, 21.4.2015; Syed, 21.4.2015.

<sup>183</sup> Desch 21.4.2015, Shams, 20.4.2015.

<sup>184</sup> Daily Times, 21.4.2015; "Given how important nuclear weapons are to the South Asian nation's military capabilities and even identity, the significance attached to China's essential role in the nuclear program can hardly be overstated." (Andrew Small quoted in Dominguez, 15.1.2015).

Development International (RANDI)".<sup>185</sup> As such, RANDI should serve as an 'Information Corridor' to promote perspectives, data and information for policymakers, students, specialists, scholars and companies of both countries".<sup>186</sup> However, observers expect that this think tank will gain a lot of influence, far beyond CPEC matters, and must be seen as a step towards the envisaged enhancement of strategic communication and coordination to safeguard common Sino-Pakistani interests.<sup>187</sup> The fact that Beijing offers to mediate talks with the Taliban in Afghanistan indicates another area in which the centre might conduct research.<sup>188</sup> This also indicates a departure from China's official policy of non-interference in the domestic politics of other countries and an indicator that it may shift away from a non-aligned foreign policy. Consequently, the extraordinary support for Pakistan, as old friend and 'quasi-ally', can be seen as a critical juncture in China's bilateral relations.

However, despite these concerns, India could still benefit much from participating in the CPEC. This would help to improve Pakistan-India trade but also increases connectivity with Afghanistan, Central Asia, and Iran and allows India better access to energy- and natural resources. In this context, Pakistan and India could work together to revive existing transport and economic linkages, which are currently in abeyance. In order to reverse this situation, India could connect with the CPEC by establishing trans-border 'Joint Industrial Zones' and/or mini-corridors. Measures could also include the reopening of additional trade routes (Rajasthan-Sindh) to complement the Wagah-Attari route (Punjab). These mini-corridors could be connected with existing or proposed infrastructure projects such as the 'Delhi Mumbai Industrial Corridor'<sup>189</sup> or the 'Amritsar Kolkata Industrial Corridor'<sup>190</sup>. In order to increase domestic and regional connectivity the mini-corridor could be linked up with the 'Bangladesh China India Myanmar Economic Corridor' (BCIM-EC)<sup>191</sup>, the second South

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<sup>185</sup> Daily Times, 19.4.2015.

<sup>186</sup> Daily Times, 19.4.2015.

<sup>187</sup> Daily Times, 21.4.2015.

<sup>188</sup> Desch, 21.4.2015.

<sup>189</sup> <http://www.dmicdc.com/>

<sup>190</sup> <https://investpunjab.gov.in/Static/IndustrialCorridor>

<sup>191</sup> <http://www.eastasiaforum.org/2014/07/18/bcim-corridor-a-game-changer-for-south-asian-trade/>

Asian arm of OBOR. India's participation in the CPEC and the establishment of such mini-corridors would not only increase regional connectivity, but also help solve the problem of time-consuming and expensive sea trade<sup>192</sup>. Furthermore, it would diminish the financial losses incurred through smuggling and informal economic networks.

There are clear signs of growing Sino-Indian economic cooperation and interdependence, as demonstrated by President Xi Jinping's 2014 visit to India and by Prime Minister Modi's May 2015 visit to China.<sup>193</sup> India needs foreign investments, especially to implement Mr. Modi's two ambiguous economic programs 'Digital India' and 'Make in India'. Therefore, Chinese financing is welcome and Beijing is willing to invest a lot of money in Indian infrastructure, pledging up to €17.97 billion for respective projects.<sup>194</sup> Subsequently, the OBOR in general and the CPEC in particular could help boost Indian trade and development with both China and Pakistan.

### **Feasibility of the project: Will the CPEC fulfil its function as an Economic Corridor?**

Overall, the CPEC has the potential to function as a critical juncture in Pakistan's struggle to economic, social and political development and to be a 'game changer' for regional connectivity, cooperation, and integration. In both countries powerful actors are supporting the project. On the Pakistani side, the most significant forces that support CPEC are: the 'so called' establishment, namely the military, the central government, and the regional elites of the country's most dominant province of Punjab as well as Sindh province (features Pakistan's leading economic hub, the port city of Karachi). Otherwise, an 'All Party Conference (APC)' agreed to support CPEC and to bring all provinces and major political parties 'on board' to form a 'National Consensus' on the CPEC, at least on paper. On the Chinese side, the project is supported by the CCP, the State Council, top banks and leading corporations.<sup>195</sup> Subsequently one can state that the main political actors on both sides have

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<sup>192</sup> Here, the trade of Indian goods could be much cheaper conducted on land through Pakistan but due to existing constraints it is not possible.

<sup>193</sup> Vandewalle 2015:11.

<sup>194</sup> Vandewalle 2015:11.

<sup>195</sup> Khan, 28.5.2015.



thrown their weight behind the project; while a careful analysis of facts on the ground raises doubts regarding its successful implementation.<sup>196</sup> With this in mind, Pakistani and Chinese decision-makers are growing more aware of the likely challenges the CPEC could face. In order to increase their chances of success, the civilian central government in Islamabad and the army top brass in Rawalpindi taking steps to ensure CPEC's implementation. In order to reduce the atmosphere of unease in Pakistan's smaller provinces Balochistan and KPK - who are feeling excluded and defrauded of the potential benefits of the Economic Corridor - the government set up a Parliamentary Committee in September 2015 to oversee the project. This measure is also supposed to remove the impression that CPEC is solely controlled by Prime Minister Sharif and his closest associates and may be manipulated in a way that primarily enriches the Punjab (Sharif's home province).

In order to push the construction of the build-up of the western alignment of the CPEC, the army decided to deploy the Frontier Works Organisation (FWO)<sup>197</sup>. The FWO is an active-duty army administrative (non-combatant) staff corps that mostly employs scientists and engineers. Since its establishment in 1966, it carries out major infrastructure projects like bridges, roads, tunnels, dams etc. on behalf of the countries' armed forces or the government; one of the most prestigious projects was designing and constructing the Karakoram Highway. However, one can state that the deployment of the FWO at the western alignment has been a politically inspired decision for two major reasons: firstly, it aims to rebut the accusation that Islamabad is only interested in the construction of the Eastern Alignment. Secondly, it looks to convince China that CPEC will be implemented in a timely fashion. Nevertheless, it is also obvious that the army will reap the vast financial benefits from the CPEC while civilian contractors will be excluded from this profitable project.

Furthermore, the implementation and smooth functioning of the CPEC depends heavily on the stabilisation of Pakistan's security environment.<sup>198</sup> To improve the security situation the

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<sup>196</sup> Ranjan, May 2015.

<sup>197</sup> Official website: <http://www.fwo.com.pk/>

<sup>198</sup> Vandewalle, 2015.

government formed new Special Forces (in Balochistan and Sindh) to protect the construction of the corridor, and major military campaigns were conducted to eradicate the militant/terrorist threats to peace and stability in the country. Besides the activities of the army, all law-enforcing agencies got directions from Chief of Army Staff (COAS) General Raheel Sharif to continue nationwide intelligence-based operations (IBOs). The IBOs do not exclusively target terrorists, supporters, accomplices and sympathisers but also their financiers.<sup>199</sup> In this regard, 'special integrated teams' -responsible for the implementation of IBOs- are deployed to dismantle links between terrorists' sanctuaries in remote areas and their sleeper cells in urban areas.<sup>200</sup>

In order to increase the project's manageability and to enhance the coordination of security and construction activities, the 'so called' Apex Committees were established on two levels of governance. The first committee was created at the federal level and includes the Army Chief and the Prime Minister as well as other (civilian) senior bureaucrats and top military officials. In addition, each province has its own Apex Committee whose members include: the Chief Minister, the local Corps Commander, other senior civilian and military officers, and some cabinet members.<sup>201</sup> However, despite efforts to ensure the implementation of the CPEC, Pakistan still faces considerable hurdles. Furthermore, there are several factors indicating that some of these measures generate more negative side effects than constructively paving the way forward.

First of all, the establishment of the Parliamentary Committee on the China-Pakistan Economic Corridor is meaningless ploy for several reasons. The most significant, immediate and seminal decisions regarding the CPEC are already made bilaterally between representatives of federal government and Punjab province with the Chinese to agree on the early harvest projects. These decisions are carried out mostly in a secretive way as the government fails to provide the necessary transparency. It was also unclear how the first

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<sup>199</sup> Haider, 3.7.2015.

<sup>200</sup> Haider, 3.7.2015.

<sup>201</sup> Rizvi, 9.8.2015.

bilateral meetings, negotiations and decisions are linked to the immediate implementation of CPEC. This exclusivity and secrecy regarding the initial decision-making relates to the 'joint coordination committee of the China-Pakistan Economic Corridor' which is jointly hosted by top government officials from China and Pakistan. Furthermore, a Pakistan-China Economic Corridor Secretariat has been formally set up in the Planning Division of the Pakistan Ministry of Planning and Development to oversee the economic corridor projects.<sup>202</sup> In other words, there is very little opportunity for the Parliamentary Committee to influence any crucial decision-making in the context of CPEC. Additionally, the Parliamentary Committee mostly includes the main beneficiaries of CPEC, namely the central government and the larger provinces of Punjab and Sindh. As such, one may conclude the respective Parliamentary Committee is a 'toothless tiger' rather than a body of decision-making and has very little influence on CPEC's implementation. The fact that it took several months to set up the Parliamentary Committee shows the 'half-heartedness' of the initiative; also, the Senate Committee<sup>203</sup> is espousing fruitless criticism rather than acting as an instrument to influence the course of the CPEC development.<sup>204</sup>

As a result, the decision making process surrounding CPEC is increasingly perceived as secretive and exclusive, which in turn supports the claim that the establishment and Punjab province (and partly Sindh) will be favoured by the Chinese investment.<sup>205</sup> This creates more uncertainty and doubts among the people of Balochistan and KPK. The significance of the both committees on CPEC, Parliamentary and Senate, is further reduced by the fact that most significant decisions regarding the concrete CPEC implementation are done by the military dominated Apex Committees and not by the legislative bodies (such as the federal and provincial assemblies, cabinets, and committees).

Aside from the problems caused by the marginalisation of the legislative bodies and Balochistan and KPK provinces in the CPEC decision-making processes, the challenge of

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<sup>202</sup> Ranjan, May 2015.

<sup>203</sup> The bicameral Parliament of Pakistan (Majlis-e-Shoora) consists of the National Assembly (lower house) and the Senate (upper house) – both houses formed a respective committee to oversee the CPEC project.

<sup>204</sup> ANI, 30.3.2016.

<sup>205</sup> Aamir, 7.2.2015.

ensuring security remains problematic. First of all, military activity in the region might help to reduce the number of terrorist attacks but it creates more anger in the affected areas where fighting takes place. Civilian casualties, destruction of properties, and the displacement of people generates opposition to the CPEC project. In this context, the expulsion of locals from their homes, the land reclamation cases (like Gwadar), the destruction of property as well as environmental degradation caused by various CPEC energy and infrastructure projects, lead to further tensions. Additionally, the increased military presence in Balochistan is not well received as the army is seen as an instrument to suppress local government critics. In sum, at the moment it seems that the way in which CPEC is taking shape is further sidelining the disadvantaged provinces of Balochistan and KPK as it will predominantly benefit the province of Punjab. Consequently, instead of promoting reconciliation among the different provinces and ameliorating center-state relations, the corridor could be a source of more antagonism and animosity and results in deeper provincial divides. If this trend continues, the project will disappoint in a multitude of ways; it will have failed to achieve local ownership and missed the opportunity to transform the regional population from ‘rebels’ into CPEC ‘stakeholders’ and it will be even more difficult to gain the provinces’ cooperation in creating a “terror-free” Pakistan.

The government efforts to combat terrorism are gaining significance for the future security situation in the region. While - thanks to increased number of military campaigns - the number of terrorist attacks have been significantly reduced, Jihadists are still able to conduct major assaults like the so called ‘Easter bombing’ in Lahore on March 27. That attack killed more than 70 people and exposes the gaps in the Pakistan’s counter-terrorism campaigns.<sup>206</sup> As such, one must state that “terrorism will remain a threat to Pakistan for the foreseeable future” and will have a major impact on CPEC as Jihadi activities will prove to be a threat for the smooth and effective functioning of the economic corridor in the long term. If Pakistan is unable to end or contain the Jihadi threat, there might not be enough stability to let the Chinese projects continue, hampering the possibilities for the CPEC investments to bear fruit. There is also a risk that the costs of ensuring security outweigh the potential benefits of the

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<sup>206</sup> The Washington Post, 30.3.2016.

CPEC.<sup>207</sup> As such, it might have been “a mistake on China's part to think that by helping Pakistan economically, it can reduce the level of extremism in the country”.<sup>208</sup>

Another hurdle to overcome is the fact that China and Pakistan are currently on very different levels of economic development. However, both countries can complement each other economically for the following reasons: the Chinese economy faces supply-side pressures for certain commodities (especially raw materials) and energy. Here, Pakistan could serve as supplier for natural resources (raw materials) and as a transit route for energy. Furthermore, China can function as supplier for manufactured goods, technology and investment to address the tremendous Pakistani demands in these directions.

Also, CPEC does not fulfil the requirements that economic corridors need to be based in a common culture, religion, language and ecosystem in order to form a sub-region (seen as an integrated growth zone). However, Pakistan and China are trying to bridge the gap of a ‘natural sub-region’ by a tremendous political will by all major actors in both countries. In this context, one must mention that many of Beijing’s investments are driven by political decisions rather than by economic cost/benefit calculations; Chinese companies moving into Pakistan in order to bring the industrial hubs to life are highly professional. As such, Pakistan entrepreneurs have to deal with China’s corporate sector that functions -regarding managerial decision-making on the individual company level- (largely) autonomously from Beijing. In other words, business affairs have to be dealt with in a professional manner; therefore, Pakistani companies have to prepare for a highly competitive environment and Islamabad needs to spend great effort fulfilling its part of institutional, legal, financial and logistical commitments.<sup>209</sup> Therefore, it would be a misreading of China’s interests to hail “the corridor as proof of the eternal and amazing friendship between China and Pakistan”.<sup>210</sup>

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<sup>207</sup> Tiezza, 21.4.2015; Fullerton, 20.4.2015.

<sup>208</sup> Asha'ar Rehman quoted in Shams, 20.4.2015.

<sup>209</sup> BBC, 22.4.2015

<sup>210</sup> Pillalamarri, 24.4.2015.

Chinese (as well as other foreign) companies will not risk their investment and the lives of their employees<sup>211</sup> if Pakistan is unable to ensure a stable and secure environment free from bureaucratic hurdles and without resource shortages.

Finally, one must analyse CPEC in the context of a tense civil-military relationship within the country. At the moment Pakistan is further entrenching a formal role for the Pakistan Armed Forces in the country's political system at the expense of democratic transition. More concretely, civil decision-making powers will be weakened even further.<sup>212</sup> As such, any real control of the military will likely be impossible as several factors indicate the decay of civilian governance on the central and provincial level.

First of all, the challenge to ensure security for the CPEC development had the most significant impact on the civil-military relations. For example, new armed forces in Balochistan and Sindh, dedicated solely to protect CPEC, were formed without any input from the civilian leadership. Even more remarkable is the increasing autonomy of the army in internal security, which is evident in its unilateral decision to launch the Zarb-e-Azb operation<sup>213</sup> in the summer of 2014.<sup>214</sup> Decisions to extent the duration as well as the geographical expansion of the operations in the Zarb-e-Azb anti-terrorism campaign were also made by the armed forces themselves.<sup>215</sup> The operation initially focused on the border areas to with, but the army declared the operation would include the whole territory of Pakistan.<sup>216</sup> In this context, a major (official) goal of the country's security circles is to link CPEC with the aim to achieve a 'terror free Pakistan'. The commitment -irrespective of the costs- shows in Chief of the Army Staff (COAS) General Raheel Sharif's statement: "We [Pakistan's security forces] will not stop unless we achieve our end objective of a terror-free

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<sup>211</sup> Rizvi, 9.7.2013.

<sup>212</sup> Wolf, 18.5.2012.

<sup>213</sup> Khan, 28.5.2015.

<sup>214</sup> The operation Zarb-i-Azb was launched in North Waziristan on June 15 following a major terrorist attack on Karachi's international airport and the failure of peace negotiation between the government/army and Tehreek-i-Taliban Pakistan/TTP (Haider, 3.7.2015).

<sup>215</sup> Rizvi, 6.9.2015.

<sup>216</sup> Rizvi, 9.8.2015.

Pakistan”<sup>217</sup>. Another case of autonomous decision-making by the army is the Karachi security operation<sup>218</sup>, which resembles the Zarb-e-Azb operation. In this case the decision to carry out decisive measures against terrorists laid in the hands of the military and the rangers (a paramilitary force headed by the army) themselves.<sup>219</sup> The military briefed the civilian government only after the decisions were made.

Another example of the increasing power of the military would be the establishment of the Apex Committees at the federal and provincial levels, leading to the reduction of decision-making powers of the executive while escaping parliamentary oversight by the national and provincial assemblies respectively. In other words, most of the important decisions related to CPEC are made by a military-bureaucratic hybrid structure. Officially, the establishment of the Apex committees aims to enhance civil-military interaction to improve the security situation in general and to counter terrorism in particular and the initial tasks of the Apex committees were to coordinate security and to implement the National Action Plan<sup>220</sup> (drafted jointly by the government, parliament and army).<sup>221</sup> However, over time the Apex Committees have become more important decision-making bodies than the federal and provincial cabinets as cabinets meet less frequently in comparison with the Apex Committees.<sup>222</sup> It is well known that the Pakistani Army plays a dominant role in politics ever since the formation of the country, it exerts its influence directly through military coup and martial law or indirectly by informally influencing civilian decision makers to act in the interest of the military. However, the new administrative set-up of Apex Committees formally establishes the military's influence as an actor involved in governance, political, administrative management and strengthens its positions with regards to every aspect of the decision making process relating to CPEC and beyond.<sup>223</sup>

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<sup>217</sup> COAS General Raheel Sharif quoted in Haider, 3.7.2015.

<sup>218</sup> Military action against terrorists and to root out “violent groups, including extortionists, criminal mafias and armed wings of political and religious parties” (Rizvi, 9.8.2015).

<sup>219</sup> Rizvi, 9.8.2015.

<sup>220</sup> ISPR, 3.1.2015.

<sup>221</sup> Jaffrelot, 1.4.2016.

<sup>222</sup> Rizvi, 27.12.2015.

<sup>223</sup> Rizvi, 9.8.2015.

This phenomenon started with the enactment of 21st constitutional amendment which led to new institutional arrangements such as granting armed forces special powers and the establishment of military courts. Today, the military possesses the strongest formally institutionalized role in the country's political system since its formation. Against this backdrop, one must state that the military was not only able to extend its influence at the expense of all three branches of government (executive, legislative and judiciary), but also managed to build-up a 'quasi-parallel structure of governance'. As a result, the military does indirectly rule the country, eliminating any need for a direct take-over (coup d'état).

In this context it is most worrisome that Pakistani politicians, academia, media and large parts of society grant the country's armed forces an unquestioned 'carte blanche' in all their activities for the sake of a successful implementation of the CPEC. Against this backdrop one must state that the CPEC is under control of the military. This could have negative ramifications for India-Pakistan relations and a potential participation of New Delhi in the project; especially when Pakistan's army and intelligence services have the ability to veto Pakistan-India rapprochement. The latest terrorist attacks in India carried out by a Pakistan based terrorist groups are a premonition of an increasingly somber future for New Delhi and Islamabad cooperation.

In sum, the CPEC will only fulfil its function as an economic corridor under following conditions: All three corridors must be established to include all provinces. While people will continue to discuss the various advantages and disadvantages of certain routes, CPEC can unfold extraordinary benefits when it gets implemented as a nation-wide network connecting and incorporating as many urban and rural areas as possible, and including Quetta (Balochistan) and Peshawar (KPK). The creation of necessary links between nodes, meaning Special Economic Zones (SEZ's) and industrial areas, must be ensured in line with Chinese requirements. Subsequently, these SEZ's must be equipped with all basic facilities like communication, infrastructural connectivity, energy, and provide resources for manufacturing. Furthermore, the government must guarantee that Pakistan workforce are included in the CPEC projects' deployment schemes. Therefore, it has to make sure that the country is able to improve its educational system and increase its ability to offer skilled



labour. The presence of many Islamic schools (Madrasas) with a religious orientated curriculum across the country does not improve know-how and does not provide a qualified work force to match Chinese demands. However, it is also essential that Chinese companies are “willing” to employ Pakistani workforce instead of solely relying on its own citizens. In this context, it will also be important that the SEZ’s and industrial areas are open for Pakistani entrepreneurs and not only serve as platforms to outsource Chinese manufacturing and increase proximity to resources and export markets. As such, it will be interesting to observe how Pakistani firms perform under the new conditions and if they are able to compete with the Chinese companies. Up until now, it remains unclear how the CPEC “would affect trade patterns between Pakistan and China; would it mean even more imports from the latter one or the other way around?”<sup>224</sup>. Taking into account the asymmetric economic relations between both countries, Pakistan runs the risk that an improved connectivity with China will lead to a rise in imports.<sup>225</sup> Another crucial consideration would be to what extent the various economic sectors in Pakistan are benefiting from spill-over effects of the improvements in infrastructure and energy situation.

Furthermore, Islamabad must work towards national consensus and harmony to gain trust and full support of the people, especially in the provinces that find they are being neglected. This is not only a necessary condition for peace and stability but also a severe demand by Beijing. In order to fulfil the pre-requisite, Islamabad has to make sure that all provinces get integrated in the CPEC decision-making process as soon as possible. Furthermore, all decisions regarding implementation and further planning have to be clear and transparent. This includes the introduction of a fair distribution mechanism of CPEC revenues between the central government and the provinces as well as among the provinces, a strict enforcement of payment morale of Pakistani companies, institutions, and private persons regarding outstanding and future electricity debts. Otherwise, there will never be a sustainable solution for the disastrous electricity shortages; the introduction of fiscal justice and fair taxation. In

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<sup>224</sup> Khan, January 2015.

<sup>225</sup> Khan, January 2015.

other words, there must be a coherent tax system to generate revenues for further Pakistani investments within the CPEC framework.

Finally, an improvement and/or establishment of a civilian control and oversight mechanism is sorely needed. To achieve this the Apex Committees should be immediately dissolved and oversight by national and provincial assemblies and respective cabinets must be restored. If this is impossible because of the complexity of the issue as well as a lack of capacities and capabilities<sup>226</sup> specialised institutions/bodies must be established under direct (sole) control of the civilian (legislative and executive) institutions. It will be essential for the country's democratic trajectory that any military representation is removed from the decision-making process and the military should report transparently on the status of security and ongoing activities regarding CPEC and beyond. If such measures are not successfully carried out, the CPEC will further entrench the military in the country's politics and will likely stifle any future attempt to bring Pakistan back on the democratic reform track.

### **Final Thoughts - Impact of CPEC on regionalisation**

Insofar as CPEC may have positive impacts on regionalisation depends on its ability to increase regional connectivity as much as possible. Therefore, it is most important that the CPEC will be integrated in transport, energy and trade infrastructure networks beyond the Pakistan-China nexus. As CPEC is linked with Kashgar and its growing special economic zone<sup>227</sup>, a successful entrenchment into the northern networks is ensured, connecting the CPEC with Central Asian States, Russia and Europe.<sup>228</sup> However, it will be most important that Pakistan includes its neighbours as they would greatly benefit from this project if it succeeds.<sup>229</sup> Subsequently, Pakistan should open up the CPEC to the West (Iran and Afghanistan) and to the East (India); only then can it make a significant impact on regional connectivity and may become a game changer for regional cooperation in South Asia.

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<sup>226</sup> Especially regarding general education of Pakistani MPs and necessary technical and economic expertise.

<sup>227</sup> Abrar, 6.12.2012.

<sup>228</sup> Barber, 27.2.2014.

<sup>229</sup> Ians, 10.10.2015; The New York Times, 23.4.2015.

For any real change to occur, a normalisation of Pakistan-India relations and a constructive Pakistan-Iran relationship are essential preconditions. Furthermore, a fundamental reassessment of Pakistan's predominantly-security based approach towards Afghanistan and India is needed.<sup>230</sup> However, this requires a decisive change in the mind-set of regional decision-makers, especially in Islamabad and New Delhi; the tensions in the India-Pakistan relationship continue to obstruct any noteworthy regional collaboration. Regarding Afghanistan, Pakistan must finally drop the vision of 'strategic depth'<sup>231</sup> and/or similar notions and adopt a nonpartisan policy approach towards Afghanistan's internal affairs.<sup>232</sup>

Therefore, Pakistan should redefine its regional profile and normalize economic and diplomatic relations with its neighbours.<sup>233</sup> With the formulation of its 'Vision 2025',<sup>234</sup> Islamabad took the first step, at least in theory; however, Pakistan must also develop a foreign policy free from ideological parameters that will allow rational behaviour in its bilateral relations. More concretely, Pakistan needs to put greater emphasis on trade and economic cooperation rather than putting the focus on security.<sup>235</sup> Until now, the country's military and intelligence services, as well as some Islamic fundamentalist elements, undermine any sustainable rapprochement between Islamabad, New Delhi and Kabul. On this matter China sides with Pakistan on several issues (for example in the territorial dispute over Gilgit-Baltistan), nevertheless it does not want to deepen involvement in India-Pakistan disputes.<sup>236</sup> As such, Beijing could play an essential role as interlocutor and make it clear "that the proposal to open access to the economic corridor for India has credible commitment at the highest

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<sup>230</sup> Malik/Naseer, 30.4.2015a; 30.4.2015b; Wolf, 20.4.2012.

<sup>231</sup> In the context of the concept of strategic depth, Pakistan gets accused of formulating and implementing a policy that seeks to control Afghanistan. Pakistan is usually responding in two ways: 1) It is countering this claim by stating the concept is not about the search of control over Afghanistan but to ensure a peaceful, friendly and stable relationship with Kabul; 2) It is announcing that the concept of strategic depth as a parameter in its policy towards Afghanistan is abandoned long time ago. However, by observing the actual developments in the Af-Pak region, the realities on the ground look quite different.

<sup>232</sup> Rizvi, 9.7.2013.

<sup>233</sup> Rizvi, 9.7.2013; Khan, January 2015.

<sup>234</sup> <http://www.pc.gov.pk/wp-content/uploads/2015/05/Pakistan-Vision-2025.pdf>.

<sup>235</sup> Barber, 27.2.2014.

<sup>236</sup> Rizvi, 9.10.2013.

levels in China”<sup>237</sup>. Beijing is most likely the only actor that could encourage a change in Pakistan’s mindset. Only then can regional connectivity be improved and can Pakistan, China and the whole extended region enjoy maximum benefits from the economic corridor.

In order to work towards sustainable regional cooperation, peace and stability, the integration of Afghanistan into the CPEC as well as other economic corridors must be ensured. Therefore, China has vested interests in a stable Afghanistan that is no longer under control of the Taliban, “who it believes lends sanctuary to the Muslim Uighur separatist groups in the autonomous western region of Xinjiang”.<sup>238</sup> This raises the questions of how much influence China has on Pakistan’s security sector and whether it may be able to extend its influence over Afghan Taliban. And, if this is the case, how far they will still comply with the Pakistani forces. While it may be tempting to assume Chinese influence in this matter, assessing the genesis of foreign influence in Afghanistan shows that Pakistan and China have differing priorities: Beijing primary interest is peace and stability, while Islamabad looks to exercise influence and to keep its rival India out of.<sup>239</sup> In this context, it is interesting to note that in the past “China used to outsource its Afghanistan policy to Pakistan but is now taking a far more active role in the planning for the aftermath of the West's drawdown”.<sup>240</sup> However, Beijing “expects Pakistan to take Chinese concerns into account”.<sup>241</sup> This could help to improve relations between Kabul and Islamabad and may boost Pakistan-Afghanistan economic cooperation.

In the wake of the new US-Iran nuclear deal and subsequent removal of sanctions, Iran’s newly reestablished position in international relations will open up new opportunities for cooperation with Pakistan. A successful eastward orientation would not only help deepen regional cooperation but offers tremendous opportunities for the CPEC in general and the Western alignment of the economic corridor in particular. The cooperation in energy and

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<sup>237</sup> Ians, 10.10.2015.

<sup>238</sup> Shams, 20.4.2015; Wolf, 11.5.2012.

<sup>239</sup> Daily Times, 21.4.2015; Dominguez, 15.1.2015.

<sup>240</sup> Andrew Small quoted in Dominguez, 15.1.2015.

<sup>241</sup> Andrew Small quoted in Dominguez, 15.1.2015.

trade would benefit much from a rapprochement between Islamabad and Tehran. Furthermore, the construction of an Iran-Pakistan pipeline would create another avenue of potential cooperation. No doubt that any rapprochement has to take both 'Pakistan's special relations with Saudi Arabia' and subsequently 'Riyadh's sentiments towards Tehran' into account. Riyadh and Islamabad share a long history of cooperation on defence and security, and Saudi Arabia has often helped Pakistanis with precarious financial situations.<sup>242</sup> Nevertheless, the CPEC may initiate a gradual shift in Pakistan's regional outlook and its relations with Iran and Saudi Arabia. On the one hand, Pakistan considers Iran a potential partner to help it overcome its dire energy needs, but on the other hand it does not want to offend Saudi Arabia by getting too close to Tehran.<sup>243</sup> This will be a difficult balancing act for Islamabad due to the growing Saudi-Iranian hostility in the Middle East. For example, Saudi Arabia was displeased that Pakistan's parliament voted against joining the Saudi-led attacks (Operation Decisive Storm) against Iranian supported Houthi rebels in Yemen.<sup>244</sup> Against this backdrop, Pakistan will most likely approach the situation with great caution, to not further alienate Saudi Arabia.

However, the difficult task of balancing its relations with Tehran and Riyadh is only one challenge in the context of the CPEC. At this time, it is unclear whether Iran will turn out to be a competitor or an ally. As indicated above, the Chinese government is concerned with the ongoing political conflicts that obstruct CPEC's implementation, security problems, delays and more. Tehran may offer an alternative economic partnership and corridor; Iran's main argument is that it has the functional port Chabahar, only 36 km from Gwadar that lies in a remote and restive area.<sup>245</sup> In contrast to Gwadar<sup>246</sup>, Chabahar is well connected with the country's infrastructure and Iran can guarantee the security of Chinese investments and its workers. In this context it is interesting to mention that China offered to invest \$51 billion in Iran, which is more than it offers Pakistan to implement the CPEC. In sum, there is the

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<sup>242</sup> Vandewalle, 2015.

<sup>243</sup> Shams, 24.3.2016.

<sup>244</sup> BBC, 10.4.2015.

<sup>245</sup> Chang, 10.12.2014

<sup>246</sup> Fazl-e-Haider, 9.5.2014.

imminent threat that a potential Iran-China Corridor turns into competition for the CPEC. However, taking Pakistan's 'strategic location'<sup>247</sup> (which is the country's major asset) and Chinese interests into account, one can state that an 'Iran option' will merely be an additional option for Beijing and is unlikely to substitute CPEC.

In conclusion, the CPEC must be designed as an entity with an inclusive character, open to all actors willing to participate in a constructive manner. Therefore, Pakistan's government needs to work towards a national consensus and harmony. In order to do so, it has to stop side-lining and suppressing the interests of the smaller provinces, namely Balochistan and Khyber Pakhtunkhwa (KPK), it has to put a stop to provincial rivalries and introduce an all-inclusive and transparent decision-making process. It must also establish mechanisms that allow for the fair distribution of the profits generated by CPEC and related projects among the provinces. In other words, the federal government must address the grievances of the local people, especially in Balochistan. Its current policy of zero tolerance and crushing military response to any opposition in Balochistan will escalate the situation<sup>248</sup> and increase the risks for Chinese workers and projects in the provinces; the persistent attacks on Chinese workforces can be seen as proof of this hypothesis. In this context, Islamabad "should keep in mind that development does not bring peace, rather it is peace that brings development."<sup>249</sup> The dream of a fully functional Gwadar port, which could turn the province into an important energy conduit in the region, can only come true if peace and stability return to Balochistan.<sup>250</sup> In this context, Gilgit-Baltistan serves also as an important reference. In that case, Islamabad expected that an improvement of the socio-economic conditions would positively impact peace and reconciliation in the conflict driven Gilgit-Baltistan. However, the construction of the Karakoram Highway Tensions has failed resolve tensions between Shia and Sunni communities. To the contrary, the tensions have only increased.<sup>251</sup>

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<sup>247</sup> Fazil, 9.5.2015.

<sup>248</sup> Wirsing, April 2008.

<sup>249</sup> Fazl-e-Haider, 9.5.2014.

<sup>250</sup> Fazl-e-Haider, 9.5.2014; Wirsing, April 2008.

<sup>251</sup> Hunzai, 2013; Wolf, 14.12.2012.

On the international level, Pakistan needs a fundamental reassessment of its foreign policy to be able to enter in a constructive relationship with its neighbours. As long as Islamabad gives the impression to be unreliable, it will be unable to obtain their cooperation on CPEC. On the other hand, India also urgently needs to debate and proclaim its stance vis-a-vis CPEC, any discourse should be based on a rational evaluation of policy options, free from emotional arguments. This will be not easy, considering the fact that New Delhi fears that participation in the CPEC might lead to a de-facto legitimisation of Islamabad's claims over disputed territory, making the situation even more complicated for India.

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