
China Pakistan Economic Corridor

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Abstract

General Xiong Guangkai quote, “Pakistan is China’s Israel.” For decades, China’s secret ties with Pakistan have run closer than most formal alliances. Founded on a shared enmity with India, China’s backing to Pakistan has gone so deep that it was willing to offer the ultimate gift from one state to another: the materials that Pakistan’s nuclear scientists needed to build the bomb and now investing billion dollars in the project name China Pakistan Economic Corridor (CPEC). But what needs to be remembered is that all these connectivity projects always had commercial as well as strategic security connotations.¹ As regards the strategic importance of these roads, it has been rightly stated that, “one can hardly over-estimate its importance from a commercial or military point of view. Troops could easily be moved from one place to another – even from the capital to the far confines of the frontier.”²

Keywords- CPEC, Strategy, BRF, South Asia, Islamic world, multilateral.

Background

Pakistan acted as China’s backdoor during its years of diplomatic ties. Now, Pakistan is a central part of China’s transition from a regional power to a global one. The country lies at the heart of China’s plans for a network of ports, pipelines, roads and railways connecting the oil and gas fields of the Middle East to the mega-cities of East Asia. Its coastline is becoming a crucial staging post for China’s take-off as a naval power, extending its reach from the Indian Ocean to the Persian Gulf and the Mediterranean Sea. Penetration by Pakistan’s intelligence services into the darkest corners of global jihadi networks are a vital asset to China as it navigates its growing interests in the Islamic world, and seeks to choke off support for the militant activities that pose one of the gravest threats to China’s internal stability.

The Belt and Road Forum for International Cooperation (BRF) held by China on 14-15 May 2017 brought its “One Belt, One Road (OBOR)” also called “Belt and Road Initiative” (BRI) and the China-Pakistan Economic Corridor (CPEC) into the limelight. What also caught the media glare was the fact that India chose not to participate in the event citing its strategic and sovereignty concerns, stating that “no country can accept a project that ignores its core concerns on sovereignty and territorial integrity.” Many voices were heard criticizing India’s decision to stay away from OBOR/CPEC which were termed as connectivity projects. Nothing could be further from the truth, as India is all for connectivity – connectivity within the country, regionally and beyond. India also believes that connectivity projects should take the participating countries to higher

levels of trust and diffuse national rivalries and not add to regional tensions, which OBOR/ CPEC seem to be doing at present. India further believes that international projects should evolve from a consultative process and not be based on unilateral decisions by any one party. It goes without saying that consultations achieve better results when done prior to launching any multilateral project. But the bottom line for any multinational project to succeed would be that sovereignty issues cannot be ignored under any circumstances. Discussions on connectivity should address not only the physical infrastructure aspects but also the

institutional, financial, commercial, legal and management issues. International collaborative projects demand statecraft and sagacity of a unique order to reconcile different points of view.³

CPEC

The CPEC is a multi-billion dollar strategic project that connects the Maritime Silk Road and the Silk Road Economic Belt, also known as One Belt One Road (OBOR). It is an ambitious geo-strategic plan to carve out a combination of continental and maritime geo-strategic realm.



Source:<https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>

The aim of the project is to link North West China with ports in the Arabian Sea via a road and rail corridor. It provides China the shortest and quickest access to the Arabian Sea and Persian Gulf. Through CPEC which includes the Gwadar Port, in the restive Balochistan province of Pakistan and construction in the illegally occupied Gilgit-Baltistan (GB) area of Pakistan Occupied Kashmir, China will project its power in the Indian Ocean Region (IOR). In an exhaustive report on China's BRI, the UN's Economic

and Social Commission for Asia and the Pacific (ESCAP) has cautioned about the likely geo-political tensions that will be created by CPEC, stating that “the dispute over Kashmir is also of concern, since the crossing of the CPEC in the region might create geo-political tension with India and ignite further political instability.”⁴ Before looking at CPEC in detail, it is desirable to have a broad understanding of the genesis of OBOR. China realised that when its Foreign Direct Investment (FDI) – Manufacture – Export driven growth model plateaus, it would have an over-capacity, especially in the infrastructure industry; an idle industrial and financial capacity available for deployment; and, an infrastructure hungry Asia waiting to build/upgrade this. This then was the genesis of OBOR.⁵ From the projects announced and/or undertaken, it can be surmised that OBOR will help China upgrade its industry by gradually moving its low-end manufacturing to other countries and take pressure off from industries that suffer from an excess capacity problem thereby reducing the supply glut at home. In a nutshell, OBOR is less about boosting exports and more about moving excess production capacity out of China. China is very deftly converting its domestic economic liabilities into its foreign economic and diplomatic assets.⁶ However, a recent article titled “Why China’s One Belt, One Road plan is doomed to fail” states that, “If Beijing attempts to pursue projects at a pace and in a number sufficient to make a dent in its excess capacity, it will end up building white elephants, wasting money, and encouraging corruption on a scale never before seen.”⁷ Now coming down to CPEC¹², according to President Xi’s statements, CPEC has four separate sections – energy, infrastructure, Gwadar and industrial cooperation. Surprisingly, Gwadar, which only constitutes about 2 percent of total investments has found a mention in Xi’s categorisation. The projects that form part of Gwadar include the port infrastructure, an airport, an expressway, a hospital, water treatment and supply projects etc. The breakdown of the financial allocation for the Gwadar Project, which is an interest free loan is :-

1	International airport	\$ 230 m
2	Hospital	\$ 100 m.
3	East Bay Expressway	\$ 140 m.
4	Water treatment & supply	\$ 130 m.
5	Port infrastructure	\$ 32 m.
6	Port dredging	\$ 27 m.
7	Port breakwater	\$ 123 m.

It is to be noted that Gwadar, which was sold by Oman to Pakistan in 1958, probably at the behest of UK and/or USA, not only provides direct access to the Indian Ocean but it is also where the land and maritime network of OBOR converge. Although Gwadar's commercial viability as a transshipment port is suspect considering its distance from the circum equatorial navigation route, low depths and lack of rail connectivity, its administrative control was handed over to China for a period of 40 years in 2013. Is it mere coincidence that the operational control of Pakistan's Karachi Port is with China Overseas Port Holdings Company and that Sri Lanka's Colombo South Container Terminal is built, run and controlled by China Merchants Holding? Is it also a coincidence that Chinese naval submarines including a Ming-class, diesel – electric nuclear submarine docked in Karachi and Colombo? The pointers are clear, Gwadar with its proximity to Hormuz, its suitability to accommodate naval warships and submarines, and its capability to serve as a hub for replenishment and weapon logistics make it an ideal naval base. With an airport, as part of the Gwadar Project, it becomes an ideal surveillance and interdiction hub. Recently there were reports that Pakistan has created a special force for the protection of Gwadar port and that two Chinese Warships were pressed into service to enhance Gwadar port's security. Does one use warships and naval security units to protect commercial ports in peace time? The answer is simple – Gwadar is a strategic naval port and that it may well turn out to be China's first overseas naval port, much sooner than expected.⁸ Now

let us look at the other end of CPEC which is in Gilgit-Baltistan (GB), a part of the erstwhile princely state of Jammu and Kashmir (J&K) which legally joined India when its Ruler signed the instrument of accession in 1947. As per a report, the British Parliament recently passed a resolution stating that Gilgit-Baltistan is a part of J&K, which is under the illegal occupation of Pakistan.⁹ It is not well known that Pakistan has no land borders with China. Its land borders with China are through its illegal occupation of GB. The local population of GB not only resents the forcible changing of its demography by Pakistan but have also opposed the CPEC as they fear exploitation. This does not portend well for China which wants legal cover for its billions of dollars investment in CPEC and is therefore pushing Pakistan to elevate the status of GB to that of a province. India objects not only to the illegal occupation of its territories by Pakistan and China but also objects to the construction activities undertaken by China in Pakistan Occupied Kashmir including GB and stationing of PLA personnel there.¹⁴ Today, the strategic role played by GB during the Soviet occupation of Afghanistan is overlooked. It was through GB that China sent its arms and equipment to the Mujahideen, who were training in Camps in GB. It is believed that not only did Chinese instructors train the Mujahideen but hundreds of Chinese muslims also joined the fight. It was also rumored that USA and China had listening posts set up in GB and that the Soviets had even considered military options against the training camps and establishments in GB. So CPEC will remain

mired in disputes and tension at its extremities in Gwadar and in Gilgit-Baltistan.¹⁰ This has manifested itself in the form of internal security challenges for which Pakistan has already created and deployed a special force of 15,000 soldiers to protect CPEC in addition to the maritime force to protect Gwadar.¹¹ The moot question is, who poses the threat and who is being threatened? Obviously, the threat is from within Pakistan and the likely targets will be the Chinese personnel and projects.¹² Energy projects under the CPEC will eventually add over 16 GW capacity in energy production at a cost of over US \$ 34 billion, which amounts to approximately US \$ 2 b per GW generated.¹³ When completed, the CPEC energy mix will have about 75 percent power generated by plants using coal. The environmental damage that this will cause in addition to the fact that Pakistan will have to import high grade coal needs to be factored in. Pakistan will be contractually obliged to buy power from Chinese companies building at a pre-negotiated high rate which can lead to a circular-debt problem. The coal fired projects will be a windfall for the Chinese as Pakistan has offered up to 34.5 percent annual profit on equity invested in these projects.¹⁴ It is often stated that once the energy projects are completed Pakistan will have approximately 11 to 12 GW surplus electricity to export to its neighboring countries. The moot question is that if India, which was not invited to build these power plants, does not buy this surplus energy, who else will? Therein lies the rub and the invitation to India to join CPEC to make it economically profitable. There is no reason

for India to do so. The numerous Special Economic zones (SEZ) are another contentious issue mainly because there is no transparency and that only Chinese industrialists will be allowed to set up industries in these SEZ.¹⁵ There is already disquiet amongst the industrialists and trade chambers in Pakistan as the Chinese will be granted long-term leases at concessional rates along with 20-year tax holidays.¹⁶ As an example, Balochistan has already signed a 43 years lease agreement in November 2015, handing over 2281 acres of land that it had acquired for US \$ 62 million to the Chinese for developing a SEZ, near Gwadar port. The fishing community in Gwadar fears that it will lose its livelihood because of the port. This adds to the social tension too. Presently there are around 19,000 Chinese personnel working on CPEC within Pakistan and this number will swell by thousands more once the projects and SEZ are set up. How will the presence of Chinese in large numbers be viewed specially by the radicalised, unemployed youth in Pakistan? Mohammed Ahsan Chaudhri had observed, “The heart of the matter is that Pakistan’s alliances with the West cannot be supported ideologically.”¹⁷ So the question that arises is, “can Pakistan’s alliances with Communist China be supported ideologically? Can ideological and religious friction be avoided?” While strategic and other issues have been addressed above, the elephant in the room is the economic/ financial implications of CPEC for Pakistan. Some estimates suggest a financial outflow ranging from US \$ 3 to 5 billion per annum.¹⁸ Pakistan is likely to end up paying US \$ 90

billion to China over a span of 30 years against the loan and investment portfolio under CPEC.¹⁹ The worrying question is what will happen if Pakistan defaults on repayment, as we know that the Chinese are averse to rescheduling or forgiving debts owed by foreign governments.²⁰ Will Pakistan end up compromising its sovereignty at the projects in Gwadar, G-B and in the SEZs by swapping its loan for equity? How will this impact the stability of Pakistan? Studying the Sri Lankan experience with the Chinese projects in Hambantota, where China used financial assistance to advance its strategic interests, may be instructive and also a pointer of things to come. The Chinese Government is conscious of India's legitimate concerns about CPEC. They were very keen that India participates in the Belt and Road Forum in Beijing and to assuage India's concerns the Chinese Ambassador to India in a speech on 05 May 2017 even suggested that CPEC could be renamed.²¹ This tokenism had no takers in India but Pakistan reacted to it and sought China's clarifications on it.²² In strategic discussions, when CPEC is discussed, the issue of Pakistan-China nexus invariably comes up. It may be of interest to note how China viewed the "two front challenge." On 16 May 1959, the Chinese Ambassador in Delhi, in a meeting with India's Foreign Secretary had said that, "China will not be so foolish as to antagonize the US in the East and again to antagonize India in the West. We cannot have two centres of attention..... It seems to us that you cannot have two fronts. Is it not so? If it is so, here lies the meeting point of the two

sides." It is ironical that despite the slogans of "Hindi-Chini Bhai Bhai" (Indians and Chinese are brothers), the two sides that met turned out to be China and Pakistan, thereby trying to create a two front scenario for India. A hypothetical question that can be tossed around could be, "Is China with its allies and partners today prepared to face USA and its allies and partners in the Western Pacific and at the same time in the Strait of Hormuz and Indian Ocean Region? As China's economic footprints enlarge so will its security challenges grow and the two front dilemma can well become a multi-front dilemma.

Conclusion

The Dawn reported that, "In fact, CPEC is only the opening of the door. What comes through once that door has been opened is difficult to forecast."²³ This is indeed a very mature, visionary and cautionary statement which needs to be taken note of seriously by some experts, especially in India, who have been asking India to rush headlong into joining BRI/OBOR/CPEC, the future costs notwithstanding. In a nutshell, what Prime Minister Narendra Modi said during his interaction with Chinese media organisations is worth examining : "Successful revival of the ancient trade routes require not only physical connectivity and requisite infrastructure, but even more important, a climate of peace, support for mutual prosperity and free flow of commerce and ideas."²⁴ While CPEC may have a great effect in Pakistan and on Pakistan-China relations, it does not in any way address issues of connectivity in South Asia. On the contrary, it draws Pakistan further away from South Asia towards China. In Pakistan, there is a "tendency to treat CPEC like the proverbial gift horse. The gift horse may prove to be a Trojan Horse! There is a need for

transparency.”²⁵ One should also consider what might be the fate of CPEC if relations between Pakistan and China turn sour in the future. This may seem a far-fetched concern at this time but the evolution of the relationship with Iran should provide a reality check.²⁶ The CPEC is a strategic project of China and not a silver bullet for Pakistan’s economic woes. Right now it is just the rosy perception about the CPEC, the reality may prove to be quite different. The concerns that India may have succeeded in isolating itself by staying away from the BRF are unfounded, as many nations would have appreciated not just the principled stand but also the fact that India can stand up to China in open international fora. As they say, “the jury is still out”.

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