

**NMML
OCCASIONAL PAPER**

INTERNATIONAL RELATIONS

New Series

4

CPEC: Geo-positional balancing in a fragile state

Sandhya Jain

Senior Fellow, Nehru Memorial Museum and Library



Nehru Memorial Museum and Library
2019

© Sandhya Jain, 2019

All rights reserved. No portion of the contents may be reproduced in any form without the written permission of the author. The Occasional Paper should not be reported as representing the views of the NMML. The views expressed in this Occasional Paper are those of the author(s) and speakers and do not represent those of the NMML or NMML policy, or NMML staff, fellows, trustees, advisory groups, or any individual or organizations that provide support to the NMML Society nor are they endorsed by NMML. Occasional Papers describe research by the author(s) and are published to elicit comments and to further debate. Questions regarding the content of individual Occasional Papers should be directed to the authors, NMML will not be liable for any civil or criminal liability arising out of the statements made herein.

Published by

Nehru Memorial Museum and Library
Teen Murti House
New Delhi- 110011

e-mail : director.nmml@gov.in

ISBN : 978-93-84793-19-7

CPEC: Geo-positional balancing in a fragile state

Sandhya Jain*

Abstract

The essay, CPEC: Geo-positional balancing in a fragile state, forms part of a larger study, Balochistan: The Rise of a Suppressed People, of which the China Pakistan Economic Corridor is an intrinsic part. China projects the 2,900 km CPEC as the pivot of its Belt & Road Initiative as Pakistan's straddles both the Silk Road Economic Belt and 21st Century Maritime Silk Road. CPEC aimed to link Xinjiang with Gwadar port and connect China's eastern industrial zones with markets in Central Asia, the Middle East, Africa and Europe, to stimulate growth in China's interior and western provinces. As Islamabad knocks on the doors of the International Monetary Fund, its gains from CPEC are increasingly being questioned. Beijing, however, commands a geostrategic sphere from Xinjiang to the Mediterranean Sea and beyond, becoming a two-Ocean power at a time when her ambitions embrace Africa and Latin America. China now has a presence along major international sea lanes: Pakistan, Sri Lanka, Myanmar, Bangladesh, Djibouti, the Maldives, Greece and others. In Balochistan, which lies at the heart of the Corridor, tensions are high as locals allege large scale displacement of the ethnic Baloch. Meanwhile, ground realities have led to the quiet shelving of the oil pipeline and railway line, and the road link is equally uncertain, though many projects unrelated to a 'Corridor' are continuing, even as China has acquired a naval base. However, China's economic slowdown could further alter the shape of infrastructure projects that will be taken up and completed, or quietly shelved.

Keywords: CPEC, Gwadar Port, Gilgit-Baltistan, Karakoram Highway, Belt & Road Initiative

Introduction

The 2,900 km China-Pakistan Economic Corridor (CPEC) is the lynchpin of China's Belt & Road Initiative as Pakistan's geostrategic location makes it the natural link between the land and maritime components of this gigantic and complex matrix. The CPEC will link Xinjiang with the port of Gwadar and thus connect China's eastern industrial zones with markets in Central Asia, the Middle East, Africa and Europe, in order to stimulate development in China's interior and western provinces that did not get a share of the country's economic miracle. The Corridor straddles China's Silk Road Economic Belt and 21st Century Maritime Silk Road and aims to sharply curtail travel time and distance of freight to China. While its economic benefits to Pakistan and China are disputed, it gives China command of a geostrategic sphere from Xinjiang to the Mediterranean Sea and even beyond, and makes it a two-Ocean power as Beijing's ambitions include Africa and Latin America. China's attempts to establish presence in the Indian Ocean Region is radically reshaping the international balance of power as we have known it since World War II; in the past few years, it has made major investments in Pakistan, Sri Lanka, Myanmar, Bangladesh, Djibouti, the Maldives, and other countries.

The CPEC was launched by the Chinese President Xi Jinping during a two-day visit to Islamabad in April 2015. The two countries signed over 51 agreements and MoUs (memorandum of understanding), with Beijing initially committing investments to the tune of over US\$46 billion, the largest ever investment in Pakistan by any country¹ and a figure that currently stands at \$62 billion² and may rise (however, Pakistan's economic difficulties suggest that these figures maybe revised). CPEC is an ambitious infrastructure package, comprising power projects, a 3000-km rail, road, and oil pipeline network from Kashgar to Gwadar port; all projects are slated to be completed by 2030. It is difficult to assess the impact of this investment on the Pakistani economy, as Pakistanis themselves debate the terms and conditions of the loans and demand greater transparency from their government (now inevitable as Pakistan approaches the IMF for a bailout). Nor can it be predicted if the CPEC will actually create the projected 700,000 direct jobs by 2030 (a pittance in a country of over 200 million), and boost Pakistan's growth by around 2-2.5 percent per annum. However, if completed, China would gain an alternative energy supply route that bypasses the US-dominated Straits of Malacca; improved access to Xinjiang and other restive regions of western China and thus boost their economies in consonance with the Communist Party's 'stability-via-development' agenda; it would also serve as a new link between Central Asia and the Arabian Sea to bolster economic opportunities across the Eurasian region.³

Gilgit-Baltistan

A sensitive issue that bedevils the CPEC is Beijing's insistence that Islamabad give the disputed territory of Gilgit-Baltistan legal recognition as a province. This would put Pakistan

*This paper is a revised version of Public Lecture delivered at Nehru Memorial Museum and Library, New Delhi, 28 September 2018.

¹ Game Changer: China's Massive Economic March into Pakistan, Hussain Nadim, April 23, 2015;

<http://nationalinterest.org/blog/the-buzz/game-changer-chinas-massive-economic-march-pakistan-12711>

² CPEC investment pushed from \$55b to \$62b', Salman Siddiqui, The Express Tribune, April 12, 2017,

<https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/> (accessed June 14, 2018).

³ The China-Pakistan Economic Corridor: Security Challenges At A Geopolitical Crossroads, Francesco S. Montesano, 2016 https://www.clingendael.org/sites/default/files/pdfs/The_China_Pakistan_economic_Border_def.pdf (accessed June 20, 2018).

at odds with several resolutions of the United Nations Security Council; with India that claims the area as part of the Kingdom of Maharaja Hari Singh who acceded to India in October 1947; and with Kashmiri separatists on both sides of the Line of Control. In Gilgit-Baltistan, passions are running high against Pakistan's appropriation of the region in 1948. In May 2018, protests broke out as Islamabad promulgated the Gilgit-Baltistan Order 2018 which gave the Pakistani prime minister significant clout and delegated a few powers to a council headed by an appointed governor to the elected Gilgit-Baltistan legislative assembly.⁴

The UN Economic and Social Commission for Asia Pacific (ESCAP), in a report on the Belt and Road Initiative prepared at the request of the Chinese government in May 2017, warned that the CPEC route through Pakistan-occupied Kashmir could create tensions with India and foster "further political instability" in the region. Voicing environmental and social concerns, it said, "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". The political insecurity in Afghanistan, the report observed, could "limit the potential benefits of transit corridors to population centres near Kabul or Kandahar, as those routes traverse southern and eastern Afghanistan where the Taliban are most active". The situation was graver in Balochistan, where there could be large scale displacement of the ethnic Baloch. The Hazaras are another vulnerable minority. The ESCAP report noted with concerns that the CPEC could benefit "large conglomerates, linked to Chinese or purely Punjabi interests", and further marginalize local communities. The CPEC could also destroy farmlands and orchards should it pass through an "already narrow strip of cultivable land" in mountainous western Pakistan.⁵

C. Christine Fair, Associate Professor, Security Studies Program, Edmund A. Walsh School of Foreign Service, Georgetown University, points out that due to the quake-prone mountainous terrain, the single-lane Karakoram highway cannot bear heavy traffic.⁶ Carbon emissions from even a limited increase in overland truck traffic on the corridor will cause environmental pollution. Locals also fear that most jobs will go to outsiders from Punjab and Khyber Pakhtunkhwa and adversely impact the area's delicate Sunni-Shia demographic balance.⁷ Also, there has been a sharp rise in anti-Chinese sentiment since Beijing, in 2016, detained nearly 50 Chinese Uighur women married to Gilgit-Baltistan residents on suspicions of links to Islamist militants in Xinjiang.

Malacca Myth

Since the beginning of the 21st century, a host of Chinese experts and military analysts have expressed fears that the United States could cut off China's seaborne energy supplies in the event of a confrontation, and that "whoever controls the Strait of Malacca effectively grips China's strategic energy passage, and can threaten China's energy security at any

⁴ China Pakistan Economic Corridor Opportunities and Risks, Crisis Group Asia Report No. 297, 29 June 2018
<https://www.crisisgroup.org/asia/south-asia/pakistan/297-china-pakistan-economic-corridor-opportunities-and-risks>

⁵ CPEC route through Kashmir could create tension with India: UN report, Rezaul H Laskar, The Hindustan Times, May 25, 2017, <http://www.hindustantimes.com/world-news/cpec-route-through-kashmir-could-create-tension-with-india-un-report/story-05fdgjidFmATT6K13ZJffN.html>

⁶ Pakistan Can't Afford China's 'Friendship', C. Christine Fair, July 3, 2017
<http://foreignpolicy.com/2017/07/03/pakistan-cant-afford-chinas-friendship/>

⁷ China Pakistan Economic Corridor Opportunities and Risks, Crisis Group Asia Report No. 297, 29 June 2018
<https://www.crisisgroup.org/asia/south-asia/pakistan/297-china-pakistan-economic-corridor-opportunities-and-risks>

time”.⁸ President Hu Jintao declared in 2003 that China was seeking an alternative to the maritime trade route via the Straits of Malacca and the South China Sea. Thereafter, a host of analysts dubbed the Straits of Malacca as a ‘chokepoint’ that can theoretically be blockaded to prevent vital supplies of oil and other commodities from reaching China. As around 80 percent of China’s oil supplies pass through the Straits of Malacca and the South China Sea en route to Eastern China, the myth of China’s ‘Malacca Dilemma’ was created. Scholars dismiss this theory, as alternative sea routes are available and because blockading at Malacca and all routes would involve deployment of too many naval resources.⁹

The ‘Malacca Dilemma’ has been frequently invoked to argue that the overland route through Pakistan to Xinjiang is shorter and potentially cheaper than the sea route, and could bolster China’s energy security. Gwadar is situated next to Iran; across the Strait of Hormuz is the United Arab Emirates, where the Chinese oil company Sinopec owns 50 percent of the oil terminal at Fujairah (please see map). This lends credence to the view that at least a portion of China’s crude oil requirement, and other goods, can be transported along the Corridor, via an oil pipeline, by road, or by a new railway. But, as Guy C.K. Leung of the Harvard Kennedy School’s Belfer Center for Science and International Affairs argues, none of these methods can match the cost efficiency of the traditional maritime route. Moreover, Xinjiang is China’s largest gas producing and second largest oil producing region and has a huge network of oil and gas pipelines which supply fuel to Central Asia; it does not need more fossil fuel.



Major ethnic groups of Pakistan

Source: https://en.wikipedia.org/wiki/Balochistan,_Afghanistan#/media/File:Major_ethnic_groups_of_Pakistan_in_1980_borders_removed.jpg (Accessed on 15 March 2019).

⁸ See Li Xiaojun, On the Influence of Sea Power upon China’s Oil Security, *International Forum* 6, no. 4 (July 2004), p. 18; cited in *China’s Oil Security Pipe Dream. The Reality, and Strategic Consequences, of Seaborne Imports*, Andrew S. Erickson and Gabriel B. Collins, *Naval War College Review*, Spring 2010, Vol. 63, No. 2, p. 90.

http://www.andrewerickson.com/wp-content/uploads/2010/03/China-Pipeline-Sealane_NWCR_2010-Spring.pdf

⁹ Guy C.K. Leung, ‘China’s energy security: perception and reality’, *Energy Policy* 39, (2011), pp. 1330–1337, points out that ‘the so-called Malacca Dilemma has been commonly exaggerated’ (p. 1334). See also Andrew S. Erickson and Gabriel B. Collins, op. cit., *Naval War College Review* 63(2), (2010), pp. 89–111.

Others question the carefully cultivated myth of the Straits of Malacca as a maritime ‘chokepoint’ and CPEC as China’s land-based panacea, given the challenges of constructing pipelines across the Karakoram ranges in terms of geography, costs, and security, and suggest that China’s long-term motivations for establishing such a strong presence in Pakistan are geopolitical rather than geo-economic. Jeremy Garlick of the University of Economics, Prague, has collated data from primary and secondary sources to conclude that China’s principal objective with CPEC and other investments is to establish a foothold in the Indian Ocean Region (IOR) to balance its regional rival, India, a strategy he calls ‘geo-positional balancing’. Garlick argued that the proposed overland pipeline and transportation corridor is “more a symbol of cooperation than a fully achievable goal”. More pertinently, he queries if the apparently shorter geographical distance amounts to cheaper oil?¹⁰

Writing in the *Naval War College Review* of the US Navy, Andrew S. Erickson and Gabriel B. Collins observed that while some of China’s pipelines, notably from Russia and Kazakhstan, are economically viable, the pipeline from Myanmar and proposed pipeline from Pakistan have little economic value. Both are “shortcut” routes and not new overland supply routes; the oil will still have to be carried by sea in tankers to the pipelines’ starting points, which means that dependence on the Suez Canal and Bab-el-Mandeb, controlled by the US-friendly Egypt and Gulf Cooperation Council respectively, would remain.¹¹ Ships have mobility and if the Strait of Malacca is blockaded by accident or design, oil tankers could use the Sunda, Lombok, or other passages with a minor additional cost of one or two dollars per barrel.¹²

Geography and economics pose formidable challenges to the pipeline. The Karakoram Highway which links the two countries took two decades to be completed (1959-1979) and took a toll of 800 Pakistani and 200 Chinese lives. A pipeline would need to lift oil from sea level at Gwadar up to the 15,400-foot-high Khunjerab Pass, which would require massive pumping power and steady electrical supplies in remote areas that are prone to insurgent activity. Earthquakes have shut down the Karakoram Highway in 1974, 2002, 2005 and 2010; a rupture of the proposed pipeline would be an environmental disaster, practically beyond repair. The proposed Pakistan-China pipeline is around 1,550 miles long and traverses geologically and politically unstable terrain. Pipelines from Kazakhstan and Russia to China are viable because they are far from the sea and hence cheaper than moving oil by railway. The Pakistan-China oil pipeline, if promoted in defiance of geography, geology, and political instability, would also face the problem of lack of demand for the oil at Gwadar, where the pipeline begins. Moreover, oil transport from his Gwadar-Xinjiang pipeline could cost around US\$ 10 per barrel in order to achieve payout plus a 10 percent rate of return, which is prohibitive when compared to shipping even when the international price is above \$100 per barrel.¹³ Fluctuating oil prices would make it even less worthwhile.

While risks to seaborne oil shipments have often been cited to justify the pipeline, terrorists and insurgents have successfully attacked only a few oil tankers worldwide, viz., *Limburg*, off Yemen in 2002; *Sirius Star*, off Kenya in November 2008; while Saudi Arabia stopped oil

¹⁰ Deconstructing the China-Pakistan Economic Corridor: Pipe Dreams Versus Geopolitical Realities, Jeremy Garlick, *Journal of Contemporary China*, Feb. 15, 2018, <https://www.tandfonline.com/doi/full/10.1080/10670564.2018.1433483>

¹¹ China’s Oil Security Pipe Dream. The Reality, and Strategic Consequences, of Seaborne Imports, Andrew S. Erickson and Gabriel B. Collins, *Naval War College Review*, Spring 2010, Vol. 63, No. 2, p. 90-91.

¹² Smooth Sailing: The World’s Shipping Lanes Are Safe, Dennis Blair and Kenneth Lieberthal, *Foreign Affairs*, May/June 2007 <https://www.foreignaffairs.com/articles/oceans/2007-05-01/smooth-sailing-the-worlds-shipping-lanes-are-safe>

¹³ China’s Oil Security Pipe Dream. The Reality, and Strategic Consequences, of Seaborne Imports, Andrew S. Erickson and Gabriel B. Collins, op. cit., Vol. 63, No. 2, p. 101.

shipments through the Bab-el-Mandeb Strait after a Houthi attack on one of its oil tankers off Yemen's western coast.¹⁴ The disruption caused Brent crude to rise 38 cents to \$73.82 a barrel (July 25, 2018). However, non-state actors (militias) in Colombia, Nigeria, Iraq, and other countries have regularly disrupted oil pipeline operations, despite the vigilance of local security forces. In China, from 2002-06, the China National Petroleum Corporation reported that thieves "illegally drilled into" its pipelines "18,382 times... causing the company a loss of more than 500 million RMB (\$72 million)".¹⁵ Non-state actors can easily disrupt pipelines using explosives. In normal terrain, pipelines are easy to repair, while associated infrastructure such as pump stations, storage facilities, pipeline termini, electrical power generators, transmission towers, and buried cables are more vulnerable. Oil tankers frequently change ownership and are difficult to blockade as the final destination of the merchandise is not easy to identify.

A realization is dawning that the proposed China-Pakistan Oil and Gas Pipeline cannot be built on account of geographical, security and economic issues. Mei Xinyu, researcher at the Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce, dismissed the pipeline as an "irrational goal" and commented that talk about shortening the distance between the Persian Gulf and China ignores China's vastness and unbalanced regional development especially the fact that its population, economic activity, oil and gas consumption are in the eastern coast and central regions, far from Xinjiang. Thus, oil and gas shipped to Xinjiang's Kashi city via Gwadar Port would need to travel 4,000 to 6,000 kilometres by rail, through the Gobi Desert where construction costs are much higher than in the plains, to reach end users, making the pipeline unviable, even without additional security costs. Xinyu endorsed the views of Andrew S. Erickson and Gabriel B. Collins regarding the cost efficiency of marine transport. He also rejected the idea of Gwadar Port providing access to a future Iranian oil and gas pipeline, pointing out that the Central Asia—northern Xinjiang line, which has several ready-made pipelines, would be preferable over a China-Pakistan line in terms of security and economy.¹⁶ While this is not yet an official position, it indicates the shallowness of the 'Malacca Dilemma' theory as a rationale for the CPEC. Moreover, there is no discussion on the pipeline in the Chinese media, a hint that the project has been quietly shelved.

Gwadar Port

Gwadar Port was opened in November 2016, with three functioning multipurpose berths, 200 metres long, with a draft (dredged depth) of 12.5 metres, and a capacity to accept vessels of up to 50,000 dead-weight tonnage (DWT) only. All three berths were completed in 2005 in the 'Phase I' of the project to expand the port; work on new berths under 'Phase II' has not begun. Gwadar also has a 100-metre service berth, though insufficient to receive even mid-sized cargo carriers and oil tankers. All large cargo carriers and oil tankers are over 200 metres in length and have drafts of between 16 metres and 35 metres.¹⁷ Shipping analyst Wu Minghua observed that Gwadar Port had a handling capacity of only 1 million tonnes per

¹⁴ Saudi Arabia halts oil shipments through key waterway after attack on tanker, July 25, 2018 (accessed July 26, 2018) <https://www.rt.com/news/434270-saudi-arabia-halts-oil-shipments/>

¹⁵ China faces new risk: Attacks on pipelines, XinDingding, Li Jing and Wan Zhihong (China Daily), June 1, 2010 (accessed June 22, 2018) http://www.chinadaily.com.cn/china/2010-01/06/content_9270041.htm

¹⁶ The Gwadar Port Disillusion, Mei Xinyu, November 4, 2017 (accessed July 13, 2018) <https://www.yicai.com/news/gwadar-port-disillusion>

¹⁷ Gwadar Port Authority website, 'Port Profile: Current Port Infrastructure', <http://www.gwadarport.gov.pk/>.

year in 2016, while China's total oil imports were 335.5 million tonnes in 2015, which negates the cost-effectiveness of offloading and transporting oil supplies by this route.¹⁸

Away from the hype, Gwadar has limited utility as a port as Balochistan where it is located is Pakistan's poorest and most underdeveloped province; it is also very far from the major population centres and main industrial centres, viz., Gujranwala, Faisalabad and Lahore. This has sparked off a heated debate within Pakistan about whether the Gwadar-Xinjiang highway should take an eastern or western route.¹⁹ An overland route from Gwadar to China will have to traverse the entire length of Pakistan, including the Karakoram Mountains. But the Karakoram Highway which crosses the 4,693 metre high Khunjerab Pass is prone to landslides and rockslides as it straddles a geological fault line where the Eurasian and Indian plates collide.

A study by Renmin University's Chongyang Institute for Financial Studies estimates that the port could annually transport 300-400 million tonnes of cargo. The first shipment of local seafood was sent to Dubai by the Chinese state-run Shipping Ocean Company (COSCO) in May 2015, and later the same year, a convoy of 60 containers carrying goods from machinery to appliances arrived in Gwadar from Xinjiang across the Karakoram highway, for export to West Asia and Africa. However, Kaiser Bengali, Pakistan's leading economist, warned that "Gwadar cannot become Dubai". It was built to re-export Chinese products brought into Pakistan via land and the lack of water will hinder the establishment of industrial zones and a mega city there. In fact, he said, Gwadar became prominent only after the Kargil War when Pakistan felt the need for a second naval port amidst fears that India might blockade the Karachi port. The Karachi-Gwadar Coastal Highway was built during this time, for defence purposes.²⁰

Mir Hasil Bizenjo, the then federal minister for ports and shipping, informed the Pakistan Senate on November 24, 2017 that under the terms of a 40-year agreement with the China Overseas Port Holding Company (COPHC), China would get 91 per cent share in gross revenues from Gwadar port and 85 per cent from the surrounding "free zone". Gwadar Port Authority will receive the remaining 9 percent; Balochistan province will get nothing.²¹ Pakistan will have to pay back US\$ 16 billion in loans from Chinese banks developing Gwadar port, the 2,282-acre free-trade zone and all communications infrastructure, at rates of over 13 per cent, inclusive of 7 per cent insurance charges.²² Business circles calculate that China would recover its entire investment in CPEC within the first four years. Muhammad Ishaq, former director, Khyber Pakhtunkhwa Board of Investment & Trade, revealed that the government had also granted COPHC contractors and sub-contractors exemption from income and sales taxes and federal excise duties for 20 years, besides a 40-year tax holiday for imports of equipment, material, plant, appliances and

¹⁸ See Hofstra University website, 'The geography of transport systems', (both accessed Feb. 7, 2017), <https://people.hofstra.edu/geotrans/eng/ch5en/appl5en/tankers.htm>; 'Gwadar Port benefits to China limited', Li Xuanmin, Global Times, Nov. 23, 2016, <http://www.globaltimes.cn/content/1019840.shtml>

¹⁹ Eastern route not part of economic corridor, claims NHA chief, Syed Irfan Raza, Dawn, July 5, 2016, <https://www.dawn.com/news/1269102>; Maryam Usman and Sardar Sikander, 'CPEC's western route to be ready by 2018', The Express Tribune, June 16, 2016, <https://tribune.com.pk/story/1123811/western-route-ready-2018-ahsan/> (accessed March 22, 2017).

²⁰ "CPEC is not a game changer, it's game over", Shahzada Irfan Ahmed, The News on Sunday, September 2, 2017 <http://tns.thenews.com.pk/cpec-game-changer-game/#.Way0eplSLcc>

²¹ China Pakistan Economic Corridor Opportunities and Risks, Report 297, 29 June 2018 <https://www.crisisgroup.org/asia/south-asia/pakistan/297-china-pakistan-economic-corridor-opportunities-and-risks>

²² Bad terms: Pakistan's raw deal with China over Gwadar port, F.M. Shakil, November 29, 2017 <http://www.atimes.com/article/bad-terms-pakistans-raw-deal-china-gwadar-port/> (accessed July 13, 2018)

accessories. Chinese companies within the free zone will be exempt from customs duties and provincial and federal taxes for 23 years. Pakistan would thus struggle to pay off the costly loans with virtually zero income from this huge project.²³

In January 2018, the first Gwadar Expo 2018 was organized to showcase the region's potential to the world and offer businesses a platform to interact with clients. But even Chinese businesses showed little interest and it is uncertain if industries will be set up in the region.²⁴ The Special Economic Zone is thwarted by the absence of a reliable supply of energy. The Gwadar network receives around 35 MW from Iran, barely 50 percent of its needs. Hence, the joint coordination committee on CPEC decided in November 2017 to set up a 300 MW coal-based power plant using imported coal from China; the electricity would cost approximately Rs. 9/unit. Gwadar also suffers acute water shortage. Two desalination plants built by the Chinese service the port, not local residents. As a sub-project of the B&RI, the CPEC was envisaged as a regional hub for trade with Central Asia. Currently, however, the port has limited commercial potential and may ultimately be used for military purposes. Incidentally, Balochistan's coastal belt is being militarized by the Pakistani army and navy to protect CPEC assets, which further inhibits commercial activity in the district.

Baloch grievances have increased amidst moves to oust native residents, raze the old city and expropriate the land. Some of the best lands overlooking Gwadar's east and west bays have been acquired by the Navy for its housing needs, and speculators and developers are pushing property prices out of reach for locals. The CPEC is encroaching upon the livelihood of local fishermen who are often denied access to the sea on grounds of security; other stakeholders fear the project will close the jetty. Locals have also been excluded from employment in the port and construction works by the military-run Frontier Works Organization, which prefers labour from central and northern Punjab. In Sindh's Tharparkar district, plans for coal mining in 13 blocks over 9,000 sq km, will displace many locals.²⁵

Analyst Sultan M. Hali, a veteran of the Pakistan Air Force, noted that Pakistan has prepared a complex four-layer security plan for the 2,900-km long CPEC route, with around 32,000 security personnel under the command of a Major General being trained to protect over 14,321 Chinese workers engaged in 210 small and mega projects in Pakistan.²⁶ The entire cost of providing security is being borne by Pakistan; the National Electric Power Regulatory Authority (NEPRA) has allowed these costs to be transferred to citizens by adding them to the electricity bills on the lines of the PTV license fee.²⁷ According to official data and documents reported on March 5, 2018, more than 39,000 Chinese have come to Pakistan to work on the CPEC. Even the Federation of Pakistan Chambers of Commerce and Industry (FPCCI), in a report of December 2016, expressed concern that the current and projected rate of influx of Chinese nationals into Balochistan could overwhelm the native population of the area by 2048.²⁸

²³ CPEC remains a burning bone of contention in Pakistan, F.M. Shakil, September 13, 2018,

<http://www.atimes.com/article/cpec-remains-a-burning-bone-of-contention-in-pakistan/>

²⁴ Gwadar expo misses the point, BR Research, Feb. 1, 2018 (accessed June 30, 2018)

<https://www.brecorder.com/2018/02/01/396486/gwadar-expo-misses-the-point/>

²⁵ China Pakistan Economic Corridor Opportunities and Risks, Report 297, 29 June 2018

<https://www.crisisgroup.org/asia/south-asia/pakistan/297-china-pakistan-economic-corridor-opportunities-and-risks>

²⁶ Gwadar and maritime defence of CPEC, Sultan M Hali, Pakistan Observer, November 10, 2017,

<http://www.cpecinfo.com/cpec-news-detail?id=NDM1MA>

²⁷ "CPEC is not a game changer, it's game over", Shahzada Irfan Ahmed, The News on Sunday, September 2, 2017

<http://tns.thenews.com.pk/cpec-game-changer-game/#.Way0eplSLcc>

²⁸ Chinese to outnumber Balochistan natives by 2048: FPCCI report, ANI, December 29, 2016

<https://www.financialexpress.com/world-news/chinese-to-outnumber-balochistan-natives-by-2048-fpcci-report/490203/>

Security concerns

For Beijing, the danger of Islamic insurgents crossing into Xinjiang from Pakistan is grave; security had to be tightened at the Khunjerab Pass in January 2017 to prevent militants from entering Chinese territory.²⁹ On February 5, 2018, Chen Zhu, managing director of COSCO shipping firm, was shot dead in Clifton in Karachi, and Ye Fan, a young trainee at the same company, was injured in a ‘targetted’ attack by a lone gunman, amidst a general alert by the Chinese Embassy to its citizens and companies that the East Turkestan Islamic Movement (ETIM) was plotting an attack against Sun Weidong, the then Chinese envoy.³⁰

Given China’s concerns over Islamic State recruitment from Central Asia (the International Crisis Group estimated 2000 to 4000 fighters in Syria came from this region in January 2015³¹), and an attack on the Chinese Embassy in Bishkek, Kyrgyzstan, in August 2016, China is keen to protect its capital, investment and nationals in the participating countries. The Quadrilateral Cooperation and Coordination Mechanism in Counter Terrorism with Tajikistan, Afghanistan and Pakistan is part of this endeavour.

Experts say that a more secure route at a lower altitude that could link Gwadar to Xinjiang is across Iran and/or Afghanistan and through the Central Asian states of Turkmenistan and Kazakhstan, as three gas pipelines from Turkmenistan already supply natural gas to China; however Garlick points out that this may not make economic or logistical sense. The proposal for a Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI) has failed to get off the ground.³² Proposals for a new railway line have also not moved; Jeremy Garlick surmises that “the absence of references to them in Chinese media in 2017 suggests that they are likely to have been quietly shelved”.³³ There has also been no progress on a new freight line from Lanzhou, capital of Gansu Province, to Kashgar to Gwadar Port.³⁴ The CPEC is a potential transit point for the ETIM that has moved closer to the Islamic State and seeks to ‘liberate’ Xinjiang (East Turkestan). This makes the construction of costly and vulnerable infrastructure such as pipelines and railways in the area unfeasible from the security standpoint. Oil and liquefied natural gas (LNG) generally move by sea as overland pipelines cannot match the volumes that can be handled by oil tankers. The security of oil tankers and other freight is the *raison d’être* for China’s naval modernization and quest for blue water capabilities.

Washington and Beijing share anxieties regarding Islamabad’s continued patronage and protection of Taliban and other Islamic terrorist groups in its borderlands. There is a grave danger that Islamic State which is losing ground in Syria and Iraq could find Pakistan a convivial new home. This would be the death knell of CPEC and many Chinese financial

²⁹ Saibal Dasgupta, ‘China to seal border with Pakistan to curb terror’, The Times of India, Jan. 11, 2017, <http://timesofindia.indiatimes.com/world/china/china-to-seal-border-with-pakistan-to-curb-terror/articleshow/56468455.cms> (accessed 2 April 2017).

³⁰ CPEC blues attacks on Chinese Nationals in Pakistan, EFSAS Commentary, February 9, 2018 (accessed July 24, 2018) <https://www.efsas.org/commentaries/cpec-blues;-attacks-on-chinese-nationals-in-pakistan/>

³¹ International Crisis Group, ‘Syria calling: radicalization in Central Asia’, Briefing no. 72, 20 Jan. 2015. <https://www.crisisgroup.org/europe-central-asia/central-asia/syria-calling-radicalisation-central-asia> (accessed July 19, 2018)

³² Casey Michel, ‘TAPI and CASA-1000 remain in project purgatory’, The Diplomat, (10 July 2017), <http://thediplomat.com/2017/07/tapi-and-casa-1000-remain-in-project-purgatory/> (accessed 25 September 2017).

³³ Garlick, Jeremy, Deconstructing the China-Pakistan Economic Corridor: Pipe Dreams Versus Geopolitical Realities, op. cit.

³⁴ China to launch land freight service with Pakistan through CPEC, could prove worrisome for India, PTI, July 06, 2017 <http://www.firstpost.com/world/china-to-launch-land-freight-service-with-pakistan-through-cpec-could-prove-worrisome-for-india-3782395.html>

experts have urged China not to invest further in the CPEC on account of the risk.³⁵ Annoyed at Pakistan's continued recalcitrance in bringing Taliban to heel, Washington began unauthorized drone operations in search of the Haqqani network in northwestern tribal areas bordering Afghanistan. In September 2017, American drones traced an American-Canadian couple, Caitlin Coleman and Joshua Boyle, who had been kidnapped in Afghanistan in October 2012, to Haqqani hideouts in Pakistan's tribal areas; they were eventually rescued.³⁶ In a related development, while touring the region in October 2017, the then US Secretary of State Rex Tillerson urged Afghanistan resident to deny Pakistan overland access to Central Asia through Afghanistan unless it allowed trade between Afghanistan and India to flow through CPEC infrastructure.

Fearing that US drones operating in Balochistan, a hub of Taliban activity, could endanger its investments in the CPEC, Beijing persuaded the then Pakistani Prime Minister Nawaz Sharif and Ashraf Ghani to meet on the sidelines of the Shanghai Cooperation Organisation (SCO) summit in Astana (June 9, 2017) and work out an agreement on cross-border counterterrorism and reactivate the Quadrilateral Coordination Group of Afghanistan, China, Pakistan and the US. In October 2017, Kabul mulled on the possibility of joining the CPEC and hosted a meeting of mayors of cities along the historic silk road. The projects discussed included a Peshawar-Kabul motorway, the Landi Kotal-Jalalabad Railway, the Chaman-Speen Boldak Railway, a hydropower dam on Kunar River, the Turkmenistan-Afghanistan-Pakistan electricity transmission line, and the trans-Afghan highway to Central Asia from Peshawar, Pakistan; all would run parallel to the Logar-Torkham Railway line.³⁷

Beijing also hosted several Taliban delegations and managed an assurance that Taliban would prevent Islamic State and Uyghur militants from infiltrating Xinjiang. But Taliban withdrew from talks with the quadrilateral forum after America killed its leader, Mullah Mansoor, in a drone attack in May 2016.³⁸ Afghanistan's Kunar and Nuristan provinces, bordering Pakistan, harbour myriad terrorist groups including Turkestan Islamic Party, an affiliate of the East Turkestan Islamic Movement of Uighur militants. The latter have links with Taliban in Federally Administered Tribal Areas (FATA), and thus pose a serious threat to the CPEC project.³⁹ Pakistan's failure to subdue North Waziristan has led to Chinese suspicions that the military establishment endorses the Uyghur jihadist movement and that the Inter-Services Intelligence (ISI) may be using Uyghur militants to fight in India's Jammu & Kashmir and Afghanistan.⁴⁰ China has denied reports that it is negotiating with Baloch separatists for the safety of the CPEC projects; a claim endorsed by Pakistan (February 2018).

A Baloch representative at the UNHRC, Mehran Marri, on August 13, 2016, argued that "China really-really is spreading its tentacles in Balochistan very rapidly, and therefore, we are appealing to the international community. The Gwadar project is for the Chinese military.

³⁵ India's boycott of OROB summit: No lost opportunity for India but rather a huge loss for China, Biranchi Narayan Acharya, 19 May 2017 (accessed July 31, 2018), <http://www.mernews.com/article/indias-boycott-of-orob-summit-no-lost-opportunity-for-india-but-rather-a-huge-loss-for-china/15925059.shtml>

³⁶ What do you get if you cross Pakistan's game of thrones and China's belt and road?, Tom Hussain, 28 October 2017 <http://www.scmp.com/week-asia/geopolitics/article/2117351/what-do-you-get-if-you-cross-pakistans-game-thrones-and-chinas> (accessed July 31, 2018)

³⁷ Is Trump Afghan policy aimed at Taliban or at China?, F. William Engdahl, January 12, 2018 <https://journal-neo.org/2018/01/12/is-trump-afghan-policy-aimed-at-taliban-or-at-china/>

³⁸ What China has to fear from US drones in Trump's Afghan search, Tom Hussain, July 2, 2017 (accessed Aug. 2, 2018) <http://www.scmp.com/week-asia/geopolitics/article/2100764/what-china-has-fear-us-drones-trumps-afghan-search>

³⁹ China Pakistan Economic Corridor (CPEC): Challenges And The Way Forward, Muzaffar Hussain, Thesis, Naval Postgraduate School Monterey, California, June 2017, p. 5-6.

⁴⁰ CPEC blues attacks on Chinese Nationals in Pakistan, EFSAS Commentary, February 9, 2018 (accessed Aug. 2, 2018) <https://www.efsas.org/commentaries/cpec-blues:-attacks-on-chinese-nationals-in-pakistan/>

This would be detrimental to international powers, to the people's interest, where 60 percent of world's oil flows. So, the world has to really take rapid action in curbing China's influence in Balochistan in particular and in Pakistan in general".⁴¹

Economic crisis: Pakistan

The truth about CPEC investments have vexed Pakistani economists and entrepreneurs from the start of the project, and while projects worth \$19 billion have been completed or are under execution, much remains opaque. *Dawn's* report of the CPEC draft master plan from China observed that 'Pakistan's economy cannot absorb FDI much above \$2 billion per year without giving rise to stresses in its economy...It is recommended that China's maximum annual direct investment in Pakistan should be around \$1 billion'.⁴² Pakistani economist and professor at Columbia University's School of International and Public Affairs, S. Akbar Zaidi warns that the CPEC could render Pakistan a 'vassal state' deep in China's economic orbit and pointed out that Sri Lanka and Tajikistan had to hand over large chunks of land to the Chinese in lieu of unpaid debts.⁴³

The crises building up in Pakistan's economy merit attention. In early 2018, Islamabad sent urgent appeals to China and Saudi Arabia to help it avoid a bailout from the International Monetary Fund (IMF) that would open its economy to scrutiny and put the CPEC mega project in jeopardy. Beijing and Riyadh were asked to make deposits of \$6 to \$8 billion in the State Bank of Pakistan. Riyadh was asked to defer payment by Pakistan for oil imports and Beijing urged to allow the entire import bill or at least half to be paid in Pak Rupee as the trade deficit with Beijing had ballooned to \$12.5 billion (2017), and also to reduce reliance on the dollar.⁴⁴

By July 2018 the financial crisis in Pakistan was so acute that the then Finance Minister Dr. Shamshad Akhtar said preparations were being made for the new government to approach the IMF and restore market confidence with a quick stabilization package. She said external vulnerabilities were at an all-time high as the current account deficit would touch \$18bn in the outgoing year from \$9bn in 2017-18, against the target of \$14bn for the current fiscal year (2018-19).⁴⁵ But even before Prime Minister Imran Khan (sworn-in on August 18, 2018) could take charge, Washington objected to an IMF bailout being used to pay back Chinese loans; this could become a condition for the rescue package.⁴⁶ US Secretary of State Mike Pompeo's objection reflects President Donald Trump's anger over Islamabad's policy of sheltering the Taliban and frustrating America's Afghanistan strategy. If the IMF bailout package is denied, Pakistan will need US\$12 bn from China.⁴⁷ Pakistan's former finance minister Hafiz Pasha warned that the country would have to pay US\$8.3 bn annually from 2019 onwards to service CPEC loans (it is now said that the payout will begin in 2021).

⁴¹ Pakistan: CPEC Chinese Checkmate – Analysis, SATP, September 5, Tushar Ranjan Mohanty,

<https://www.eurasiareview.com/05092018-pakistan-cpec-chinese-checkmate-analysis/>

⁴² Exclusive: CPEC master plan revealed, Khurram Husain, June 21, 2017, <https://www.dawn.com/news/1333101>

⁴³ Pakistani academic Akbar Zaidi says CPEC corridor will colonise Pakistan, SayantikaBhowal, bdnews24.com, June 10, 2017, <https://bdnews24.com/world/2017/06/10/pakistani-academic-akbar-zaidi-says-cpec-corridor-will-colonise-pakistan>

⁴⁴ Keeping economy CPEC intact: Pakistan seeks friends' help to avoid IMF bailout, Mehtab Haider, March 29, 2018

<https://www.thenews.com.pk/print/297957-keeping-economy-cpec-intact-pakistan-seeks-friends-help-to-avoid-imf-bailout>

⁴⁵ New govt may decide to proceed with IMF package, DanyalHaris, July 15, 2018

<https://www.thenews.com.pk/print/341687-new-govt-may-decide-to-proceed-with-imf-package>

⁴⁶ Imran Khan's First Test: Pakistan's Troubled Economy, Jeffrey Gettleman, Aug. 4, 2018

<https://www.nytimes.com/2018/08/04/world/asia/pakistan-economy-imran-khan.html>

⁴⁷ How US policy is turning Pakistan into a Chinese colony, thwarting America's regional ambitions, Adnan Aamir, Aug. 08, 2018 (accessed Aug. 20, 2018), <https://www.scmp.com/comment/insight-opinion/united-states/article/2158663/how-us-policy-turning-pakistan-chinese-colony>

Additional bailouts from China will aggravate the debt servicing requirements and could force Pakistan to lease assets such as Gwadar Port to China.

In an attempt to placate Washington, the day before US Secretary of State Mike Pompeo and General Joseph Dunford, Chairman of the US Joint Chiefs of Staff, arrived in Islamabad, the Taliban confirmed that Haqqani network founder, Jalaluddin Haqqani, had died at least four years ago.⁴⁸ Pompeo announced that Zalmay Khalilzad, former US envoy to Afghanistan and Iraq, would be special envoy to Afghanistan and would engage with the Taliban. In the course of a five-hour visit, Pompeo and Dunford met Prime Minister Imran Khan, Foreign Minister Shah Mehmood Qureshi, and Pakistan's army chief, Gen. Javed Qamar Bajwa.⁴⁹ Washington forcefully urged the new government to bring the Taliban into the peace process in Afghanistan and take strong measures against terrorists and militants threatening regional peace and stability.⁵⁰

Gateway House scholars Amit Bhandari and Chandni Jindal argue that power sector investments, \$37bn at current estimates, comprise more than half of Chinese investment in Pakistan and will add 60 percent to the country's power generation capacity. This will be difficult to absorb or export and will aggravate the financial crisis in the power sector. Pakistan's energy deficit is 7 GW; the new projects will generate 12.1 GW.⁵¹ Yousuf Nazar notes that power projects executed as part of the CPEC account for nearly 70 percent of the rise in the import bill in 2018, on account of capital equipment and related raw materials. Pakistan imported 11.2m tonnes of coal in 2017, against 3.42m tonnes in 2013. Most of the 21 power projects will be coal-fired. The debt-to-equity ratio for many projects is 75 percent debt and 25 percent equity, with return on invested equity reported to be as high as 34.5 percent, guaranteed by the government, regardless of whether the projects are financially viable. Pakistan's official external debt of \$95bn (30 percent of GDP) does not include this quasi-government debt.⁵²

Strategic expert Brahma Chellaney observes that the CPEC has "become a vehicle for a deep Chinese penetration of the Pakistani state, with most of the investment going into energy, agricultural and security projects" that have no relationship to a corridor.⁵³ Food security for China is an important aspect of CPEC, as revealed in the Long-Term Plan,⁵⁴ as China is short of arable land and has been buying up large tracts in Argentina, Brazil, Australia, Mozambique and Ukraine. According to plans reported by *Dawn* at the time of the Belt and Road Summit in Beijing in May 2017, the CPEC master plan proposes to give China thousands of acres of land for demonstration farms, food processing units and cold chains.

⁴⁸ Taliban Say Haqqani Founder Is Dead. His Group Is More Vital Than Ever; Mujib Mashal, Sept. 4, 2018

<https://www.nytimes.com/2018/09/04/world/asia/jalaluddin-haqqani-dead-taliban.html?smid=tw-nytimesworld&smtyp=cur>

⁴⁹ Pompeo tries to "reset" relations with Pakistan in first trip, Pamela Constable, September 5, 2018,

https://www.washingtonpost.com/world/asia_pacific/pompeo-arrives-in-islamabad-amid-deepening-tension-between-us-and-pakistan/2018/09/05/82196db4-b05c-11e8-8b53-50116768e499_story.html?noredirect=on&utm_term=.46d4568f068d

⁵⁰ Pakistan's new government has a tumultuous start on the Foreign Policy front, Sept. 7, 2018

<https://www.efsas.org/commentaries/pakistan%E2%80%99s-new-government-has-a-tumultuous-start-on-the-foreign-policy-front/>

⁵¹ Pakistan: A Reckless Mortgage, Amit Bhandari and Chandni Jindal, November 30, 2017,

<https://www.gatewayhouse.in/chinese-investments-in-pakistan/>

⁵² Imran Khan must reform Pakistan's rent seeking economy, Yousuf Nazar, August 22, 2018

<https://www.ft.com/content/12b8f7bc-a555-11e8-a1b6-f368d365bf0e?sharetype=blocked>

⁵³ China is ensnaring vulnerable states in debt traps, Brahma Chellaney, March 1, 2018, (accessed June 4, 2018)

https://asia.nikkei.com/magazine/20180301/Viewpoints/Brahma-Chellaney-China-is-ensnaring-vulnerable-states-in-debt-traps?n_cid=NARAN1507

⁵⁴ Long Term Plan for China-Pakistan Economic Corridor (2017-2030), Islamabad: Ministry of Planning, Development and Reform, <http://cpec.gov.pk/long-term-plan-cpec>, and 'Exclusive: CPEC master plan revealed', *Dawn*, June 21, 2017 (updated), <https://www.dawn.com/news/1333101>, (accessed July 12, 2018).

Despite Islamabad's denials, the National Food Security Policy hints at CPEC increasing agricultural cooperation between the two nations.⁵⁵

The draft master plan proposes a takeover of virtually every sector of the Pakistani economy. The core is agriculture; around 6,500 acres have been leased to China for agricultural demonstration projects, a fertilizer plant with an annual 800,000 tonne output, and vegetable and grain processing plants with one million tonne capacity. Besides teaching planting and breeding techniques to farmers, China-invested enterprises will work with local enterprises to create a three-level warehousing system (purchase and storage warehouse, transit warehouse and port warehouse), and a national storage network of warehouses, from Islamabad and Gwadar to Karachi, Lahore and Peshawar. The draft plan also envisages shifting China's declining textile industry and eventually also its garment industries to Pakistan, which has lower wages, available land, and duty-free access to the European Union.⁵⁶

In an ominous for Pakistan, China has begun a "go slow" on projects under CPEC due to the uncertainty of policies in Pakistan. Business Recorder reports that 22 projects worth around \$28.6 billion are under implementation; these have been divided into Early Harvest Projects (2017-18), short-term projects including EHP (2014-2020), medium-term projects (2021-2025) and long-term projects (2026-2030).⁵⁷ Chinese ambassador Yao Jing has expressed concerns with the Ministry of Foreign Affairs over non-payment of dues of over \$200 million for eight completed energy projects. Repayment of loans for infrastructure projects is due after ten years, which requires good financial planning. The ambassador reportedly questioned the financial viability of projects such as the ML-1 (Karachi-Lahore-Peshawar) and Karachi Circular Railways due to Pakistan's precarious finances, as these are to be financed through commercial loans. In December 2017, Beijing withheld funding for three infrastructure projects amidst concerns over corruption in CPEC projects, viz., Dera Ismail Khan-Zhob, Khuzdar-Basima and the Karakorum highway, with an estimated cost of \$850 million.⁵⁸ Work on Gwadar airport is reportedly being finalized by a grant from the Chinese government and the environmental report is under preparation. Hinting at problems of financing, Yao Jing suggested that the two countries focus on developing Special Economic Zones (SEZs) and encourage participation by Chinese private firms rather than state-owned enterprises. Regarding projects in education, health and culture, he urged that Frontier Works Organisation, Fauji Foundation, National Logistic Cell and others be coaxed to join CPEC-related projects. Some road projects (Hakla-Dera Ismail Khan, Western Route of CPEC and all sections of Karachi-Lahore Motorway) have been stalled as the contractors stopped work after cheques worth over Rs 5 billion, issued by the National Highway Authority, bounced.⁵⁹ These projects, slated to be completed by December 2018, remain under construction.

Andrew Small believes that the new balance of payments crisis will make it difficult for Imran Khan's government to deal with the economic challenges of the CPEC and China may have to withdraw discretely and rely upon its Maritime Silk Road acquisitions to achieve its

⁵⁵ National Food Security Policy, Islamabad: Min. of National Food Security and Research, 2017, (accessed July 12, 2018) <http://www.mnfsr.gov.pk/userfiles1/file/19%20Revised%20Food%20Security%20Policy%2011%20September%202017.pdf>

⁵⁶ Pakistan China's new colony? Ananth Krishnan, 20 July 2017

<http://indiatoday.intoday.in/story/china-pakistan-relations-implication-for-india-cpec-obor/1/1006432.html>

⁵⁷ CPEC projects: China adopts 'go slow' policy, Mushtaq Ghumman, July 14, 2018 (accessed July 24, 2018),

<https://fp.brecorder.com/2018/07/20180714390574/>

⁵⁸ Cracks appear in CPEC as China 'temporarily' halts funding, EFSAS Commentary, December 8, 2017

<https://www.efsas.org/commentaries/cracks-appear-in-cpec-as-china-temporarily-halts-funding/>

⁵⁹ Many CPEC projects in doldrums as NHA faces financial crisis, Syed Irfan Raza, July 23, 2018, (accessed July 23, 2018), <https://www.dawn.com/news/1421877/many-cpec-projects-in-doldrums-as-nha-faces-financial-crisis>

geopolitical goals. The February 2018 meeting of the Financial Action Task Force (FATF), where Beijing supported grey-listing Pakistan for failing to control terror financing, in exchange for New Delhi's in getting elected unopposed to the vice-presidency of FATF, reflects the new thinking. Small adds that while projects worth \$2bn have been completed or are in process of execution, there is a stalemate over industrial cooperation and special economic zones which were to be implemented in the second phase of CPEC and were expected to generate jobs, exports and growth.⁶⁰ Within Pakistan, local businesses are anxious over the location of the SEZs, while energy projects are facing problems due to the generous rates of return promised to Chinese energy companies.

In December 2017, Ahsan Iqbal, then Minister for Planning and Development, revealed that the government was planning to replace the US dollar with the renminbi for bilateral trade between China and Pakistan.⁶¹ This was permitted by the Central Bank of Pakistan in January 2018, and public and private sector enterprises of both countries were free to choose yuan for bilateral trade and investment activities.⁶²

Meanwhile, statistics released by the Ministry of Finance and Economic Affairs in July 2018 reveal that over 90 percent of funds received under CPEC during fiscal 2017-18 were allotted to three major projects on the eastern belt, viz., Thakot-Havelian Highway, Sukkur-Multan Motorway and Lahore's Orange Line Train Project (around \$1.6 billion). Clearly, smaller and less-developed provinces will not receive development at par with Punjab and Sindh. As social sector programmes are not China's priority, economic advantages will not percolate to the micro level, especially in rural and less-developed areas; however, the burden of repayment of loans will fall on all provinces and will not be proportionate to funds received by different provinces for various projects.⁶³

India and the CPEC

India opposes the China-Pakistan Economic Corridor to avoid internationalizing the Kashmir dispute and to resist China's growing footprint in the Indian Ocean, according to the Sweden-based think tank, Stockholm International Peace Research Institute (SIPRI). The report, "*Silk Road Economic Belt – Considering security implications and the EU-China cooperation prospects*", argues that, "There is considerable concern within India that China, which has been neutral on Kashmir since 1963, can no longer be so now that its economic and security interests in these territories are growing in stake".⁶⁴ The CPEC continues a long tradition of cooperation between China and Pakistan, particularly vis-à-vis India, which assumed a new

⁶⁰Buyer's Remorse: Pakistan's elections and the precarious future of the China-Pakistan Economic Corridor, Andrew Small, July 27, 2018 (accessed Aug. 20, 2018), <https://warontherocks.com/2018/07/buyers-remorse-pakistans-elections-and-the-precarious-future-of-the-china-pakistan-economic-corridor/>

⁶¹ Yuan may replace dollar in Pakistan-China trade, Khaleeq Kiani, Dawn, December 19, 2017 (accessed July 30, 2018), <https://www.dawn.com/news/1377459>

⁶²Pakistan's central bank allows yuan-based trade with China, PTI, January 3, 2018 (accessed June 28, 2018) <https://www.thehindubusinessline.com/news/world/pakistans-central-bank-allows-yuanbased-trade-with-china/article10010331.ece>

⁶³ Game changer not for all, Editorial, The Express Tribune, July 25th, 2018 (accessed July 31, 2018), <https://tribune.com.pk/story/1765743/6-game-changer-not/>

⁶⁴ Think tank explains why India loathes CPEC, Shahbaz Rana, February 3, 2017 (accessed July 19, 2018) <https://tribune.com.pk/story/1315675/think-tank-explains-india-loathes-cpec/>. See also: The Silk Road Economic Belt: Considering security implications and EU-China cooperation prospects, Richard Ghiasy and Jiayi Zhou, Stockholm International Peace Research Institute, February 2017. Based on Chinese and Russian primary sources, secondary sources in English, and conversations with 156 experts, including academics, journalists, policy advisors and policymakers, at 84 institutes in 12 cities in 7 countries throughout Eurasia; Indian experts consulted include T.C.A. Rangachari, Imtiaz Gul, Pal Dunay, and Gulshan Sachdeva. Unless otherwise indicated, this section is based on the SIPRI Report, <https://www.sipri.org/publications/2017/other-publications/silk-road-economic-belt>

dimension when China began to develop Gwadar Port. The relationship helps balance a fast rising India, which had 6.7 percent average annual GDP growth in 2011-15 and is currently the world's sixth largest economy.⁶⁵ For Pakistan, with the railways and gas pipelines on hold, the network of roads and power plants could be the principal gain from the CPEC, which could help it to emerge as an extra-regional trade hub. New Delhi views CPEC as a geostrategic manoeuvre, as it believes the Corridor is not commercially viable and the Pakistani economy is too small to justify the multi-billion dollar investment and the Xinjiang economy too marginal. New Delhi believes that Beijing will use Gwadar to monitor Indian naval activity and expand its own naval presence (*à la* the naval base in Jiwani peninsula).

Concerns over the viability and safety of the B&RI have compelled Beijing to take an interest in peace in Kabul. The central corridor of the Belt runs north of Afghanistan and China hopes to bring Kabul into the CPEC to enhance exports in the region. Islamabad also needs the CPEC to include Afghanistan in order to link up with the central corridor of the Belt; else the alternative land route to Central Asia would involve a lengthy detour through Chinese territory. While Afghanistan is open to all initiatives to kick start its economy, it is unlikely to give up India's initiative to connect Afghanistan and the Central Asian Republics through Chabahar Port in Iran, bypassing Pakistan. The SIPRI report observes that the CPEC has the potential to exacerbate three fault lines in South Asian security: between China and India; between China-Pakistan and India; and between China and India with USA, Japan and, to a lesser degree, Vietnam.

Keen to mitigate India's suspicions, the Chinese envoy to India, Luo Zhaohui, said there was a need to explore the possibility of aligning China's One Belt One Road Initiative with India's Act East Policy. Speaking on the subject, "*In My Eyes: India, Indians and India-China Relations*" at the United Service Institution (USI) of India on May 5, 2017, Zhaohui observed that India was "relatively positive to the BCIM Economic Corridor" and had hosted the third meeting of the BCIM-EC Joint Study Group.⁶⁶ However, the Bangladesh-China-India-Myanmar Economic Corridor was conceived before plans for the B&RI were known and it was only at the B&RI Summit in May 2017 at Beijing that China included this project under the B&RI umbrella. The envoy insisted that China did not intend to get involved in sovereignty and territorial disputes between India and Pakistan though the CPEC passes through territory claimed by India.

India, however, has serious concerns regarding CPEC. Jayadeva Ranade, former additional secretary, Research and Analysis Wing (R&AW), noted that "Since CPEC was announced Pakistan has stepped up its activities inside Kashmir. Funding to separatist elements has increased". Moreover, the presence of Chinese personnel within Pakistan could have implications in the event of hostilities.⁶⁷ The two nations jointly patrol PoK near the Xinjiang border and Chinese infrastructure in PoK could provide huge logistics support to Pakistan. In 2016, China sold eight Yuan class submarines to Pakistan to checkmate the Indian navy, and Pakistan is now equipping them with nuclear-tipped variants of the Chinese 'Babur' land attack cruise missiles. Sino-Indian relations are somewhat strained on account of Beijing blocking India's attempts to sanction Pakistani terrorist Masood Azhar at the United Nations

⁶⁵ India Overtakes France to Become World's Sixth-Largest Economy, Vrishi Beniwal, July 11, 2018,

<https://www.bloomberg.com/news/articles/2018-07-11/india-pips-france-to-become-world-s-sixth-largest-economy-chart>

⁶⁶ In My Eyes: India, Indians and India-China Relations, Luo Zhaohui, May 5, 2017,

<http://usiofindia.org/Article/?pub=Journal&pubno=608&ano=2944>

⁶⁷ Pakistan China's new colony? Ananth Krishnan, 20 July 2017

<http://indiatoday.intoday.in/story/china-pakistan-relations-implication-for-india-cpec-obor/1/1006432.html>

Security Council 1267 sanctions committee, and stalling India's entry into the Nuclear Suppliers Group.

Saudi and other partners

Riyadh has expressed interest in investing in Gwadar Port,⁶⁸ according to the Saudi ambassador to Pakistan, Nawaf Saeed Ahmed Al-Malkiy. Switzerland has also offered to help Swiss companies seeking opportunities along the China-Pakistan Economic Corridor, according to Philippe Crevoisier, Swiss Consul General in Karachi.⁶⁹ Japan, which sent Toshihiro Nikai, a senior leader of the ruling Liberal Democratic Party, to attend the B&RI summit in Beijing in May 2017, may join the B&RI via deals in third countries.⁷⁰ Takeo Donoue, director general of the Japan External Trade Organisation's Beijing office, however, observed that concerns remain over "the protection of intellectual property as well as the financing and distribution of profits of the projects". Other concerns relate to the lack of a centralised agency coordinating the B&RI projects, and Beijing's geopolitical motives in investing in 60-plus countries across four continents, and its control over strategic ports along the Indian Ocean rim.

Pakistan, which had covertly brokered ties between China and Saudi Arabia, just as it had with China and America, has found it expedient to invite Riyadh to be its new partner in the prohibitively expensive CPEC projects, while not upsetting Beijing. Prime Minister Imran Khan has decided to make the 1,872 km Karachi-Peshawar Main Line-1, the backbone of Pakistan's crumbling railway infrastructure, a priority CPEC project to facilitate travel by the poor.⁷¹ Bristling over the huge debts incurred by the Nawaz Sharif government, Khan has cut the size of the ML-I loan from China by \$2bn from the original estimate of \$8.2 billion.⁷² Pakistan had raised \$2.5bn through Euro Bonds and Sukuk Bonds in the international market in November 2017, but this was exhausted in barely two months; this has increased anxieties about its ability to pay the promised dividends to investors when the bonds mature.

While Beijing would not be averse to Saudi investments per se, Iran could prove to be a complicating factor as Riyadh sees Tehran as its bitter foe and Beijing hopes to build a second overland route to link with Europe via Iran. Islamabad is said to be toying with the idea of giving Riyadh space in the port of Gwadar, which would escalate tensions with Iran. Senior Saudi officials visited Islamabad in early October 2018 to discuss building an oil refinery at Gwadar and joining mining projects in Balochistan, investing around US\$ 10 billion.⁷³ Saudi Arabia believes that the refinery could create a strategic oil reserve in Gwadar and inhibit Chabahar's emergence as a major Arabian Sea hub at a time when Washington is keen to choke off Iranian oil exports. But Beijing, which buys Iran oil, may not approve.

⁶⁸ Saudi Arabia to join CPEC, ambassador tells Pakistani media group, Dawn.com, September 22, 2017 (accessed July 4, 2018), <https://www.dawn.com/news/1359324>

⁶⁹ Swiss companies show interest in becoming part of CPEC, April 28, 2017

<https://profit.pakistantoday.com.pk/2017/04/28/swiss-companies-show-interest-in-becoming-part-of-cpec/>

⁷⁰ Japan warms to China's belt and road plan with talks on business tie-ups, sources say, Catherine Wong, March 25, 2018, <http://www.scmp.com/news/china/diplomacy-defence/article/2136661/japan-warms-chinas-belt-and-road-plan-talks-business>

⁷¹ Fearing debt trap, Pakistan rethinks Chinese 'Silk Road' projects, Drazen Jorgic, September 30, 2018

<https://uk.reuters.com/article/us-pakistan-silkroad-railway-insight/fearing-debt-trap-pakistan-rethinks-chinese-silk-road-projects-idUKKCN1MA028>

⁷² Pakistan cuts Chinese 'Silk Road' rail project by \$2 billion due to debt concerns, Mubasher Bukhari, 1 October 2018,

<https://www.reuters.com/article/us-pakistan-silkroad-railways/pakistan-cuts-chinese-silk-road-rail-project-by-2-bln-due-to-debt-concerns-idUSKCN1MB2V8>

⁷³ Pakistani poker: Playing Saudi Arabia against China, James M Dorsey, October 7, 2018

<https://mideastsoccer.blogspot.com/2018/10/pakistani-poker-playing-saudi-arabia.html>

Moreover, outrage over the murder of *The Washington Post* columnist, Jamal Khashoggi, inside the Saudi consulate in Istanbul, Turkey, on October 2, 2018 has created uncertainty about the clout of Prince Mohammad bin Salman and long-term stability of the Saudi kingdom.

The Khashoggi murder proved to be a boon in disguise for Pakistan's beleaguered Prime Minister Imran Khan. Following a Western boycott of Riyadh's Future Investment Initiative Conference in October 2018, Imran Khan was rewarded for attending with a bailout package of US\$ 6 billion, which provides relief until the IMF bailout.⁷⁴ But it cannot avert eventual disclosure of the commercial and financial terms of CPEC-related projects funded by China; this will eventually undermine the reputation of the military leadership which was fully in cahoots with Beijing.⁷⁵ At present, the CPEC is awkwardly balanced: the elements that made it an 'economic corridor' have all but vanished; the tangible gains to China are the geostrategic estate it has occupied, including Gwadar and Jiwani. Pakistan's ability to repay its loans remains doubtful in the absence of an economic miracle, even as the economic slowdown in China raises questions about the time-frame in which many of the conceived infrastructure projects will be taken up, completed, or quietly shelved.

⁷⁴ Imran Khan terms Saudi bailout package big relief, IANS/Islamabad, October 25, 2018

<https://www.khaleejtimes.com/international/pakistan/imran-khan-terms-saudi-bailout-package-big-relief>

⁷⁵ Remodelling the Belt and Road: Pakistan picks up the torch, James M Dorsey, 10 October 2018, <https://mideastsoccer.blogspot.com/2018/10/remodelling-belt-and-road-pakistan.html>