

The image features a dark green background. At the top, a white outline of China is shown. A stylized, dashed line representing an economic corridor runs vertically down from the bottom of China, then curves 90 degrees to the left, and runs horizontally across the width of the page. At the bottom left, a white outline of Pakistan is shown, with the horizontal part of the corridor line ending at its eastern border. The title and subtitle are centered within a white-bordered box in the middle of the page.

# The China-Pakistan Economic Corridor

Strategic Rationales, External Perspectives, and  
Challenges to Effective Implementation

Hamzah Rifaat & Tridivesh Singh Maini

A Visiting Fellow Working Paper



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# The China-Pakistan Economic Corridor

## Strategic Rationales, External Perspectives, and Challenges to Effective Implementation

Hamzah Rifaat & Tridivesh Singh Maini | Visiting Fellows (Winter 2016) | The Stimson Center

### Introduction

In April 2015, Chinese President Xi Jinping visited Islamabad to inaugurate the China-Pakistan Economic Corridor (CPEC), a \$46 billion investment in Pakistan's energy and transportation sectors. As part of China's One Belt, One Road (OBOR) initiative, CPEC is designed to promote regional connectivity among Pakistan, China, and Eurasia.<sup>1</sup> CPEC is bound to have geopolitical implications for Pakistan and the broader region, especially given the scale of the proposed investments and its connection to OBOR.<sup>2</sup>

For Pakistan, this corridor is viewed as a symbol of the indomitable relationship it shares with China. The bilateral relationship between both states is characterized by a high degree of mutual cooperation and convergence of strategic interests. Hence, it could improve Pakistan's energy-starved economy and the country's internal stability—if the projects materialize as envisioned. Yet, at the same time, Pakistan's geographical proximity to Afghanistan and constant hostilities with India require a geopolitical assessment of the corridor's expected consequences for Pakistan and the rest of South Asia. This investment also takes place at a time when the Indo-Pakistan relationship is marred with suspicions and hostilities, with several incidents such as cross-border skirmishes, allegations of cross-border terrorism, and the Kashmir dispute characterizing the relationship.

In light of these geopolitical dynamics, this paper will examine several important aspects of the proposed corridor. First, it will shed light on its different components, including proposed

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<sup>1</sup> China Radio International, *Full Text: Vision and Actions on Jointly Building Belt and Road*, report, March 29, 2015, [http://english.cri.cn/12394/2015/03/29/2941s872030\\_1.htm](http://english.cri.cn/12394/2015/03/29/2941s872030_1.htm).

<sup>2</sup> "GDP Ranking Data," The World Bank, 2015, <http://data.worldbank.org/data-catalog/GDP-ranking-table>.



projects and internal infrastructural developments for Pakistan. China's strategic rationale for investing in Pakistan will also be considered. After surveying U.S. and Indian perspectives on CPEC, the paper will then identify the key security challenges and prospects for the project's successful implementation and its ability to allay trust deficits between India and Pakistan. Conclusions and implications will then be drawn regarding the near to the medium term.

This paper will begin with an examination of information available regarding CPEC's various deliverables. This research will then be synthesized with analytical views of leading experts on China, U.S.-Chinese relations, foreign investments, and India-Pakistan relations from Washington and beyond. Information and data will be collated from news reports and official statistics available from relevant ministries dealing with the corridor's implementation. An argument will then be made that CPEC could be a stabilizing factor between India and Pakistan provided that incremental trade between both countries continues unabated.

The limitations of the study center on the availability of literature on the corridor. The scarcity of analysis available on the investment's likely impact for regional and internal stability for Pakistan acts as an impediment. As a project, CPEC is still in its nascent stages and the literature on the subject is similarly underdeveloped. However, publications such as Daniel Markey's "Behind China's Gambit in Pakistan"<sup>3</sup> and Andrew Small's *The China- Pakistan Axis: Asia's New Geopolitics*<sup>4</sup> provide fruitful insight into the China-Pakistan relationship. Such literature can potentially serve as a contextual framework through which one can assess the implications of CPEC.

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<sup>3</sup> Daniel S. Markey and James West, "Behind China's Gambit in Pakistan," The Council for Foreign Relations, May 12, 2016, <http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855>.

<sup>4</sup> Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics*. New York, NY: Oxford University Press, 2015.

## Defining CPEC

### What is CPEC?

CPEC is a planned corridor constituting an array of different energy projects, transportation/infrastructure networks, and economic free zones within Pakistan.<sup>5</sup> This investment is part of China's OBOR strategy, which includes the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road.<sup>6</sup> The investment constitutes a total sum of \$46 billion directed at upgrading Pakistan's existing transportation infrastructure, as well as boosting Pakistan's energy generation capacity. The proposed special economic zones (SEZs) would follow if the energy and infrastructure projects prove successful.<sup>7</sup> CPEC links the strategically significant city of Kashgar in China's Xinjiang province to the port of Gwadar in Pakistan's Balochistan province. The proposed route allows the passage of goods and services between China and Pakistan. It also gives China access to the Middle East given Gwadar's proximity to the Arabian Sea.

### Components of CPEC

#### *Pakistan's Energy Sector*

The largest component of CPEC deals with Pakistan's energy sector. A total of \$ 33 billion – or approximately 72 percent – of the proposed \$46 billion investment relates to energy-resource development, including gas and electricity generation through natural resources such as coal.<sup>8</sup> A further \$2.5 billion is also dedicated towards the construction of pipelines for transporting liquefied natural gas (LNGs) from Iran to the cities of Nawabshah (Sindh) and Gwadar (Balochistan).<sup>9</sup> This component is vital for Pakistan's economy, as decades of war and strife

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<sup>5</sup> Saeed Shah, "China's Xi Jinping Launches Investment Deal in Pakistan," *The Wall Street Journal*, April 20, 2015, <http://www.wsj.com/articles/chinas-xi-jinping-set-to-launch-investment-deal-in-pakistan-1429533767>.

<sup>6</sup> "One Belt, One Road," *Caixin*, December 10, 2014, <http://english.caixin.com/2014-12-10/100761304.html>.

<sup>7</sup> Andrew Small, "CPEC: Road to the Future?" *Herald*, November 15, 2016, <http://herald.dawn.com/news/1153559>.

<sup>8</sup> Ahmad Rashid Malik, "A Miracle on the Indus River?" *The Diplomat*, December 7, 2015, <http://thediplomat.com/2015/12/a-miracle-on-the-indus-river/>.

<sup>9</sup> Saeed Shah, "China to Build Pipeline from Iran to Pakistan," *The Wall Street Journal*, April 9, 2015, <http://www.wsj.com/articles/china-to-build-pipeline-from-iran-to-pakistan-1428515277>.

have led to serious deficiencies in its power-generation capacity.<sup>10</sup> Recent trends have shown that energy shortages alone have subtracted 2-2.5 percent of Pakistan's GDP growth.<sup>11</sup> CPEC seeks to address some of these shortfalls.

### *Transportation Infrastructure*

The second largest component of CPEC is investment in Pakistan's transportation network. Specifically, \$11 billion – or approximately 24 percent – of the proposed \$46 billion is directed toward enhancing Pakistan's transportation infrastructure, including highways and railway networks. This includes the construction of a 1,100 km motorway connecting the coastal city of Karachi (Sindh) with Lahore (Punjab), which is expected to facilitate economic growth and internal connectivity.<sup>12</sup> In addition to the construction of new transportation networks, several existing ones will be revamped, including the Karakorum Highway between Rawalpindi and Kashgar<sup>13</sup> and the main Karachi-Peshawar railway line.<sup>14</sup> The EXIM Bank, the China Development Bank, and the Industrial and Commercial Bank of China are among those providing subsidized concessionary loans to finance these infrastructure projects.<sup>15</sup>

### *Special Economic Zones*

Since CPEC falls under the umbrella of the OBOR, it places special importance on the promotion of regional connectivity across the Eurasian continent. Regional connectivity will be promoted through the establishment of SEZs aimed at facilitating industrial growth in key financial centers and strategically significant locations in Pakistan. A primary example of such facilitation includes investments in the Gwadar port in Balochistan, Pakistan's largest province in terms of surface area.<sup>16</sup> Approximately 380 km from the Sultanate of Oman, Gwadar's

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<sup>10</sup> Declan Walsh, "After Decades of Neglect, Pakistan Rusts in Its Tracks," *The New York Times*, May 18, 2013, [http://www.nytimes.com/2013/05/19/world/asia/pakistans-railroads-sum-up-nations-woes.html?\\_r=0](http://www.nytimes.com/2013/05/19/world/asia/pakistans-railroads-sum-up-nations-woes.html?_r=0).

<sup>11</sup> Michael Kugelman, "Pakistan's Other National Struggle: Its Energy Crisis," *The Wall Street Journal*, July 9, 2015, <http://blogs.wsj.com/washwire/2015/07/09/pakistans-other-national-struggle-its-energy-crisis/>.

<sup>12</sup> "Karachi to Lahore Motorway Project Approved," *Dawn*, July 4, 2014, <http://www.dawn.com/news/1116948>.

<sup>13</sup> Claude Rakisits, "A Path to the Sea: China's Pakistan Plan," *World Affairs* 178, no. 3 (Fall 2015): 67-74.

<sup>14</sup> Iftikhar Alam, "CPEC May Get Extra Billion Dollars," *The Nation*, June 22, 2015, <http://nation.com.pk/national/22-Jun-2015/cpec-may-get-extra-billion-dollars>.

<sup>15</sup> Naveed Butt, "Economic Corridor: China to Extend Assistance at 1.6 Percent Interest Rate," *Business Recorder*, September 3, 2015, <http://www.brecorder.com/market-data/stocks-a-bonds/0/1223449/>.

<sup>16</sup> *Balochistan: Giving the People a Chance*, report (Lahore: Human Rights Commission of Pakistan, 2013), 5, <http://www.hrcp-web.org/hrcpweb/wp-content/pdf/Balochistan%20Report%20New%20Final.pdf>.

geographical proximity to the Arabian Sea acts as a conduit for China to gain access to the Middle East.<sup>17</sup> In addition, a liquefied natural gas facility capable of transporting 500 million cubic feet per day to the Gwadar-Nawabshah portion of the Iran-Pakistan gas pipeline is planned under the corridor.<sup>18</sup>

Market-oriented policies and governmental measures facilitating trade will complement the establishment of SEZs under the corridor.<sup>19</sup> The establishment of a free trade zone (FTZ) at the port of Gwadar similar to the FTZs in Hong Kong and Shanghai is an example of such market-oriented policies planned for implementation. The involvement of the National Development and Reform Commission (NDRC), China's top economic planner, in discussions to convert Gwadar into a hub for market-oriented growth again highlights the importance China places on CPEC's economic aspects.<sup>20</sup>

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<sup>17</sup> "Gwadar Port," Gwadar Port Authority, <http://www.gwadarport.gov.pk/about%20us.html>.

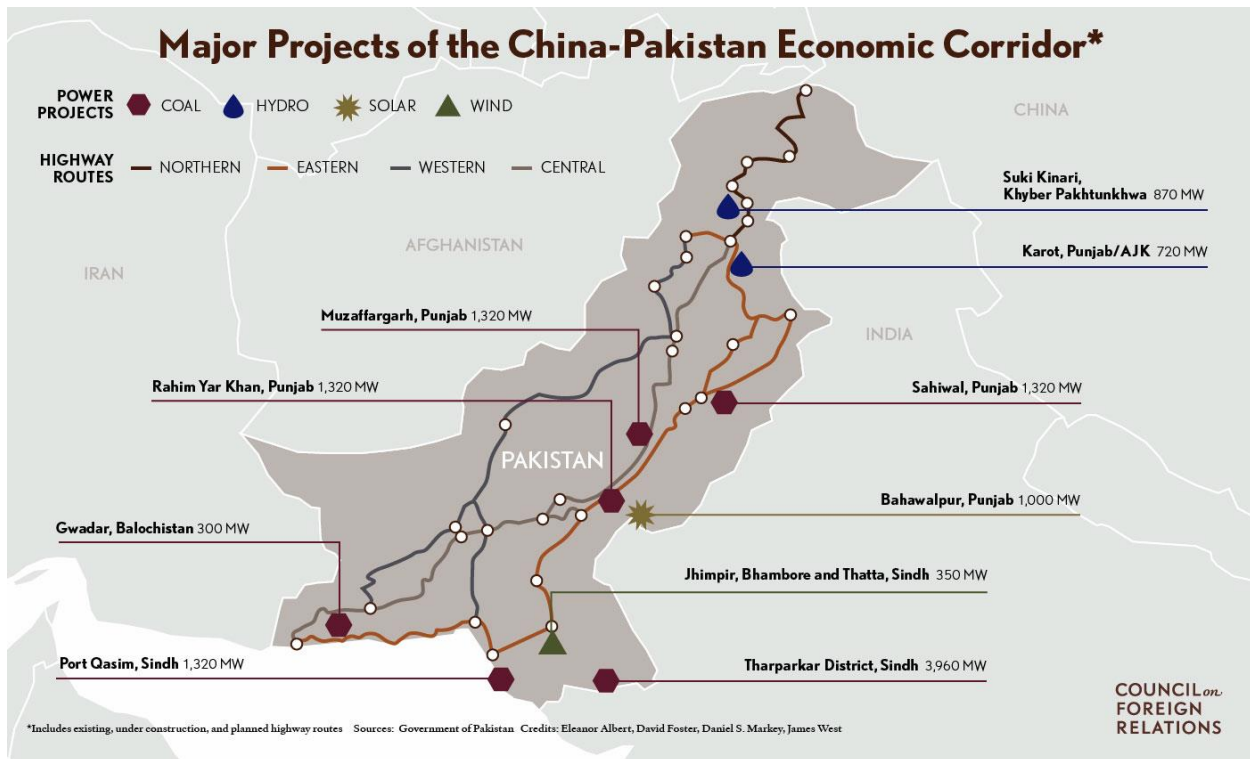
<sup>18</sup> Fawad Yousafzai, "Gwadar-Nawabshah LNG Project Part of CPEC," *The Nation*, March 28, 2016, <http://nation.com.pk/business/28-Mar-2016/gwadar-nawabshah-lng-project-part-of-cpec>.

<sup>19</sup> Li Yan, "Groundwork Laid for China-Pakistan FTZ," *Global Times*, November 17, 2015, <http://www.ecns.cn/business/2015/11-17/188916.shtml>.

<sup>20</sup> Ibid.



**Figure 1.1: Major Projects of CPEC**



*Source: Daniel S. Markey, "Behind China's Gambit in Pakistan," Expert Brief, Council on Foreign Relations, 2016. <http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855>.*

Available statistics on the salient aspects of the corridor notwithstanding, the project is still in its nascent stages, and many of its deliverables are a work in progress. Its implementation depends on various factors that require further deliberation and discussion. This includes the myriad of security threats and political challenges it could face, all of which need to be factored in for a holistic understanding of its potential. Other factors such as China's strategic rationale for investments as well as narratives from prominent experts in Pakistan, India, and the United States must be examined for a more broad-based understanding of what the corridor entails for both Pakistan and surrounding countries.

**Figure 1.2: Breakdown of CPEC's Deliverables**

Area of Investment	Proportion of Investment	Amount of Investment
Infrastructure	23.91 percent	\$11 billion <sup>21</sup>
Energy Resource Development	71.7 percent	\$33 billion
Liquefied Natural Gas	4.34 percent	\$ 2 billion <sup>22</sup>

## Assessing Strategic Rationales

### International Relations Theories

For China, CPEC is an integral component of its 21<sup>st</sup>-century OBOR initiative promoting economic expansion and regional connectivity while reinforcing its status as a global player in international affairs. CPEC's motivations can be explained through the prism of realist and liberal internationalist theories of geopolitics, as there are elements of both competition and cooperation driving state behavior.

#### *Liberalist Motives*

The liberalist argument holds that CPEC is based upon China's relationship with Pakistan and its foreign policy principles of non-interference and non-aggression in line with Zhou En Lai's *Five Principles of Peaceful Coexistence*.<sup>23</sup> One of the five principles is "equality and cooperation for mutual benefit." In line with this principle, mutual benefits and the degree of utility for Pakistan's economy are likely key considerations while carrying out investments. In addition to establishing its status as a great power globally, investing in countries such as Pakistan could also reinforce China's image as a country that cooperates with states by investing in human capital, businesses, and infrastructure without violating a state's sovereignty. As a great power,

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<sup>21</sup> Naveed Butt, "Economic Corridor: China to Extend Assistance at 1.6 Percent Interest Rate," *Business Recorder*, September 3, 2015, <http://www.brecorder.com/market-data/stocks-a-bonds/0/1223449/>.

<sup>22</sup> Saeed Shah, "China to Build Pipeline from Iran to Pakistan," *The Wall Street Journal*, April 9, 2015, <http://www.wsj.com/articles/china-to-build-pipeline-from-iran-to-pakistan-1428515277>.

<sup>23</sup> People's Republic of China, Ministry of Foreign Affairs, *China's Initiation of the Five Principles of Peaceful Co-Existence*, 1954, [http://www.fmprc.gov.cn/mfa\\_eng/ziliao\\_665539/3602\\_665543/3604\\_665547/t18053.shtml](http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18053.shtml).

China may be seeking to establish goodwill with states such as Pakistan as part of an emerging soft-power strategy.<sup>24</sup>

### *Realist Motives*

Realism suggests that economic interests also explain China's motivations. Given the proposed route of the corridor linking Kashgar to Gwadar, it is fair to envision that China would be able to secure the shortest access to the Arabian Sea through Pakistan. In geographic and political terms, other routes are untenable since China lacks geographical contiguity with states that are willing to facilitate safe passage of its goods and services. Neighboring states in Southeast Asia are not viable because they do not facilitate China's access to the Arabian Sea. India is unlikely to be cooperating because of ongoing territorial disputes with China.

In addition to establishing its status as a great power globally, investing in countries such as Pakistan could also reinforce China's image as a country that cooperates with states by investing in human capital, businesses, and infrastructure without violating a state's sovereignty.

Pakistan thus offers the most promising profile given its strong relationship with China and its proximity to the Arabian Sea. Attaining access to the Middle East with its massive oil reserves provides China with opportunities to import petroleum and export its goods and services to new markets. Development of the port of Gwadar as a SEZ allows for greater connectivity with key financial centers in the region such as Dubai, which China would certainly find attractive as it seeks its own footprint in the Persian Gulf. The Arabian Sea acts as a component of the Maritime Silk Route under the OBOR umbrella, allowing China to connect economically and politically with the Middle East through Pakistan.

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<sup>24</sup> Interview with senior think tank scholar "B" in discussion with the author, Washington D.C., January 2015.

## Outsourcing Industrial Capacity

The inclusion of Chinese companies in the SEZs along CPEC's route provides China with the ability to outsource its industrial capacity.<sup>25</sup> As a primarily manufacturing state, maintaining a sound industrial base over the next two-to-three decades is critical for its economy.<sup>26</sup>

In this regard, Pakistan once again offers the most promising profile for increased Chinese investments. The palpable pro-China sentiment in the country acts as an incentive to outsource. However, as the competitive effects of Chinese investments in countries such as Ethiopia, Sudan, and Namibia have clearly shown, employing Chinese laborers, at the expense of local labor, has been met with conflict and discord by the local population. In Nigeria, for instance, imported textiles had forced local factories in cities to close down.<sup>27</sup> Such a situation is conceivable in Pakistan despite the strong ties between China and Pakistan. Any initiative that jeopardizes domestic industries in its financial centers, such as Karachi and Lahore, could create domestic upheaval and generate negative public opinion against China.

Despite such possibilities, given that there are relatively fewer bureaucratic hurdles and the government is strongly aligned with China, Pakistan still offers the best route for China to both export its industrial capacity and open the Middle East to fuel its economy.

## Security

China, with an uncompromising stance on its 'One China Policy,' views secessionist movements and domestic terrorism as important threats to its national security. One of these groups – the East Turkestan Islamic Party (ETIP) – is believed to foment discord in Xinjiang from safe havens in Pakistan's North Waziristan region.<sup>28</sup> Xinjiang Province is the home of the minority Uighur population, which has often faced injustice and discrimination from the Chinese

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<sup>25</sup> Senior think tank scholar "A" in discussion with the author, Washington D.C., January 2015.

<sup>26</sup> Ibid.

<sup>27</sup> Kinfu Adisu, Thomas Sharkey, and Sam C. Okoroafo, "The Impact of Chinese Investment in Africa," *International Journal of Business and Management* 5, no. 9 (2010): 5.

<sup>28</sup> Daniel S. Markey and James West, "Behind China's Gambit in Pakistan," The Council for Foreign Relations, May 12, 2016, <http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855>.

government.<sup>29</sup> Drawing upon this disaffection, ETIP justifies the use of violence in order to obtain Xinjiang's independence from mainland China.<sup>30</sup> ETIP has a history of carrying out attacks against the Chinese government including the 2008 attack in Kashgar, Xinjiang's capital, which killed 16 officers<sup>31</sup> and the 2013 Tiananmen Square Attack, which killed 2 tourists.<sup>32</sup>

The historical trends of attacking the Chinese government and fomenting discord as well as the potency of the threat from the ETIP explain the rationale of China's security-through-development investment strategy in Pakistan. In other words, China's development strategy holds that job creation and economic activity can thwart extremism. Tackling that threat through investments, instead of employment of military power, highlights how China sees economic prosperity and regional connectivity as the solution to its own and the region's security problems. If Pakistan continues to combat groups such as the ETIP that would simultaneously allow China to reap economic and security benefits from investments such as CPEC.<sup>33</sup>

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In summation, Chinese motivations to invest in Pakistan are based upon prospects for economic cooperation in conjunction with security interests. These include nullifying its security concerns through development and outsourcing its industrial capacity as part of the OBOR initiative. In addition, Pakistan's cheap labor markets as well as ensuring a safe passage for Chinese goods

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<sup>29</sup> "Why Is There Tension Between China and the Uighurs?" BBC News, September 26, 2014, <http://www.bbc.com/news/world-asia-china-26414014>.

<sup>30</sup> "Han Chinese Proportion in China's Population Drops: Census Data," *Xinhua*, April 28, 2011, [http://news.xinhuanet.com/english2010/china/2011-04/28/c\\_13849933.htm](http://news.xinhuanet.com/english2010/china/2011-04/28/c_13849933.htm).

<sup>31</sup> Edward Wong, "Doubt Arises in Account of an Attack in China," *The New York Times*, September 28, 2008, [http://www.nytimes.com/2008/09/29/world/asia/29kashgar.html?\\_r=0](http://www.nytimes.com/2008/09/29/world/asia/29kashgar.html?_r=0).

<sup>32</sup> Beina Xu, Holly Fletcher, and Jayshree Bajoria, "The East Turkestan Islamic Movement (ETIM)," The Council for Foreign Relations, September 4, 2014, <http://www.cfr.org/china/east-turkestan-islamic-movement-etim/p9179>.

<sup>33</sup> "Chinese Foreign Minister Appreciates Progress on Zarb-e-Azb," *The Express Tribune*, December 9, 2015, <http://tribune.com.pk/story/1006910/chinese-foreign-minister-appreciates-progress-on-zarb-e-azb/>.



and services into the Middle East are other ancillary benefits that fit into its integrated rationale and strategic calculations vis-à-vis the corridor.

## Pakistani Perspectives on CPEC

### Symbolism

Pakistan's close relationship with China dates back to 1951 when diplomatic relations were formally established between the two countries. Economic growth in the country however, has historically been stifled due to decades of conflict, macro-management issues, and an energy-starved economy.<sup>34</sup> To capitalize on its shortcomings and tackle its crippled energy sector, significant foreign direct investment is required to open up numerous opportunities for the state and investors.<sup>35</sup> In light of the closeness of Sino-Pak ties, China is considered to be the most reliable investor, especially since relationships with other regional and global powers have proven difficult.

While Pakistan views the United States as largely a demanding and transactional partner principally interested in counterterrorism, it views China as a benign power and a reliable investor that could potentially boost its economy, upgrade its infrastructure, and allay its energy concerns without engaging in diplomatic coercion.<sup>36</sup> For example, while China has expressed its confidence in the Pakistan Army's efforts to curb militancy, the United States has continued to demand more action against the Haqqani Network and other terrorist groups residing within Pakistan.<sup>37</sup> The 2011 Bin Laden raid and continuing demands from the United States for further action by Pakistan against extremist groups has further eroded trust between Pakistan and the United States in favor of China.

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<sup>34</sup> Declan Walsh, "After Decades of Neglect, Pakistan Rusts in Its Tracks," *The New York Times*, May 18, 2013, [http://www.nytimes.com/2013/05/19/world/asia/pakistans-railroads-sum-up-nations-woes.html?\\_r=0](http://www.nytimes.com/2013/05/19/world/asia/pakistans-railroads-sum-up-nations-woes.html?_r=0).

<sup>35</sup> "CPEC Is an FDI Magnet: PBIT Chief," *The News*, October 18, 2015, <https://www.thenews.com.pk/print/15242-cpec-is-an-fdi-magnet-pbit-chief>.

<sup>36</sup> Alan Kronstadt, *Pakistan-U.S. Relations: A Summary*, report (Washington, D.C.: Congressional Research Service, 2011), 6, <http://fpc.state.gov/documents/organization/178250.pdf>.

<sup>37</sup> "China Values Pakistan Army's Efforts in Fighting ETIM," *Samaa TV*, November 12, 2015, <http://www.samaa.tv/pakistan/2015/11/chinese-general-hails-pakistan-armys-role-in-cpec-security/>.

In the current geopolitical environment, Pakistan has also had a difficult relationship with each of its neighbors. There are hostilities with India, trust deficits with Afghanistan, and disagreements with Iran on the subject of internal security.<sup>38</sup> In addition, frictions with the United States have also increased over time on the issue of counterterrorism, which has not been the case with China. Hence, depositing confidence in the country's ability to curb terrorist threats such as the ETIP as well as the trust and mutual respect that characterizes the Sino-Pak relationship makes CPEC the more important option for Pakistan instead of investment from the United States or Iran.

### Energy Generation and Cooperation

CPEC could simultaneously address Pakistan's energy-starved economy and bolster Pakistan's relations with neighboring Iran, who has expressed interest in being a part of CPEC, through cross-border energy cooperation.<sup>39</sup> The construction of an array of different pipelines with the potential of transporting liquefied natural gas to Pakistan from Iran reflects the importance the corridor places on energy cooperation and generation.

These pipelines are especially important for Pakistan because energy shortages have historically hampered Pakistan's economic development, especially in the form of chronic load shedding, which limits the potential of domestic industries across the country. In light of this, China's decision to allocate a hefty 71.7 percent of the aggregate \$46 billion towards energy generation acts as an incentive for Pakistan to avail, as other sources of energy generation have been held hostage to trust deficits and suspicions. Chinese energy investment is also particularly beneficial for Pakistan in that it will utilize Pakistan's untapped hydrocarbon reserves in the district of Tharparkar (Sindh), which could generate employment for low-skilled labor and generate much-needed electricity for Pakistan's domestic industries.

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<sup>38</sup> Associated Press of Pakistan, "Rouhani Denies Discussing 'RAW's Involvement in Balochistan' with Pakistani Leadership," *Dawn*, March 27, 2013, <http://www.dawn.com/news/1248078>.

<sup>39</sup> Khawaja Daud, "Iran Ready to Become Part of China Pakistan Economic Corridor," *Daily Pakistan*, April 16, 2016, <http://en.dailypakistan.com.pk/headline/iran-ready-to-become-part-of-cpec/>.

## Transportation Infrastructure

Upgrading Pakistan's existing transportation infrastructure through investments is a salient feature of CPEC. Transportation of goods and services to different provinces and financial centers both opens up Pakistan to the Chinese market and allows China to export its products to Pakistan's domestic consumers. Aspects of the transport infrastructure that have lagged behind, such as railways and roads, are proposed to be revamped under the CPEC arrangement. The \$11 billion investment (or 23.91 percent of the \$46 billion total) will allow both Pakistan and China to glean benefits from an improved transportation infrastructure with Pakistan.

## Regional Connectivity and 'Crowding In' Benefits

One of the stated goals of the OBOR initiative is to promote greater regional connectivity. CPEC gains relevance given that Pakistan has not been made part of other arrangements aimed at promoting greater regional connectivity such as the Transport Corridor (TC) agreed upon by Iran, Afghanistan, and India.<sup>40</sup> In addition, SEZs are an integral component of CPEC, which would allow Pakistan to develop its domestic industries and promote greater exports in the region, which partially mitigates the negative consequences of being excluded from other regional arrangements such as the TC.

It is important to consider that CPEC includes "crowding in" benefits, as well. In investment terminology, "crowding in" relates to "debt-financed government spending" on the private sector spurring additional economic opportunities.<sup>41</sup> If CPEC materializes and the relevant infrastructure is in place with the promotion of SEZs, the Pakistani private sector could benefit considerably as a result of increased government spending. Specifically, the investment activity surrounding CPEC could boost demand for domestic goods as well as increasing demand for newer output sources and industries. This could promote greater prosperity for the country through increased employment and wealth creation for the local population. This increased

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<sup>40</sup> Niharika Mandhana, "India, Afghanistan and Iran Sign Deal for Transport Corridor," *The Wall Street Journal*, May 23, 2016, <http://www.wsj.com/articles/india-afghanistan-and-iran-sign-deal-for-transport-corridor-1464022867>.

<sup>41</sup> "Definition of Crowding In," Investor Words, [http://www.investorwords.com/6470/crowding\\_in.html](http://www.investorwords.com/6470/crowding_in.html).

spending scenario by the government seems plausible with the current Pakistan Muslim League-Nawaz (PML-N) government placing great political stakes on the success of the CPEC investments in bolstering Pakistani economic growth.

## Security

Pakistan continues to grapple with internal security challenges, with terrorist groups such as Tehrik-i-Taliban Pakistan (TTP) targeting civilian and military institutions.<sup>42</sup> To ensure security along CPEC, the Pakistan Army has developed the Special Security Division (SSD).<sup>43</sup> The SSD comprises nine army infantry battalions and six civil armed forces wings for a total of 12,000 troops.<sup>44</sup>

The potential security benefits from CPEC to Pakistan are manifold. The country is grappling with a secessionist movement in Balochistan, where the Balochistan Liberation Army (BLA) has waged an insurgency against the Pakistani state for independence. The BLA cites discrimination from the central government and unequal distribution of resources among its core grievances. CPEC's promise as far as generating employment as well as developing needed infrastructure could help bring stability to the province, potentially nullifying some of the underlying causes of the Baloch insurgency.<sup>45</sup> For their part, Baloch political

CPEC's promise as far as generating employment as well as developing needed infrastructure could help bring stability to [Balochistan], potentially nullifying some of the underlying causes of the Baloch insurgency.

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<sup>42</sup> Ali Akbar, "APS Mastermind Claims Bacha Khan University Attack, 21 Killed," *Dawn*, January 21, 2016, <http://www.dawn.com/news/1234200>.

<sup>43</sup> Mateen Haider, "Army's Special Security Division to Protect Chinese Workers in Pakistan," *Dawn*, April 21, 2015, <http://www.dawn.com/news/1177322>.

<sup>44</sup> Zahid Gishkori, *The Express Tribune*, April 22, 2015, <http://tribune.com.pk/story/873889/army-assigned-security-of-chinese-engineers/>.

<sup>45</sup> Agence France-Presse, "Gas Supply to Punjab Resumes after Repair Work," *Geo News*, February 11, 2014, <https://www.geo.tv/latest/92042-gas-supply-to-punjab-resumes-after-repair-work>.

leaders have viewed CPEC with positivity, given the prospects of economic growth for Pakistan's largest, but most impoverished, province.<sup>46</sup> Perspectives on the proposed route, however, have been far more pessimistic with members of the ruling coalition in the province being far more vociferous in their criticism of the projects which are viewed as Punjab-centric and neglect the Baloch province. This view has been echoed by the opposition in the parliament to the ruling government as well.<sup>47</sup>

Yet, there are also other more serious threats to CPEC. There have been incidents in which the TTP has targeted where Chinese citizens. Since TTP is currently embroiled in a conflict with the Pakistani military, it is not difficult to imagine that CPEC's deliverables or Chinese contractors could be attacked.<sup>48</sup> While China has acknowledged Pakistan's efforts in curbing the ETIP, little thought has been given to groups such as TTP that could be prompted to attack the deliverables of the corridor despite the SSD's best efforts to protect it.<sup>49</sup>

In summation, the corridor has the potential to allay Pakistan's domestic security concerns, but proper implementation will remain contingent on state capacity.

### Domestic Politics

Alongside security related challenges to the corridor, Pakistan has witnessed considerable provincial discord regarding CPEC's proposed route. Given that each of Pakistan's four provinces is ruled by distinct political parties with diverse views on economic prosperity, provincial disagreements are common. Much of the discontent has been directed at the central PML-N government for diverting much of the infrastructure to Punjab, the industrial heartland of Pakistan.

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<sup>46</sup> "Balochistan CM Views CPEC as Game Changer," *The Express Tribune*, May 6, 2016, <http://tribune.com.pk/story/1098078/parliamentary-committee-meeting-balochistan-cm-views-cpec-as-game-changer/>.

<sup>47</sup> Syed Ali Shah, "Balochistan's Ruling Coalition Oppose Change in CPEC Route," *Dawn*, May 16, 2015, <http://www.dawn.com/news/1182349>.

<sup>48</sup> "TTP Faction Says Chinese Woman Killed for Revenge," *Pakistan Today*, March 1, 2012, <http://www.pakistantoday.com.pk/2012/03/01/ttp-faction-says-chinese-woman-killed-for-revenge/>.

<sup>49</sup> Ibid.



The PML-N's staunchest critic, Tehreek-I-Insaaf, a centrist political party that leads a coalition government in the Khyber Pakhtunkhwa, has repeatedly asserted that the central government since being elected into power had gone back on many of its promises. The calling of All Party Conferences by the PTI and its coalition partners highlights how serious and divisive CPEC's proposed route is for different political parties.<sup>50</sup>

The Pakistan People's Party (PPP), the PML-N's main opposition in the National Assembly, has also voiced its concerns over CPEC. Many of the reservations center on the central government neglecting a Western route through Sindh.<sup>51</sup> The PPP leadership accuses the PML-N of neglecting smaller provinces while catering to the interests of the business community in the Punjab hinterlands. In addition, the administrative territory of Gilgit-Baltistan has had the PPP voice its concerns over being neglected in the decisionmaking process at the federal level is concerned. Similarly, the PPP has voiced reservations over not including infrastructure projects that have the potential to benefit the Gilgit-Baltistan region, such as hydroelectric projects.<sup>52</sup> Given that Gilgit-Baltistan has the status of a disputed territory as per the Pakistani constitution and the local population has harbored negative sentiment against the Pakistani government for not granting the territory a formal provincial status, the PPP argues that a focus on infrastructure projects here could counter allegations of neglect by the central government. As a political party that has championed policies such as the devolution of power to the provincial governments, the PPP has also voiced concerns over the protection of the rights of the Baloch population during the implementation of the CPEC investments.<sup>53</sup>

As of November 2016, the Gwadar Port in Balochistan has become fully operational and both China and Pakistan have managed to successfully establish sea and road links. A Chinese ship,

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<sup>50</sup> Said Alam Khan, "Fazl Toes PTI Line on CPEC Route Change," *The Nation*, January 4, 2016, <http://nation.com.pk/editors-picks/04-Jan-2016/fazl-toes-pti-line-on-cpec-route-change>.

<sup>51</sup> Mohammad Riaz Mayar, "Centre Making CPEC Project Controversial: PPP Leader," *The News*, February 8, 2016, <https://www.thenews.com.pk/print/96715-Centre-making-CPEC-project-controversial-PPP-leader>.

<sup>52</sup> Peer Muhammad, "CPEC: PPP Voices Concern over Neglecting Gilgit-Baltistan," *The Express Tribune*, January 6, 2016, <http://tribune.com.pk/story/1022564/cpec-ppp-voices-concern-over-neglecting-gilgit-baltistan/>.

<sup>53</sup> Asim Awan, "18th Amendment Signed Into Law," *The Express Tribune*, April 20, 2010, <http://tribune.com.pk/story/7802/18th-amendment-signed-into-law/>.

the Tianfu had docked in the port with more than a 100 Chinese trucks completing their road journey from along the Western flank of the corridor.<sup>54</sup> This achievement is hailed by the ruling government and acts as evidence that a portion of the Western flank of the project which runs through Balochistan has been successfully completed.<sup>55</sup>

Gwadar's success notwithstanding, the statements by various political parties such as the PTI and the PPP regarding CPEC's routes and the policies of the central government indicate an alarming trend. These developments have been noticed by China, which has firmly urged coordination and communication amongst Pakistani political parties to bridge their differences over CPEC.<sup>56</sup> Given that China's foreign policy principles are based upon non-interference and positive relations with Pakistan, such statements highlight how seriously they view the danger of domestic disagreements over CPEC. Specifically, a lack of domestic cohesion inside Pakistan has the potential to stall progress on a corridor that forms an integral part of China's OBOR initiative and derail an important initiative for Chinese interests. Hence, in summation, domestic politics over CPEC's proposed routes is every bit as much of a challenge for CPEC's implementation as the security situation inside Pakistan.

A lack of domestic cohesion inside Pakistan has the potential to stall progress on a corridor that forms an integral part of China's OBOR initiative and derail an important initiative for Chinese interests. Hence, domestic politics over CPEC's proposed routes is every bit as much of a challenge for CPEC's implementation as the security situation inside Pakistan.

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<sup>54</sup> Jamil Nagri, "First trade activity under CPEC kicks off," *Dawn*, November 1, 2016, <http://www.dawn.com/news/1293574>.

<sup>55</sup> Sarfraz Ali, "Gwadar port becomes operational; PM Nawaz says CPEC's enemy is Pakistan's enemy," *Daily Pakistan Global*, November 13, 2016. <https://en.dailypakistan.com.pk/headline/gwadar-port-makes-operational-enemy-of-cpec-is-enemy-of-pakistan-pm-nawaz/>.

<sup>56</sup> Associated Press of Pakistan, "China Urges Pakistani Leaders to Resolve Issues over CPEC Project," *Dawn*, January 10, 2016, [http://www.dawn.com/news/1231852/china-urges-pakistani-leaders-to-resolve-issues-over-cpec-project?utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed%3A+dawn-news+\(Dawn+News\)](http://www.dawn.com/news/1231852/china-urges-pakistani-leaders-to-resolve-issues-over-cpec-project?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+dawn-news+(Dawn+News)).

## Surveying U.S. and Indian Perspectives

### United States

#### *Regional Stability and the U.S.-Chinese Strategic Rivalry*

The United States has a stake in South Asia's regional stability and economic prosperity. Its interests center on a stable Afghanistan and peaceful India-Pakistan relations for which Pakistan's economic prosperity is important. This seems to be the consensus view of the strategic community in the United States, despite U.S.-Pakistani disagreements on such issues as peace with India, its nuclear program, and counterterrorism.<sup>57</sup>

On the subject of investments in Pakistan, the United States appears to view any initiative that could curb extremism in the country and simultaneously alleviate its energy concerns as a positive development. However, in the tradition of *realpolitik*, the United States has also been historically wary of an expansionist China in Asia, which it views as a global rival both economically and militarily.<sup>58</sup> American skepticism centers on China's ability to complete the wide range of deliverables as well as the lack of transparency surrounding the project.<sup>59</sup> Whether such investments have an impact on curbing extremism as the United States desires is another point of concern, with Washington repeatedly asserting that Pakistan has not employed indiscriminate use of force against all militants.<sup>60</sup>

Despite the frictions with Pakistan and China, however, the overriding view is that this is an important investment which could create more opportunities of regional integration. If CPEC, through its deliverables, manages to ensure a more economically developed Pakistan, this could strongly serve U.S. interests.

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<sup>57</sup> Senior U.S. Government Official "D" in discussion with the author, Washington D.C., January 2015.

<sup>58</sup> Ibid.

<sup>59</sup> Senior U.S. Government Official "E" in discussion with the author, Washington D.C., January 2015.

<sup>60</sup> Senior U.S. Government Official "B" in discussion with the author, Washington D.C., January 2015.

### *Skepticism about China's Ability to Deliver*

Skepticism amongst American academic circles center on the fact that Chinese investments in places such as Africa have historically not been as successful and hence the same can also be said about CPEC. However, there is a visible difference between the amount dedicated towards this corridor and other Chinese investments in Africa.<sup>61</sup> Throughout Africa, China has prioritized the extraction natural resources and the seizure of African industries.<sup>62</sup> CPEC, on the other hand, is a multifaceted initiative that involves the development of infrastructure, special economic zones, and Pakistan's energy generation capacity, as opposed to only resource extraction.

Pakistan's ability to carry out a return on investments (ROIs) for CPEC is another point that promotes skepticism in the United States.<sup>63</sup> Pakistan's history of failing to return loans granted by international institutions such as the International Monetary Fund and the World Bank is noted when considering CPEC, as well.<sup>64</sup> In addition, given that the project is still in its nascent stages, several factors and variables will dictate the outcome of CPEC as a successful investment project, of which ROIs is one variable.

While skepticism over Chinese investments is not completely unwarranted, a few key points could ameliorate some of these concerns. First, CPEC is a conscious attempt on the part of the Chinese leadership to inject \$46 billion into the Pakistan economy, which simultaneously secures its economic objectives as part of the OBOR initiative.<sup>65</sup> Second, while outsourcing capacity is undoubtedly a key consideration for China, CPEC differs considerably from other Chinese investments in countries in Africa, where development assistance and counterfeit goods have often fomented anti-Chinese sentiment.<sup>66</sup> Such sentiment towards investments does not exist in Pakistan, which has so far benefitted from Chinese assistance in a diverse range of fields such as

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<sup>61</sup> Sanou Mbaye, "Africa Will Not Put up with a Colonialist China," *The Guardian*, February 7, 2011, <https://www.theguardian.com/commentisfree/2011/feb/07/china-exploitation-africa-industry>.

<sup>62</sup> Ibid.

<sup>63</sup> Senior U.S. Government Official "D" in discussion with the author, Washington D.C., January 2015.

<sup>64</sup> Ibid.

<sup>65</sup> Senior think-tank scholar "A" in discussion with the author, Washington D.C., January 2015.

<sup>66</sup> Keith Bradsher and Adam Nossiter, "In Nigeria, Chinese Investment Comes with a Downside," *The New York Times*, December 5, 2015, <http://www.nytimes.com/2015/12/06/business/international/in-nigeria-chinese-invest-ment-comes-with-a-downside.html>.

the country's nuclear program to energy projects.<sup>67</sup> CPEC is also less about Chinese donations to Pakistan and more a part of a multipronged OBOR strategy. On the subject of security, China's rationale is also more about investing as a strategy to allay its security concerns.

### *Regional Stability*

The United States views Chinese investments as a threat if economic investments are complimented with an increased military presence in Pakistan, which would be viewed as threatening to its interests as well as the interests of its allies, such as India. This apprehension has been expressed by the Pentagon in its annual report of 2016, where it is presumed that China will most likely establish additional naval logistics in the port of Gwadar.<sup>68</sup>

Apprehensions over whether the port of Gwadar can be used as a naval port against India, a long-term strategic ally of the United States, and whether the military rivalry with China in key regions such as the South China translates into something similar in the Pakistani context, are also areas of concern voiced by the strategic community in the United States.<sup>69</sup>

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Another school of thought is that China capitalized on the vacuum provided by the U.S.-Pakistan relationship, which has been fraught with complexities.<sup>70</sup> For example, China and Pakistan have jointly funded the production of the JF-17B fighter jet. This stands in stark contrast to the

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<sup>67</sup> Sharad Joshi, "The China-Pakistan Nuclear Deal: A Realpolitique Fait Accompli," Nuclear Threat Initiative (NTI), December 11, 2011, <http://www.nti.org/analysis/articles/china-pakistan-nuclear-deal-realpolitique-fait-accompl-1/>.

<sup>68</sup> "Naval Base in Gwadar," *The News*, May 21, 2016, <https://www.thenews.com.pk/print/121546-Naval-base-in-Gwadar>.

<sup>69</sup> Several experts in Washington, D.C.'s think tanks held the view that economic investment in Pakistan is desirable, but the United States would be wary of a heavy Chinese military presence in Pakistan.

<sup>70</sup> Senior U.S. Government Official "D" in discussion with the author, Washington D.C., January 2015.



defense relationship with the United States in which schisms have emerged in the U.S. Congress regarding support for Pakistan over the provision of F-16 fighter jets.<sup>71</sup>

China being able to capitalize on the differences in the U.S.-Pakistan relationship is also in part due to the difficult nature of the relationship, which has ranged from close cooperation to trust deficits. The Pressler Amendment fiasco in the 1990s resulted in the suspension of U.S. aid after Pakistan violated guarantees that it did not possess nuclear weapons, underscoring to Pakistan that the United States was not a reliable ally.<sup>72</sup> China, on the other hand, has invested significantly in Pakistan since diplomatic relations were established and provided invaluable assistance to the country's nuclear program during the 1970s, when the program was viewed a symbol of national pride across the country.<sup>73</sup>

U.S. views on CPEC can hence be considered as a mixture of skepticism and optimism based upon China's OBOR strategy and Pakistan's role in curbing extremism in the region. Skepticism mainly centers on ROIs and China's ability to deliver on the various deliverables initially envisioned in the corridor, as well as the strategic implications of the development of Gwadar into a naval port. Optimists in the U.S. strategic community, on the other hand, cite any investments into Pakistan as a positive development as the economic development of Pakistan could improve the stability of the region.

## India

### *Indian-Chinese Relations*

India as a major regional player in Asia and a large global economy has a direct stake in CPEC given its geographical proximity to both Pakistan and China.

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<sup>71</sup> Associated Press of Pakistan, "Pakistan to Look for Other Options If F-16 Deal with US Doesn't Materialise," *Dawn*, May 17, 2016, <http://www.dawn.com/news/1258832>.

<sup>72</sup> Touqir Hussain, *U.S.-Pakistan Engagement: The War on Terrorism and Beyond*, report (Washington D.C.: United States Institute of Peace, 2005), 4-5.

<sup>73</sup> Siddhart Ramana, *China-Pakistan Nuclear Alliance*, report (New Delhi: Institute of Peace and Conflict Studies, 2011), 2-4.

If one were to look at the Sino-Indian relationship in the past two decades, the discourse is no longer limited to the Sino-India war of 1962 or territorial disputes. For instance, trade between both countries is estimated at \$70 billion.<sup>74</sup> However, in spite of the spurt in economic relations between both countries and cooperation on issues like climate change, China's close proximity to Pakistan is one of the thorny issues in an otherwise cooperative relationship. There is also a feeling among Indian leaders that Beijing is not sensitive to India's concerns regarding terrorism emanating from Pakistani soil.

Two strong reiterations of this point are some recent developments. First, China refused to back India's appeal to the United Nations to ban Jaish-e-Mohammad chief Masood Azhar while other members of the UN supported India's demands.<sup>75</sup> Sushma Swaraj, India's Minister of External Affairs, while speaking at the 14th Russia-India-China Foreign Ministers meeting in Moscow, criticized this decision in a veiled manner. For example, she said, "If we continue to adopt double standards in dealing with terrorism, it will have serious consequences not just for our own countries, but the international community as a whole."<sup>76</sup>

Second, China continued to create hurdles to India's membership into the Nuclear Suppliers Group (NSG) even though it had broad support from a variety of countries, including the United States. Interestingly, China argued that that it would only support India's membership if Pakistan its ally was also given entry.<sup>77</sup> China supported this logic by noting that there should be a non-discriminatory approach towards countries that have not signed the NPT. In turn, India has argued that while it is not a signatory to the NPT, its nonproliferation record is exemplary.

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<sup>74</sup> For the nuanced nature of the India-China relationship, see Tanvi Madan, "Indian Prime Minister Modi Visits China," The Brookings Institution, May 13, 2015, <http://www.brookings.edu/blogs/up-front/posts/2015/05/13-modi-china-visit>. For trade figures, see Suhasini Haidar, "21 MoUs to Bring in \$22 Billion," *The Hindu*, May 17, 2015, <http://www.thehindu.com/news/national/21-mous-to-bring-in-22-billion/article7215028.ece>.

<sup>75</sup> For more on this, see Press Trust of India, "China Defends Blocking India's UN Bid to Ban Jaish-e-Mohammad Chief Masood Azhar," *The Economic Times*, April 1, 2016, <http://economictimes.indiatimes.com/news/politics-and-nation/china-defends-blocking-indias-un-bid-to-ban-jaish-e-mohammad-chief-masood-azhar/articleshow/51648081.cms> and Kallol Bhattacharjee, "India, China Argue Over Masood Azhar," *The Hindu*, April 7, 2016, <http://www.thehindu.com/news/international/india-china-argue-over-masood-azhar/article8442530.ece>.

<sup>76</sup> Press Trust of India, "Double Standards in Dealing with Terror Is Dangerous: Sushma Swaraj," *The Indian Express*, April 18, 2016, <http://indianexpress.com/article/india/india-news-india/sushma-swaraj-brics-unt-nations-masood-azhar-double-standards-in-dealing-with-terror-is-dangerous-india/>.

<sup>77</sup> Varghese K. George and Atul Aneja, "U.S. Backs, but China Opposes India's NSG Bid," *The Hindu*, May 15, 2016, <http://www.thehindu.com/news/national/us-backs-but-china-opposes-indias-nsg-bid/article8601776.ece>.

Regarding CPEC, India has already conveyed its displeasure with the project to China. Initially, with the announcement of CPEC, the Indian government lodged its protest on the eve of Prime Minister Narendra Modi's visit to China in May 2015. While addressing a press conference, Foreign Minister Swaraj clarified this position further by stating that "the Prime Minister during his visit took up the issue very firmly and spoke very strongly that the CPEC going through PoK (Pakistan-occupied Kashmir) is unacceptable."<sup>78</sup> Swaraj also said that the Chinese envoy in India had been summoned by the government to register its protest. During the 19th round of Border Talks in April 2016, Ajit Doval, India's representative National Security Advisor, further raised India's apprehensions vis-à-vis CPEC during his talks with China's State Councilor Yang Jiechi.<sup>79</sup>

### *Gilgit-Baltistan*

India is strongly opposed to CPEC's involvement in Gilgit-Baltistan region because India considers it to be a disputed territory. For example, in June 2015, India had criticized Pakistan's decision to hold elections in Gilgit-Baltistan. As Ministry of External Affairs (MEA) spokesman Vikas Swarup further explained, "The entire state of Jammu and Kashmir, which includes regions of Gilgit-Baltistan, is an integral part of India. The election... is an attempt by Pakistan to camouflage its forcible and illegal occupation [of Gilgit-Baltistan]."<sup>80</sup> China has persuaded Pakistan to change the constitutional status of Gilgit-Baltistan, but Islamabad has refrained from doing so, since it would weaken Pakistan's stand on Kashmir.

### *The Indian Ocean*

China's growing presence in South Asia over the past decade has also been a cause of concern, with many arguing that Chinese activities in the Sri Lankan port of Hambantota, the Bangladeshi

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<sup>78</sup> Varghese K. George and Atul Aneja, "U.S. Backs, but China Opposes India's NSG Bid," *The Hindu*, May 15, 2016, <http://www.thehindu.com/news/national/us-backs-but-china-opposes-indias-nsg-bid/article8601776.ece>.

<sup>79</sup> Atul Aneja, "Special Significance for Ties with India: China," *The Hindu*, April 21, 2016, <http://www.thehindu.com/news/with-modis-visit-as-touchstone-india-china-take-stock-of-ties/article8499814.ece>.

<sup>80</sup> "Polls in PoK an Attempt to 'Camouflage Forcible Occupation': India to Pakistan," *The Indian Express*, June 3, 2015, <http://indianexpress.com/article/india/india-others/india-calls-polls-in-gilgit-baltistan-an-attempt-to-camouflage-illegal-occupation-by-pak/>.

port of Chittagong, and the Pakistani port of Gwadar is part of an encirclement strategy which is dictated by geopolitical considerations and not economics. In the words of Sameer Patil:

‘India’s concerns about the CPEC and China-Pakistan ties are combined with Beijing’s growing presence and influence in South Asia and the Indian Ocean Region. In the last decade, China has systematically engaged with countries in India’s neighborhood—such as Nepal, Sri Lanka, Bangladesh, and the Maldives—through economic and military aid. Although India’s poorly-executed neighborhood policy may be partially responsible, India sees China’s growing profile in the region as an “encirclement.”<sup>81</sup>

There is also a view that while the Indian government may have publicly protested the project, especially in recent months with tensions between both countries growing, those in the security agencies are more skeptical with regard to the project than the Indian Foreign Service and the political class. There is a considerable difference between various schools of thought with members of the security establishment viewing the project more strictly from a security lens.<sup>82</sup> It is important to consider with the recent cooling of ties between China and India in recent months, more Indian leaders outside of the security establishment could take a more adversarial stance against CPEC.

### *The Indian Strategic Community’s Views*

The approach of the Indian strategic community towards the China-Pakistan-Economic corridor is not monolithic. Some prominent points of concern include the project passing through the disputed Gilgit-Baltistan territory and the potential presence of Chinese troops in what India considers illegally occupied territory.<sup>83</sup> The fact that the development of corridors and connectivity would “provide improved access and connectivity to a number of Pakistan based terrorist groups operating against India is another concern with groups such as the Lashkar-e-

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<sup>81</sup> Sameer Patil, "OBOR and India’s Security Concerns," Gateway House, May 14, 2015, <http://www.gatewayhouse.in/security-implications-of-chinas-transnational-corridors/>.

<sup>82</sup> Retired Indian Diplomat and Strategic Analyst in discussion with the author, New Delhi, February 2016.

<sup>83</sup> Rajeev Sharma, "With PLA in Pak, Will India Be Able to Thwart Beijing’s Designs?," *The Quint*, March 15, 2015, <http://www.thequint.com/opinion/2016/03/15/with-pla-in-pak-will-india-be-able-to-thwart-beijings-designs>.

Taiba having an active presence in Punjab, one of the main areas through which the corridor passes.”<sup>84</sup>

There is also a strong belief amongst circles that India should do more than simply oppose CPEC. Instead, they argue that India should try to develop its own version of the New Silk Road.

P. Stobdan, a Senior Fellow at Institute for Defence Studies and Analyses (IDSA), argues:

“India needs to work on its own counter strategy by offering a plan for a direct India-China Silk Route Corridor (ICSRC) that could run along the traditional Ladakh-Xinjiang axis...The ICSRC could provide an alternate transport, energy, trade, fiber optics and communication highway that could originate from a port in Gujarat run across northern India to connect with Kashgar in western China through the Indus Valley in Ladakh.”<sup>85</sup>

In contrast to these more adversarial perspectives, however, some strategic analysts believe that if the CPEC helps in stabilizing Pakistan, this would be a welcome development. Similar to some American perspectives, they argue that a stable, prosperous, and economically progressive Pakistan could improve regional stability.<sup>86</sup>

While India and Pakistan are embroiled in a strategic rivalry, India does not really have the capability of preventing the project from taking place. Any attempt to thwart it would not be worth

While India and Pakistan are embroiled in a strategic rivalry, India does not really have the capability of preventing the project from taking place. Any attempt to thwart it would not be worth the disruption caused in the broader geopolitical environment.

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<sup>84</sup> Brig. Vinod Anand, "Hina-Pakistan Economic Corridor: Prospects and Issues," Vivekananda International Foundation, April 8, 2015, <http://www.vifindia.org/print/2481>.

<sup>85</sup> P. Stobdan, "The Need for Haste on Pakistan-occupied Kashmir: China Pakistan Economic Corridor Needs a Counter Strategy," Institute for Defence Studies and Analyses, October 7, 2015, [http://www.idsa.in/policybrief/TheNeedforHasteonPakistanoccupiedKashmir\\_pstobdan\\_071015](http://www.idsa.in/policybrief/TheNeedforHasteonPakistanoccupiedKashmir_pstobdan_071015).

<sup>86</sup> Jabin Jacob, Assistant Director and Fellow at the Institute of Chinese Studies, in discussion with the author, New Delhi, March 2016.

the disruption caused in the broader geopolitical environment.<sup>87</sup> This view is best articulated best by A. Ranjan where he states that “India can continue to grumble and lodge protests which may delay or obstruct the construction of the corridor, but cannot ultimately stop it.”<sup>88</sup>

### *India-Pakistan Economic Ties*

Another view is of particular relevance given China’s integration rationale for CPEC. That view centers on the possibility of finding common economic ground between India and Pakistan, given that bilateral trade, through the Wagah-Attari border has remained well above the \$2 billion mark (except for 2011-2012), even during cross-border skirmishes, terrorist attacks, and aggressive rhetoric from either side.<sup>89</sup> Hence, the increase in trade continuing unabated can potentially act as a stabilizing factor given that CPEC materializes on the ground, China would be interested and could gain access to the Indian market through this route, which fits into China’s integrated rationale for investment. A number of top Chinese officials, including Le Yucheng, the Chinese Ambassador to India, have already alluded to the participation of India in the project.<sup>90</sup>

Ranjan makes an important point: if trade routes are opened between Punjab (Ferozpur-Kasur and Fazilka-Sahiwal) and Rajasthan-Sind (Munabao-Khokhrapar), corridors can be built bilaterally between India and Pakistan, prior to being utilized by China.

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<sup>87</sup> Retired Indian Diplomat and Strategic Analyst in discussion with the author, New Delhi, February 2016.

<sup>88</sup> A. Ranjan, *The China-Pakistan Economic Corridor: India’s Options*, Occasional Paper No. 10 (New Delhi: Institute for Chinese Studies, 2015), <http://www.icsin.org/uploads/2015/06/05/31e217cf46cab5bd9f15930569843895.pdf>.

<sup>89</sup> Dipanjan Roy Chaudhury, "India’s Trade with Pakistan May Get a Boost by Nawaz Sharif Government following PM Modi’s Fresh Initiative," *The Economic Times*, December 28, 2015, [http://articles.economictimes.indiatimes.com/2015-12-28/news/69356515\\_1\\_visa-regime-nawaz-sharif-indian-high-commissioner](http://articles.economictimes.indiatimes.com/2015-12-28/news/69356515_1_visa-regime-nawaz-sharif-indian-high-commissioner).

<sup>90</sup> Press Trust of India, "Chinese Envoy Favours India, China, Pakistan Trade Ties," *The Economic Times*, May 13, 2015, [http://articles.economictimes.indiatimes.com/2015-03-13/news/60086338\\_1\\_ambassador-le-yucheng-ties-renewable-energ](http://articles.economictimes.indiatimes.com/2015-03-13/news/60086338_1_ambassador-le-yucheng-ties-renewable-energ).

**Figure 2.1: India-Pakistan Bilateral Trade (Wagah-Attari)**

Year	Total Trade (USD)
2010-2011	2.37 billion
2011-2012	1.93 billion
2012-2013	2.6 billion
2013-2014	2.7 billion
2014-2015	2.35 billion

*Source: Ministry of Commerce (Department of Commerce, Export Import Data Bank), Government of India. <http://commerce.nic.in/eidb/iecnt.asp>.*

According to Ranjan,

... these mini economic corridors could be linked with the Burma China, India, Myanmar Economic Corridor (BCIM) and the CPEC through already existing or proposed connectivity projects such as the Amritsar-Kolkata Industrial Corridor<sup>13</sup> and the Delhi-Mumbai Industrial Corridor (which passes through Punjab, Rajasthan and Gujarat and other states )<sup>14</sup> in India, and National Highway N5 (from Karachi to Torkhum) and the Lahore-Karachi Motorway in Pakistan, or the SAARC Highway Corridor-1 (Lahore-New Delhi Kolkata-Petrapole-Benapole-Dhaka-Akhaura-Agartala). This could be done relatively simply under the ambit of the India-Pakistan trade normalization process.<sup>91</sup>

It would be important to point out that greater bilateral trade and connectivity between border regions can be a push factor, but cannot be de-hyphenated from the New Delhi-Islamabad relationship. Periods that have witnessed a rise in trade as well as connectivity between both sides (2004-2007) and then (2011-2012) have been accompanied by a reasonable, if not perfect, understanding between the leaderships of both sides.<sup>92</sup> In 2005, both sides commenced a bus service connecting Munabao (Rajasthan) and Khokhrapar (Sind) after a period of 40 years and,

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<sup>91</sup> A. Ranjan, *The China-Pakistan Economic Corridor: India's Options*, Occasional Paper No. 10 (New Delhi: Institute for Chinese Studies, 2015), 16, <http://www.icsin.org/uploads/2015/06/05/31e217cf46cab5bd9f15930569843895.pdf>.

<sup>92</sup> Michael Kugelman, *Pakistan-India Trade: What Needs to Be Done? What Does It Matter?* report (Washington, D.C.: Wilson Center, 2013), <https://www.wilsoncenter.org/publication/pakistan-india-trade-what-needs-to-be-done-what-does-it-matter>.



in 2006, both sides began the Amritsar-Nankana Sahib bus service. The phase between 2011-2012 was productive. Pakistan also spoke about granting most-favored nation (MFN) status, but this has not gone through so far.

Apart from state governments, sections of the business community having business interests in Afghanistan and Central Asia have also been urging Pakistan for transit rights, which the latter has refused to give so far.<sup>93</sup> India's involvement in the Chabahar Port, and the signing of the India-Iran-Afghanistan pact in May 2016, will give India access to Afghanistan and Central Asia, something that Pakistan has refused until now.<sup>94</sup> This was one of the major factors for giving a boost to economic ties and connectivity, with the signing of this agreement the incentives for strengthening bilateral economic relations could lessen.

There is scope in the long run for India becoming part of CPEC. Currently however, with tensions between India and Pakistan at an all-time high, in the aftermath of the Uri terror attacks, and differences between India and China it seems unlikely.

### *Ambivalence Toward CPEC Among Indian Analysts*

Apart from the skeptics and the realists in India, some analysts argue that it is tough for India to come up with a clearly articulated stand on the corridor. The reasons cited for this ambiguity are:

- (1) the lack of clarity with regard to the project itself; and
- (2) The range of variables, such as the security situation and Pakistan's own domestic economic stability that could affect CPEC's implementation.

According to Sanjay Pulipaka, there is a paucity of data regarding CPEC and its ability to affect Pakistani businesses, and how smaller industries within the country would be able to cope with

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<sup>93</sup> "Jindal Drops by on Same Day as Modi," *The Telegraph India*, December 25, 2015, [http://www.telegraphindia.com/1151226/jsp/nation/story\\_60477.jsp#.V6TZ1FUrLct](http://www.telegraphindia.com/1151226/jsp/nation/story_60477.jsp#.V6TZ1FUrLct).

<sup>94</sup> Dipanjan Roy Chaudhury, "India, Iran, and Afghanistan Sign Historic Three-Way Transit Accord," *The Economic Times*, May 24, 2016, <http://economictimes.indiatimes.com/news/economy/foreign-trade/india-iran-and-afghanistan-sign-historic-three-way-transit-accord/articleshow/52402833.cms>.

the challenges posed by the project. Were the project to materialize on the ground and affect both sides, it would be easier to gauge the impact of it.<sup>95</sup>

On the question of Indian narratives regarding CPEC, it can be concluded that there is a potpourri of different opinions. There is the usual skepticism with regard to Sino-Pakistan economic cooperation. Yet, there is also a pragmatic view amongst significant sections of the strategic community that believe that the project could provide trilateral benefits for India, Pakistan, and China. While the security aspect of Chinese investment gains salience amongst Indian audiences and how it could potentially affect India, these views are not static, but dynamic.<sup>96</sup>

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## Conclusions and Implications

As part of the OBOR Strategy, CPEC will have considerable implications for Pakistan's stability as well as for China's goal of economic expansion. As a project that is still in its nascent stages, several factors need to be factored to form a holistic assessment of what one can expect from CPEC. Based upon the preceding analysis, one can draw the following conclusions:

1. **Pakistan's internal security situation is improving, but this could also constrain CPEC's effective implementation.** China's deliverables materializing for Pakistan's internal and regional stability depends upon the security situation as well as provincial harmony over the proposed projects and routes. The potential of investment dedicated towards energy generation, infrastructural development, and transportation of liquefied

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<sup>95</sup> Sanjay Pulipaka, Senior Consultant, East Asia Program, Indian Council for Research on International Economic Relations (ICRIER), in discussion with the author, New Delhi, March 2016.

<sup>96</sup> Senior U.S. Government Official "E" in discussion with the author, Washington D.C., January 2015.

natural gas being implemented will depend upon Pakistan's internal security situation and its ability to curb violent acts of extremism.

2. **China's motives in pursuing CPEC are variegated.** As an initiative of the OBOR, China's rationale for investing into Pakistan can be explained based upon Liberal and Realist arguments. As per the Liberal view, CPEC is part of China's longstanding relationship with Pakistan, where cooperating through economics and trade is of paramount importance for the country. Realist motivations can be explained in light of China exporting its industrial capacity, opening its market up to the Middle East to sustain its economy, and capitalizing on the vacuum in the U.S.-Pakistan relationship for its economic and strategic interests.
3. **Pakistan views CPEC as a symbol of its supportive relationship with China; thus, its proper implementation is a national priority.** This fact is buttressed by the provision of 15,000 SSD troops and nine armed battalions for the protection of its deliverables from security threats such as the TTP. The project also holds potential for Pakistan's regional connectivity prospects as well as for internal economic growth. The appropriate infrastructure can result in crowding-in benefits by the federal government in the form of increased public expenditures as well as boosting demand for domestic goods and services. Such benefits attract potential investors to funnel in their resources to various sectors in the country to stimulate economic growth,
4. **U.S. and Indian views on CPEC range from outright skepticism to optimism.** Skepticism is directed at China's ability to deliver upon its \$46 billion proposed investments as well as Pakistan's record of securing ROIs on the concessionary loans provided. Optimists on the other hand believe that any initiative that curbs extremism and contributes towards Pakistan's economic stability is in U.S. interests given its impact on South Asian stability and Afghanistan.

The Indian viewpoint on CPEC is based upon several factors. New Delhi's participation in CPEC is dependent upon its relations with both Beijing and Islamabad. In recent months, there has been a significant deterioration of ties with both due to strategic divergences numerous issues which have been discussed earlier. The strengthening of the

Beijing-Islamabad relationship in recent months, opposition of India's membership bid of NSG by China, and its reluctance to take action against groups like the Jaish-e-Muhammad have soured relations.

It would also be important to bear in mind that India's trade and transit agreement signed with Afghanistan and Iran means that it will be less dependent upon Pakistan for access to Afghanistan and Central Asia, which means that New Delhi will have an alternative route to access these markets.<sup>97</sup> Apart from sections of the business community in India, and lobbies from Punjab and Rajasthan, there is no real voice pushing for economic ties between India and Pakistan. In such a situation, there is not much scope, at least in the short run, for substantial economic ties between India and Pakistan, and no real incentive for India being part of CPEC.

5. **On face value, CPEC has great potential to promote greater regional connectivity as it falls under the OBOR initiative.** The Gwadar port becoming operational in 2016, is a clear example of what CPEC can offer to Pakistan as well as the region. While several factors will dictate its outcome, it is fair to say that the project and its various dimensions as per what is envisioned could prove to be a game changer in South and West Asia as part of the OBOR initiative. Greater exchange of trade, ideas, and populations are all possibilities under CPEC and similar corridors promoted by China.

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<sup>97</sup> P.K. Vasudeva, "Grand Plans- India, Iran and Afghanistan Must Now Deliver on the Promises That Were Made in Tehran," *The Telegraph India*, June 2, 2016, [https://www.telegraphindia.com/1160602/jsp/opinion/story\\_88791.jsp](https://www.telegraphindia.com/1160602/jsp/opinion/story_88791.jsp).

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