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Behind China's Gambit in Pakistan

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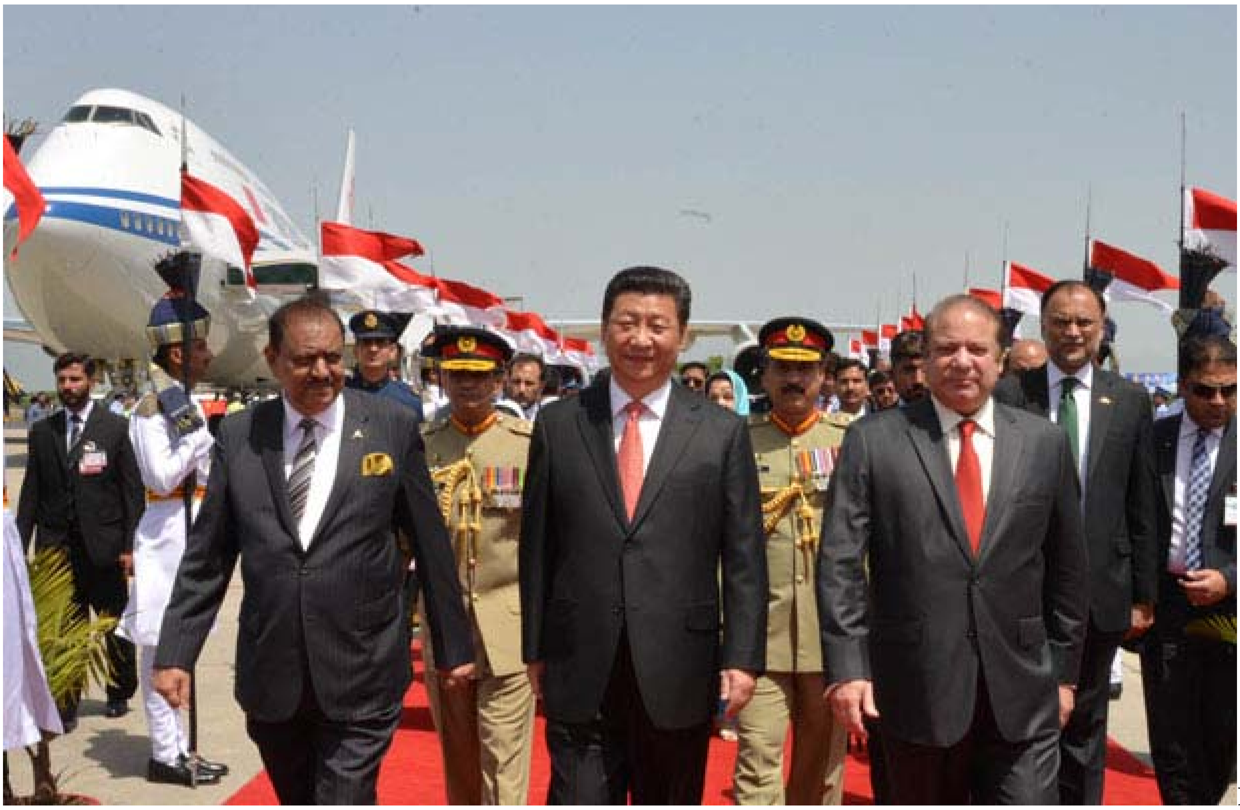
The China-Pakistan Economic Corridor (CPEC) is part development scheme, part strategic gambit. Although Beijing and Islamabad have been close partners for decades, the CPEC is a reflection of intensified and expanded bilateral cooperation at a time of rising Chinese geopolitical ambition and persistent concerns about Pakistan's security and development.

The CPEC is intended to promote connectivity across Pakistan with a network of highways, railways, and pipelines accompanied by energy, industrial, and other infrastructure development projects to address critical energy shortages needed to boost Pakistan's economic growth. Eventually, the CPEC will also facilitate trade along an overland route that connects China to the Indian Ocean, linking the Chinese city of Kashgar to the Pakistani port of Gwadar.



Pakistani President Mamnoon Hussain, Chinese President Xi Jinping, and Pakistani Prime Minister Nawaz Sharif, at Nur Khan air base in Islamabad on April 20, 2015. (Photo: Press Information Department/Government of Pakistan)

Pakistan and China **formalized** plans for the CPEC in April 2015, when they signed **fifty-one** agreements and memoranda of understanding on Chinese **investments**, totaling **$46 billion** over the next **ten to fifteen years**. Some projects are already underway, including highways and energy projects where completion is expected by the end of 2016.

CPEC developments are part of a grander Chinese agenda of regional economic connectivity: the **One Belt, One Road (OBOR)** initiative **outlined** in March 2015 by China's National Development and Reform Committee (NDRC). The highly ambitious plan calls for new state-directed investments in roads, railways, pipelines, ports, and information networks to deepen economic integration and connectivity across Asia and into Africa and Europe.

Because OBOR consists of a continental Eurasian "**Silk Road Economic Belt**" and a Southeast Asian "**Maritime Silk Road**," Pakistan has the potential to serve as a nexus for the two routes, and Beijing describes the CPEC as a "**flagship project**." Although Beijing is quick to downplay geostrategic motivations behind the CPEC, many commentators have noted that over the long run, an overland link across Pakistan to the Arabian Sea could help alleviate the "**Malacca dilemma**," China's vulnerability to the fact that roughly **85 percent** (PDF) of its oil imports travel through the single chokepoint of the Strait of Malacca.

Security Through Development

Understanding the CPEC requires an appreciation for China's security concerns, especially those stemming from its restive western region of Xinjiang. Beijing has sought to clamp down on Xinjiang's ethnic Uighur community and has met political violence with an expanded security presence and push for economic development schemes. These efforts implicate Pakistan because Uighur militant groups, like the **East Turkestan Islamic Movement** (ETIM), have sought refuge in the Pakistan-Afghanistan border areas, where they have established links with al-Qaeda and the **Taliban** in Afghanistan and Pakistan. China perceives the ETIM as a persistent threat, **committed** to **targeting** China and attacking Chinese **interests** (PDF) inside Pakistan.

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In this context, the CPEC represents an international extension of China's effort to deliver security through economic development. **Investments** in Pakistan are intended to create jobs, reduce antistate sentiment, and generate public resources for additional improvements in law and order. By tackling the threat of jihadi organizations in neighboring Pakistan, China hopes to better secure its own territory. Consequently, while the CPEC is often portrayed as a transportation corridor, security concerns will likely impose limits on the cross-border flow of people and goods, at least in the short to medium term.

Pakistan's ruling civilian and military leaders also appreciate the economic, political, and security opportunities that the CPEC offers. Pakistan needs direct investment to spur **economic growth**, but investors have generally shied away over the past decade. If delivered, China's investment plan represents more than **double** all foreign direct investment (FDI) in Pakistan since 2008.

China's investments in energy infrastructure are especially welcome. National demand outstrips supply by an average of 4,500 megawatts. Supply shortages and distribution problems lead to frequent **blackouts** and cost as much as 2 percent GDP **growth** (PDF) a year. These troubles will worsen as Pakistan's population of nearly two hundred million expands at a rate of almost **2 percent** (PDF) annually. Without the creation of new jobs, however, the nation's youth (over half of Pakistanis are **under** the age of twenty-four) will lack productive outlets for their energies. In a state riven by sectarian, ethnic, and political cleavages and populated by networks of extremism and militancy, the need for a growing economy takes on special significance.

Politically, Pakistan's ruling civilian government recognizes that by delivering a range of "early harvest" projects, it will have a better chance of winning national elections slated for 2018. From a security perspective, Pakistan's military leaders believe that if Chinese investments can turn around the nation's sagging economic fortunes, they will also strengthen the state against challengers, both foreign (India) and domestic (antistate insurgents).

Plans and Realities

In Pakistan, CPEC projects are being managed primarily by the Ministry of Planning, Reform, and Development in partnership with China's NDRC. The two sides have established a Joint Cooperation Committee with working groups focused on **four main areas**: the Gwadar Port, transport infrastructure, energy, and industrial cooperation.

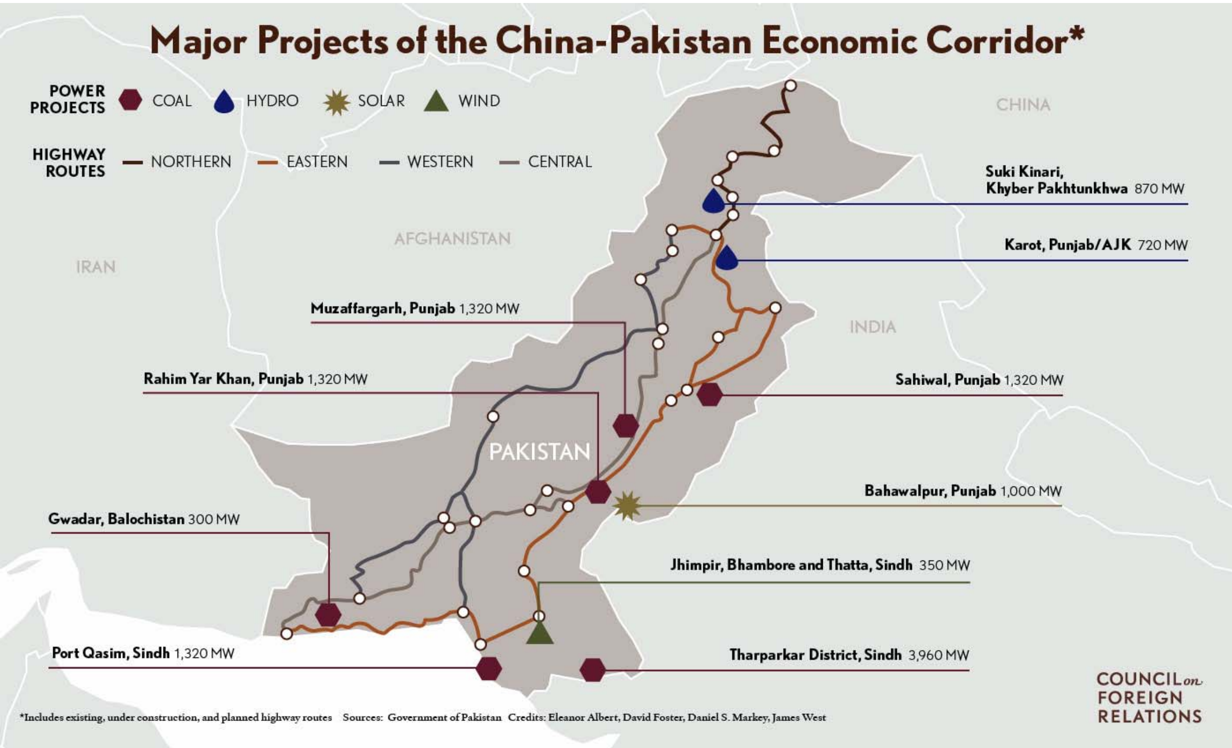
Operations at Gwadar, a warm-water, deep-sea port in Balochistan near the Strait of Hormuz, were **handed** over to a Chinese state-owned enterprise in **November 2015**. Gwadar remains a work in progress, with total traffic of only half a million tons in 2016, but traffic is **expected** to double in 2017. Planners **estimate** that eventually it will process three hundred to four hundred million tons annually and that the surrounding city will grow from eighty thousand to two million residents.

The physical "corridor" of the CPEC consists of an interconnected highway, railway, and pipeline system. In May 2015, the Pakistani government **unveiled** three highway **routes** for the project: a western route through Balochistan and Khyber Pakhtunkhwa provinces; an eastern route primarily through Sindh and Punjab provinces; and a central route crisscrossing the country. A northern highway route connects to Kashgar, via the **Karakoram Highway**, itself a major symbol of China-Pakistan cooperation and their only ground linkage. Other transportation projects include the construction and improvement of existing **railways**, including laying more than 1,200 kilometers of **new track** and upgrading another 3,100 kilometers.

The lion's share of China's investment—roughly $35 billion—is expected to go to energy projects, including coal, solar, hydroelectric, liquefied natural gas, and power transmission. If all goes according to plan, twenty-one new **projects** will generate nearly **17,000 megawatts** of energy and nearly double Pakistan's installed capacity. Of those twenty-one projects, Pakistan expects **fourteen "early harvest" projects** to add 10,400 megawatts to the national grid by 2018. To take advantage of new infrastructure and power capacity, the government has **identified** more than forty sites for new and upgraded industrial parks and special economic zones, **designed** to encourage investment and boost local employment.

CPEC projects are being negotiated on a government-to-government basis, with Chinese firms selected by Beijing. The projects are covered by low or zero-interest concessional loans that include financing from China's Export-Import Bank and **Silk Road Fund**. To date, Pakistan's wider public has had little access to the specifics of these arrangements, and the closed bidding process makes it difficult to assess whether contracts reflect fair market costs, accounting for Pakistan's difficult security environment.

Unlike their Pakistani counterparts, Chinese power plants will benefit from protections against the "**circular debt**" (PDF) crisis that has plagued Pakistan. Pakistani power purchasers will be required to fund a revolving account covering 22 percent of monthly costs, and Pakistan's Ministry of Finance will back those funds with sovereign guarantees to ensure uninterrupted payment. In early 2016, these arrangements were **expanded** from coal-fired power plants to all CPEC energy projects.



Challenges

The primary obstacle to the CPEC's full implementation is security. To address Chinese concerns and ensure the safety of these projects, Pakistan **announced** in early 2016 the creation of a dedicated CPEC force of ten thousand security personnel, but even a force of that size will be stressed by the task at hand.

In Pakistan's northwest frontier, road networks are planned to run near or through territories where the Pakistani Taliban and other antistate militant groups could attack construction crews and disrupt the flow of goods. In ongoing military **operations** targeting those groups, the Pakistani military has placed a special emphasis on the ETIM due to Chinese pressure and is concerned that attacks could delay or derail the CPEC. In October 2015, the military **claimed** to have eradicated the ETIM from Pakistan, but the threat of other groups remains. Islamist militant groups have already attacked Chinese targets, including **kidnapping** construction personnel, and hinted that their campaigns could expand to include more targeting of Chinese interests.

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A decades-long insurgency simmers in Balochistan, where a number of important CPEC projects are underway. Baloch insurgents have **attacked** Chinese **projects** and **workers**. To protect Gwadar's port town, one **proposal** includes the construction of a perimeter security fence with entry checkpoints. Such schemes threaten to further **alienate** local communities.

The CPEC also **faces** domestic political opposition in Pakistan, with infighting between provinces and the central government over the allocation of investments. Opposition parties have leveled accusations of preferential treatment along the eastern route, claiming the government's proposals for the distribution of services, industrial parks, and special economic zones denies some provinces access to investment opportunities and only benefits Punjab. The lack of transparency surrounding the negotiated deals has heightened **concerns** and **skepticism** that only a select few, if any in Pakistan, will benefit from the investments.

Addressing these concerns will require more than additional troops to protect the projects. Unless Pakistan's federal government works with provincial and local authorities to convince communities that these projects are in their best interest, the CPEC's viability will remain in doubt. China's own tolerance for attacks is difficult to anticipate, but because the CPEC is a flagship of the OBOR initiative China may be willing to weather more violence. Yet if Pakistan is unable to provide sufficient security or address the concerns of domestic opponents, projects will have trouble getting off the ground and will fail to prompt follow-on investments or deliver commercial success.

Implications

If successful, the CPEC could provide important benefits to Pakistan's economy. Economic growth is vital to political stability, and therefore the project should be considered a welcome development and encouraged by the United States.

That said, the initiative will also raise concerns, especially from India and other neighbors worried about growing Chinese assertiveness. Indian analysts **question** the **implications** of Chinese investments and worry about Beijing's **ambitions** in South Asia. Gwadar Port is perceived in India as less likely to become a vibrant economic hub than to serve as a naval base for China's expanded blue water fleet and operations throughout the **Indian Ocean**. Additionally, Indian Prime Minister Narendra Modi and other officials have lodged **complaints** with Beijing, protesting current and proposed projects because they run through territory claimed by India. To reduce the likelihood that Chinese activities in Pakistan exacerbate regional tensions, Washington could raise the issue in bilateral dialogues with New Delhi and Beijing, or even play host to a trilateral discussion.

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The United States will also have its own long-term concerns about the CPEC, as it represents the leading edge of China's expanding access to, and likely influence within, Eurasia. As Pakistan grows closer to China, there may be temptation in Washington to compete for influence in Islamabad. This competition is best avoided, as it would be costly, unwinnable, and almost certainly counterproductive to other U.S. goals in Pakistan and the region. Pakistanis will reach their own conclusions about how best to pursue relations with Beijing and Washington, and are likely to pursue distinct ties with both sides. U.S. officials should seize the opportunity provided by Pakistan's intense focus on the CPEC to advance its own set of politically sustainable goals in Pakistan, paying particular attention to U.S. concerns about terrorism, nuclear proliferation, and the war in Afghanistan.

Finally, though Chinese and Pakistani officials are wary of U.S. overtures, the CPEC should be appreciated as an opportunity for closer trilateral cooperation. The United States could redirect a portion of current civilian assistance funds into projects that are aligned with CPEC goals—such as technical improvements to Pakistan's national power grid—to help create jobs, spur economic growth, and provide incentives for additional outside investment. U.S. aid can and should continue to play a constructive role in Pakistan, and if harmonized with Chinese efforts could enhance the efficacy of both. This would require opening a new, detail-oriented dialogue with both Pakistani and Chinese officials. In addition, U.S. officials, including from the State Department and Export-Import Bank, should use their conversations with Pakistani counterparts to ensure that CPEC-style protections for

Chinese corporations and investors are also applied to U.S. firms. The CPEC will have the best chance of transforming Pakistan's economic outlook if it also sparks a wave of foreign investment from other countries, including the United States.

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