

## **China – Pakistan Economic Corridor - The Geo-Strategic Dimension and Challenges**

**Majid Mahmood**

### **Introduction**

The geographical location of a country determines its role in the world politics. It denotes that how critically beneficial or non-beneficial is the country to the other countries in social, economic and political respects. Pakistan is located at a very strategically important place on the globe. It is situated at the juncture of energy proficient to energy deficient countries. The geo-strategic importance of Pakistan is also evident from the fact that it is surrounded by world's emerging economic giants; i.e. India and China, and countries rich in natural resources; i.e. Afghanistan and Iran.

China and Pakistan have developed strong bilateral trade and economic ties and cooperation over the years. China has gradually emerged as Pakistan's major trading partner both in terms of exports and imports<sup>1</sup>. Bilateral trade and commercial links between the two countries were established in January 1963 when both signed the first bilateral long-term trade agreement. Under the Free Trade Agreement (FTA) between the two countries – signed on November 24, 2006 and implemented from July 1, 2007 – Pakistan secured market access for several products of immediate export interest. Later, both countries signed the FTA on Trade in Services on February 21, 2009 that became operational from October 10 that year.<sup>2</sup>

According to statistics provided in Pakistan Economic Survey 2013-2014, the volume of trade between Pakistan and China has increased from US\$ 4.1 billion in the year 2006-07 to US\$ 9.2 billion in 2012-13, representing an increase of 124 percent.<sup>3</sup> While China's exports to Pakistan increased by one percent during this period, Pakistan's exports increased by 400 percent from around \$600 million in 2006-07 to \$2.6 billion in 2012-13. As a result, China's share in Pakistan's total exports has gradually picked up from four percent in 2008-09 to 10 percent during the fiscal year 2013-14.<sup>4</sup>

Pakistan is strategically a very important destination for China as it links China to three regions, the South Asian region, the Middle East and Central Asia. The China-Pakistan Economic Corridor (CPEC) planned to be developed with Chinese investment is expected to further strengthen economic and strategic cooperation between the two countries. Chinese Premier Li Keqiang emphasized the construction of the CPEC during his May 2013 visit to Pakistan. The corridor will connect Gwadar Port in Balochistan to Kashgar in north-western China, which will make Gwadar not only fully operational but also a significant deep sea port in the region. Opened for operations in 2007, the control of Gwadar Port was transferred to China's state-owned China Overseas Ports Holding in February 2013. Since then, Gwadar is undergoing a major expansion to turn it into a full-fledged, deep-water commercial port. When the corridor is constructed, it will serve as a primary gateway for trade between China and the Middle East, and Africa. The corridor is expected to cut by 12,000-kilometre the route that Middle East oil supplies must now take to reach Chinese ports.

### **The Strategic Dynamics**

CPEC is part of China's efforts meant to strengthen its trade and commerce connectivity with different regions of world. In September 2013, Chinese President Xi Jinping emphasized reviving the ancient trade routes connecting China, Central Asia and Europe by developing three main corridors through southern, central and northern Xinjiang, which connect China with Russia, Europe and Pakistan. Also, the Chinese have recently increased focus on the Bangladesh-China-India-Myanmar corridor that would provide China's landlocked Yunnan province access to the Bay of Bengal.<sup>5</sup>

While China's prime focus in constructing these corridors seems to strengthen its trade and economic connectivity with countries in the region and enhance exports, it is expected that Pakistan would emerge as a hub of commerce and trade in the region. The CPEC plan also includes establishment of multiple economic and industrial zones, and road and railway links between Pakistan and China. The corridor also anticipates developing regional connectivity with India and Afghanistan—although it is still too early to comment whether regional element of the CPEC would become operational in the short term. If it does it could enhance regional economic and trade cooperation, that in turn would contribute towards regional peace and stability.

Gwadar holds central place in the utility of the China-Pakistan Economic Corridor because without making the Gwadar Port fully functional, it would be difficult for China to see the planned corridor as an energy corridor that appears to be one of its main objectives.<sup>6</sup> Located near the Strait of Hormuz, which channels about one third of the world's oil trade, Gwadar could play a key role in ensuring China's energy security.

Pakistan Scholar Dr. Rifaat Hussain argues in his paper titled, *Sino-Pakistan Ties: Trust, Cooperation and Consolidation*: “South Asia, despite its potential, remains a segmented region and lacks trans-border connectivity. It is significant to note that during his first visit to the region, Chinese Prime Minister Li Keqiang offered a “handshake across Himalayas” by emphasizing that ‘there is enough space in the world for the development of India and China,’ and that ‘both countries view each other as partners for mutual benefit and not as rivals or competitors’. Speaking to the news media Chinese Premier said: ‘World peace and regional stability cannot be a reality without strategic mutual trust between India and China. And likewise, the development and prosperity of the world cannot be a reality without the cooperation and simultaneous development of China and India,’ he said. While in Pakistan he offered Chinese help in resolving Pakistan’s energy crisis and in their joint statement both countries committed themselves to ‘tap the potential of trade, logistics’ and agreed to enhance interconnectivity and jointly develop a long-term plan for China-Pakistan economic corridor”.<sup>7</sup>

Dr. Rifaat further argues that “With the return to power of PML-N, led by Mian Nawaz Sharif, following May 2013 national elections a new dynamism is being seen in Pak- China economic cooperation. In an effort to build Pakistan-China economic corridor, several agreements have been signed between the two countries to construct road and railway links between Xinjiang and the Gwadar port in Baluchistan”.<sup>8</sup>

China’s advocacy of Pakistan-China economic corridor must be seen in the context of Beijing’s continuing search for access to global energy resources by investing in and deepening political relationships with energy producing states and the countries on the transit route. In the last decade China has assisted in the construction of deep-sea ports in Pakistan, Bangladesh and Sri Lanka. This so called ‘string of pearls’ strategy with Gwadar port situated at the edge of Arabian Sea

bordering Strait of Hormuz and Persian Gulf, while Chittagong located in Bay of Bengal and Hambantota in Indian Ocean, will help China overcome its 'Malaccan Dilemma'. China envisions connecting these sea-ports with its different provinces through rail and road network for supplying energy to its economy.

## **Challenges for Corridor**

### **Security Threats**

The security of the corridor is of crucial importance for Pakistan as well as China in order to further strengthen trade and development-related ties. It is feared that growing militancy will threaten the commencement of projects or parts of the corridor design. It will thus be a challenge for both countries to develop *The China-Pakistan Economic Corridor* in the stipulated time frame.<sup>9</sup>

As the threat perceived both by the Chinese and the Pakistani government, has been found to be real, Pakistan will be providing a special security division comprising 12,000-men strong army battalions and Civil Armed Forces wings dedicated to protect the Pakistan-China economic projects. The division will be headed by a Major General and will be made up of nine army battalions and six CAF wings (Rangers and Frontier Corps).<sup>10</sup>

### **Geography of the CPEC**

The CPEC is a big project that will undertake the construction of highway and railway links running through most of Pakistan starting from Gwadar in Balochistan and culminating in Kashgar in western China, while passing through parts of Balochistan, Sindh, Punjab, Khyber Pakhtunkhwa provinces, and Gilgit-Baltistan in northern Pakistan to reach the Khunjrab Pass and beyond to China.

Analyst Safdar Sial of Pakistan Institute of Peace Studies (PIPS) has eloquently described two alignments of CPEC:

**“Eastern alignment:** Pakistan and China have decided to initially construct the eastern alignment of the corridor mainly due to two reasons: first, Chinese companies are reportedly willing to undertake the construction of the eastern alignment on a BOT (build-operate-transfer) basis, and secondly it is more secure compared to the western alignment planned earlier. The eastern alignment will run

through only a few areas of Balochistan and KP provinces and avoid areas where the security situation is more volatile compared to other parts of the country.<sup>11</sup> This change in original planning earned some criticism from parliamentarians in these provinces who thought the new alignment will deprive their respective provinces of development and employment opportunities.

**Western alignment:** This was the original alignment which the government says it has deferred until the eastern alignment of the corridor is completed. According to the western alignment plan, the economic corridor starts from Gwadar and runs through some southern and eastern districts of Balochistan, respectively, and some districts in South Punjab to reach D.I. Khan in KP. From D.I. Khan, it further extends to Islamabad and Abbottabad and from there onwards the route merges with eastern alignment. The western alignment will have an additional regional connectivity link to Afghanistan through Chaman and will connect to Iran through Quetta-Kho-e-Taftan link”.<sup>12</sup>

### **Political and economic constraints**

Although Pakistan regards China an “all-weather friend” and bilateral relations between the two countries have never been easy over the course of history, yet it is important to evaluate the variables that can affect Pakistan’s political and economic capacity and response to implement the elements of the larger CPEC project over longer periods of time. Important among these variables are: 1) Pakistan’s political stability and policy consistency; and 2) The present situation of Pakistan’s economy and future scenarios.

With regard to the first variable, a positive aspect is that there is almost consensus among Pakistan’s political parties on maintaining friendly relations with China which suggests that in principle there should be no major political impediment in the way of the construction of the China-Pakistan Economic Corridor. With an exception of minor segments among nationalist parties in Balochistan, Pakistan’s regional parties also support strengthening of bilateral ties with China.

Apart from that, long-term political stability will be required in Pakistan to smoothly implement projects such as the CPEC. In the past, Pakistan has faced many phases of political instability and turmoil that weakened the country’s development roadmap and also affected policy consistency.

As far as the second variable is concerned, economic growth and development are linked to political stability to a great extent. In the case of a prolonged political crisis and economic meltdown gripping the country, financial allocations for the project could be disturbed causing delays in the project implementation. The China-Pakistan Economic Corridor project needs about \$32 billion of investments. Funds for the project are expected to come mainly from Chinese banks and corporations.<sup>13</sup>

### **Conclusion**

China's new leadership has launched a series of foreign policy and economic initiatives whose implications reach far beyond their own region. Through the new vision, formats and instruments outlined above, China demonstrated its willingness to take on greater global and regional responsibility. As such, it is fulfilling a demand made by the industrialised West – but on its own terms and in selected areas aligned with its own interests. Pakistan will be key to Chinese policy towards its South Western regions. Furthermore it will be interesting to watch as to how China will connect with other exiting energy transportation projects such as Iran-Pakistan gas pipeline and potential India-Central Asia projects apart from existing TAPI pipeline project. If China were to connect with these projects there will be a great boost for regional stability.

*Majid Mehmood is an  
Associate Research Officer at CISS*

## **Endnotes**

---

<sup>1</sup> Safdar Sial . Pakistan Institute of Peace Studies , The China-Pakistan Economic Corridor: an assessment of potential threats and constraints ,, san-pips.com/download.php?f=268.pdf, Accessed July 05,2015

<sup>2</sup> Ibid

<sup>3</sup> For details see chapter 8 of Pakistan Economic Survey 2013-2014 available at <[http://finance.gov.pk/survey/chapters\\_14/08\\_Trade\\_and\\_Payments.pdf](http://finance.gov.pk/survey/chapters_14/08_Trade_and_Payments.pdf)>

<sup>4</sup> Ibid

<sup>5</sup> Safdar Sial . Pakistan Institute of Peace Studies , The China-Pakistan Economic Corridor: an assessment of potential threats and constraints , Accessed July 05,2015, san-pips.com/download.php?f=268.pdf

<sup>6</sup> Ibid

<sup>7</sup> Riffat Hussain, Sino-Pakistan Ties: Trust , Cooperation and Consolidation , <http://www.nust.edu.pk/INSTITUTIONS/Directories/GTTN/Download%20Section/1.%20Sino-Pakistan%20TiesTrust.%20Cooperation.%20and%20Consolidation%20by%20Dr.%20Rifaat%20Hussain.pdf> , accessed July 15, 2015

<sup>8</sup> Ibid

<sup>9</sup> Safdar Sial . Pakistan Institute of Peace Studies , The China-Pakistan Economic Corridor: an assessment of potential threats and constraints ,, san-pips.com/download.php?f=268.pdf, Accessed July 05,2015

<sup>10</sup> Mateen Haider, Army's special security division to protect Chinese workers in Pakistan , <http://www.dawn.com/news/1177322> , accessed July 22, 2015.

<sup>11</sup> Safdar Sial . Pakistan Institute of Peace Studies , The China-Pakistan Economic Corridor: an assessment of potential threats and constraints ,, san-pips.com/download.php?f=268.pdf, Accessed July 05,2015

<sup>12</sup> Ibid

<sup>13</sup> Daily Times, Asian Infrastructure Investment Bank to fund Pak-China economic project, <http://www.dailytimes.com.pk/business/06-Nov-2014/pak-china-economic-corridor-project-to-get-funding-from-aiib>, Accessed July 05,2015.