VIVEKANANDA INTERNATIONAL FOUNDATION

Corridor Calculus

China Pakistan Economic Corridor
&
China's Comprador Investment Model in Pakistan

MONOGRAPH

Vivekananda International Foundation
3, San Martin Marg, Chanakyapuri,
New Delhi – 110021

Designed, printed and bound by IMPRINT SERVICES, New Delhi

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by

Sushant Sareen

About the Author

Sushant Sareen

Sushant Sareen did his masters in economics from the Delhi School of Economics and later qualified for the Indian Civil Service and joined the Indian Railway Traffic Service in 1993. A year later he resigned from Government and joined Public Opinion Trends, a news agency that monitored news and developments in South Asia. Since then he has been a close observer of the political situation in South Asia, specialising on Pakistan. He was the Executive Editor, Public Opinion Trends. He has also been Associate Editor, southasianmedia.net, a South Asian news portal being run by the South Asian Free Media Association (SAFMA). Sushant Sareen is also a founder member of SAFMA. For a short while he was General Secretary, SAFMA India and later remained a member of the SAFMA India Executive Committee. Between 2002 and 2004, he was the Honorary Director, Pakistan Centre at the Observer Research Foundation. He is currently a Consultant with the Pakistan Project of Institute for Defence Studies and Analyses (IDSA). He is also Senior Fellow, Vivekananda International Foundation.

He is the author of the book: "The Jihad Factory - Pakistan's Islamic Revolution in the Making". In addition he has contributed chapters to books published by the Jamia Milia Islamia University, Jammu University and IDSA. He has also contributed papers on the situation in Pakistan and on India-Pakistan peace process for journals like World Focus, AGNI and Dialogue. He has written columns for a number of Indian newspapers including The Pioneer, Tehelka, Sakaal Times, rediff.com, India Abroad, Ajit, The Tribune, Deccan Herald, New Indian Express, Economic Times, Hindustan Times, Rashtriya Sahara etc. Sushant regularly appears on all major TV and radio networks, including Times Now, CNN-IBN, NDTV India, NDTV 24x7, Headlines Today, NewsX, Aaj Tak, ABP News, Al Jazeera, IBN7, ANI, BBC, Radio Pakistan, VoA, PTV, Lok Sabha TV, Rajya Sabha TV, News Nation, India TV, India News, and DD News.

Acknowledgment

I would like to thank Director VIF, Gen NC Vij, for the enormous patience he showed over repeated violation of deadlines, for the gentle pressure he exerted so that I stayed on the job and for the confidence he reposed in my assurances that he would be satisfied with the end product; Thanks are also due to both Gen Vij and Lt Gen Sawhney for their suggestions on the structure of the monograph.

I got valuable assistance from a young intern attached with me. Navroz Singh dug out the references and meticulously checked them to ensure there were no error.

Finally, a word of thanks to my friend, Bhavna Seth Ranjan, who edited the monograph.

Sushant Sareen
Senior Fellow, VIF

FOREWORD

1. The monograph on the China-Pakistan Economic Corridor (CPEC) is one of four studies Vivekananda International Foundation has undertaken to examine the ambitious 'One Road, One Belt' initiative of China both by road and sea.

2. The CPEC has attracted a lot of attention and interest, both in the region and beyond. The Pakistanis are calling it not just a 'game-changer' but also a 'destiny changer'. In fact, Pakistan has practically wagered its future on the CPEC. The enthusiasm for CPEC in Pakistan and the hype surrounding it has led many in India to look at the CPEC in the context of the rhetoric and not the reality of the project. The monograph on CPEC by VIF Senior Fellow Sushant Sareen is an attempt to deconstruct this rhetoric and analyse the reality of the project.

3. In a meticulously researched study, the author has brought out how the idea of Gwadar becoming the gateway to Central Asia and China is more than a quarter century old. Starting from Pakistan dreaming of capturing the Central Asian trade and transit in the early 1990s, to Pakistan dreaming that it will capture the bulk of Chinese West-bound (to middle-east, Africa and Europe) trade and transit traffic, there has been quite a transformation in focus of Pakistan. With Central Asia, Pakistan hopes to become patron and puppeteer; with China, Pakistan is reconciled to playing the client.

4. While there is little doubt that the CPEC investments – close to \$50 billion over a fifteen year period, which makes it roughly \$ 4 billion a year – will provide a boost to the anaemic Pakistan economy, there are serious questions about whether it will indeed prove to be the game-changer it is being made out to be. Strategically, the CPEC is certainly indicative of the close relationship between China and Pakistan. In fact, more than the economics of the CPEC, it is the Chinese strategic calculus behind it that is of greater interest. As the study by Sushant shows, the strategic importance of CPEC is as much about China finding an alternative to get over its 'Malacca

Dilemma', as to do with Gwadar becoming a naval base which allows China the operational capability to conduct operations in Africa and Middle-East.

5. Despite the growing economic difficulties in China and the security threats that loom large over any major investment project in the Af-Pak region, the road connectivity between Pakistan and China through Pakistan-occupied Kashmir (PoK) is in all likelihood going to be upgraded. For India, this is a matter of concern not just because it is seen as an encircling move, but also because Chinese involvement and investments in PoK disturbs the status quo by making a material and substantive change in a territory over which India has a solid claim. Indian opposition to CPEC is, therefore, entirely justified.

6. The monograph breaks many of the myths and hyperbole surrounding the CPEC. For instance, there is as yet neither a railway track being built, nor any oil or gas pipeline coming up connecting Pakistan to China through PoK. What is more, bulk of the Chinese investments are in power projects and only around a quarter in infrastructure projects. The viability of the infrastructure projects will depend on investments by Chinese businesses and if these investments are not forthcoming then the viability of the entire CPEC scheme will become extremely suspect. Therefore, it is too early for anyone to say the last word on the CPEC and it could also be possible that CPEC might yet prove to be a game-changer but not in the way many Pakistanis are expecting.

New Delhi

March 2016

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&
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I. A DONE DEAL

Soon after the PPP formed the government in 2008, President Asif Zardari put forward a very ambitious proposal costing around $60 billion for around 70 mega projects to Pakistan's Western donors who had formed the Friends of Pakistan group.[1] The proposal was later tweaked to present it as a solution to the terrorism running rampant in the country and was packaged in the form of a plea for a Marshall Plan type of scheme for the troubled FATA region. Figuring that they might be on to a good thing, the Pakistanis broadened the scope of the proposal and made a pitch for an ambitious Marshall Plan for the whole country.[2] Mr Zardari plugged the Marshall Plan line at the Friends of Democratic Pakistan conference in Tokyo and even raised the amount of money needed for aid and reconstruction to rebuild a terrorism-ravaged Pakistan to $100 billion.[3] But Western donors were neither interested nor ready to sink in this kind of money.

Pakistan had to wait for another five years before the Chinese stepped in with the offer of an ambitious infrastructure and trade corridor proposal — the China-Pakistan Economic Corridor (CPEC) — that is regarded by many Pakistanis as the Chinese version of the Marshall Plan that the US had devised to rebuild post-World War II Europe. Interestingly enough, around the same time that Mr Zardari was making a pitch for a Marshall Plan for Pakistan, Chinese officials were deliberating a mammoth $500 billion plan to stabilise the economies of developing countries in order to foster new external demand for Chinese goods. This was touted as the Chinese version of the Marshall Plan, though the official who floated the idea preferred to call it 'Shared Development Plan'.[4]

After months of delay because of a political agitation in the centre of

[1] Khalid Mustafa, 'Pakistan seeks $ 60 billion investment from FOP', The News International 20/11/2008, accessed at http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=18468&Cat=13&dt=11/20/2008

[2] 'Pakistan needs a Marshall Plan: Haqqani', Daily Times 09/04/2009, accessed at http://archives.dailytimes.com.pk/main/09-Apr-2009/pakistan-needs-a-marshall-plan-haqqani

[3] 'Zardari urges Marshall Plan type aid drive', The News International 17/04/2009; Also see Najam Sethi, 'Finally some good news', The Friday Times 25 Sept-1 Oct 2009

[4] 'Xu Shanda: Chinese version of the Marshall Plan for an $ 500 billion', Daily News 06/08/2009, accessed at http://finance.sina.com.cn/china/hgjj/20090806/07566578273.shtml (translated into English using Google translate)

Islamabad, the Chinese President Xi Jinping finally managed to visit Pakistan in April 2015. While all visits by Chinese leaders are invariably termed 'historic' and are accompanied by over-the-top verbiage to reaffirm the 'higher than Himalayas, deeper than oceans, sweeter than honey and stronger than steel' relationship between the two 'Iron Brothers', President Xi's visit was, by all accounts, going to be very special. The much anticipated agreement between China and Pakistan for the mammoth Economic Corridor project that would connect Kashgar in the troubled western Chinese province of Xinjiang through the Khunjerab pass to Gwadar in the troubled western Pakistan province of Balochistan was finally going to be signed. The CPEC is the shortest outlet to the sea for western China and provides China access to the markets in the Gulf region and beyond and, at the same time, provides an alternate access to the energy supplies from the Middle-East that would help China address its Malacca Dilemma. Or does it?

The CPEC agreement is expected to catapult the Sino-Pak relationship to an entirely new level by giving it an economic dimension that is quite incidental, even marginal, to their otherwise robust bilateral ties. Not only will the CPEC give the much-needed economic heft to the relationship, it is also seen as the glue that will bind the two countries into a mutually dependant strategic compact. This, at least, is how the Pakistanis generally perceive the CPEC. How much of this is true and how much is hype is another matter because as with everything involving China, and even more Pakistan, what appears on the surface (headline making announcements) is quite different from what is below the surface (the numbers that underlie the headlines). It is this subterranean reality that puts question marks on not just the spin being given to the CPEC being a 'game changer' in the region, but also on the heroic assumptions that underpin this entire project.

Of course, when big numbers like $46 billion are being discussed and milked for both domestic and international audiences, the details of how these numbers will play out tend to get swept under the carpet, more so when the man bearing the 'gifts' is the Chinese President. A few noises were made advocating caution and raising questions about how much benefit would flow Pakistan's way, as also whether the numbers were going to add up, not just for Pakistan but also for investors. Sceptics also asked if the whole spin of Chinese investment being something of a game-changing, destiny-defining development would end up in a replay of a similar hype over Turkish investments a few years earlier.[5]

Pakistan had dreamt of being the gateway to Central Asia and China nearly a quarter of century earlier — soon after the exit of the Soviet occupation forces from Afghanistan and the subsequent collapse of the Soviet Union that led to the emergence of independent Central Asian Republics.[6] But it was only after the Chinese decided to invest in the CPEC and make it a part of the much grander and ambitious 'One Belt One Road' project that Pakistan's dreams of being the pivot and the land bridge between Central Asia, China and the Middle-East had any chance of coming true.

The Fine Print

The negotiations on the CPEC started in right earnest in May 2013 after the formal handing over of the Gwadar port to China to coincide with the visit of Chinese Premier Li Keqiang to Islamabad.[7] This was followed by Nawaz Sharif's visit to Beijing in July 2013 just a couple of weeks after assuming the office of Prime Minister.[8] It was during this visit that China and Pakistan agreed to set up a Joint Cooperation Committee on the long-term plan for CPEC and nominated the National Development and Reform Commission of China and the Planning and Development Ministry of Pakistan as the leading ministries to develop the CPEC plan and also decided to set up secretariats in the two nodal ministries for this purpose. A number of proposals for projects under CPEC were floated during this visit.[9] The proposal started crystallising in 2014 with projects being identified and the scale of investments required for operationalising the mega project started to steadily go up from around $20 billion to over $46 billion at the time of

[5]Sakib Sherani, 'Evaluating CPEC', DAWN 01/05/2015, accessed at http://www.dawn.com/news/1179169/evaluating-cpec; also Cyril Almeida, “Chinese Whispers”, DAWN 19/04/2015, accessed at http://www.dawn.com/news/1176805/chinese-whispers

[6]Nasim Zehra, 'Achievements of ECO conference', The News International 14/02/1993

[7]Shoiab A Raja, 'China to help end Pak energy crisis: Li', The News International 23/05/2013, accessed at http://www.thenews.com.pk/Todays-News-13-23033-China-to-help-end-Pak-energy-crisis-Li

[8]Khalid Mehmood, 'Nawaz's Beijing visit: Trade corridor tops MoU bonanza', Express Tribune 06/07/2013, accessed at http://tribune.com.pk/story/573220/nawazs-beijing-visit-trade-corridor-tops-mou-bonanza/

[9]Joint Statement on Common Vision for Deepening Pakistan-China Strategic Cooperative Partnership in the New Era, 05/07/2013, Ministry of Foreign Affairs, Government of Pak, accessed at http://mofa.gov.pk/pr-details.php?mm=MTMwMQ,,

President Xi's visit — the latest estimate is that it could touch $50 billion and even go beyond if some of the new proposals, including the controversial Diamer-Bhasha dam are included under the umbrella of CPEC.[10]

On April 20, 2015, President Xi Jinping landed in Islamabad, and the same day a slew of agreements and MoUs (51) were signed that set the CPEC ball rolling. Alongside, the Chinese President also performed the ground breaking ceremony for five power projects and unveiled plaques for another eight projects, many of them part of the CPEC. The details of the agreements, MoUs and inaugurations (related to CPEC) are fairly impressive, at least on paper:

1. Joint statement between the People's Republic of China and the Islamic Republic of Pakistan on establishing the all-weather strategic cooperative partnership
2. Minutes of the 4th JCC of China-Pakistan Economic Corridor
3. Exchange of notes on feasibility study of Gwadar hospital between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan
4. MoU on provision of Chinese governmental concessional loan for second phase up-gradation of Karakorum Highway (Havelian to Thakot) between Ministry of Commerce of the People's Republic of China and Ministry of Finance and Economic Affairs of the Islamic Republic of Pakistan
5. MoU on provision of Chinese governmental concessional loan for Karachi-Lahore Motorway (Multan to Sukkur) between Ministry of Commerce of the People's Republic of China and Ministry of Finance and Economic Affairs of the Islamic Republic of Pakistan
6. MoU on provision of Chinese governmental concessional loan for Gwadar port East Bay Expressway Project between Ministry of Commerce of the People's Republic of China and Ministry of Finance and Economic Affairs of the Islamic Republic of Pakistan

[10] Mehtab Haider, 'China to include $14 bn Diamer-Bhasha dam in CPEC', The News International 15/11/2015, accessed at http://www.thenews.com.pk/Todays-News-13-40703-China-to-include-$14-bn-Diamer-Bhasha-Dam-in-CPEC

7. MoU on provision of Chinese governmental concessional loan for Gwadar International Airport between Ministry of Commerce of the People's Republic of China and Ministry of Finance and Economic Affairs of the Islamic Republic of Pakistan
8. Protocol on banking services to agreement on trade in services between the Government of the Islamic Republic of Pakistan and the Government of the People's Republic of China
9. Framework agreement on cooperation on major communications infrastructure project between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan
10. MoU on cooperation between NDRC of the People's Republic of China and Ministry of Planning, Development and Reform of the Islamic Republic of Pakistan
11. MoU on pro bono projects in the Port of Gwadar region between Ministry for Planning, Development and Reform of the Islamic Republic of Pakistan and the International Department of the Central Committee of the Communist Party of China
12. Framework agreement between the National Railway Administration, Government of the People's Republic of China and the Ministry of Railways, Government of the Islamic Republic of Pakistan on joint feasibility study for upgradation of ML1 and establishment of Havelain dry port of Pakistan Railways
13. Framework agreement between NEA and MoPNRon Gwadar-Nawabshah LNG terminal and pipeline project
14. Commercial contract on Lahore Orange Line Metro Train Project
15. Agreement on financing for Lahore Orange Line Metro Train Project
16. MoU on financing for KKH upgradation Phase-2 (Havelian to Takot), KLM, Gwadar East Bay Expressway, Gwadar International Airport projects
17. Financing agreement relating to the 870 MW hydroelectric Suki Kinari

Hydropower Project between EXIM Bank of China, Industrial and Commercial Bank of China Limited and SK Hydro (Private) Limited

18. Financing cooperation agreement between EXIM Bank of China and Port Qasim Electric Power Company (Private) Limited (on Port Qasim 2x660MW coal-fired power plant)
19. Framework facility agreement for 720MW Karot hydropower project between China Development Bank Corporation, EXIM Bank of China and Karot Power Company (Private) Limited
20. Term sheet of the facility for Zonergy 9x100 MW solar project in Punjab between China Development Bank Corporation, EXIM Bank of China and Zonergy Company Limited
21. Drawdown agreement on Jhimpir wind power project between UEP Wind Power (Private) Limited as borrower and China Development Bank Corporation as lender
22. Terms and conditions in favour of Sindh Engro Coal Mining Company for Thar Block II 3.8Mt/a mining project, Sindh province, Pakistan, arranged by China Development Bank Corporation
23. Terms and conditions in favour of Engro Powergen Thar (Private) Limited, Sindh province, Pakistan, for Thar Block II 2x330MW coal-fired power project arranged by China Development Bank Corporation
24. Framework agreement of financing cooperation in implementing the China-Pakistan Economic Corridor between China Development Corporation and HBL
25. MoU with respect to cooperation between WAPDA and CTG
26. MoU among PPIB, CTG and Silk Road Fund on development of private hydro power projects
27. Facility operating agreement for Dawood Wind Power project between ICBC and PCC of China and HDPPL
28. Framework agreement for promoting Chinese investments and industrial parks' development in Pakistan between ICBC and HBL on financial services corporation

29. The financing term sheet agreement for Thar Block-I between ICBC and SSRL
30. Energy strategic cooperation framework agreement between Punjab Province of Pakistan and China Huaneng Group
31. Framework agreement on China Pakistan Economic Corridor Energy Project Cooperation between Ministry of Water & Power and China Export & Credit Insurance Corporation (SINOSURE)
32. Cooperation agreement between Sino-Sindh Resources (Pvt.) Ltd and Shanghai Electric Group for Thar Coalfield Block I Coal-Power Integrated Project in Pakistan
33. Cooperation agreement for Matiyari-Lahore and Matyari (Port Qasim)-Faisalabad Transmission and Transformation Project between National Transmission Distribution Company (NTDC) and National Grid of China
34. IA on Port Qasim coal-fired power plant between Power China and GoP
35. Facility agreement for Sahiwal Coal-fired Power Plant Project between Industrial and Commercial Bank of China Limited, Huaneng Shandong Electricity Limited and Shandong Ruyi Group
36. Cooperation agreement on Hubco Coal-fired Power Plant Project between CPIH and Hubco Power Company
37. Facilitation agreement on Salt Range Coal-fired Power Project between CMEC and Punjab Government

The CPEC-related plaques that were unveiled were:

1. China-Pakistan cross-border optical fibre cable system project
2. Metro rail transit system on the Orange Line in Lahore

And the power projects that were inaugurated were:

1. Karot 720 MW hydropower project
2. Dawood 50 MW wind-power project
3. Sachal 50 MW wind-power project

4. Zonergy 900 MW solar project
5. Jhimpir 100 MW wind-power project[11]

The investment envisaged through CPEC is not a one-shot infusion of tens of billions of dollars; the Chinese investment will be spread over a 15-year period from 2015 to 2030. The bulk of the investment, between $35 billion and $37 billion is for power projects and only around $9 billion to $10 billion (including around $5.9 billion for road projects and $3.7 billion for railway projects) is for infrastructure projects — roads, railways, ports, airports, fibre optic cable — that will connect Kashgar to Gwadar and form the spine of the CPEC.[12] Given this skewed pattern of investment, the question arises whether the power projects are paving the way for infrastructure projects or vice versa. There is also a proposal to set up special economic zones (SEZs) in all the provinces which will give a fillip to industrial and economic activity in Pakistan.[13] The expectation is that China will shift to Pakistan many of the labour-intensive industries that are becoming uncompetitive in China due to rising labour costs. But even these are going to come only after the power projects come online because the crippling power shortages that exist in Pakistan have rendered the plans for SEZs and industrial parks unviable.[14] As far as the power projects are concerned, most of them are private investments by Chinese companies with sovereign guarantees and very high rates of return on equity.[15] The infrastructure projects are to be financed to the tune of 85% through concessionary loans by China.

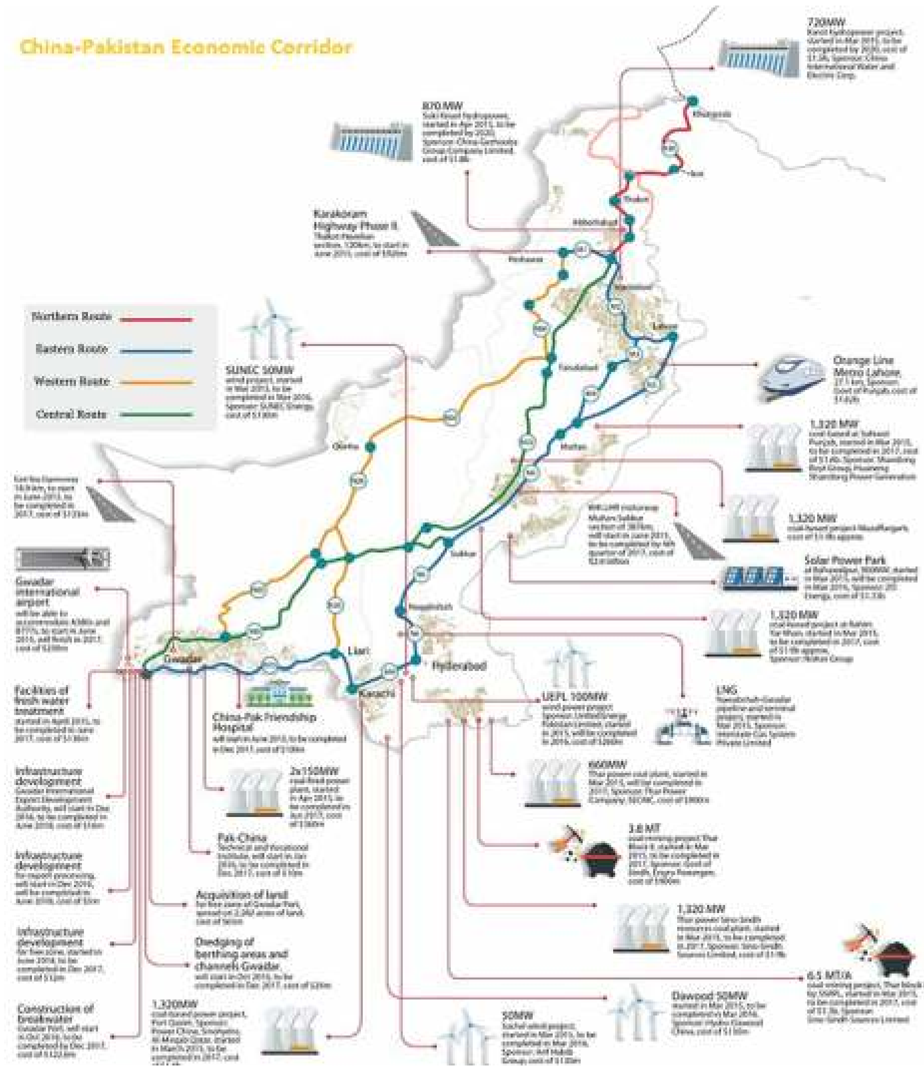
[11]Irfan Haider, 'Details of agreements signed during Xi's visit to Pakistan', DAWN 20/4/2015, accessed at http://www.dawn.com/news/1177129

[12]Khaleeq Kiani, 'Pakistan has to keep pace with China on economic corridor: Iqbal', DAWN 18/04/2015, accessed at http://www.dawn.com/news/1176695/pakistan-has-to-keep-pace-with-china-on-economic-corridor-iqbal; Also see "Economic Corridor: Pakistan, China to set up work on framework accord", Express Tribune 13/03/2015, accessed at http://tribune.com.pk/story/852339/economic-corridor-pakistan-china-to-step-up-work-on-framework-accord/

[13]Mehtab Haider, Govt proposes 29 industrial parks, 21 mineral zones under CPEC', The New International 26/07/2015, accessed at http://www.thenews.com.pk/Todays-News-13-38785-Govt-proposes-29-industrial-parks-21-mineral-zones-under-CPEC; Also see Asim Yasin, 'Ahsan Iqbal succeeds in hammering out consensus on CPEC route', The News International 30/05/2015, accessed at http://www.thenews.com.pk/Todays-News-13-37743-Ahsan-Iqbal-succeeds-in-hammering-out-consensus-on-CPEC-route

[14]Noor Aftab, 'Govt defers plan of CPEC industrial parks', The News International 15/09/2015, accessed at http://www.thenews.com.pk/Todays-News-13-39667-Govt-defers-plan-of-CPEC-industrial-parks

[15]'Power requirement: Higher return on energy projects surprises senators', Express Tribune 17/09/2015, accessed at http://tribune.com.pk/story/763170/power-requirement-higher-return-on-energy-projects-surprises-senators/



Timelines and Phases

The CPEC programme is to be implemented in two phases. In the first phase, the trade and transport corridors are to be put in place and, in the second phase, the SEZs and economic nodes will be developed. The first phase has what are called the 'Early Harvest Projects', which are to be accorded high

[16] Source: http://www.mappk.com/pak-china-economic-corridor-western-route-map/

priority so that they can be operational by 2017–18 and can then pave the way for the rest of the CPEC projects. These include Karot Hydel project ($1.65 billion), Peshawar-Lahore-Karachi Railway upgradation ($3.7 billion), Thar coal power projects ($2.8 billion), two coal mining blocks in Thar ($2.2 billion), Gwadar-Nawabshah gas pipeline ($2 billion), coal-based power plant in Port Qasim ($2 billion), solar power park in Bahawalpur ($1.3 billion), Havelian-Islamabad Karakoram Highway ($930 million), wind power plant in Jhimpir ($260 million) and Gwadar international airport ($230 million).[17] In addition, there is the Multan-Sukkur section of the Karachi-Lahore motorway ($2.6 billion) and the Gwadar East Bay Expressway ($230 million).[18]

Over the next three to five years, the total investment that is going to be made in the 'Early Harvest Projects' is likely to be around $28 billion, out of which the bulk — $22 billion — will be in power projects. The rest of the money — $18 billion to $20 billion — will come in later and will be spread over a decade or more.[19] The power projects that will be set up by 2018 will generate 10,400 MW to be followed by more power projects (approx. 6,000 MW) that will be set up in the second phase.[20] This means that over the next few years, Pakistan which has otherwise seen plummeting foreign direct investment, will on an average get around $4 billion to $5 billion of FDI every year from China under the CPEC.[21] For the Pakistan economy, this amount will certainly work as a booster shot, something that has been acknowledged by even the World Bank, International Monetary Fund (IMF) and the Asian Development Bank (ADB). While the ADB expects CPEC to give a boost to private investment and economic growth[22], and the World Bank

[17] Engr Hussain Ahmad Siddiqui, CPEC projects: status, costs and benefits', DAWN 13/07/2015, accessed at http://www.dawn.com/news/1194014/cpec-projects-status-cost-and-benefits

[18] Op.cit.

[19] Sushant Sareen, 'Chinese Chequers in Pakistan: Hyperbole, Hazards and some Heft for the Economy', 27/04/2015, accessed at http://www.vifindia.org/article/2015/april/27/chinese-chequers-in-pakistan-hyperbole-hazards-and-some-heft-for-the-economy

[20] Khaleeq Kiani, 'Chinese President due today on historic visit', Dawn 20/04/2015, accessed at http://www.dawn.com/news/1177046/chinese-president-due-today-on-historic-visit

[21] Zafar Bhutta, 'Balochistan to receive big slice of Chinese funds', Express Tribune 16/03/2014 accessed at http://tribune.com.pk/story/683281/balochistan-to-receive-big-slice-of-chinese-funds/

[22] Shahbaz Rana, 'ADB paints gloomy piture over deficit, growth targets', Express Tribune 23/09/2015 accessed at http://tribune.com.pk/story/961683/asian-development-outlook-adb-paints-gloomy-picture-over-deficit-growth-targets/

believes that there will be an uptick in the investment-GDP ratio but cautions that slowdown in China may impact CPEC[23]; the IMF sees the CPEC as a sign of growing investor interest in Pakistan.[24] But this money will come at a cost, which includes the very high rates of return that have been promised on the investment. And even though the loan component carries very easy terms, given that Pakistan will have to contend with a very high outflow of funds to repay its debts to other countries during this period, the net effect is likely to be neutral, and perhaps even negative.[25] Of course, to an extent the inflow of Chinese investments will ease the burden of outflow to other creditors. But even this will depend on whether or not, and to what extent, the Chinese pump money into the local economy by sourcing labour, equipment, materials, etc., from inside Pakistan. If the Chinese bring their own labour and import most, even if not all, of their requirements from China, then Pakistan could find itself in a fairly serious financial bind.

A Comprehensive Package

But the potential pitfalls are all in the future. For now, the CPEC is being sold as a mega project that will transform the Pakistan economy. Both Pakistani and Chinese officials have taken pains to dispel the generally held impression within Pakistan and without that the CPEC is just a road and rail link connecting western China to the Arabian Sea at Gwadar. Pakistan's Minister for Planning and Development, Ahsan Iqbal, has made it clear that CPEC isn't the name of a single road or rail alignment but is a corridor "spread over entire Pakistan from south to north having several projects on energy, infrastructure, health, education, clean drinking water, etc. It will be developed due to its own unique geographical location and will

[23] Amin Ahmed, 'Investment ratio to jump on CPEC-related projects', Dawn 18/10/2015, accessed at http://www.dawn.com/news/1213802/investment-ratio-to-jump-on-cpec-related-projects

[24] 'CPEC signals investors interest', Dawn 14/11/2015, accessed at http://www.dawn.com/news/1219500/cpec-signals-investors-interest

[25] Shahbaz Rana, 'Moody's report: International bonds weaken Pakistan's debt sustainability', Express Tribune 08/11/2015, accessed at http://tribune.com.pk/story/987225/moodys-report-international-bonds-weaken-pakistans-debt-affordability/; Also see Mehtab Haider, 'Pak foreign loan, liabilities inching towards $ 68 billion', The News International 13/11/2015, accessed at http://www.thenews.com.pk/Todays-News-2-350978-Pak-foreign-loan-liabilities-inching-towards-$68-billion; Zaheer Abbasi, 'Next two generations mortaged by government: Pasha', Business Recorder 08/05/2014, accessed at http://www.brecorder.com/top-stories/0:/1180613:next-two-generations-mortgaged-by-government-pasha/?date=2014-05-08

complement other ports within and outside Pakistan through existing regional infrastructure".[26]

The Chinese Ambassador to Pakistan, Sun Weidong, described the CPEC as "a long-term, comprehensive cooperation framework, which covers a wide range of different sectors. Roads, railroads, telecommunication routes and people-to-people exchanges can all be regarded as components of CPEC. The cooperation in these fields will bring prosperity and development."[27] A statement issued jointly by Chinese and Pakistani officials after a meeting to review the draft of the long-term CPEC plan agreed that "CPEC is a comprehensive package of cooperative initiatives and projects, which covers key areas including connectivity, information network infrastructure, energy cooperation, industries and industrial parks, agricultural development, poverty alleviation, tourism, financial cooperation, as well as livelihood improvement including municipal infrastructure, education, public health and people-to-people communication. Both sides stressed that the prime objective of the economic corridor was to benefit all the regions and people in Pakistan."[28]

All these formulations are at best half-truths aimed at addressing the growing disquiet inside Pakistan that the entire project is centred around Punjab and to some extent Sindh, bypassing most of Balochistan and Khyber Pakhtunkhwa. What is more, a lot of the talk about improving lives, providing public goods like health and education, etc., is only that because there are no solid plans to actually deliver these social infrastructure projects on the ground and they are at best promises which may or may not be honoured.

Conceptually, the framework of CPEC was outlined by Chinese President Xi Jinping in a signed article titled *China-Pak Dosti Zindabad* that he wrote on the eve of his visit to Islamabad. In this article, President Xi called for the need to "form a '1+4' cooperation structure with the economic corridor at

[26]'Gawadar will be Pakistan's 2nd door to global economy after Karachi', Ministry of Planning, Development and Reform, accessed at http://www.pc.gov.pk/?p=3607

[27]'A corridor to future development', Global Times 05/08/2015, accessed at http://backup.globaltimes.cn/DesktopModules/DnnForge%20-%20NewsArticles/Print.aspx?tabid=99&tabmoduleid=94&articleId=935609&moduleId=405&PortalID=0

[28]Op. cit.

the centre and the Gwadar Port, energy, infrastructure and industrial cooperation being the four key areas to drive development across Pakistan and deliver tangible benefits to its people."[29]

In order to put the projects on a fast-track and prevent bureaucratic roadblocks and red-tape from stalling the work, the two sides put in place a decision-making structure that would be directly supervised from the Prime Minister's Office in Islamabad where a special unit was set up monitor progress of every project.[30] Below this was the Joint Cooperation Committee of the NDRC of China and Planning Ministry of Pakistan. Alongside, four joint working groups were set up to look at planning, energy, transport infrastructure and Gwadar projects.[31] Later, a fifth working group to deal with economic zones was also set up.[32]

The working groups are to prepare projects and plans and then put them before the JCC for final approvals. A secretariat was set up in the Planning Ministry in Islamabad to coordinate and fast track the work and was later supplemented by another secretariat in the Railway Ministry for long-term projects.[33] In 2014, the Prime Minister also set up a Steering Committee on Energy projects in his office to coordinate and synchronise the activities of various ministries in order to prevent any delay in the setting up of the projects. The Energy Steering Committee was tasked with pretty much the entire gamut of issues related to the energy sector, including pricing, logistics, transmission and distribution as well as security and contractual issues.[34]

[29]Xi Jinping, 'China-Pak Dosti Zindabad', The News International 20/04/2015, accessed at http://www.thenews.com.pk/Todays-News-2-313782-China-Pak-Dosti-Zindabad

[30]Ansar Abbasi, 'Multi-tier mechanism in place for timely completion of CPEC projects', The News International 08/05/2015, accessed at http://www.thenews.com.pk/Todays-News-13-37379-Multi-tier-mechanism-in-place-for-timely-completion-of-CPEC-projects

[31]Naveed Butt, 'Budget fiscal year 2016: Energy projects under CPEC require Rs 250 billion allocation', Business Recorder 15/05/2015, accessed at http://www.brecorder.com/top-stories/0:/1186311:budget-fiscal-year-2016-energy-projects-under-cpec-require-rs-250-billion-allocation/?date=2015-05-15

[32]Noor Aftab, 'Joint working group to establish CPEC-related projects', The News International 12/08/2015, accessed at http://www.thenews.com.pk/Todays-News-2-333725-Joint-working-group-to-establish-CPEC-related-projects

[33]'Secretariat being set up to facilitate long-term China projects', Dawn 12/1/2015, accessed at http://www.dawn.com/news/1156524/secretariat-being-set-up-to-facilitate-long-term-china-projects

[34]Shahbaz Rana, 'CPEC: China expresses reservations before entering power purchase agreements', Express Tribune 12/07/2014, accessed at http://tribune.com.pk/story/734743/cpec-china-expresses-reservations-before-entering-power-purchase-agreements/

Financing the Project

Asides of the projects, structures to implement them and the strategic imperatives driving the entire CPEC scheme, what has really caught the imagination of people within Pakistan and without is the quantum of money — $ 46 billion — that China is ready to sink into Pakistan. Given that there are serious questions about not just the economic viability of CPEC, but also the returns that Chinese investors will get from their investment, the funding of the projects is raising eyebrows. There isn't adequate clarity on where the funding is coming from. The governor of the State Bank of Pakistan himself has expressed ignorance about how much of the money is debt, how much is equity and how much is in kind.[35] According to one report, out of the $46 billion that will be pumped into Pakistan under CPEC programmes until 2025, $34 billion will be private sector investment by Chinese companies, banks and insurers. Another $11 billion will be concessional loans and there will be some grants as well.[36] Already the Chinese have converted a $230 million loan for the Gwadar International Airport into a grant and have also converted another $140 million loan for the East Bay Expressway into an interest-free loan. In addition, interest payments on Chinese loans have been reduced from 3% to 1.6%, though the Pakistanis wanted them to be reduced to 1%.[37]

In November 2014, the Chinese President announced the formation of a $40 billion Silk Road Fund, the primary purpose of which was to “break the connectivity bottleneck” in Asia and beyond.[38] The first project that was funded by the Silk Road Fund was the Karot hydel project in Pakistan. During the visit of President Xi Jinping, the joint statement declared that the Silk Road Fund would be “willing to actively seize opportunities to invest in and

[35]Katherine Houreld, 'Pakistan should be more transparent on $46 billion China deal, state bank head says', Reuters 04/12/2015, accessed at http://in.reuters.com/article/pakistan-china-idINKBN0TN28920151204

[36]Khaleeq Kiani, 'Issues in China's offer for investment', Dawn 17/11/2014, accessed at http://www.dawn.com/news/1144932/issues-in-chinas-offer-for-investment

[37]Mehtab Haider, 'China converts $230m loan for Gwadar airport into grant', The News International 23/09/2015, accessed at http://www.thenews.com.pk/Todays-News-13-39840-China-converts-$230m-loan-for-Gwadar-airport-into-grant; Also see Naveed Butt, 'Economic Corridor: China to extend assistance at 1.6 percent interest rate', Business Recorder 03/09/2015, accessed at http://www.brecorder.com/top-stories/0:/1223450:economic-corridor-china-to-extend-assistance-at-16-percent-interest-rate/?date=2015-09-03

[38]Jeremy Page, 'China to Contribute $ 40 billion to Silk Road Fund', Wall Street Journal 08/11/2014, accessed at http://www.wsj.com/articles/china-to-contribute-40-billion-to-silk-road-fund-1415454995

provide financing for other projects under the framework of CPEC".[39] Interestingly, the Silk Road Fund, whose shareholders include top Chinese government-owned banks like Export-Import Bank of China, China Investment Corp and China Development Bank is not an aid agency but is looking for 'reasonable returns' on its investments.[40] The Chinese banks will extend loans to Chinese companies which will then invest in commercial ventures in CPEC, i.e. power projects, etc.[41] And most of these loans are backed by insurance fees, sovereign payment guarantees and other such instruments, which in turn make it difficult to assess what the final rate of return on investment will be and what these commercial ventures will cost Pakistan.

The Pakistanis are, however, very bullish about the CPEC and do not seem very concerned about the possible financial implications of the investments that are being made. This is partly because Pakistan isn't getting the sort of financial assistance it used to from the West anymore and China is now the largest lender, as well as emerging as the largest source of FDI, both courtesy the CPEC.[42] In the first quarter of 2015–16, 88% of FDI in Pakistan ($190 million) was from China, which has started raising concerns about a dependency syndrome developing in Sino-Pak ties.[43] But what Pakistani officials are looking at are the potential spin-offs of CPEC, which, as is their wont, are over-hyped and quite over the top, even hallucinatory. While the CPEC is being seen as a 'magnet' for 'Business to Government' projects which will ride on the back and be in addition to the 'government-to-government' CPEC projects, some of the numbers floating around are, to say the least, bizarre.[44]

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[39] 'Joint Statement between the Islamic Republic of Pakistan and the People's Republic of China on Establishing the All-Weather Strategic Cooperative Partnership', 20/04/2015, Ministry of Foreign Affairs, Government of Pakistan, accessed at http://www.mofa.gov.pk/pr-details.php?mm=MjczMw

[40] '$40 billion Silk Road Fund no 'aid agency', says China', Economic Times 12/03/2015, accessed at http://economictimes.indiatimes.com/news/international/business/40-billion-silk-road-fund-no-aid-agency-says-china/articleshow/46541089.cms

[41] Thomas Zimmerman, 'The New Silk Roads: China, the U.S., and the Future of Central Asia', Pg 8, CIC NYU accessed at http://cic.nyu.edu/sites/default/files/zimmerman_new_silk_road_final_2.pdf

[42] Israr Khan, 'China top lender to Pakistan in 2015-16', The News International 07/06/2015, accessed at http://www.thenews.com.pk/Todays-News-2-322280-China-top-lender-to-Pakistan-in-2015-16

[43] Shahid Iqbal, 'FDI rises but remain dependent on China', Dawn 16/10/2015, accessed at http://www.dawn.com/news/1213341/fdi-rises-but-remains-dependent-on-china

[44] Mian Saifur Rehman, 'CPEC is an FDI magnet: PBIT chief', The News International 18/10/2015, accessed at http://www.thenews.com.pk/Todays-News-13-40249-CPEC-is-an-FDI-magnet-PBIT-chief

One such estimate of the investment that is likely to be made in Pakistan because of CPEC from all over the world over the next 15 years is $500 billion![45] A member of the federal cabinet has come up with another figure of $70 billion, which he claims will come as annual revenue from transit fee.[46] Even 10 years earlier, in 2005, a similar estimate of $60 billion per annum economic activity was to have been generated by Gwadar.[47] Clearly, if the Chinese or even Central Asian cargo has to pay this amount as transit fee to Pakistan, the economic viability of the CPEC becomes even more questionable than it already is.

[45]'CPEC will bring Pakistan foreign investment', Dawn 22/10/2015, accessed at http://epaper.dawn.com/DetailImage.php?StoryImage=22_10_2015_004_004

[46]Ali Salman, 'Weighing in on benefits: Implementing transit fee on CPEC routes', Express Tribune 15/11/2015, accessed at http://tribune.com.pk/story/992014/weighing-in-on-benefits-implementing-transit-fee-on-cpec-routes/

[47]'Gwadar port to generate $ 60 bn economic activity', Daily Times 29/01/2005, see POT Pakistan Series Vol. XXXIII No. 25 pp 876-77

II. GATEWAY GWADAR: A SORDID SAGA OF THE PORT AND ITS PROBLEMS

The Gwadar port is in many ways the centre of gravity, the pivot and the fulcrum behind the entire CPEC programme. For Pakistan, Gwadar has for long been a port with the potential to transform the economic landscape of the country, but only if it could rope in another country to develop the port. In a sense, a degree of fungibility was always attached to Gwadar by the Pakistani establishment. Gwadar has been both the stuff of dreams which never seemed to fructify, as well as the backwater that could magically become a city of gold.

From 1958, when Pakistan bought Gwadar from Oman until the early 1970s, there was really very little that Pakistan did with the port city. In the early 1970s, the rump Pakistan offered US a military base in Gwadar as a quid pro quo for lifting an arms embargo. The offer was made twice, first in 1973 and then the next year. But the Americans weren't interested at that time.[48] The tumult of 1979 — the siege of Mecca, Islamic revolution in Iran and the Soviet invasion of Afghanistan — changed the American view about Gwadar. In a paper written in 1980, the former US Chairman Joint Chiefs of Staff, Admiral Thomas Moorer, advocated the setting up of a naval base in Gwadar.[49] Although the US and Pakistan had started working together against the Soviet occupation of Afghanistan, the Gwadar proposal didn't take off. Pakistan's foreign minister, Sahibzada Yaqub Khan, denied that Pakistan was giving a naval base to the US in Gwadar and claimed that the US wasn't interested.[50] For the next six years nothing much happened, probably because with US military and economic assistance flowing into Pakistan, there was no real urgency to develop Gwadar. In 1988, however, Pakistan and Belgium signed a contract to develop the Gwadar harbour and build a mini-port to promote fishing activities and ease import of goods.[51] Gwadar,

[48] Christophe Jaffrelot, 'A tale of two ports', YaleGlobal Online 07/01/2011, accessed at http://yaleglobal.yale.edu/content/tale-two-ports ; Also see 'Bhutto offered Gwadar port to USA, say African experts', Jang 15/5/1983, see POT Pakistan Series Vol. XI No. 107 pp 1449

[49] A.Z. Hilali, 'Contemporary Geopolitics of Indian Ocean and Great Power Competition over Gwadar', in “Major Powers' Interests in Indian Ocean: Challenges and Options for Pakistan” by IPRI and Hans Siedel Foundation, accessed at http://www.ipripak.org/wp-content/uploads/2015/08/Indian-ocean.pdf

[50] 'Yaqub denies provision of naval base facilities to USA', Nawai Waqt 07/08/1982, see POT Pakistan Series Vol. X No. 170 pp 2282

[51] 'Rs 894 Million Pak-Belgian contract to build Gwadar port', Dawn 18/07/1988, see POT Pakistan Series Vol. XVI No. 126 pp 2787

however, remained a backwater and the mini-port that was constructed really didn't see any worthwhile activity.[52]

Renewed Importance

It was in the 1990s that Gwadar suddenly acquired salience once again. The Soviets had been ousted from Afghanistan, the Cold War was over, the Central Asian republics had become independent and a race of sorts had started to capture the trade and transit of Central Asia, which was supposed to be the new El Dorado. In 1992, Pakistan invited bids for developing a deep-sea port in Gwadar. The port was to serve as a trans-shipment port for the Gulf as well as a transit port for Central Asia.[53] That Pakistan was covetously eyeing Central Asia was clear when in February 1993 the Economic Cooperation Organisation (ECO) conference was organised in Quetta, where a Quetta Action Plan was approved to prepare a blue-print for economic cooperation in the 10-nation bloc. The very next month, Prime Minister Nawaz Sharif inaugurated the Gwadar fish harbour-cum-mini port and declared that Gwadar will be the gateway to not just the economic development of ECO countries, but also provide a fillip to trade and economic activities of the Central Asian states as well as Afghanistan, Iran and Turkey. At that time also, Pakistan's vaulting ambitions knew no bounds with Nawaz Sharif announcing that Gwadar would have an oil refinery, ship yard, warehouses, modern airport and a motorway, almost all the projects that also formed part of the CPEC, albeit 20 years later![54]

By late 1994, with the establishment of a naval base at Ormara and amidst talk of commercial use of Ormara, there was a bit of a reality check on Gwadar's prospects sans any infrastructure — railway lines, roads, electricity, gas — if it had to become a gateway to Central Asia.[55] But 1994 was also the year that the Taliban burst on to the scene in Afghanistan. The

[52]Abdul Majeed, 'Comments: truth about Gwadar port project', The News International 30-31/07/2006, see POT Pakistan Series Vol. XXXIV No. 179 pp 41-44

[53]'Interested parties invited to build Gwadar deep-sea port', Business Recorder 11/09/1992, see POT Pakistan Series Vol. XX No. 214 pp 4644

[54]'Nawaz Sharif inaugurates Rs 1681 million Gwadar port', The News International 16/03/1993, see POT Pakistan Series Vol. XXI No. 67 pp 1433

[55]'Realisation of a dream', Muslim 11/10/1994, see POT Pakistan Series Vol. XXII No. 251 pp 2235

chaos that reigned in Afghanistan after the Mujahideen takeover of Kabul in April 1992 had ensured that the much desired transit to and from Central Asia through Afghanistan remained stillborn. But in 1994, Pakistan had started sending trade convoys through Afghanistan to Central Asia and the Taliban were facilitating these convoys.

A news report in 1995 revealed that with every change in government, the plans for Gwadar to be developed as the shortest sea route for Central Asian states changed, and with it the inevitable whiff of scandal started surrounding Gwadar, including rumours of plans to hand over Gwadar to Oman, which were strongly denied by the then PPP government.[56] While President Farooq Leghari accepted that some 100 acres of land were gifted to the Sultan of Oman, he denied any loss of Pakistani sovereignty over the territory[57]; Prime Minister Benazir Bhutto emphatically declared that her government was developing Gwadar for giving shortest access to sea to Central Asia and that this would increase the strategic importance of the country.[58] The Urdu press jumped into the controversy with its peculiar brand of bizarre insinuations and conspiracy theories.[59] In the face of the controversy, the Omani ruler simply pulled back his offer of investment, forcing the government to send a delegation to try and woo him back.[60] Subsequently, though there were reports about the Omani government agreeing to invest $500 million to develop Gwadar, nothing really came out of it.[61] The PPP government tried to find other investors for Gwadar, including the Japanese.[62] Later, it was acknowledged that once Oman pulled out, apart from the Chinese, no other country was ready to help Pakistan with the project.[63]

[56] 'Documents reveal Gwadar was to be made sea route to CARs', The News International 22/01/1995; also see 'Confounding confusion', Frontier Post 20/01/1995; 'Unseemly controversy', Dawn 20/01/1995; 'Confusion about Gwadar', Muslim 20/01/1995, see POT Pakistan Series Vol.XXIII No. 24 pp 196-200

[57] 'Only 100 acres of land gifted to Oman, not sold: Leghari', Nation 19/01/1995, see POT Pakistan Series Vol. XXIII No. 17 pp 135-36

[58] 'Gwadar being made trade route: PM', Pakistan Times 18/01/1995, see POT Pakistan Series Vol. XXIII No. 17 pp 136

[59] 'Comments: Playing hide and seek on Gwadar', see POT Pakistan Series Vol. XXIII No. 19 pp 157-60

[60] 'Mission being sent to woo back Oman ruler to Gwadar port', Dawn 20/08/1995, see POT Pakistan Series Vol. XXIII No. 196 pp 1707-08

[61] 'Oman to invest $ 500 million in Gwadar port', Muslim 30/03/1996, see POT Pakistan Series Vol. XXIV No. 80 pp 776

[62] 'PM assures all facilities to Japenese investors', Nation 20/01/1996, see POT Pakistan Series Vol. XXIV No. 22 pp 205-06

[63] 'No objection to Chinese help on Gwadar port: Minister', Daily Times 26/08/2002, see POT Pakistan Series Vol. XXX No. 202 pp 4083-84

By 1996, there was once again a change of government in Pakistan, with Nawaz Sharif becoming Prime Minister for a second time. But more significant was the capture of Kabul by the Taliban, who were reported to have agreed to provide rail, road and pipeline access through Afghanistan to Central Asia, raising hopes once again in Pakistan to become the gateway to Central Asia. Even though Gwadar acquired new urgency, in the time-honoured tradition of Pakistani politics, the Nawaz Sharif government cancelled a $280 million contract that the PPP had signed with a Turkish company and invited new bids in 1997.[64] Once again there was a whiff of scandal when the government of Pakistan signed an agreement with a bankrupt American company to develop port facilities in Gwadar.[65] It was another year before yet another agreement was signed, this time with the China Harbour Engineering Corporation for Rs 3.5 billion for building the first phase of the Gwadar deep sea port.[66] Two weeks later, on October 12, 1999, Nawaz Sharif was deposed in a military coup. The new 'Chief Executive' Gen Pervez Musharraf promised to give priority to the Gwadar port project.[67] But a massive financial crunch which confronted the military ruler, partly because of the parlous state of finances which he inherited and which were exacerbated by the sanctions that kicked in because of the military coup, had its impact on the port project which remained stalled.

Enter the Chinese

In May 2001, the Chinese resurrected the Gwadar port project. During his visit to Pakistan, Chinese Premier Zhu Rongji announced Chinese support for the Gwadar deep sea port and coastal highway projects.[68] A couple of months later the Chinese signed an agreement to provide $200 million for the construction of the Gwadar port — the balance $50 million was to be arranged by Pakistan. The port would comprise three berths and would take

[64] 'Fresh bids invited for Gwadar port project', News 10/09/1997, see POT Pakistan Series Vol. XXV No. 216 pp 2199-2200

[65] 'Gwadar port contract awarded to a bankrupt US company', Frontier Post 09/09/1998, see POT Pakistan Series Vol. XXVI No. 239 pp 3108

[66] 'Accord for building Gwadar port signed', The News International 18/09/1999, see POT Pakistan Series Vol. XXVII No. 252 pp 3626-27

[67] 'Musharraf assures rightful share to Balochistan', The News International 01/12/1999, see POT Pakistan Series Vol. XXVII No. 323 pp 4887

[68] 'Coup brought stability to Pakistan, says Zhu', The News International 13/05/2001, see POT Pakistan Series Vol. XXIX No. 129 pp 2173-74

three years to complete.[69] The assistance was in the form of a long-term, soft loan and was granted after Pakistan agreed to Chinese demands for a complete change in the original plan for the port so that it could accommodate long-term requirements.[70] Interestingly, at the same time that the Gwadar deal was being signed, the Chinese also managed to sign a deal with Pakistan to supply 69 diesel locomotives on a $250 million supplier credit.[71] Whether or not there was some quid pro quo between the Gwadar deal and the locomotive deal is not clear, but most of the locomotives bought at that time ended in the junkyard and the company supplying the engines was blacklisted.

Be that as it may, amidst all the excitement that the Chinese funding caused, came a dampener from the Planning Commission of Pakistan which questioned the viability of the Rs 14 billion project on economic and financial grounds until another Rs 25 billion was not invested in building the necessary basic infrastructure that would make the port useable. The government, however, over-ruled the Planning Commission objections and cleared the project on 'strategic grounds'.[72]

In March 2002, Gen Pervez Musharraf inaugurated the construction work of the Gwadar port project. Like his predecessors, Musharraf too outlined his grand designs for Gwadar, which included an industrial zone and all the other infrastructure needed for making the port operational for commercial traffic. The port was to be built in two phases, with three berths in the first phase to be completed in three years, and another 21 berths in phase two, the time-frame of which wasn't defined. The airport was to be upgraded with Omani assistance.[73] The total project was estimated to cost around $1.2 billion with $250 million in the first phase — the Chinese contributed $198 million which included a grant of $49 million, an interest free loan of $31

[69]'$ 200 M Chinese aid for Gwadar, Makran projects', Dawn 11/08/2001, see POT Pakistan Series Vol. XXIX No. 194 pp 3332

[70]'China to give $ 400M soft-term credit for 2 Pak projects', Nation 05/08/2001, see POT Pakistan Series Vol. XXIX No. 189 pp 3244-45

[71]'China to help strengthen Pakistan's economy: Zhu' subhead 'Supply of rail engines, coaches', The News International 10/08/2001, see POT Pakistan Series Vol. XXIX No. 193 pp 3301-02

[72]'Planning Commission has serious reservations on Gwadar', The News International 26/08/2001, see POT Pakistan Series Vol. XXIX No. 205 pp 3537

[73]'Gwadar port launched: Chinese aid lauded', Dawn 23/03/2002, see POT Pakistan Series Vol. XXX No. 68 pp 1318-19

million and a loan of $118 million on very easy terms payable over 15–30 years[74] — and the remaining investment of around $900 million in the second phase. There was some confusion on what the draft of the port would be, which was crucial for determining what sort of ship traffic would be handled by the port as well as the purpose that the port would serve — a feeder port or a trans-shipment port and a regional hub where 'mother ships' could dock. Some reports claimed a draft of 11.5 metres, some 12.5 and still others 15.5 metres in the first phase and going up to 20 metres in the second phase. The port was to be linked to the Indus Highway at Ratodero in Sindh for onward traffic to Central Asia and China through the Karakoram Highway (KKH).[75]

The Baloch Factor

Even as the construction of the port started, there was another storm brewing in Balochistan, where nationalist and even separatist sentiment had started bubbling, once again. Musharraf was aware of this and had earlier tried to sell Gwadar to the Baloch by saying that once the port and the highway were developed, Balochistan would become the best developed area of the economy.[76] Baloch nationalists remained unconvinced and mounted a series of protests, not just against the Gwadar port, but also the cantonments that the army was building in Balochistan, which were seen as a tightening of Pakistan's colonial grip over the province.

Matters took a more serious turn from 2004 when Chinese engineers and workers started being directly attacked. Three Chinese engineers were killed and nine injured in a car bomb blast in Gwadar in May 2004.[77] The next month there were four serial blasts in the town, but no casualties.[78] A month later, three 'home-made' bombs exploded in the city, once again without causing any damage or casualty except for creating a sense of insecurity.[79]

[74]'China reassures support for completion of Gwadar', The News International 21/01/2003, see POT Pakistan Series Vol. XXXI No. 29 pp 651

[75]Sino-Pak deal soon to finalise $ 1B Gwadar seaport project', Frontier Post 01/03/2002, see POT Pakistan Series Vol. XXX No. 52 pp 973-74

[76]'Cabinet okays promulgation of MFIs ordinance', The News International 06/09/2001, see POT Pakistan Series Vol. XXIX No. 214 pp 3717-18

[77]'Probe ordered into Gwadar killings', The News International 05/05/2004, see POT Pakistan Series Vol. XXXII No. 108 pp 2024

[78]'Explosions rock Gwadar', Nation 24/06/2004, see POT Pakistan Series Vo. XXXII No. 153 pp 2964

[79]'Three bomb blasts rock Gwadar', Nation 01/08/2004, see POT Pakistan Series Vol. XXXII No. 186 pp 3618

The next year, there were two sets of multiple bomb explosions within days of one another. Once again, there were no casualties or damage.[80] In 2006, three Chinese engineers were shot dead in an ambush in Hub, Balochistan.[81] In 2010, Chinese engineers had a narrow escape when an audacious attack was mounted with rockets being fired at the Pearl Continental Hotel in Gwadar from a boat off the coast.[82] But it wasn't only in Balochistan that Chinese engineers and civilians were being targeted. It was all over Pakistan, which made the security of Chinese citizens one of the primary concerns of the Chinese government in their negotiations with Pakistani authorities.

Despite the string of attacks, work continued on the Gwadar port. By January 2005, the work was completed and the port was to be inaugurated during the visit of the Chinese Premier Wen Jiabao to Pakistan in April. But the ceremony was put off due to security fears that ensured that Wen wouldn't go to Gwadar.[83] In June 2005, the government of Pakistan was all set to start work on the $865 second phase of the Gwadar port project. This involved installing necessary port infrastructure and deepening the channel to handle big cargo ships, plus building two oil, six container and two bulk cargo terminals over the next five years.[84] Later it was decided that it would take another year to make the first phase of the port operational (which included dredging the channel to ensure a depth of 14.5 metres) and until then there would be no work on the second phase.[85]

Operationalizing the Port

The first phase was ready by June 2006, after which Pakistan started looking for port operators to run the port. Three companies made the bid: Dubai Ports World, Port Singapore Authority (PSA) and the China Harbour

[80] 'Three bombs go off in Gwadar', Daily Times 10/05/2005 and 'Four blasts rock Gwadar', Dawn 15/05/2005, see POT Pakistan Series Vol. XXXIII No. 111 pp 4229-30, & No. 115 pp 4359

[81] 'Three Chinese engineers, driver shot dead in Hub', Nation 16/02/2006, see POT Pakistan Series Vol. XXXIV No. 39 pp 32-33

[82] 'Chinese engineers survive hotel attack', Daily Times 08/07/2010, accessed at http://archives.dailytimes.com.pk/national/08-Jul-2010/chinese-engineers-survive-quetta-hotel-attack; also see 'Rockets fired at Gwadar hotel', Daily Times 07/07/2010, accessed at http://archives.dailytimes.com.pk/national/07-Jul-2010/rockets-fired-at-gwadar-hotel

[83] 'Gwadar port opening put off', The News International 31/03/2005, see POT Pakistan Series Vol. XXXIII No. 77 pp 3060

[84] 'Rs 16.3 BN released for Gwadar Port project', Dawn 01/06/2005, see POT Pakistan Series Vol. XXXIII No. 130 pp 4755-56 ; Also 'Govt invites investors to construct 10 berths', The News International 14/06/2005, see POT Pakistan Series Vol. XXXIII no. 141 pp 5106

[85] 'Additional $50M for Gwadar port project', Dawn 23/08/2005, see POT Pakistan Series Vol. XXXIII No. 200 pp 7164

Engineering Company (which had built the port).[86] Out of the three, Dubai was pretty much ruled out after it put practically unacceptable conditions before the Government of Pakistan.[87] There was also a suspicion that Dubai wouldn't let Gwadar flourish because it could steal business from its Jebel Ali port.[88] Later, it transpired that the Chinese did not even 'apply' when international tenders were called for operating the port, and, therefore, the decision was taken to hand over the management of the port to PSA for 40 years.[89]

In February 2007, an agreement was signed with PSA which had undertaken to invest $550 million over five years to develop the port further.[90] The government had earlier agreed to give a 40-year tax exemption on any imports needed to develop the port and also a 20-year tax holiday to corporate income tax from the port.[91] But a year later, not only had a new government led by the PPP assumed office, not a single ship had berthed at the port, ostensibly because of some tariff settlement issues.[92] The first ship came only in March 2008 carrying a shipment of wheat, and it was a huge embarrassment and a terrible advertisement for a port with ambitions to rival Dubai. The depth of the channel — 12.5 metres — did not allow the ship to berth until it discharged its cargo to a smaller ship.[93] The fiasco forced the then Shipping Minister, Qamarruzzaman Kaira, to admit that the port had no road linkage, no rail connectivity and no electricity, and would take three years — 2011 — to become operational.[94]

[86] 'Three companies in the run for Gwadar port operation', The News International 26/07/2006, see POT Pakistan Series Vol. XXXIV No. 174 pp 34-35

[87] 'Dubai firm sets tough terms for Gwadar port', Dawn 25/04/2006, see POT Pakistan Series Vol. XXXIV No. 96 pp 30-31

[88] Waqar Hamza, 'PSA not adhering to investment plans', Nation 05/03/2010, accessed at http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Politics/05-Mar-2010/PSA-not-adhering-to-investment-plans/1

[89] 'Singapore to run Gwadar port', The Post 23/12/2006, see POT Pakistan Series Vol XXXIV No. 300 pp 25-26

[90] 'Gwadar port handed over to Singapore firm', The News International 07/02/2007, see POT Pakistan Series Vol. XXXV No. 32 pp 29-31

[91] 'Gwadar becomes duty-free port', The News International 02/02/2007, see POT Pakistan Series Vol. XXXV No. 28 pp 47-48

[92] Mir Mohammed Ali Talpur, 'The mega follies', Dawn 31/01/2008, accessed at http://www.dawn.com/news/1070873/dawn-editorial-january-31-2008

[93] Maqbool Malik, 'Canadian wheat ship causes embarrassing situation', Nation 03/04/2008, see POT Pakistan Series Vol. XXXVI No. 80 pp 49-50 ; Also see Romail Kenneth, 'First shipment at Gwadar still in doldrums', Daily Times 13/03/2008, accessed at http://archives.dailytimes.com.pk/business/13-Mar-2008/first-shipment-at-gwadar-still-in-doldrums

[94] 'Gwadar port can't be operational before 2011', Daily Times 28/05/2008, accessed at http://archives.dailytimes.com.pk/national/28-May-2008/gwadar-port-can-t-be-operational-before-2011

However, in December 2008, the Gwadar port was declared 'fully functional' when a ship carrying fertilizer docked at the port. The occasion was marked as the 'opening' of the port, even though labour had to be shipped in from Karachi to unload the ship.[95] Incidentally, this was the fourth time the port was being 'opened' in a period of three years.[96] By early 2009, it was increasingly becoming clear that despite government efforts to make the port operational by diverting traffic to it[97], the Gwadar port as it existed, was unviable, uneconomical and unusable because the necessary infrastructure — roads, rail, port facilities — was not in place.[98]

Apart from labour troubles that were affecting port operations[99], the port operator, PSA, was unable to carry out some of the essential work to develop the port because the land required for it was not being transferred by the Pakistan Navy.[100] The PSA had to be given over 2,200 acres of land to develop a free zone, and out of this 584 acres were in the possession of the Pakistan Navy, which the Ministry of Defence and the navy refused to hand over free of cost.[101] The Ports and Shipping Minister informed the Senate of Pakistan that the land in possession of the navy was required for providing necessary trans-shipment facilities, without which the port would come to a standstill.[102]

Towards the end of 2009, a campaign started against PSA. The terms of

[95]Saleem Shahid, 'Gwadar port becomes fully functional', Dawn 22/12/2008, accessed at http://www.dawn.com/news/335336/gwadar-port-becomes-fully-functional

[96]'Gwadar port becomes functional after 4th 'opening'', Dawn 23/12/2008, accessed at http://www.dawn.com/news/335362/gwadar-port-becomes-functional-after-4th-opening

[97]Waqar Hamza, 'Govt paying subsidy for wheat, urea transportation from Gwadar port', Nation 07/01/2010, accessed at http://nation.com.pk/politics/07-Jan-2010/Govt-paying-subsidy-for-wheat-urea-transportation-from-Gwadar-Port

[98]Ahmed Fraz Khan, 'Wheat unloading at Gwadar to cost additional Rs 1.2 bn', Dawn 06/01/2009, accessed at http://www.dawn.com/news/337573/wheat-unloading-at-gwadar-to-cost-additional-rs1-2bn ; Also see Mubarak Zeb Khan, 'Rs585m lost on urea import through Gwadar', Dawn 02/02/2009, accessed at http://www.dawn.com/news/341457/rs585m-lost-on-urea-import-through-gwadar

[99]'Port Singapore-stevedores tussle: wheat and urea shipments diverted to Karachi port', Business Recorder 27/03/2009, accessed at http://aaj.tv/2009/03/port-singapore-stevedores-tussle-wheat-and-urea-shipments-diverted-to-karachi-port/

[100]Maqbool Malik, 'Gwadar at mercy of PSA, squabbling ministers', Nation 11/09/2009 accessed at http://nation.com.pk/politics/11-Sep-2009/Gwadar-at-mercy-of-PSA--squabbling-ministers

[101]'Pakistan Navy demands Rs 7 billion for 584 acre land: MoD refuses to give land for Gwadar Free Zone', Business Recorder 02/02/2009, accessed at http://aaj.tv/2009/02/pakistan-navy-demands-rs-7-billion-for-584-acre-land-mod-refuses-to-give-land-for-gwadar-free-zone/

[102]'Port operations may be affected if navy doesn't vacate land: Ghori', Dawn 29/07/2009, accessed at http://www.dawn.com/news/894735/port-s-operations-may-be-affected-if-navy-doesn-t-vacate-land-ghori

contract were questioned as well as PSA's commitment to Gwadar.[103] PSA was also accused of causing structural damage to the berths.[104] A task force constituted by the Planning Commission recommended cancellation of the contract with PSA. In its report, the task force said that the port was only being used by the government and not a single commercial ship had used the port. Worse, whatever government trade passed through the port had to be subsidised. Most importantly, the report admitted that Gwadar was unviable for trans-shipment between Middle-East and Central Asia until Afghanistan was stable, and a road and rail connection was built to connect Western China.[105]

In 2010, the campaign against PSA picked up steam. Apart from charges that it hadn't lived up to its investment commitments[106], PSA was also charged with failure to bring business to the port.[107] Some of the blame was also heaped on the National Highway Authority for not finishing the road projects without which Gwadar would remain unusable. NHA, in turn, blamed the poor law and order situation in the area, as well as funds crunch for its failure to finish the projects.[108] Even the navy chief advocated cancelling the accord with PSA as it was one-sided and not serving the purpose for which port had been build.[109] By the end of the year, further pressure was mounted when the Supreme Court of Pakistan decided to hear petitions seeking cancellation of the contract.[110]

Meanwhile, reports started appearing that Gwadar might be handed over

[103]Waqar Hamza, 'Handing over of Gwadar port to PSA one-sided', Nation 12/12/2009, accessed at http://nation.com.pk/business/12-Dec-2009/Handing-over-of-Gwadar-Port-to-PSA-onesided

[104]Waqar Hamza, 'PSA continues to damage berth at Gwadar port', Nation 23/12/2009, accessed at http://nation.com.pk/politics/23-Dec-2009/PSA-continues-to-damage-berth-at-Gwadar-Port

[105]Zafar Bhutta, ' PC Task Force for Gwadar port agreement annulment', Business Recorder 30/12/2009, accessed at http://aaj.tv/2009/12/PC-TASK-FORCE-FOR-GWADAR-PORT-AGREEMENT-ANNULMENT/ ; Also see 'Govt urged to scrap Gwadar port deal', Dawn 03/01/2010, accessed at http://www.dawn.com/news/857696/govt-urged-to-scrap-gwadar-port-deal

[106]Ibid. (85)

[107]'PSA fails to bring business to Gwadar', Nation 05/03/2010, accessed at http://nation.com.pk/Politics/05-Mar-2010/PSA-fails-to-bring-business-to-Gwadar/1

[108]'NHA blamed for Gwadar port remaining 'non-operational'', Dawn 26/05/2010 accessed at http://www.dawn.com/news/940997/nha-blamed-for-gwadar-port-remaining-non-operational

[109]Iftikhar A Khan, 'Naval chief wants Gwadar deal cancelled', Dawn 24/09/2010, accessed on 29/09/2010 at http://epaper.dawn.com/ArticleText.aspx?article=24_09_2010_001_010

[110]'SC revives issue of controversial contract for Gwadar port', Dawn 03/11/2010, accessed at http://www.dawn.com/news/892058/sc-revives-issue-of-controversial-contract-for-gwadar-port

to China. In July, during a visit to Beijing, President Asif Zardari had tried to revive the proposal for connecting Gwadar to China by rail and pipeline.[111] Gwadar was also being seen by Chinese companies as an option for shipping copper and gold that they planned to mine in Afghanistan.[112] The Government of Pakistan also announced its intention to seek Chinese involvement in making Gwadar operational during the visit of Chinese Premier Wen Jiabao to Pakistan.[113]

In May 2011, the Pakistan defence minister, Ahmed Mukhtar, who had accompanied Prime Minister Yusuf Raza Gilani on his visit to China, revealed that China had agreed to Pakistan's request to take over the port operations once the agreement with PSA expired. What really raised eyebrows was Mukhtar's comment that Pakistan would be even more grateful if China constructed a naval base at Gwadar.[114] The Chinese foreign office washed its hands off the issue of naval base saying it hadn't heard of it and that it hadn't been discussed.[115] A Chinese expert claimed that Gwadar was just to be a facility that China would have access to, but this wasn't agreed to during the visit.[116]

While negotiations to terminate the agreement between the Government of Pakistan and PSA continued, there were clear signs that PSA was no longer interested in operating the port. This was partly because a court stay order had blocked any possible transfer of the land in possession of the navy and partly because the security situation did not warrant investing money in Gwadar.[117] By the end of August, a deal had been stuck to pave the way for PSA to exit Gwadar and for the port to be handed over to the Chinese. But

[111]'Pak to build rail link, pipeline from Gwadar to China', Nation 09/07/2010, accessed at http://nation.com.pk/Politics/09-Jul-2010/Pak-to-build-rail-link-pipeline-from-Gwadar-to-China/1

[112]'Chinese dragon: Counterproposal submitted for Reko Diq project', Express Tribune 16/12/2010, accessed at http://tribune.com.pk/story/90678/chinese-dragon-counterproposal-submitted-for-reko-diq-project/

[113]'Gilani for Chinese help in making Gwadar port effective', The News International 16/12/2010, accessed on 16/12/2010 at http://www.thenews.com.pk/Todays-News-13-2694-Gilani-for-Chinese-help-in-making-Gwadar-Port-effective

[114]Jeremy Page, 'Beijing agrees to operate a key port, Pakistan says', Wall Street Journal 23/05/2011, accessed at http://www.wsj.com/articles/SB10001424052702303654804576339323765033308

[115]'Friendly but out of loop: China unaware of Gwadar proposal', Express Tribune 25/5/2011, accessed at http://tribune.com.pk/story/174913/china-says-it-is-unaware-of-gwadar-port-proposal/

[116]Andrew Small, 'The China-Pakistan axis: Asia's new geopolitics', pp 105

[117]Zia Khan, 'Singapore port operator on way out of Gwadar', Express Tribune 09/08/2012, accessed at http://tribune.com.pk/story/419578/singapore-port-operator-on-way-out-of-gwadar/

the Ports Minister warned that if the land with the navy wasn't transferred, even the Chinese wouldn't be able to develop Gwadar.[118]

Events moved fairly rapidly after this. It was almost as though the PPP government, whose term was drawing to a close, was in a tearing hurry to hand over the port to China. On January 30, 2013, the federal cabinet approved the transfer of Gwadar port operations to Chinese Overseas Port Holdings Limited[119] and, two weeks later, the formal contract was signed.[120] In May, when Premier Li Kiqiang visited, Gwadar was all set to once again become the pivot, this time of the ambitious CPEC. Not surprisingly, all the roadblocks that impeded the development of Gwadar when it was being operated by PSA started disappearing almost magically. Not only was the 586 acres of land bought from the navy without much ado[121], another 2,000 acres was also made available on lease for 43 years for a free economic zone.[122] A 20-year tax holiday has been extended to all companies operating in the free zone and no sales tax is going to be levied on any plant, machinery and construction material[123]. Under CPEC, around $1 billion will be invested in building the port and related infrastructure, including a water treatment plant, hospital, vocational and technical institute, and coal power plant.[124]

Challenges in the Offing

And yet, for all its potential, Gwadar has its problems. With all the money that is being sunk into Gwadar and all the incentives being given, the Chairman of the Port Authority has admitted that there has been a failure to attract private investment. This could be because it will take until 2019 for the port to become fully operational and have all the necessary

[118]Khaleeq Kiani, 'Singapore allowed to quit port contract', Dawn 29/08/2012, accessed at http://www.dawn.com/news/745409/singapore-allowed-to-quit-port-contract

[119]Shahbaz Rana, 'Too little too late?: Gwadar port transfer to China wins cabinet nod', Express Tribune 31/01/2013, accessed at http://tribune.com.pk/story/500895/too-little-too-late-gwadar-port-transfer-to-china-wins-cabinet-nod/

[120]Syed Irfan Raza, 'China given contract to operate Gwadar port', Dawn 18/02/2013, accessed at http://www.dawn.com/news/786992/china-given-contract-to-operate-gwadar-port

[121]Mehtab Haider, 'Gwadar Free Zone under CPEC on the anvil', The News International 25/01/2015, accessed at http://www.thenews.com.pk/print/20378-gwadar-free-zone-under-cpec-on-the-anvil

[122]'2000 acres leased to China for Gwadar Economic Zone', The News International 27/08/2015, accessed at http://www.thenews.com.pk/print/14299-2000-acres-leased-to-china-for-gwadar-economic-zone

[123]'Gwadar free zone: Companies to get 20 year tax holiday', Business Recorder 02/02/2015 accessed at http://www.brecorder.com/top-stories/0:/1147723:gwadar-free-zone-companies-to-get-20-year-tax-holiday/?date=2015-02-02

[124]Op. cit.

infrastructure connecting it upcountry and beyond.[125] But problems like security, water shortages, land scams, infrastructure issues and poor planning have even earlier stymied the emergence of Gwadar as a 'pearl' in Pakistan's waters. To these exiting problems has been added a new one — inter-provincial tussle about the route through which Gwadar will be connected upcountry and beyond to China. If earlier, as a result of the problems dogging Gwadar, the port saw soaring hopes come crashing down, boom and bust cycles and fingers being burnt, the new problem of the route out of Gwadar has raised the spectre of Pakistan's old bug-bear— inter-provincial disharmony, and, in particular, the sense of deprivation in the trans-Indus provinces of Balochistan and Khyber Pakhtunkhwa — coming alive once again. This means that there is a good chance that investors will wait and watch before they invest in Gwadar.[126]

Among the most crippling problems that bedevil Gwadar is water supply. The existing facilities for supplying water to Gwadar and its adjoining areas are inadequate and if the port city has to become the boom town that it is supposed to become, then the water requirement will go up exponentially. In June 2012, there was an acute shortage of drinking water after the sole source of water to the city — Ankara Kaur dam that had been built in 1993 — dried up.[127] People had to pay an astronomical amount of Rs 35,000 to Rs 40,000 to get tankers to supply water from around 100 kms away. At that time it was announced that the Mirani dam, which was being built, would take care of Gwadar's water problem as it had the capacity to supply around 5 million gallons of water per day to the city.[128] But amidst fears of mass migration from the city, came reports that because of its faulty planning, the Mirani dam wouldn't be able to solve the problem, not until it was connected to Gwadar.[129] But even if this was done, it wouldn't make much

[125]Tahir Amin, 'Gwadar port: GPA chairman highlights snags in project', Business Recorder 05/03/2015, accessed at http://www.brecorder.com/top-stories/0:/1157782:gwadar-port-gpa-chairman-highlights-snags-in-project/?date=2015-03-05

[126]Naziha Syed Ali, 'Gwadar: on the cusp of greatness?', Dawn 27/04/2014, accessed at http://www.dawn.com/news/1102499/gwadar-on-the-cusp-of-greatness

[127]Mohammed Zafar, 'Gwadar risks becoming ghost town due to water shortage', Daily Times 26/06/2012, accessed at http://archives.dailytimes.com.pk/national/26-Jun-2012/gwadar-risks-becoming-ghost-town-due-to-water-shortage

[128]Hina Mahgul Rind, 'Gwadar, adjoining towns face severe water shortage', The News International 28/06/2012, accessed on 29/06/2012 at http://www.thenews.com.pk/Todays-News-3-117075-Gwadar-adjoining-towns-face-severe-water-shortage

[129]Saleem Shahid, 'Main source of drinking water to dry up in coming days: mass migration of people feared from Gwadar', Dawn 01/07/2012, accessed at http://www.dawn.com/news/731011/main-source-of-drinking-water-to-dry-up-in-coming-days-mass-migration-of-people-feared-from-gwadar ; also see Khalid Mustafa, 'Mirani dam proven mega disaster for Balochistan', The News International, 14/06/2011, accessed at http://www.thenews.com.pk/Todays-News-3-52345-Mirani-Dam-proven-mega-disaster-for-Balochistan

difference, in part because even the data that was given by the local authorities was not reliable. Local officials claimed that the population of the city was around 2,00,000 — a 2011 Government of Balochistan district profile projected the population of the area to be almost 3,00,000[130]; moreover, the total water requirement was 3.5 million gallons per day (MGD), but only 2 MGD was being supplied once every four days.[131] The crisis in 2012 had turned so bad that the Pakistan Navy had to ship in around 3,00,000 gallons of water in two tankers.[132]

In 2015, the water crisis once again hit Gwadar. The water level in Ankara Kaur dam, which could supply water for only three months to Gwadar if rains failed, dropped drastically, and the 2 MGD desalination plant that had been set up wasn't working.[133] Taking the Pakistani official estimate of an average per capita water requirement of around 18 gallons per day, Gwadar needed around 5.5 MGD of water in 2012, and this when the port city has still not become the golden gateway that it aspires to become. If the city does boom and all the grand plans come to fruition, its water requirements will rise exponentially. Not only will water be required by the free trade zones, coal power plants, airport and other projects, there will also be hundreds of thousands of people moving into the city and they will require water not at the base level of 18 gallons but more close to around a minimum 40–50 gallons per capita per day that modern city life demands. And, if Pakistani standards of water use are to be taken into account, then the requirement of water will be around 100 gallons per capita per day.[134] Assuming that the population of Gwadar touches a 2.5 million people, as is being estimated, it will mean water requirement of a minimum 150 MGD and could even go much beyond to 250 MGD.[135]

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[130] District Development Profile 2011, Planning and Development Department, Government of Balochistan and UNICEF, pp 11, accessed at http://balochistan.gov.pk/DistrictProfile/DDP%20Final%202012/Gwadar/Gwadar-1.pdf

[131] 'Ankara Kaur dam: Gwadar's water supply tapers off to a trickle', Express Tribune 07/07/2012, accessed at http://tribune.com.pk/story/404848/ankara-kaur-dam-gwadars-water-supply-tapers-off-to-a-trickle/

[132] 'Parched Balochistan: PN vessels supply Gwadar with fresh water', Express Tribune 16/07/2012, accessed at http://tribune.com.pk/story/408847/parched-balochistan-pn-vessels-supply-gwadar-with-fresh-water/

[133] Behram Baloch, 'Dam reservoir falls to dead level, causes water shortage in Gwadar', Dawn 10/10/2015, accessed at http://www.dawn.com/news/1212108/dam-reservoir-falls-to-dead-level-causes-water-shortage-in-gwadar

[134] Ali Salman, 'Many Pakistanis using 10 times more water than world average', Express Tribune 08/03/2015, accessed at http://tribune.com.pk/story/849933/many-pakistanis-using-10-times-more-water-than-world-average/

[135] 'Mirani Dam: Is it viable?', Dawn 01/09/2003, accessed at http://www.dawn.com/news/113180/mirani-dam-is-it-viable

The water crisis aside, land has been a very contentious issue in Gwadar. Right from the time the proposal for developing the Gwadar port was floated, there has been a tussle between the provincial government of Balochistan and the federal government on who would control the land and, by extension, the port.[136] The federal government controls 'communications' and has been running the show in Gwadar. After the 18th amendment and devolution of powers to provinces, Balochistan once again tried to get a major say in what happens in Gwadar. But the control remains with the federal government, though the provincial government has been given some sops in the form of its nominee being appointed the chairman of the port authority. A major reason for the clamour inside Balochistan over getting control of the port is political. The province has been restive for decades and since the early 2000s, it has been in the grip of an insurgency by Baloch nationalists/separatists. The main grievances of the nationalists are that they feared that the port would see an influx of outsiders and reduce them to the status of 'Red Indians'.[137] There was also the sense of alienation, deprivation and oppression that the Baloch suffered and which became even more acute with the growing feeling that they would once again be short-changed and denied the benefits of their own *'sahil'* and *'wasael'* (coast and resources).[138]

The 'anti-development' sentiment in Gwadar is quite understandable given the roughshod treatment meted out to the citizens of the port city. In 2003, when the Chinese took over the construction of the port and work commenced on the coastal highway to link Gwadar to Karachi, hardly any local labour was hired, not even for low-skilled manual labour, thereby fuelling resentment. What is more, with Gwadar being billed as the biggest thing to happen in Pakistan, people from all over the country made a bee-line for the city in a bid to get the early bird advantage. Newspapers in Lahore, Islamabad and Karachi were full of advertisements of land sales in Gwadar. Speculation in land sent prices sky-rocketing, but very few locals

[136] Shahzada Zulfiqar, 'Hook, line and sinker', Newsline January 2004, see POT Pakistan Series Vol. XXXII No. 75 pp 1397-99

[137] 'Balochistan, the other side: Sanaullah', The Post 05/03/2006, see POT Pakistan Series Vol. XXXIV No. 55 pp 26-29

[138] Nicholas Schmiddle, 'To live or perish forever: Two tumultuous years in Pakistan', (2009) pp 100-110, offers a succinct description of the sentiment in Gwadar

benefitted. Most of the land was cornered by civil and military officials and politicians.[139] According to one report, half the land was occupied by the Pakistan Navy and the rest comprised housing and commercial schemes in which virtually the who's who of Pakistan had invested.

Land was taken/bought from locals for a pittance and then repackaged and sold at 10 to 20 times the price; in addition, government land was handed out to cronies who made a massive killing by re-selling the land to investors.[140] There were also plans to relocate the entire population of the city to facilitate construction.[141] But since the port was a non-starter, it wasn't long before the bottom fell off the land market. Prices crashed and a lot of people lost a lot of money in the boom-bust cycle that Gwadar had come to signify.[142] By 2011, the port of dreams had become a port which was used for smuggling in oil and smuggling out narcotics and human trafficking.[143] And even after the Chinese moved back in around 2014, and construction activity picked up, there isn't a significant amount of optimism among the local community because port development projects that have already commenced, such as jetties and breakwaters, have devastated the livelihoods of local fishermen.[144]

The Security Bugbear

One of the biggest problems afflicting Gwadar has been the extremely fragile security situation in Balochistan in general and the Makran coastal belt where Gwadar is located, in particular. In fact, the most potent Baloch insurgent organisation, Balochistan Liberation Front led by Dr Allah Nazar, is most active in the entire Makran region. Until a few years ago, even

[139] Aqil Shah, 'The brewing storm of discontent', Dawn 21/06/2003, accessed at http://www.dawn.com/news/1064691

[140] Muhammad Ejaz Khan, 'Massive corruption unearthed in Gwadar land allotments', The News International 13/11/2006, accessed at http://archive.thenews.com.pk/TodaysPrintDetail.aspx?ID=4177&Cat=13&dt=11/10/2006

[141] Op. cit. (Shahzada Zulfiqar)

[142] Malik Siraj Akbar, 'Gwadar's real estate boom busts', Daily Times 29/11/2008, accessed at http://archives.dailytimes.com.pk/national/29-Nov-2008/gwadar-s-real-estate-boom-busts

[143] 'The global Afghan opium trade: A threat assessment', UNODC July 2011, pp 79-80, accessed at https://www.unodc.org/documents/data-and-analysis/Studies/Global_Afghan_Opium_Trade_2011-web.pdf ; also see Moign Khawaja, 'Gwadar: An unfulfilled dream', Express Tribune 27/02/2011, accessed at http://tribune.com.pk/story/122720/gwadar-an-unfulfilled-dream/

[144] Shazia Hasan, 'Foorprints: Of unplanned jetties', Dawn 09/01/2015, accessed at http://www.dawn.com/news/1155815/footprints-of-unplanned-jetties

members of the Pakistan security forces were extremely wary of traveling through the coastal belt. According to one report, between 2007 and 2014 over a 1,000 militant attacks took place in six districts which included Gwadar and its neighbouring districts.[145]

The earthquake in Awaran in 2013 changed the security dynamics and under the garb of rescue and relief operations, the military mounted a major offensive to re-establish its oppressive control in the area.[146] This was also the time when the CPEC plan was taking off the ground and the Chinese were not pulling their punches in telling the Pakistanis that they needed to ensure the safety and security of Chinese workers because the security conditions in and around Gwadar left a lot to be desired.[147] Both because the 'game changing' Chinese investment under CPEC as well as the fact that Pakistan had neither any inclination to reach out to the 'angry' Baloch nor faced any international opprobrium in brutally crushing the Baloch insurgents, a massive but undeclared military operation was launched against the Baloch freedom fighters. Of course, for Pakistan, India serves as the most convenient bogey that is used to justify the most unspeakable human rights violations as well as rationalise expenditure on security, in addition to playing upon the fears of the Chinese and exploit the wariness with which China and India see each other.[148] It wasn't long before Pakistan dusted its old playbook and started hurling malicious and baseless allegations against India blaming it of setting up a special cell at the cost of $300 million to sabotage the CPEC.[149]

In addition to the military operation, Pakistan also started putting in place mechanisms for protecting the CPEC and the Chinese workers, engineers

[145]Safdar Sial, 'The China-Pakistan Economic Corridor: an assessment of potential threats and constraints', Pakistan Institute of Peace Studies (PIPS), pp 9-10, accessed at http://www.san-pips.com/download.php?f=268.pdf

[146]Mahvish Ahmad, 'Army forces its way into Mashky-Gajjar, distributes aid', Dawn 16/10/2013, accessed at http://www.dawn.com/news/1049951

[147]'Growing insecurity: China demands solid steps for workers safety', Dawn 19/09/2013, accessed at http://tribune.com.pk/story/606303/growing-insecurity-china-demands-solid-steps-for-workers-safety/

[148]Zahid Gishkori, 'Pak-China corridor: China concerned over Balochistan security', Express Tribune 23/05/2015, accessed at http://tribune.com.pk/story/890995/pak-china-corridor-china-concerned-over-balochistan-security/

[149]'Special cell set up in RAW to foil Economic Corridor', The News International 11/05/2015, accessed at http://www.thenews.com.pk/print/12423-special-cell-set-up-in-raw-to-foil-economic-corridor ; also see 'Covert war: RAW sets up special team to sabotage CPEC', Express Tribune, accessed at http://epaper.tribune.com.pk/DisplayDetails.aspx?ENI_ID=11201507090117&EN_ID=11201507090059&EMID=11201507090015

and businessmen who would be working and investing in the projects. Pakistan announced the setting up of a 12,000-strong force called 'Special Security Division' (SSD) comprising both civilian and military personnel which would be led by, needless to say, a Lt. Gen. rank officer. The mandate of the force was to provide protection to the entire CPEC.[150] The security plan was further expanded by making it a four-layered plan in which some 32,000 security personnel (including the SSD) would guard around 14,000 Chinese working in different capacities on projects in Pakistan. The force would include over 500 Chinese security personnel as well. In the words of a former Pakistani official, it was a do-or-die situation for Pakistan.[151] But the most disturbing aspect of this four-layered plan was the repercussion it would have on residents of Gwadar, whose worst fears regarding Chinese involvement in the port project could well be coming true. The plan involves issuing of residence cards to local inhabitants and all outsiders coming into the city would be registered at entry points with records of outsiders maintained and updated regularly.[152]

The arrangement is being described as the Pakistani version of the apartheid era system of pass laws — referred to by the blacks as 'Dompas' (stupid pass) — which was meant to keep the black population under control by restricting and regulating their movement. According to a veteran supporter of Baloch nationalism, “the entire aim of residence passes in Gwadar is to create an area where Baloch entry can be restricted and controlled at will to ensure that the Chinese are safe even if that safety comes at the cost of employing apartheid mechanisms in Balochistan.”[153] Soon after this article was published, the author was told that the newspaper will no longer be carrying his articles!

A Step-Motherly Feeling

The security dimension aside, there are also serious reservations being

[150]Ismail Dilawar, 'SSD to guard CPEC projects', Business Recorder 13/05/2015, accessed at http://www.brecorder.com/top-stories/0:/1185408:ssd-to-guard-cpec-projects/?date=2015-05-13

[151]Zahid Gishkori, 'Economic Corridor: Pakistan, China agree on four-layer security', Express Tribune 01/11/2015, accessed at http://tribune.com.pk/story/983033/economic-corridor-pakistan-china-agree-on-four-layer-security/

[152]'Gwadar to be made weapon free city', Dawn 01/11/2015, accessed at http://www.dawn.com/news/1216753/gwadar-to-be-made-weapon-free-city

[153]Mir Mohammad Ali Talpur, 'Dompas', Daily Times 15/11/2015, accessed at http://www.dailytimes.com.pk/opinion/15-Nov-2015/dompas

expressed by the 'smaller' provinces, namely Balochistan, Khyber Pakhtunkhwa and Sindh, that CPEC is increasingly turning out to be a 'China-Punjab Economic Corridor', not just because of the projects cornered by the Punjab province but, more importantly, because the route runs through the length of Punjab and at least in the first stage of CPEC by-passes Khyber Pakhtunkhwa completely and most of Balochistan (except the coastal areas from Karachi to Gwadar).[154] The simmering political angst that has been caused by the alleged change in the route could erupt and destabilise the entire CPEC programme in the future.

The shortest route from Gwadar to Kashgar runs through Panjgur, Quetta, Zhob, Dera Ismail Khan and then into Punjab through Mianwali on to Islamabad and then the KKH to Xinjiang. This was also the route that was presumed to become the main CPEC artery and hence enthused the people of Balochistan and Khyber Pakhtunkhwa who saw in it a potential to uplift areas that have until now been neglected and have remained underdeveloped. In February 2014, the first intimation came that the route of the CPEC was being changed by the Chinese. Giving a briefing to the Senate Committee on Communications, the NHA chief said that since the Chinese were putting in the money, they would have a big say in the design of the project and their priority was a) utilising existing tracks, b) take the shortest possible route, and c) connect as many economic zones as possible.[155]

[154] 'PTI MNA terms CPEC as China-Punjab Economic Corridor', The News International 23/11/2015, accessed at http://www.thenews.com.pk/print/74906-pti-mna-terms-cpec-as-china-punjab-economic-corridor

[155] 'Gwadar-Kashgar route: JCC to meet next week at Beijing to finalise modalities', Business Recorder 07/02/2014, accessed at http://www.brecorder.com/top-stories/0:/1150700:gwadar-kashghar-route-jcc-to-meet-next-week-at-beijing-to-finalise-modalities/?date=2014-02-07

[156]

By March 2014, the red flag was raised by Baloch senators over plans to change the route to cover Punjab and Sindh and leave the bulk of Balochistan out. The new route would also add an additional 400 km to the CPEC.[157] By June 2014, the route 'change' had become official. Ostensibly, it was done because the original 'western' route went through very restive areas and from the point of view of security, the Punjab-Sindh route — 'eastern route' — was considered much safer. That Punjab is the pocket borough of the ruling PML-N and there were rich political dividends to be gained from routing the CPEC traffic through Punjab would certainly have been a very important consideration with the Nawaz Sharif government. But there was also the issue of funding. The 'original' route was shortest but would also take a lot more money and time to build.[158] According to the CPEC point-man, Ahsan Iqbal, the funds for the western route would have to come from inside Pakistan because the Chinese had refused to finance it. The B-O-T model under which Chinese investment was coming wouldn't

[156]Source: http://gandhara.rferl.org/content/pakistan-china-ecnomic-corridor/26820126.html

[157]Peer Muhammad, 'Gwadar-Kashgar corridor: Senators protest against possible change', Express Tribune 17/03/2014, accessed at http://tribune.com.pk/story/683724/gwadar-kashgar-corridor-senators-protest-against-possible-route-change/

[158]Dr Pervez Tahir, 'Mini-Marshall plan or economic corridor?', Express Tribune 20/02/2015, accessed at http://tribune.com.pk/story/840974/mini-marshall-plan-or-economic-corridor/

work on the original route, though he clarified that the original route had not been abandoned and that first the eastern route would be built.[159] Later, he revealed that the Chinese wanted the access to Gwadar within two years and this could only be possible if the eastern route was built first.[160]

With time, the route controversy snowballed into a major controversy. Even as government officials claimed that the route had been changed on the request of the Chinese ambassador, the envoy told a leading politician that the decision on the route was taken by the Pakistan government. Senators from Balochistan and Khyber Pakhtunkhwa not only threatened to hold protest demonstrations in front of the Chinese embassy and in front of the Parliament, but also threatened to resign because all their concerns were falling on deaf ears in the government.[161] Some senators even went to the extent of warning that Pakistan wouldn't remain united if the route was changed.[162] With anger rising, the government clarified that there would be not one but three routes — Western, Central and Eastern — connecting Gwadar to Kashgar. However, in order to get the project up and running in the earliest possible timeframe, the eastern route would be operationalised first by upgrading existing infrastructure. But this logic was faulted on the grounds that once the eastern route became operational, it would develop its own logic and dynamic. This would either prevent the other routes from being developed, and if developed, then they would remain underutilised and the spin-offs expected in terms of industrial and other economic activity that is to accompany the transport corridor would not happen.[163] After both

[159]Shahbaz Rana, 'Altered trade route strikes provincialism chord', Express Tribune 12/06/2014, accessed at http://tribune.com.pk/story/720692/altered-trade-route-strikes-provincialism-chord/

[160]'Pakistan-China Economic Corridor to become future of region: Ahsan', The News International 02/04/2015, accessed at http://www.thenews.com.pk/print/32680-pakistan-china-economic-corridor-to-become-future-of-region-ahsan

[161]Senators angry over change in route of Pak-China corridor', Dawn 11/10/2014, accessed at http://www.dawn.com/news/1137218 ; Also see Bakhtawar Mian, 'Changes in China corridor opposed', Express Tribune 09/12/2014, accessed at http://www.dawn.com/news/1149698/changes-in-china-corridor-opposed; Peer Muhammad, 'Change in Economic Corridor route: K-P, Balochistan senators threaten to stage sit-in', Express Tribune 13/01/2015, accessed at http://tribune.com.pk/story/820961/change-in-economic-corridor-route-k-p-balochistan-senators-threaten-to-stage-sit-in/

[162]Amir Wasim, 'Livid over corridor route, senators walk out of Senate twice', Dawn 04/02/2015, accessed at http://www.dawn.com/news/1161402/livid-over-corridor-route-senators-walk-out-of-senate-twice

[163]Shahbaz Rana, 'Development priorities: Questions raised over economic corridor route', Express Tribune 07/02/2015, accessed at http://tribune.com.pk/story/834305/development-priorities-questions-raised-over-economic-corridor-route/

the Khyber Pakhtunkhwa[164] and Balochistan[165] assemblies passed resolutions against any change in the route, Chinese officials were forced to step in and issue clarifications that the so-called original route wasn't ever agreed upon by both China and Pakistan. According to the Chinese, only a single route, based on detailed feasibility studies, had been agreed upon and there was no change in that alignment.[166]

After the visit of President Xi Jinping in April 2015, Ahsan Iqbal revealed the details of three routes: the eastern route, which would receive priority since it was easiest to build, ran from Gwadar to Basima to Khuzdar, Sukkur, Rahimyar Khan, Multan, Lahore/Faisalabad to Islamabad and on to KKH. From Sukkur, one route will connect to Khuzdar and the other will connect to Karachi from where the Coastal Highway will connect to Gwadar; the western route that could come up in the second stage will run from Gwadar to Turbat, Panjgur, Basima, Qalat, Quetta, Zhob, Dera Ismail Khan, and on to Islamabad; the third route, which was the long-term alignment and is referred to as the central route, would start at Gwadar and then via Khuzdar, Sukkur, Rajanpur, Layyah, Muzaffargarh and Bhakkar reach Islamabad.[167] But with the routes becoming politically controversial, the government was forced to call an All Parties Conference (APC) to evolve a consensus on the issue. After some hectic back-room convincing by Ahsan Iqbal, during which he wooed the dissenting politicians from the smaller provinces by announcing projects that would be coming up in their provinces, the government managed to get a go-ahead.[168] Strangely enough, at the APC, Prime Minister Nawaz Sharif declared that the western route would get priority and would be constructed first![169]

[164] 'KP assembly threatens to resist any change in route', The News International 07/02/2015, accessed at http://www.thenews.com.pk/print/10762-kp-assembly-threatens-to-resist-any-change-in-route

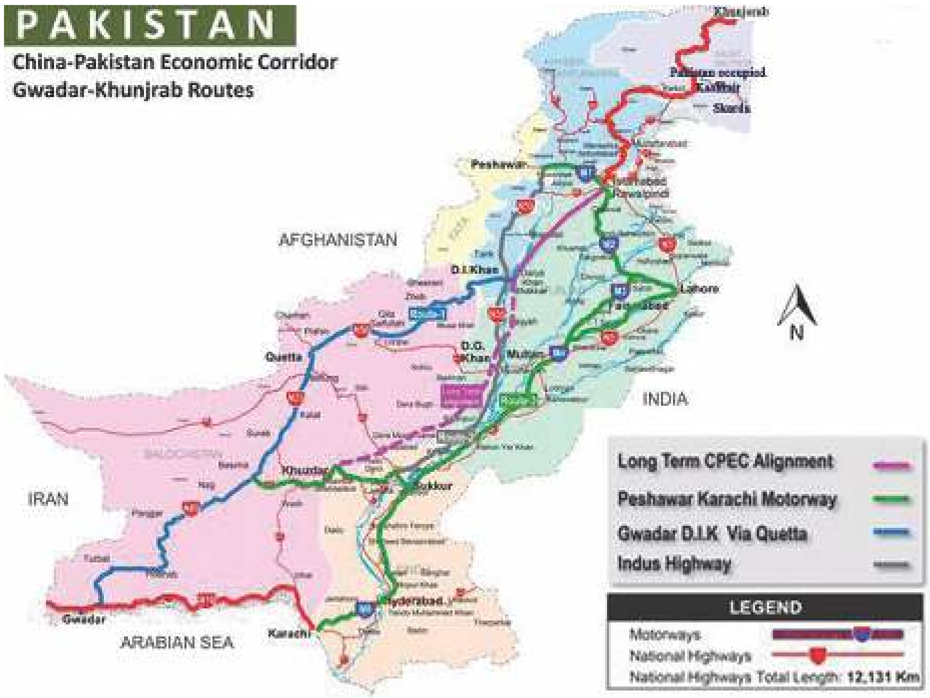
[165] 'Balochistan urges centre to stick to original trade route', Dawn 01/03/2015, accessed at http://www.dawn.com/news/1166659/balochistan-urges-centre-to-stick-to-original-trade-route

[166] 'No change in China-Pak economic corridor route', The Nation 02/03/2015, accessed at http://nation.com.pk/islamabad/02-Mar-2015/no-change-in-china-pak-economic-corridor-route

[167] 'Ahsan reveal three routes of corridor', Dawn 15/05/2015, accessed at http://www.dawn.com/news/1182074/ahsan-reveals-three-routes-of-corridor ; also see Shahbaz Rana, 'Eastern corridor route: Pakistan, China to sign infrastructure financing deals', Express Tribune 16/04/2015, accessed at http://tribune.com.pk/story/870524/eastern-corridor-route-pakistan-china-to-sign-infrastructure-financing-deals/

[168] 'Ahsan Iqbal succeeds in hammering out consensus on CPEC route', The News International 30/05/2015, accessed at http://www.thenews.com.pk/print/12743-ahsan-iqbal-succeeds-in-hammering-out-consensus-on-cpec-route

[169] 'APC reaches consensus on corridor', The News International 29/05/2015, accessed at http://www.thenews.com.pk/print/12723-apc-reaches-consensus-on-corridor ; also see Khawar Ghumman, 'Parties give go-ahead to China-Pak corridor', Dawn 29/05/2015, accessed at http://www.dawn.com/news/1184885/parties-give-go-ahead-to-china-pak-corridor



Within days it became clear that the assurance given by the Prime Minister that the western route would get priority was an eye-wash. The allocations for the western route were about a fifth of those made for the eastern route.[170] There was an immediate uproar, and the Senate Standing Committee on Finance demanded an explanation against what was described as 'political fudging' by one senator.[171] A scathing report of the Balochistan government accused the federal government of compromising the viability of the CPEC by giving primacy to the eastern route. According to this report, the eastern alignment will artificially inflate the cost of the project in terms of cost of land acquisition, displacement of population, socio-economic benefits and environmental impact. It went on to say that the government was trading off security problems that are attendant in the

[170]Shahbaz Rana, 'Budget 2015-16: 12% of approved funds goes to CPEC's western alignment', Express Tribune 02/06/2015, accessed at http://tribune.com.pk/story/895940/budget-2015-16-12-of-approved-funds-goes-to-cpecs-western-alignment/

[171]Khaleeq Kiani, 'Govt violating APC decision on China corridor', Dawn 12/06/2015, accessed at http://www.dawn.com/news/1187722/govt-violating-apc-decision-on-china-corridor

western route with provincial discord and political instability in the future.[172] Even the Khyber Pakhtunkhwa government has accused the federal government of short-changing the province and even threatened to stall CPEC projects in the province if the pledges made to K-P are not honoured.[173] The simmering resentment is contained for now, but could easily snowball into a huge crisis that could make the CPEC extremely controversial, even contentious, and thereby render it unworkable.

[172]Shahbaz Rana, 'Eastern CPEC route unfeasible: report', Express Tribune 26/07/2015, accessed at http://tribune.com.pk/story/926582/economic-corridor-eastern-cpec-route-unfeasible/

[173]'KP accuses Centre of reneging on CPEC pledges', The News International 26/11/2015, accessed at http://www.thenews.com.pk/print/75425-kp-accuses-centre-of-reneging-on-cpec-pledges

III. DREAMS, DELUSIONS and DÉJÀ VU

There has always been a huge hype about Gwadar. From a time when it was to become the gateway for Central Asia in the 1990s to now when it is being touted as the gateway to China in addition to Central Asia, Gwadar has been more the stuff of dreams and delusions and less of reality. But that hasn't stopped Pakistanis from using superlatives to describe the potential of Gwadar. Over the last 25 years, there have been three distinct phases in the hype and hoopla surrounding Gwadar. The first phase lasted from around the mid-1990s to the end of the decade. During this period, Gwadar was a gateway to Central Asia but by the end of the period, it was a duff project. The second phase started in the early 2000s when the Chinese offered to build the port and by the end of the decade, the promise of Gwadar was over. The third phase started in the early 2010s when Pakistan once again roped in the Chinese to take over the port. But the real action in the third phase started after the approval of the CPEC in 2013. From that time to now, it is the phase of hyped-up anticipation and this will continue for some time. And while this third phase shows a lot of promise, it also brings with it a sense of déjà vu, because a lot of what is being said about Gwadar in relation to CPEC today has been said in the past about Gwadar in relation to Central Asia. A degree of scepticism about the promise of Gwadar once again ending up under-achieved is, therefore, quite normal.

The 'dream' that Gwadar was in the early 2000s, when the defunct port had been taken over by the Chinese, was summed by a Pakistani analyst as follows: "Gwadar is the link between Pakistan and the oil and gas reserves of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan; Gwadar will become a hub of shipping, commercial and industrial activities; it will bring an economic and social revolution in Balochistan; Gwadar is the link between Pakistan and the mineral-rich Central Asian republics; it will add $10 billion per year to our treasury; Gwadar is destined to become the region's energy hub; it will be the link between Pakistan and landlocked Uzbekistan, Tajikistan, Kazakhstan, Turkmenistan and Kyrgyzstan; Gwadar will be traders' paradise; Gwadar is investors' heaven."[174] But after describing the

[174]Dr Farrukh Saleem, 'Gwadar, Rs 20 billion down the deep sea', Friday Times 17/5-23/5, 2003, see POT Pakistan Series Vol. XXXI No. 160 pp. 3213-14

dream, the writer went on to sound a reality check why the dream wouldn't ever reach fruition, partly because of competition from other ports, partly because of faulty planning and absence of infrastructure, and partly because it just isn't commercially viable.

A few years later, however, no less than a former foreign secretary went into raptures describing Gwadar as having emerged as 'an international deep sea port' which would soon rival Singapore, Hong Kong and Dubai. He recounted the countless political, economic and strategic benefits that Gwadar would bestow on Pakistan and claimed that investments of billions, even trillions, were being made in the port city![175] But it is probably natural for civil servants to take flights of fancy when the political leadership is doing the same. Way back in 1993, inaugurating the Gwadar fish harbour-cum-mini port, the then Prime Minister Nawaz Sharif had claimed that Gwadar would usher in an era of progress and prosperity for Balochistan and thousands of jobs will be created during the construction of the port, and many more thousands after the port was ready.[176] But concern for the Baloch was secondary when compared to the desire of successive governments in Pakistan in the 1990's to capture the Central Asian trade and transit. Pakistan assumed, even imagined, it was ideally placed to capture the Central Asian markets.

In 1995, Prime Minister Benazir Bhutto said very clearly that Gwadar port was being developed to start trade with Central Asian states,[177] a theme that was repeated by a top minister in the successor government who said that a free port in Gwadar wasn't just for Pakistan but also for Central Asia.[178] The then President, Farooq Leghari, said that Pakistan not only provided the easiest and shortest land route between Central Asia and sea but also that Pakistan would be the conduit for any mega-development projects in the region.[179] Newspapers of the time also romanticised Gwadar by writing that

[175]Tanveer Ahmed Khan, 'Gwadar: A jewel in the crown', The Post 09/05/2006, see POT Pakistan Series Vol. XXXIV No. 107 pp 28-29

[176]Op. cit. (53)

[177]'PM assures defence capability at K-8 induction', Pakistan Times 26/01/1995, see POT Pakistan Series Vol. XXIII No. 22 pp 179-80

[178]'Free port of Gwadar to benefit Central Asian states also', The Nation 22/05/1997, see POT Pakistan Series Vol. XXV No. 121 pp 1216

[179]'Muslim countries not opposed to West, says Leghari', Dawn 22/09/1995, see POT Pakistan Series Vol. XXIII No. 224 pp 1951-52

it will 'reactivate a historic link over which caravans carried out lucrative trade between the Indian Ocean littoral states and the then Central Asian Khanates'.[180] Towards the end of the 1990s, however, the Gwadar balloon had been deflated.

In the first decade of the new millennium, Gwadar once again was resurrected after the Chinese agreed to fund the development of the port. Things were once again looking up, with Afghanistan having got rid of the Taliban, and the prospects for linking Central Asia to Gwadar appeared bright.[181] The new spin to Gwadar was that it was the 'symbol of Pak-China friendship.'[182] But some analysts also pointed to China's own strategic and economic needs — the presence of Americans in Afghanistan and China's efforts to develop Xinjiang by providing it an outlet to sea which was half the distance from Chinese ports on its eastern seaboard — for fulfilling which Gwadar was crucial.[183] Once again the flights of fancy started. One newspaper went into hyperbole about Gwadar's 'strategic significance' that will 'enhance Pakistan Navy's strategic outreach' and how it could emerge as a warehousing and trans-shipment hub for around 20 regional states. It also spoke about how Japanese manufacturers could use Pakistan as a manufacturing base for supplying to markets in Middle-East and Central Asia.[184] Prime Minister Zafarullah Jamali expressed confidence that Gwadar would not just revolutionise the national economy but also change the fate of the region[185] and President Gen Pervez Musharraf waxed eloquent about Pakistan's potential to become the commercial hub for Central and 'South-West' Asia and renew the ancient silk route.[186] Then finance minister and later Prime Minister, Shaukat Aziz, claimed Gwadar could become another Dubai,[187] and a newspaper declared that the final destiny of Gwadar was to

[180]'Missing link in a route', The News International 19/12/1996, see POT Pakistan Series Vol. XXIV No. 300 pp 3076

[181]'Kabul offers help for Gwadar', Dawn 05/08/2003, see POT Pakistan Series Vol. XXXI No. 194 pp 3691-92

[182]Nadeem Malik, 'Pakistan China to solidify economic ties: Shaukat', The News International 28/12/2001, see POT Pakistan Series Vol. XXX No. 1 pp 17-18

[183]Rafi Raza, 'Whither national objectives', Dawn 26/11/2002, see POT Pakistan Series Vol. XXX No. 20 pp 391

[184]'Comments: work on Gwadar port starts', see POT Pakistan Series Vol. XXX No. 69 pp 1358-59

[185]'Gwadar port to revolutionise national economy: Jamali', The News International 22/05/2003, see POT Pakistan Series Vol. XXXI No. 125 pp 2695

[186]'Pakistan seeks ASEAN membership', The News International 16/12/2003, see POT Pakistan Series Vol. XXXI No. 300 pp 5549-51

[187]Rina Saeed Khan, 'Gwadar's gold rush', The Friday Times 26/3-1/4, 2004, see POT Pakistan Series Vol. XXXII No. 33 pp 1754-55

be a trading entrepot for 20 countries in the region.[188] Not only was the military ruler, Gen Pervez Musharraf, making a pitch once again to Central Asian states to access world markets through Pakistani ports,[189] he also offered Pakistan as a trade and energy corridor for China.[190] But by 2008, the Gwadar story was all but over. There would be the odd reference to Gwadar and its potential but it was all very subdued. For instance, in 2010, a report revealing the imminent possibility of Gwadar being handed over to China regurgitated all the old list of great things that could result in and out of Gwadar, albeit with an important addition on how the Chinese could make the Gwadar miracle come true.[191] In 2012, the promise to make Gwadar a Dubai was once again made, this time by the opposition leader, Nawaz Sharif.[192]

It wasn't until 2013, when Gwadar was finally handed over to the Chinese and the CPEC programme started to unfold, that the hype started once again in right earnest. Once again the superlatives were back, and this time because the Chinese were not just backing the project but were deeply involved in it, the old flights of fancy, including the leveraging of Pakistan's unique strategic geographical location, have soared to new heights. Speaking at the Boao forum in April 2014, Prime Minister Nawaz Sharif spoke of the CPEC and Xi Jinping's 'visionary concept of New Silk Road' and said that Pakistan's location supplements the potential of the Silk Road because its geography linked China and the Silk Road to the Arabian Sea and the Gulf. He said Pakistan was on the confluence of China, Eurasian land-bridge and the Middle-East which was the 'triangular dimension of our [Pakistan's] relevance to the Silk Road'.[193] Earlier, he called CPEC not just the

[188] 'Incident's implications', Daily Times 06/05/2004 editorial, see POT Pakistan Series Vol XXXII No. 115 pp 2169-71

[189] 'Pakistan gateway to world markets, says Musharraf', The Nation 08/03/2005, see POT Pakistan Series Vol. XXXIII No. 57 pp 2210

[190] 'Musharraf wants Pakistan to be China's corridor', Daily Times 18/02/2006, see POT Pakistan Series Vol. XXXIV No. 41 pp 20-21

[191] Amir Mateen, 'Gwadar port may be given to China: special report on Balochistan', The News International 15/09/2010, accessed on 21/09/2010 at http://www.thenews.com.pk/Todays-News-13-566-Gwadar-Port-may-be-given-to-China-Special-Report-on-Balochistan

[192] 'Those not accepting SC decisions to be held accountable: Nawaz', The News International 08/01/2012, accessed on 10/01/2012 at http://www.thenews.com.pk/Todays-News-13-11564-Those-not-accepting-SC-decisions-to-be-held-accountable-Nawaz

[193] 'PM underlines need for regional connectivity', Dawn 11/04/2014, accessed at http://www.dawn.com/news/1099083/pm-underlines-need-for-regional-connectivity

'future of the country'[194], but also 'the future of the world' as it will benefit 3 billion people of China and South and Central Asia.[195] In Parliament, Nawaz Sharif declared that Gwadar would be given special status and would become a free port on the pattern of Singapore, Dubai and Hong Kong. He also hinted at the possibility of Gwadar being made a separate administrative unit with new laws, which presumably indicates lopping it off from Balochistan.[196] The CPEC point-man in Pakistan, Ahsan Iqbal, has called it the future of the region and added for good measure that it was not just a game-changer but a fate-changer.[197] Not just leaders, the people of Pakistan also have lapped up all the grand CPEC plans and prospects. According to one survey, 90% of the people in Pakistan consider the CPEC to be a game-changer.[198] On the Chinese side, however, the take on CPEC is more subdued, even circumspect, and is seen more in the larger context of the ambitious 'One Belt, One Road' programme. Moreover, it isn't so much the Chinese as it is the Pakistanis who consider Gwadar to be critical in a strategic sense for China. For the Chinese, CPEC is an important project that fits into a larger strategic and economic game-plan, but it is not the centre-piece of that game-plan.

Devil is in the Details

One of the biggest banes that never let Gwadar live up to all the hype that has surrounded it is that while the Pakistanis are quick to conjure up grandiose schemes and start imagining the riches that will flow because of these schemes, there isn't sufficient attention paid to the details that will either make or break a scheme. It is almost as though they operate on the principle of starting a scheme based on over-the-top calculations and expectations, then improvise as it progresses and hope that things will fall in

[194] 'New road linking Gwadar to China approved', The News International 17/08/2013, accessed on 17/08/2013 at http://www.thenews.com.pk/Todays-News-13-24821-New-road-linking-Gwadar-to-China-approved

[195] Shoaib A Raja, 'PM terms Pak-China economic corridor as future of world', The News International 19/07/2013, accessed on 19/07/2013 at http://www.thenews.com.pk/Todays-News-13-24209-PM-terms-Pak-China-economic-corridor-as-future-of-world

[196] Raja Asghar, 'PM envisons Gwadar as free port', Dawn 12/06/2015, accessed at http://www.dawn.com/news/1187655/pm-envisions-gwadar-as-free-port ; The same thing was said by a former foreign secretary nearly 10 years back (see Tanveer Ahmed Khan Op. cit.)

[197] Op. cit.

[198] 'Most Pakistanis believe India behind terror in Pakistan', The News International 27/10/2015, accessed at http://www.thenews.com.pk/print/15399-most-pakistanis-believe-india-behind-terror-in-pakistan

place by themselves, which in the words of a Pakistani analyst is the “if you build it, they will come” model of development.[199] In other words, up until now, it has been faulty planning and ignorance of the fundamentals of transport economics, coupled with unrealistic expectations; this is precisely what has happened in the past as far as Gwadar is concerned.

Back in 1999, after Nawaz Sharif announced plans for developing Gwadar, the economic and military rationale of the project was questioned. It was argued that economically, Gwadar didn't make sense on the grounds that it was 'next to nowhere', had no connectivity with anywhere, nor did it have even the basic infrastructure or any other modern amenities, and had a shallow bay that required massive dredging and construction of breakwaters which would add to the cost and make the port even more unviable than it already was. Militarily, the argument was that 'the raison d'etre of maritime defence is to protect interests that are there and not force commercial operations into non-viable situations to make it convenient to defend'.[200] In 2003, after Gwadar had been given to a Chinese company to build the port, it was predicted that it would end up as a white elephant because there were hardly any ships that would have any incentive to use the port. Worse, the people in charge had no idea of commercial shipping and its requirements and were therefore ill-equipped to compete for business with far more efficient and competitive ports in the region.[201]

Even technically, the port that was being constructed by the Chinese wouldn't serve the grand purpose of becoming the gateway for Central Asia. At best, it would serve as a feeder port and not as a trans-shipment hub which could handle the transit trade of Central Asian states. The planners had goofed up in terms of the depth of the navigable channel leading to the port. At the time, it was only 12.5 metres and couldn't handle big ships. The depth was to be made 14.5 metres but even that would only accommodate medium ships — 50,000 DWT. But trans-shipment ports handled even

[199] Aslam Khan, 'Islamabad focusing on Balochistan', The News International 31/12/2003, see POT Pakistan Series Vol. XXXI No. 13 pp 290-91

[200] Khan Hussain Zia, 'Comments: Gwadar port in perspective', The News International 05/05/1999, see POT Pakistan Series Vol. XXVII No. 135 pp 1747-48

[201] Naeem Sarfraze, 'Stakes are very high', The News International 21/06/2003, see POT Pakistan Series Vol. XXXI No. 216 pp 4015

bigger ships which needed a minimum depth of 18.5–20 metres. In other words, Gwadar wouldn't be able to compete with ports in the UAE or Oman.[202] The most devastating critique of the Gwadar port project was that it ran counter to all basic principles of transport economics. Since it had no hinterland within 600 km to serve and no connections other than with Karachi, goods coming into and going out of Gwadar would pass through Karachi, which didn't make any sense because Karachi is already a bustling port and a transporter would incur additional cost to use Gwadar. Even for the much-coveted Central Asian trade, Karachi was more economical and closer. The rail links, as and when developed from Gwadar, would still not match up to those from Karachi, either in terms of distance, or convenience or even costs. Worse, there were serious questions about the viability as well as the desirability for both the Chinese trade via Khunjerab pass and the Central Asian trade through Afghanistan using Gwadar as an outlet.[203] Not surprisingly, by 2009, the Chinese were quite clear that Gwadar didn't make any sense for them.[204] Worse, Chinese scholars were quite candid in telling their Pakistani interlocutors that Pakistan had hoodwinked China into investing in Gwadar.[205]

The somewhat dismissive attitude of the Chinese in 2009 was probably the result of their expectations regarding Gwadar being dashed. One example of this was the shelving of the much-vaunted plan for setting up an oil/petrochemical city in Gwadar. Although talk of Pakistan becoming a trade and energy corridor for China had been in the air for some time, in 2006, speaking at the Pak-China Energy Forum, Prime Minister Shaukat Aziz expressed the interest in developing Gwadar into an 'energy port' with mega refineries, storage capacity and pipelines which could become the supply hub to China.[206] Earlier in the same year, during the visit of Gen Pervez

[202] Parvaiz Ishfaq Rana, 'Gwadar: one more feeder port', Dawn 03/04/2005, see POT Pakistan Series Vol. XXXIII No. 80 pp 3224-25

[203] Op cit. (Abdul Majeed)

[204] Dr Farrukh Saleem, 'Capital Suggestion: Peking Man', The News International 31/05/2009, accessed on 01/06/2009 at http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=180416&Cat=9&dt=6/7/2009

[205] Imtiaz Gul, 'FATA insurgency and relations with China', Weekly Pulse 02/07/2009, accessed at http://www.imtiazgul.com/July_02_2009.html

[206] 'Pakistan, China must focus on oil, N-energy: Shaukat', The Nation 26/04/2006, see POT Pakistan Series Vol. XXXIV No. 96 pp 20-21

Musharraf to Beijing, the Chinese had expressed interest in building a refinery at Gwadar with a capacity to refine 60,000 barrels per day of crude oil.[207] Within a few months, the standard Pakistani habit of building castles in the sky was well in place, what with talk of a $40 billion investment in a 12,500 acre Gwadar 'oil city' which would transform Gwadar into the biggest crude and refined oil storage base in the region.[208] Towards the end of 2006, the Chinese even started a feasibility study for building a petrochemical city in Gwadar.[209] The Chinese were expected to invest around $12.5 billion in the 'oil city' project.[210] But by the middle of 2009, the project was shelved because there was no progress on the project.[211]

Power Play

Clearly, no lessons were learnt from the 'oil city' fiasco and what happened in the last decade with the 'oil city' project repeated itself with the Power Park project at Gadani which was announced with much fanfare as the panacea for Pakistan's energy crisis after Nawaz Sharif became Prime Minister in 2013 — he even inaugurated the Power Park. Gadani was a classic case of shoddy planning, which in turn was the result of seeking quick solutions and headline hunting for political reasons. While in opposition, the PML-N had touted coal power plants as a solution to Pakistan's crippling energy crisis. Not only did they pitch for setting up new coal power plants but also for converting power plants based on furnace oil to coal. One reason for this was that the electricity generated would be cheaper. But the complexities of logistics involved in setting up a coal power plant just didn't seem to figure in their calculations.

Soon after forming the government in June 2013, Nawaz Sharif visited China, where the Punjab government led by his brother signed an MoU for four 600MW power plants that would use imported coal and would be set

[207]'China shelves refinery project at Gwadar', Business Recorder 05/08/2009, accessed at http://aaj.tv/2009/08/china-shelves-refinery-project-at-gwadar/

[208]'Oil city to be established in Gwadar', The News International 30/10/2006, see POT Pakistan Series Vol. XXXIV No. 253 pp 29

[209]'China's feasibility study on Gwadar petrochemical city', The News International 04/12/2006, see POT Pakistan Series Vol. XXXIV No. 283 pp 19-20

[210]'Master plan of Gwadar port runs into snags', Pakistan Observer 05/05/2007, see POT Pakistan Series Vol. XXXV No. 107 pp 23-24

[211]Op. cit.

up by a private Chinese company in the town of Gadani on the coast of Balochistan.[212] Within weeks, the proposal to set up coal-based power plants at Gadani had grown to 10 power plants of 660MW each, i.e. 6,600MW to be set up at a cost of $14 billion.[213] In less than one year, the Gadani Power Park project was given the final clearance, first by the Central Development Working Party and the very next day by the highest economic decision-making body, Executive Committee of the National Economic Council (ECNEC).[214] But within days it became clear that the project was in trouble when bidding for the 10 power plant projects got postponed.[215] The excuse given at that time was quite lame — holidays, political tensions, etc. — and a couple of months later the truth was outed when it became known that the investor response to Gadani Power Park was very poor. The absence of any infrastructure made the project unviable at Gadani.[216] The project was finally shelved — officially put on the back-burner — after the Chinese took Gadani off the projects that would be coming up under the CPEC in the first phase.[217] Apart from issues of transparency — most of the initial proposals were unsolicited and came from companies with no experience in coal power generation — there were financial, technical and logistics issues that rendered the projects unviable.[218] Worse, there was no environmental impact assessment done for the coal power projects. The fact that these plants required a huge amount of water, which was just not there in Gadani,

[212] Abdul Mannan, 'Finding solutions: four coal-based power plants planned in Gadani', Express Tribune 28/07/2013, accessed at http://tribune.com.pk/story/582910/finding-solutions-four-coal-based-power-plants-planned-in-gadani/

[213] 'PM links country's progress to Gadani power project', Dawn 25/08/2013, accessed at http://www.dawn.com/news/1038253/pm-links-countrys-progress-to-gadani-power-project

[214] 'CDWP okays projects worth Rs177bn', Dawn 18/07/2014, accessed at http://www.dawn.com/news/1119952/cdwp-okays-projects-worth-rs177bn ; and also see Khaleeq Kiani, 'Gadani infrastructure, Karachi water projects approved', Dawn 19/07/2014, accessed at http://www.dawn.com/news/1120186/gadani-infrastructure-karachi-water-projects-approved

[215] Khaleeq Kiani, 'Bidding for 10 coal power projects postponed', Dawn 28/08/2014, accessed at http://www.dawn.com/news/1128188/bidding-for-10-coal-power-projects-postponed

[216] Khaleeq Kiani, 'Gadani power park not moving forward because of poor investor response', Dawn 17/10/2014, accessed at http://www.dawn.com/news/1138513/gadani-power-park-not-moving-forward-because-of-poor-investor-response

[217] Khaleeq Kiani, '6,600MW Gadani power project put on back burner', Dawn 04/02/2015, accessed at http://www.dawn.com/news/1161417/6600mw-gadani-power-project-put-on-back-burner

[218] Engr Hussain Ahmad Siddiqui, 'Gadani power project: challenges', Dawn 10/11/2014, accessed at http://www.dawn.com/news/1143220/gadani-power-project-challenges ; also see Mushtaq Ghumman, 'Big Gadani power project marred by bigger violations', Business Recorder 23/07/2014, accessed at http://www.brecorder.com/top-stories/0:/1205210:big-gadani-power-project-marred-by-bigger-violations/?date=2014-07-23 ; also see Mushtaq Ghumman, 'Gadani power park: project has the makings of mega scam', Business Recorder 11/03/2014, accessed at http://www.brecorder.com/top-stories/0:/1161382:gadani-power-park-project-has-the-makings-of-mega-scam/?date=2014-03-11

was simply not factored in. Nor was the issue of handling effluents and waste worked out.[219] And then there was the entire issue of setting up a coal supply chain which had simply not been taken into account in the rush to go for coal power plants.[220] According to one estimate, the cost involved in just getting the railway infrastructure ready to transport coal to power projects in Punjab for generating around 5,000MW power was an astronomical Rs 400 billion (approx. $4 billion).[221]

The goof-up on Gadani because of bad planning is precisely what had happened earlier in the case of the Gwadar port project. Although on CPEC there is a lot of tall talk of a comprehensive approach which will avoid the pitfalls that derailed earlier grand projects, the Gadani experience doesn't inspire much confidence. At the very least, it raises questions on whether the hype surrounding the CPEC projects is just that.

[219]Shaheen Sehbai, 'Gadani plants pose major threat to Karachi, sea life', The News International 01/09/2013, accessed on 01/09/2013 at http://www.thenews.com.pk/todays-news-13-25135-gadani-plants-pose-major-threat-to-karachi-sea-life

[220]Moazzam Husain, 'Restoring power supplies', Dawn 04/06/2013, accessed at http://www.dawn.com/news/1015866/restoring-power-supplies ; Also see Dr Farrukh Saleem, 'Dear Power Minister', The News International 23/06/2013, accessed on 23/06/2013 at http://www.thenews.com.pk/Todays-News-9-185424-Power-minister

[221]Khaleeq Kiani, 'Overemphasis on additional power generation may also lead to trouble', Dawn 04/08/2014, accessed at http://www.dawn.com/news/1123183/overemphasis-on-additional-power-generation-may-also-lead-to-trouble

IV. BETWEEN ROAD AND BELT, A CORRIDOR FOR A COMPRADOR

In September 2013, the Chinese President, Xi Jinping, delivered a very significant speech at the Nazarbeyev University in Astana, Kazakhstan, and laid out the grand vision of resurrecting the ancient Silk Road by building an economic belt which would benefit all the countries that lie along the route. He laid out five principles that would make this vision possible — namely, policy communication between countries for advancing regional cooperation through consultation, improved road connectivity, unimpeded trade, local currency convertibility to make the entire region more competitive and insulated from financial risks, and finally, understanding between the peoples who would inhabit the countries that lie along the Silk Road.[222] This path-breaking speech became the starting point of the very ambitious and expansive 'One Belt, One Road' (OBOR) initiative which had two components — one, a Silk Road Economic Belt that would run over land connecting China with Europe through rail, road and pipelines; and the other, a 21st Century Maritime Silk Road which would connect a network of ports from South China sea all the way across the Arabian sea to East Africa and also through the Suez and Mediterranean to Europe.

The concept floated by Xi Jinping was later given a firmer shape and structure in 2015 by the top economic planning body of China, National Development and Reform Commission (NDRC). In a paper published jointly with the Ministry of Foreign Affairs in March 2015, the NDRC gave a detailed exposition of what the grand initiative to connect Asian, African and European countries in a mutually beneficial relationship entailed. What is important from the point of view of the CPEC is the fact that while the NDRC calls both the CPEC and the Bangladesh-China-India-Myanmar Economic Corridor (BCIM) as being “closely related to the Belt and Road initiative, and therefore require closer cooperation and greater progress”, they appear more in the nature of branch lines rather than being part of main lines of both the Belt and the Road. Moreover, while the NDRC document does talk about using “Xinjiang's geographic advantages and its role as a window of

[222] 'Promote friendship between our people and work together to build a bright future', speech of President Xi Jinping at Nazarbayev University, Astana, 07/09/2013, Ministry of Foreign Affairs of People's Republic of China, accessed at http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1078088.shtml

westward opening-up to deepen communication and cooperation with Central, South and West Asian countries, make it a key transportation, trade, logistics, culture, science and education centre, and a core area on the Silk Road Economic Belt"[223], it doesn't automatically follow that Xinjiang will depend critically, much less solely, only on the road through Pakistan for becoming the pivot of the Belt. Even Kashgar, which is supposed to be the one end of the CPEC, borders five countries — Kazakhstan, Tajikistan, Kyrgyzstan, Afghanistan and Pakistan. In other words, Pakistan is only one of five possible land ports.[224] What is more, if the idea is to connect China with South Asia, then the CPEC connects only a peripheral part of South Asia, and the bulk of South Asia neither needs Pakistan, nor the CPEC, to connect to China.

225

[223]'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road', issued by NDRC, Ministry of Foreign Affairs and Ministry of Commerce, 28/03/2015, accessed at http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html?COLLCC=2998445935&]

[224]Cui Jia, 'Taking the high road', China Daily Africa 09/05/2014, accessed at http://africa.chinadaily.com.cn/weekly/2014-05/09/content_17495655.htm

[225]Source: China Daily, accessed at http://www.chinadaily.com.cn/silkroad/img/attachement/jpg/site1/20150716/0023ae5d91e01711639943.jpg

Be that as it may, and notwithstanding the somewhat secondary or tangential status accorded to the CPEC in the NDRC document, the Chinese leadership has, verbally at least, given a fairly important, even central, role to the CPEC in the entire OBOR initiative. President Xi Jinping has called it a 'major project of the Belt and Road initiative'.[226] Prime Minister Li Keqiang has labelled it a 'flagship project for the connectivity between China and its neighbouring countries'[227], and also called it a 'project of strategic value'.[228] Calling the CPEC an important part of the OBOR initiative, the Chinese ambassador to Pakistan has said that it 'borders the Silk Road Economic Belt to the north and connects to the 21st Century Maritime Silk Road to the south'. According to the ambassador, 'all of the basic concepts, thinking and policy of the OBOR initiative can be applied to the CPEC'.[229]

Spatial Advantage

For the Pakistanis, regardless of whether or not the CPEC is central to the OBOR, the fact that China is ready to pump in money to build infrastructure for a corridor from Xinjiang to Gwadar is in and of itself a huge shot in the arm for an economy which is unable to get either domestic or foreign investment. Pakistan has for long pranced about its strategic geographical location which it has considered its prime asset.[230] Episodically, its geography has come in handy for world powers — for instance, for the U-2 flights from the Badaber base near Peshawar in the late 1950s, to fight against the Soviet occupation of Afghanistan in the 1980s, and to assist in the war on terror in Afghanistan in the 2000s. While Pakistan did receive a handsome rent on all these occasions for allowing the use of its territory, it never really amounted to much in terms of Pakistan emerging as the cross-roads of international trade and commerce. In short, it was a bridge to nowhere. The CPEC, for the first time, offers a tantalising opportunity for

[226]Op. cit.

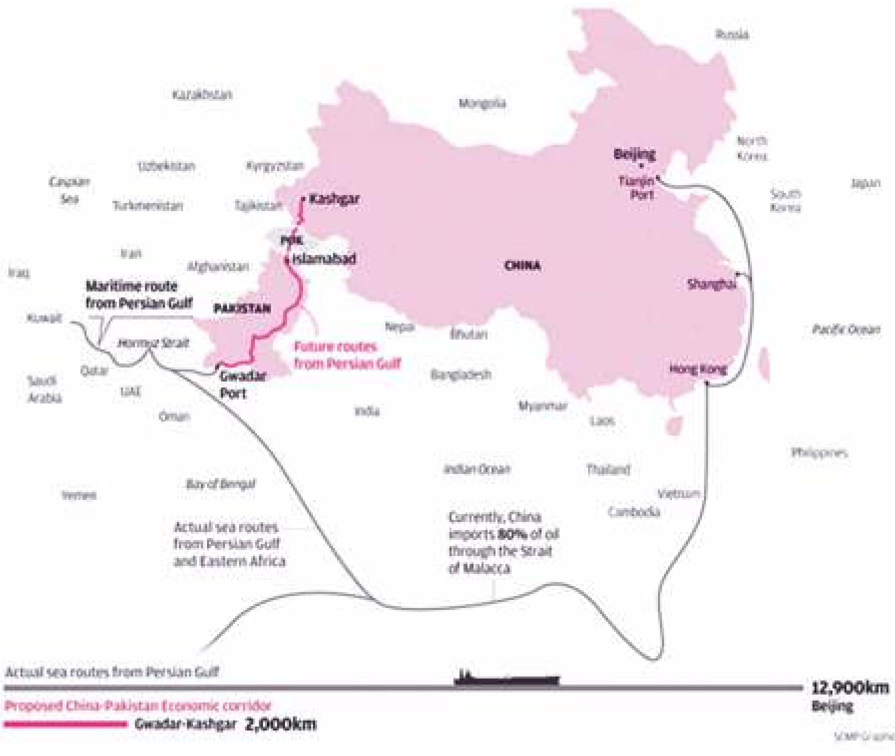
[227]'Li Keqiang: Building the China-Pakistan Economic Corridor Falgship Projects', Ministry of Foreign Affairs of People's Republic of China, 08/11/2014, accessed at
http://www.fmprc.gov.cn/mfa_eng/topics_665678/ytjhzzdrsrcldrfzshyjxghd/t1209089.shtml

[228]Rana Jawad, 'Pakistan, China sign eight agreements, MoUs', The News International 06/07/2013, accessed on 06/07/2013 at http://www.thenews.com.pk/Todays-News-13-23908-Pakistan-China-sign-eight-agreements-MoUs

[229]Op. cit.

[230]Ikram Sehgal, 'Comments: Exploiting our Gold Coast', The News International 18/05/2006, see POT Pakistan Series Vol. XXXIV No. 115 pp 43-45

Pakistan to become a bridge between China and the Middle-East. At the very least, Pakistan could become a thoroughfare for trade between the western Chinese province of Xinjiang and the Middle-East and beyond. Even this will bring its own spin-offs in terms of infrastructure and business opportunities. It is in this context that the OBOR came as a Godsend for the Pakistanis who saw the fit or complementarity between OBOR and CPEC as a fulfilment of a pitch they had been making to the Chinese for more than a decade.



In the 1990s, Pakistan was looking to become a corridor for Central Asia and not China; western China was more of a transit route for trade from some of the Central Asian states. Pakistan even entered into a quadrilateral transit trade agreement with Kazakhstan, Kyrgyzstan and China in 1995.[231] But for a

[231]'Four Asian nations sign traffic in transit agreement', The Nation 10/03/1995, see POT Pakistan Series Vol. XXIII No. 63 pp 536-37

variety of reasons the Central Asian trade and transit never happened. By the turn of the century, however, the Pakistanis started looking towards the possibility of becoming an outlet for western China. The Chinese government had started focusing on development of Xinjiang, in part to counter the growing Uighur restiveness in the region. Pakistan smelled an opportunity in providing the shortest access to the sea to Xinjiang.[232] By 2005, Pakistan was offering to 'serve' as a transport and energy corridor to and from China. During the visit of Prime Minister Wen Jiabao to Pakistan, the Pakistani Prime Minister Shaukat Aziz said that both countries were going to encourage the flow of goods from western China through Pakistani ports of Karachi and Gwadar to the Middle-East and beyond.[233]

In early 2006, China and Pakistan signed an MoU for re-aligning the Karakoram Highway (KKH) to cater for the expected rise in trade between the two countries.[234] The KKH was to be widened and its capacity to handle commercial transport tripled to enable heavy commercial vehicles to ply on the road.[235] This was also the year that China and Pakistan signed a free trade agreement, which was supposed to increase bilateral trade, which in turn would make the KKH even more important.[236] It was against the backdrop of all these developments, including the impending operationalising of the Gwadar port that Gen Pervez Musharraf went all out to make the strongest pitch until then to set up a trade and energy corridor for China to give it access to Central Asian markets and energy sources. Calling for 'strategic vision'[237], he tried to hard-sell both a pipeline proposal as well as a railway line across the Karakoram mountains — the 9th and 10th Wonders of the World, he called them.[238] Why China would need to access Central Asia

[232]Maqsudul Hasan Nuri, 'Comments: China, Central Asia and Gwadar port', The News International 28/07/2002, see POT Pakistan Series Vol. XXX No. 235 pp 4833-34

[233]Mariana Babar, 'Pakistan, China sign Friendship treaty', The News International 06/04/2005, see POT Pakistan Series Vol. XXXIII No. 82 pp 3280

[234]'Accord signed with China for Highway project', Dawn 18/02/2006, see POT Pakistan Series Vol. XXXIV No. 41 pp 20

[235]'KKH repair work to start by year-end', The News International 10/07/2006, see POT Pakistan Series Vol. XXXIV No. 161 pp. 31-32

[236]'Landmark free trade agreement signed', The News International 25/11/2006, see POT Pakistan Series Vol. XXXIV no. 276 pp 2-10

[237]Qin Jize, 'Musharraf offers transit facilities', China Daily 22/02/2006, accessed at http://www.chinadaily.com.cn/english/cndy/2006-02/22/content_522477.htm

[238]'Karakoram Highway to be linked to Gwadar port: Musharraf', Dawn 05/07/2006, see POT Pakistan Series Vol. XXXIV No. 156 pp 2-3

through Pakistan was a bit fuzzy because this would mean China not accessing this region directly but first coming down more than a 1,000 km into Pakistan and then going back up through Afghanistan to reach Central Asia! Clearly, it wasn't so much geography and economics but more strategy that Musharraf was pitching. Inaugurating a dry port in Sost in the Gilgit-Baltistan region of Pakistan-occupied Kashmir (PoK), Musharraf once again spoke of Pakistan's potential to become the hub of regional trade as it formed the intersection of SAARC, ECO and SCO.[239] In 2008, Musharraf once again tried to sell the corridor plan to the Chinese President Hu Jintao.[240] But by that time Musharraf was on his way out of power and there weren't any takers in Beijing for the dreams he was selling. For a couple of years, all the mega-projects were in a state of 'suspended animation'.[241]

In 2011, with the US announcing a 'New Silk Road' initiative linking South Asia and Central Asia[242], talk of a developing a Silk Road started gaining traction in China. Pakistan was quick to sense another opportunity. Around this time, Pakistan was already getting set to get China to take over the Gwadar port once again.[243] In a signed article, Pakistan's ambassador in Beijing, hustled the corridor plan once again, with the same old sales pitch of connectivity (a concept that President Asif Zardari was also trying to sell to China) through highways, pipelines and railways between the Gulf and China and the same old USP of Pakistan being an artery to Central Asia with the unparalleled advantage of providing the shortest distance to Europe and Middle-East by sea.[244] The Chinese were also re-evaluating their options. After the new Chinese leadership decided upon the OBOR, the Economic Corridor through Pakistan became a saleable and doable proposition because it fitted in well with the Chinese grand plan. As a top Pakistani official summed it up: “Both China and Pakistan have their own interests.

[239] Ibid.

[240] Jiao Xiaoyang and Zhang Haizhou, 'Musharraf slams Western meddling', China Daily 14/04/2008, accessed at http://www.chinadaily.com.cn/cndy/2008-04/14/content_6613498.htm

[241] Andrew Small, pp 114-15, Op. cit.

[242] 'US support for the New Silk Road', US Department of State, accessed at http://www.state.gov/p/sca/ci/af/newsilkroad/

[243] 'Gilani for Chinese help in making Gwadar port effective', The News International 16/12/2010, accessed on 16/12/2010 at http://www.thenews.com.pk/Todays-News-13-2694-Gilani-for-Chinese-help-in-making-Gwadar-Port-effective

[244] Masood Khan, 'New Silk Road will bridge China and Pakistan', Global Times 18/09/2011, accessed at http://www.globaltimes.cn/content/675719.shtml

China has interest in Gwadar port while Pakistan's interest is to economically develop the corridor".[245]

The Middle Kingdom — A Benign Investor?

For China, the OBOR is not an altruistic initiative and has both an economic as well as strategic angle. By building connections with neighbouring countries and beyond, China will be able to stimulate growth in its peripheral regions. More importantly, the huge infrastructure building activity that OBOR entails will provide the much-needed stimulus to its industry which is suffering from serious over-capacity issues. Strategically, the Chinese will be able to tie in countries that become part of the OBOR in its economic sphere of influence, not just in terms of trade, but even more so financially once the 'local currency convertibility' makes the Chinese currency the reserve currency in which all trade is denominated and conducted.[246] The spin that the Chinese media is giving to OBOR is that it's a "vision with world changing implications" which will create 'physical trade routes and integrated zones of economic collaboration' along with trade and financial compatibility. In the words of a Western scholar, OBOR 'creates a world in which economically everyone's path ends at the door of China'.[247] But so far the experience of countries which have received Chinese investment hasn't been very happy. And the OBOR has its share of problems, which will also impact on CPEC.

A 'dose of reality' has come from a Pakistani writer who points to the experience of Sri Lanka — a country that lies on the Maritime Silk Road. Apart from the problems afflicting the Colombo Port City project, he talks of the Hambantota port which, according to him, is "a case study in how to invest in useless infrastructure projects". Most of the Chinese-built projects, including an airport and a conference centre, in and around Hambantota are

[245]Mehtab Haider, 'Govt tables list of 37 mega projects of $ 40 bn given to China', The News International 22/07/2014 accessed on 22/07/2014 at http://www.thenews.com.pk/Todays-News-2-263159-Govt-tables-list-of-37-mega-projects-of-40-bn-given-to-China

[246]Scott Kennedy & David A. Parker, 'Building China's One Belt, One Road', 03/04/2015, CSIS, accessed at http://csis.org/publication/building-chinas-one-belt-one-road ; also see Jiayi Zhou, Karl Hallding and Guoyi Han, 'The trouble with China's One Belt One Road strategy', The Diplomat 26/06/2015, accessed at http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/

[247]Joseph Catanzaro, Ren Qi, Chen Jia and Bu Han, 'Belt, Road built on reciprocity', China Daily Europe 08/05/2015, accessed at http://www.chinadaily.com.cn/m/xinjiang/urumqi_toutunhe/2015-05/08/content_20690770.htm

unused and are proving to be a huge financial drain on Sri Lanka.[248] Not just Sri Lanka, but the experience of African and Latin American countries, which have received huge Chinese 'investments' are finding out that the cheap Chinese money isn't all that inexpensive, or, for that matter, benign. Given the striking similarity in the investments made by China in Africa and Latin America and the investments it is making in Pakistan, there is a good chance that Pakistan too could end up saddled with huge loans and obligations (see next section), in addition to infrastructure projects that don't quite turn out to be the 'game-changer' and 'fate-changer' they are being touted to be.

In Africa, most of the Chinese 'investments' are actually concessional loans — some of these loans are actually far from concessional and have very stiff terms — and often the payment for infrastructure projects is in terms of natural resources. One of the clauses in-built in all Chinese projects is that 70% of the personnel working on them will be Chinese. The African countries are dumping grounds for Chinese products which force local businesses to shut shop. Nearly a million Chinese have settled in African countries which has led to tensions and clashes between them and local authorities. There is a striking resemblance between the labour and settlement policies followed by the Chinese businesses and the erstwhile colonial rulers. The bulk of Chinese 'investments' are in four African countries — Nigeria, Angola, Ethopia and Sudan — and the Chinese are not averse to using their leverage over some of these countries to influence the policies of their ruling establishments in standing up to international trade and human rights norms. Worse, the money that China pumps in to some of the African countries constitutes a substantial chunk of their GDP — Sudan and Zimbabwe, for example — and helps to prop up unpopular rulers.[249]

Many of these conclusions were also corroborated by a Brookings study which busts many myths of the 'benign' and development-oriented nature of Chinese investments in Africa. The study, which focuses on investments by small and medium private Chinese firms, quotes an op-ed piece by a

[248] Irfan Husain, 'No free Chinese lunch', Dawn 02/05/2015, accessed at http://www.dawn.com/news/1179363/no-free-chinese-lunch

[249] Codrin Arsene, 'Top 10 misconceptions about Chinese investment in Africa', www.congoforum.be, accessed at http://www.congoforum.be/en/analysedetail.asp?id=146236

former governor of Nigeria's Central Bank who wrote: “In much of Africa, they [Chinese] have set up huge mining operations. They have also built infrastructure. But, with exceptions, they have done so using equipment and labour imported from home, without transferring skills to local communities. So China takes our primary goods and sells us manufactured ones. This was also the essence of colonialism.” According to the study, the Chinese investments are generally in countries with weak governance where incentives for profit are higher. Overall, the Chinese investment stock in Africa is just around 3% and their investments are driven by profit-motive and not any altruistic reasons of developing Africa.[250]

The exploitative and extractive model of Chinese investments in Africa is also manifest in Latin America. China has stepped into the breach in the relationship of many of these countries with the US, first as a saviour with budgetary support and massive infrastructure investments, and once established, followed, nay outdone, the Americans in foisting its own rules and its own political strings on these countries. In Ecuador, for instance, 90% of the oil exports are guaranteed to be delivered to China, and mostly go into repaying Chinese loans which come at steep interest payments and conditionalities that involve using Chinese companies, equipment and personnel. In the oil sector in Ecuador, the Chinese also charge between $25–50 on each barrel of oil they extract. With oil prices plunging, servicing the loans has become difficult and the Chinese are extending loan terms in exchange for extending the years for which the natural resources are pledged to China. The labour policies and the segregation of Chinese and local workers in Ecuador is of the same type as in Africa, and this brings with it its own tensions.[251] Chinese mega-projects in Latin America, especially in the railway sector, are all aimed at building a reliable logistics system that serve the Chinese economy by supplying raw materials and providing access

[250]Wenjie Chen, David Dollar and Heiwai Tang, 'Why is China investing in Africa: Evidence from the firm level', Brookings Institution, August 2015, accessed at http://www.brookings.edu/~/media/research/files/papers/2015/08/why-china-is-investing-in-africa/why-is-china-investing-in-africa.pdf

[251]Clifford Kraus and Keith Bradsher, ' China's global ambitions, cash and strings attached', New York Times 24/07/2015, accessed at http://www.nytimes.com/2015/07/26/business/international/chinas-global-ambitions-with-loans-and-strings-attached.html?_r=0

to markets[252] — pretty much the same reason for which colonial powers build railroads. But in recent years two things have happened: one, with commodity prices and demand crashing, the expensive projects have stalled; and two, with the Chinese economy slowing down, it has had an impact on the Latin American economies whose fortunes had become linked a little too closely with China.[253] The old adage of the world catching a cold when America sneezes, applies as much to China these days, and the devastating impact of the slowdown in China is being felt in many Latin American countries.[254] Although the Latin American countries did benefit from the roads, railroads and other infrastructure projects that China built, they have also paid a fairly high price for these projects. In other words, the problem isn't so much that money was sunk into useless projects but more that the price at which this money came. And this raises questions about the Chinese model of foreign investment, questions that would also apply in the case of Pakistan.

Given the hype in Pakistan that CPEC will change the destiny of the country, it would perhaps be instructive to know how much the massive Chinese investments in Latin American countries changed their destiny. For instance, the Chinese have pumped in over $50 billion in Venezuela, and yet it has hardly made any difference either to that country's economy or in the lives of its people. For that matter, the Chinese experience in Venezuela — billions of dollars stuck in loans and inadequate returns on investment[255] — should serve as a wake-up call for China on what, where and who it should invest in. A financial analyst based in London has said that the economics underpinning Chinese investment and political strategy in Asia, Africa and Latin America is now increasingly coming under scrutiny. While the Chinese are worried over the repayment capacity of the Latin American countries,

[252] Simon Romero, 'China's ambitious rail projects crash into harsh realities in Latin America', New York Times 03/10/2015, accessed at http://www.nytimes.com/2015/10/04/world/americas/chinas-ambitious-rail-projects-crash-into-harsh-realities-in-latin-america.html

[253] Ibid.

[254] Keith Bradsher, 'China falters, and the global economy is forced to adapt', New York Times 26/08/2015, accessed at http://www.nytimes.com/2015/08/27/business/international/china-falters-and-the-global-economy-is-forced-to-adapt.html?_r=0

[255] Mark Hanrahan, 'China's multi-billion dollar loans to Venezuela face uncertain future as oil prices slump: report', International Business Times 19/06/2015, accessed at http://www.ibtimes.com/chinas-multi-billion-dollar-loans-venezuela-face-uncertain-future-oil-prices-slump-1974614

the latter are asking how long they will allow the former to export its surpluses and debt to them. What the Chinese have also done is used their money as leverage with some Latin American petroleum companies to gain deep-sea drilling technology as well as ride piggy back on them partly as equity holders and partly as sub-contractors to grab a share in oil concessions in Africa, in particular Nigeria. The big question the analyst asks is “what after the Chinese finish building their roads, rails and ports wherever these are being built? Can China go on subsidising their State Owned Enterprises (SOEs) and shovelling their domestic savings and their foreign exchange reserves in building infrastructure projects in high-risk countries in Asia, Africa and Latin America?”[256]

Other analysts elsewhere have also been asking questions about how efficacious OBOR will be in achieving its domestic and global objectives, both in the realm of economics as well as in the field of strategy. One obvious problem is, of course, the fact that most of the countries that are to be part of OBOR are 'politically volatile and economically vulnerable' and the returns from investment there will be very iffy. Another problem is that most of the foreign investment is made by SOEs and tends to give low returns because costs, risks and benefits haven't been carefully calculated. In other words, the benefits (in terms of taking care of the problem of over-capacity) may be too short-sighted, and in terms of returns too long-sighted.[257] There is also the whole issue of countries welcoming the Chinese investment when it is being made, but when the pay-back time comes, many of them may balk at the price they have to pay; this, in turn, may fuel resentment and ill-will against China, including against the overbearing attitude of the Chinese managers and workers, thereby defeating the geo-strategic purpose for which hundreds of billions of dollars were invested in the first place.[258] Many Chinese analysts have themselves listed out all the pitfalls and problems, both geo-political and strategic nature as well as of the economic type that will confront the OBOR. These include territorial disputes with countries that lie along the Maritime Silk Road, the threat

[256]Interview with an independent consultant based in London, September 2015

[257]Op. cit. (The Diplomat)

[258]Op. cit. (CSIS)

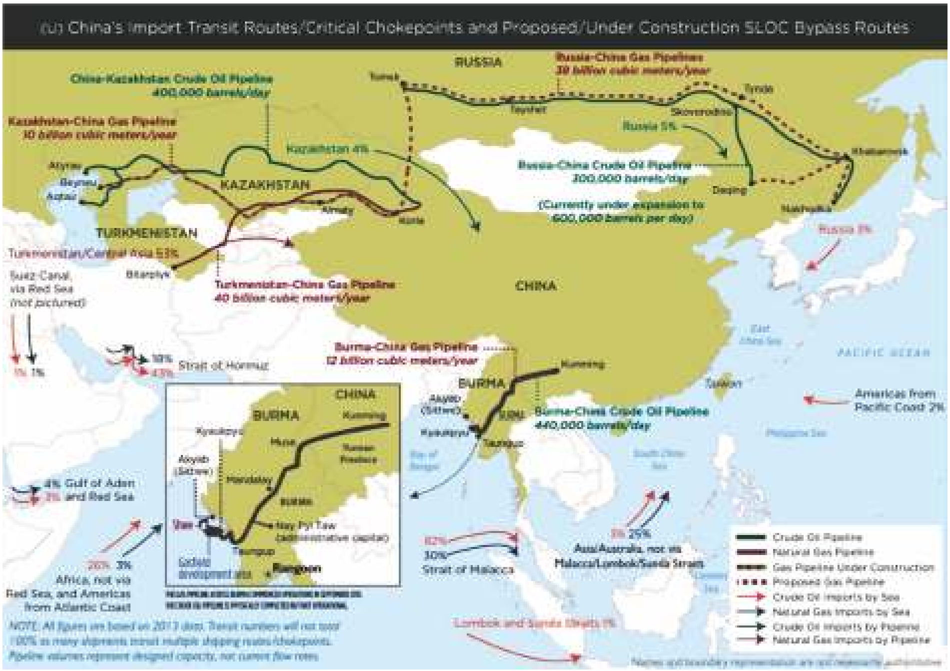
perception of bigger powers like the US, India and Russia, the fact that limited market sizes in many of the countries that will become part of both the Belt and Road will constrain opportunities for profit. Moreover, the ever rising spectre of terrorism could easily make the OBOR initiative unworkable and the internal turmoil in these countries could disrupt the flow of trade and transit that underpins the entire OBOR concept.[259]

[259]Raffaello Pantucci and Qingzhen Chen, ' The Geopolitical roadblocks', in 'One Belt, One Road: China's Great Leap outward', China Analysis, European Council on Foreign Relations, pp 11-13, accessed at http://www.ecfr.eu/page/-/China_analysis_belt_road.pdf

V. CPEC: DODGY ECONOMICS & FLIMSY STRATEGIC ASSUMPTIONS

Notwithstanding the over-the-top rhetoric and flowery language used by the Chinese and Pakistanis to describe the CPEC, many of the strategic assumptions underpinning the mega-project are flimsy, even heroic, and the economic logic, very dodgy. That there is a strategic dimension to CPEC is undeniable (see next section). That there is also an economic dimension to CPEC is also undeniable. But what is contestable is the whole talk about CPEC ensuring energy security for China by ridding it of its so-called 'Malacca Dilemma'. Equally contestable is the contention that CPEC will provide a shorter and more economic alternate route to Chinese trade with Middle-East and Europe. And perhaps the most contestable is the general spin being given in Pakistan that the Chinese money is going to give the Pakistanis a virtually no-strings attached free ride which will catapult the country into an altogether different league. The CPEC will certainly have an impact on Pakistan, but whether that impact will be benign or malign is another matter. The problem with most Pakistani analysts is the failure to understand the tyranny of geography and the fundamentals of transport economics.

Straight lines on a map may well show the shortest distance between two points, but that doesn't factor in the topography, the inherent technological and other limitations of surface transport, the economics of transportation and, most of all, the sheer logistics involved in moving stuff overland as compared to moving it by sea. This immutable reality appears to have escaped not only the Pakistanis but also Chinese and Western writers who have been going overboard in extoling the virtues of CPEC as an alternative route that will lower its reliance on oil and gas imports by the sea route — the so-called Malacca Dilemma. Around 80–85% of China's oil imports and 30% of gas imports from Middle-East, Africa and South America pass through the Straits of Malacca and any blockage for any reason of this strategic waterway will severely impact China's energy security. Clearly, this is a serious vulnerability of China and one that it would be very keen to address.



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As early as 2005–06 Pakistan offered itself as a 'trade and energy corridor' for China. Gen Pervez Musharraf, in an interview to *China Daily* referred to China's oil imports from Africa and Middle-East being transported overland through Pakistan to Xinjiang.[261] The entire Gwadar oil city project was also contemplated with this objective in mind. Chinese media and scholars were also quite excited about the prospect of Pakistan becoming China's 'new energy channel' using rail, road and pipelines and, thereby, providing China with another option to Malacca.[262] The same theme continued to be parroted even later without anyone really applying their minds to what they were mouthing. A 2010 Global Times report talked about how once the railroad and pipelines were built between Gwadar and Kashgar, Gwadar would handle most of the oil tankers to China, and not only would it provide

[260] Jeremy Bender & Armin Rosen, 'This Pentagon map shows what's really driving China's military and diplomatic strategy', Business Insider 13/05/2015, accessed at http://www.businessinsider.in/This-Pentagon-map-shows-whats-really-driving-Chinas-military-and-diplomatic-strategy/articleshow/47273547.cms

[261] Op. cit. (Qin Jize)

[262] 'Energy forum with China planned', Dawn 06/04/2006, see POT Pakistan Series Vol.XXXIV No. 80 pp 19-20 The story quoted a Beijing Review article.

the shortest route to the Middle-East but also replace the dangerous maritime route.[263] After the announcement of CPEC, Pakistanis came up with their own ridiculous 'cost-benefit analysis' of how much China stood to gain through the economic corridor. According to one analysis, China could use Gwadar for not only routing its west (of China) bound containerised trade (about 50% of its total containerised trade), but also save around $2 billion annually if even 50% of the Chinese oil imports went through the Pakistani port.[264] The Chinese media, which essentially and blindly toes the official line, was also talking of Gwadar becoming 'a potentially vital link in China's supply chain' by reducing the distance that oil and gas imports from Africa and the Middle-East had to travel.[265]

The Dilemma's Here to Stay

Most of these 'analyses' are, however, more wishful thinking than based on realism and even if a pipeline and a railroad were to be built linking Gwadar with Kashgar — they aren't anywhere close to being built anytime in the foreseeable future — it wouldn't rid China of its Malacca Dilemma.

In the first few months of 2015, China's total oil imports were over 7 million barrels per day (bbl/d).[266] Around 80% of these were routed through the Malacca Straits. Over the years, China has tried to build pipelines to reduce its dependence on the Malacca route. But the three main oil pipelines — Kazakhstan, Russia and Myanmar — currently supply only around 1.1 million bbl/d. Even after the Russian pipeline capacity is doubled to 6,00,000 bbl/d, the total pipeline supply of oil will be just around 1.5 million bbl/d out of over 7 million bbl/d of imports.[267] Assuming a pipeline can be built from Gwadar, unless it can pump around 3 million bbl/d, it cannot take care of 50% of oil imports through Malacca. Even a pipeline with a huge capacity of

[263]Li Xiguang, 'Pakistan can be China's bridge to the Gulf', Global Times 14/12/2010, accessed at http://www.globaltimes.cn/content/601390.shtml

[264]Ali Salman, 'Pakistan-China Economic Corridor: a cost-benefit analysis', Express Tribune 03/05/2015, accessed at http://tribune.com.pk/story/880259/pakistan-china-economic-corridor-a-cost-benefit-analysis/

[265]'Backgrounder: China-Pakistan Economic Corridor', China Daily 22/04/2015, accessed at http://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm

[266]'China: International energy and data analysis', US Energy Information Administration, 14/05/2015, pp 10, accessed at http://www.eia.gov/beta/international/analysis_includes/countries_long/China/china.pdf

[267]Ibid. (pp 11)

1 million bbl/d will not obviate China's Malacca dilemma. As for transporting oil through rail or road, obviously those advocating this have no idea of the logistics or costs involved. A very large crude carrier (VLCC) ship can carry around 2 million barrels of oil. If the same amount of oil has to be carried by train, it will need around 28 trains of 100 cars each (assuming again that a train running across the formidable Karakoram range can cater for such a big train). It will take over 10,500 trucks to carry the same amount of oil by road — clearly, not a workable or economically practical option. As for containerised cargo, the World Shipping Council has estimated that if all the containers on an 11,000 TEU ship were to be put on a train it would be 77-km long.[268] According to calculations made by two American scholars, a rail corridor across the Khunjerab pass would have at least one track each way (though given the terrain and costs involved, it is more likely that it will be a single track) and if all trains were to only carry oil, around 1,75,000 barrels could be carried in a day. Even if the number of trains were increased by double, not more than 3,50,000 barrels could be carried in a day. Once this oil reaches Kashgar, it would then have to be transported another 5,000 miles to the eastern heartland of China.

[268]Source: 'Benefits of Liner Shipping', World Shipping Council accessed at http://www.worldshipping.org/benefits-of-liner-shipping/efficiency

As for transport costs, they have calculated that moving oil by ship costs on an average just about $0.90 per barrel, but if oil is first shipped to Gwadar and then moved by train to China, it will cost anything between $8 to $12.4 per barrel.[269] Even if there was a pipeline linking Gwadar to China, it would raise the transport costs considerably. In another paper, both the American scholars have calculated that it would cost around $10 per barrel to ship oil through pipeline to Urumqi and then an additional $5 per barrel to the Chinese heartland in the east. This means that compared to around $2 to ship oil by sea, it would cost China around $15 to ship oil by pipeline through Gwadar.[270] Even the time advantage that is often touted as justifying overland transportation doesn't really end up being economical.[271]

As far as gas imports are concerned, China only imports about 30% of its demand; for instance, in 2013, it imported 1.8 trillion cubic feet (Tcf) out of a total demand of around 5.7 Tcf.[272] More importantly, only around 30% of the imports come through the Straits of Malacca. In 2014, China was already importing 1.1 Tcf by pipelines from Central Asia and Russia. The Central Asian Gas Pipeline (CAGP) has three parallel pipelines running from Turkmenistan, Uzbekistan and Kazakhstan with a capacity of transporting 1.9 Tcf per annum by the end of 2015. An additional 880 billion cubic feet (Bcf) per annum will be added to the CAGP capacity by 2016.[273] The Myanmar gas pipeline has a capacity of 420 Bcf/y and add to this the Russia-China gas pipeline deals and it's quite clear that China doesn't need to build an expensive and technologically extremely challenging, even unviable, pipeline over Khunjerab pass to transport gas. Add to this China's LNG capacity on its east coast, and it makes the case for a pipeline through Pakistan a bit of a pipedream.

[269]Gabe Collins and Andrew Erickson, 'Still a pipedream: A Pakistan-to-China rail corridor is not a substitute for maritime transport', China Signpost 22/12/2010, accessed at http://www.chinasignpost.com/2010/12/22/still-a-pipedream-a-pakistan-to-china-rail-corridor-is-not-a-substitute-for-maritime-transport/

[270]Andrew S. Erickson and Gabriel B. Collins, 'China's oil security pipe dream: The reality and strategic consequences of seaborne imports', Naval War College Review, Spring 2010, Vol. 63, No. 2, pp 104, accessed at http://www.andrewerickson.com/wp-content/uploads/2010/03/China-Pipeline-Sealane_NWCR_2010-Spring.pdf

[271]Vivan Sharan & Nicole Thiher, 'Oil supply routes in the Asia Pacific: China's strategic calculations', ORF Occasional Paper #24, September 2011

[272]Op. cit. (EIA report 2015 pp 15)

[273]Op. cit. (EIA report 2015 pp 21-22)

Both the pipeline as well as the railway link have been considered by the Chinese in the past, but so far partly for reasons of the costs involved, partly for reasons of technological and engineering challenges involved, partly for reasons of security, and partly for reasons of economic viability and usability, these projects haven't really taken off the ground.

Pipedreams on a Fast Track

In 2006, Pakistan's Prime Minister Shaukat Aziz announced that China and Pakistan were considering a feasibility study for an oil pipeline from Gwadar to western China. The usual spiel of Pakistan being in a position to exploit its strategic location of being at the cross-roads of south, central and west Asia to promote 'corridors of cooperation' followed.[274] Shortly after, the feasibility study was undertaken and Pakistanis were expecting Gwadar to become a hub for China's energy-related industry.[275] Pakistani diplomats in Beijing claimed that the Chinese were interested in the Pakistani idea of the pipeline because it would reduce their dependence on the Malacca Straits.[276] By 2008, the Pakistanis were also seeking to rope in China to become part of the proposed Iran-Pakistan-India (IPI) pipeline to make it IPIC or if India backed out, IPC.[277] But the problem was not whether China could replace India in the proposed pipeline but whether such a pipeline was technologically and economically feasible and viable. Strangely, while the Pakistani military dictator Gen Pervez Musharraf claimed that the pipeline was viable[278], the Chinese did not think the feasibility study endorsed the pipeline proposal.[279] Apparently, a Chinese feasibility study in 2005 had concluded that given the terrain from which the pipeline had to pass and the technological challenges that it would have to counter, it would be an extremely expensive project and hence not justifiable. Musharraf, in his typical commando style, thought otherwise and used his own logic to

[274] 'Pakistan, China considering oil pipeline from Gwadar', Daily Times 24/05/2006, see POT Pakistan Series Vol. XXXIV No. 120 pp 8

[275] 'Gwadar-China oil pipeline study underway', Pakistan Observer 04/09/2006, see POT Pakistan Series Vol XXXIV No. 207 pp 43-45

[276] 'China showing interest in Trans-Himalayan pipeline', The News International 24/10/2006, see POT Pakistan Series Vol. XXXIV No. 249 pp 13-14

[277] 'China asked to join gas pipeline project', The Nation 15/04/2008, see POT Pakistan Series Vol. XXXVI no. 90 pp 44-46

[278] Ibid.

[279] 'Beijing keen on pipeline project', The News International 16/04/2008, see POT Pakistan Series Vol. XXXVI No. 91 pp 8

argue that even though the gas in the pipeline had to be pumped to a height of over 15,000 feet to cross Khunjerab pass, after that it would be going down-hill and hence would make the project feasible![280] While there is a pipeline which has been made at over 13,000 feet in Equador, the distance of that pipeline is around 200 km as compared to over 700-odd km and a height of 15,500 feet that a pipeline will have to traverse from the Punjab plains to Khunjerab, and this doesn't even take into account the distance from Gwadar to the foot hills and then after Khunjerab to Kashgar and beyond.[281] Needless to say, the Chinese didn't bite on the pipeline plan. But in 2013, Nawaz Sharif once again tried to revive the same old pipeline proposal which could be linked to Iran.[282] The Chinese, however, preferred to stay away, partly because of the US sanctions on Iran and partly because they appeared more interested in a pipeline from Turkmenistan,[283] not TAPI but the fourth pipeline through Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan into China.[284]

The story about the railway line is almost similar to that of the pipeline, both in terms of the economics of it as well as the technological difficulties associated with it. In 2008, shortly after Musharraf was forced to quit office of President, the minister for railways informed the Pakistani senate that a rail link from Khunjerab pass was not commercially viable.[285] Strangely enough, the very next year, the Pakistan railway ministry signed a deal with a consortium to prepare a feasibility report for a possible joint venture with China for a train service between the two countries.[286] But after this there was really not much talk of this ambitious project. In 2013, once again the whole railway link story started doing the rounds. The ministry of railways

[280] Ibid.

[281] Op. Cit. (Erickson and Collins 2010, pp 102-03)

[282] Zafar Bhutta, 'Pak-China pipeline project: Nawaz to offer China the shortest oil route', Express Tribune 05/07/2013, accessed at http://tribune.com.pk/story/572801/pak-china-pipeline-project-nawaz-to-offer-china-the-shortest-oil-route/

[283] Zafar Bhutta, 'Gas import: China abandons IP project, eyes TAPI pipeline', Express Tribune 30/04/2014, accessed at http://tribune.com.pk/story/701979/gas-import-china-abandons-ip-project-eyes-tapi-pipeline/

[284] Op. cit. (EIA report 2015, pp 22)

[285] 'China-Gwadar rail link via Khunjerab not feasible, minister tells Senate', Daily Times 05/09/2008, see POT Pakistan Series Vol. XXXVI No. 212 pp 5

[286] 'Rs 72 million contract awarded for feasibility of Pak-China Rail Service', The News International 31/08/2009, accessed on 01/09/2009 at http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=195805&Cat=2&dt=8/29/2009

had apparently submitted a proposal of Rs 475 million (Rs 47.5 crore) to the government for the Havelian to Khunjerab rail link. But because of shortage of funds there was no action taken.[287] Ostensibly, this amount would have been only for a feasibility study and not for kick-starting work on the rail link to China.

By the time the newly elected Prime Minister, Nawaz Sharif, was ready to go to Beijing to sign on the MoU for the Economic Corridor project, the Pakistani media gave the impression that the first phase of the 750 km-long Khunjerab to Havelian railway link — with 200 km of tunnels, 70 bridges and estimated to cost a humongous $18 billion — was going to be a part of CPEC.[288] Even Chinese officials were claiming that they had been tasked to carry out the necessary research on rail connectivity with Pakistan, and as was only to be expected, mouthed the same inane things about the time and cost savings, as well as a new oil and gas supply chain.[289] A Chinese consortium even offered to build the rail link for a ridiculously low sum of just Rs 250 billion (approx. $2.5 billion — down from the more realistic $18 billion of a few months ago) out of which the infrastructure would be built for only around $1.6 billion and the rest of the money would be used for procuring electric locomotives. The primary objective of the rail link, according to the consortium, was to link Pakistan with Central Asia.[290] Once again, everything went very quiet until June 2014 when another Chinese official told an international seminar in Urumqi that funds had been allocated to do preliminary research on the rail link to Gwadar.[291] Even a map of the proposed rail link was issued.

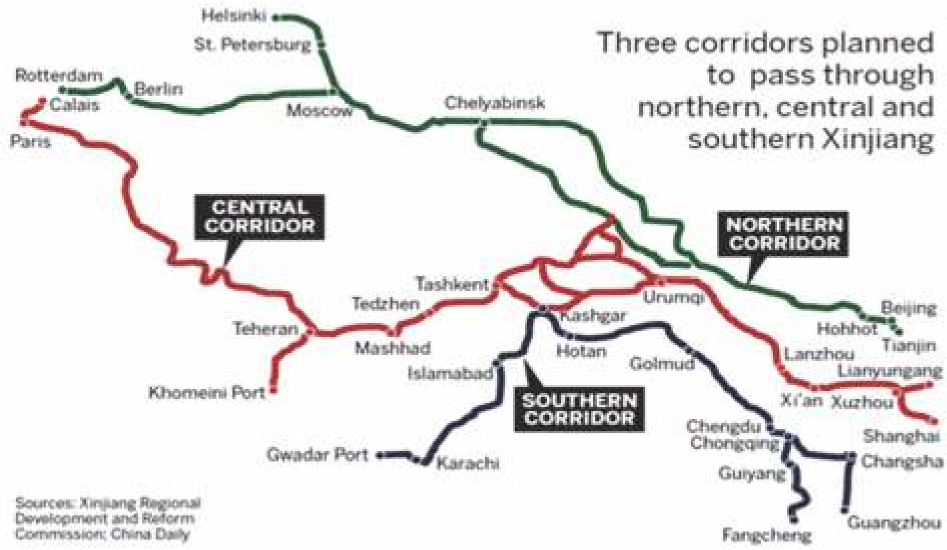
[287]Tahir Amin, 'Ralways links with China, Iran: Funds unavailability stalls three projects', Business Recorder 28/02/2013, accessed at http://www.brecorder.com/top-stories/0:/1157991:railways-links-with-china-iran-funds-unavailability-stalls-three-projects/?date=2013-02-28

[288]Absar Alam, 'Linking Khunjrab with Gwadar, other projects: Pakistan, China to sign umbrella deal', Business Recorder 05/07/2013, accessed at http://www.brecorder.com/top-stories/0:/1207218:linking-khunjrab-with-gwadar-other-projects-pakistan-china-to-sign-umbrella-deal/?date=2013-07-05

[289]"preliminary work on Pak-China train link begins', Dawn 14/07/2013, accessed at http://www.dawn.com/news/1028938/preliminary-work-on-pak-china-train-link-begins

[290]'Gwadar-Khunjrab rail link: Chinese conglomerate offers to build crucial rail link', Express Tribune 27/11/2013, accessed at http://tribune.com.pk/story/637364/gwadar-khunjrab-rail-link-chinese-conglomerate-offers-to-build-crucial-rail-link/

[291]Cui Jia, 'China studying new Silk Road rail link to Pakistan', China Daily 28/06/2014, accessed at http://www.chinadaily.com.cn/business/2014-06/28/content_17621525.htm



But later that year it became clear that the only money that the Chinese were going to pump in to Pakistan's decrepit and derelict railway network was $3.5 billion to refurbish the mail line from Karachi to Peshawar. This was a concessional loan under the CPEC programme with sovereign guarantees from the Government of Pakistan. All the work undertaken would be by Chinese companies without any bidding or tendering and with an assured 20–25% profit on their investment.[292] After the visit of President Xi Jinping, Pakistan's CPEC point-man, Ahsan Iqbal, acknowledged that the Gwadar-Khunjerab rail link was a long-term project and would be completed only by 2030.[293]

Clearly then, both the railway and the pipeline are pipedreams for now. But what is important is that without these two projects being part of the CPEC, the economic utility as well as the strategic significance of the CPEC is just not the same. On the other hand, even if a rail and pipeline were part of

[291]Cui Jia, 'China studying new Silk Road rail link to Pakistan', China Daily 28/06/2014, accessed at http://www.chinadaily.com.cn/business/2014-06/28/content_17621525.htm

[292]Anwer Sumra, 'Pakistan Railways: China to inject $3.5b into infrastructure development', Express Tribune 22/10/2014, accessed at http://tribune.com.pk/story/779029/pakistan-railways-china-to-inject-3-5b-into-infrastructure-development/

[293]'Ahsan reveal three routes of corridor', Dawn 15/05/2015, accessed at http://www.dawn.com/news/1182074/ahsan-reveals-three-routes-of-corridor

CPEC, it wouldn't give the second-largest economy in the world a substitute or an alternative route to its dependence on sea. The sheer enormity of the volumes of oil, gas and container traffic to and from China, as well as the geographical and technical limitations imposed by the terrain through which the CPEC traverses ensures that CPEC will at best be a branch line in the larger OBOR plan.

Pakistan and the CPEC Beanstalk

Just like the rail and pipeline have proven to be pies in the sky until now, so too is the case with the dream of capturing the Central Asian trade and transit. The simple fact is that most of the Central Asian countries do not need the Pakistan route to connect with rest of the world. Not only do they not have the volumes of merchandise traffic (other than oil and gas, and now electricity) that would justify spending billions of dollars to build a link through Pakistan and China, most of them already have their transport links with their main markets which are China, Russia and Europe. The fact that their trade volumes with Pakistan are not very large means that even if road and rail links were to connect them to Pakistan, these would be underutilised, until and unless the links were connected to India.

Pakistani officials, of course, continue to make castles in the air and think that not only will Central Asian countries get a shorter route to world markets, but also that developed countries will gain easier access to Central Asia through Pakistan; moreover, the spiel includes the aspiration that Gwadar will become a hub for African countries which can ship raw material for processing to Gwadar and ship out value-added goods.[294] Why the African countries would use Gwadar or why developed markets wouldn't use their existing transport networks or through China (as in the case of India) isn't quite clear. Apart from the fact that Pakistan's obduracy and obstinacy doesn't allow it to act as a land bridge between India and Central Asia, even if that were to somehow happen, the question will remain whether there will be enough traffic generated to justify the hugely expensive connectivity projects.

[294] 'Gwadar port to open economic portals', Express Tribune 04/01/2014, accessed at http://tribune.com.pk/story/654540/gwadar-port-to-open-economic-portals-afridi/

Expensive projects have, however, never been a dissuasion for Pakistan. The entire economics underpinning the CPEC is extremely dodgy. For the Chinese, one big reason for supporting the CPEC is to give shorter sea connectivity to Xinjiang, which is the new focus area for development inside China. Gaining unfettered access to Gwadar, even if it is by road, will suffice for the foreseeable future, insofar as goods traffic to and from Xinjiang is concerned. The CPEC will also be useful if SEZs come up so that the Chinese can shift some of their low-tech and low-paying industries to gain the cost advantage that comes from cheap Pakistani labour. These are also the crumbs that Pakistan is eagerly looking forward to. Asides of the transport infrastructure projects, the Chinese are pumping the bulk of the money in building power plants which will also supply the power required by SEZs where Chinese firms will set up shop. But the catch here is that the margins and returns that the Chinese power companies are demanding, as well as the insurance charges that are going to be levied for the loans being given for these projects, will make the electricity generated quite expensive and unlikely to be covered by the tariffs charged. But the Chinese are confident they can leverage their privileged position in Pakistan to take out every single dollar they give as loan with interest. In short, the Chinese banks profit, the Chinese power and construction companies profit, the Chinese textile companies get cheap labour and China gets a 'colony' (or if you will, a 'complicit satellite'[295]) next to India at bargain basement rates with handsome profits.[296]

The Chinese Gift Horse

According to a Pakistani analyst, the 'higher than mountains, deeper than seas, stronger than steel, sweeter than honey' alliance between China and Pakistan has really had nothing positive to contribute to the Pakistan economy. China has used Pakistan as a leverage to achieve its objectives against India and the US (and Pakistan has been more than willing to get used, as long as it got freebies it wanted), but in pure economic terms there

[295]Christopher Ernest Barber, 'The Pakistan-China corridor', The Diplomat 27/02/2014, accessed at http://thediplomat.com/2014/02/the-pakistan-china-corridor/

[296]Op cit. (interview with independent consultant); also see Aarish U Khan, 'The real potential of CPEC', The News International 16/07/2015, can be accessed at http://www.thenews.com.pk/print/51610-the-real-potential-of-the-cpec

has been little to commend the China-Pakistan relationship. Until the CPEC program, the net foreign investment from China in Pakistan was less than a billion dollars between 2000 and 2012 — the bulk of it in the telecom sector.[297] Even though Pakistan entered a free trade agreement (FTA) with China in the fond hope that it will get market access and will be able to increase its exports and balance the trade, these hopes have been expectedly belied. The trade pattern is heavily loaded in favour of China and is quite colonial in nature — raw materials are exported from Pakistan and value-added goods are exported from China. In 2013, the Chinese exports to Pakistan were around $11 billion and imports from Pakistan just over $3 billion. The Pakistanis reported imports of $6.6 billion the same year; the discrepancy is on account of under-invoicing by the Pakistani businessmen, which in turn has an impact on the fiscal situation as well as in distorting trade.[298] The FTA is spooking the Pakistani markets and businesses fear that once the CPEC comes up, it will flood Pakistani markets with cheap Chinese goods and wipe out local industry and trade,[299] a situation quite similar to what happened in Africa.

The trouble is that with the Pakistani establishment salivating at the prospect of the $46 billion Chinese investment under CPEC, it faces a Hobson's choice in acting tough with China on the FTA. The fear is that if Pakistan digs in its heels on altering the FTA to suit its economy, the Chinese might pull back their investments because one of the attractions for the Chinese is the access to Pakistani market which will become something of a captive market for trade and industry that moves into Xinjiang. In fact, with the FTA and CPEC, some of the low-cost industry Pakistan expects to be transferred to SEZs inside Pakistan, may actually end up being transferred to Xinjiang where wages and other costs would be much lower than in the eastern industrial heartland of China.

[297]Farooq Tirmizi, 'View from McLeod Road: why the Sino-Pak alliance is economically worthless', Express Tribune 22/05/2013, accessed at http://tribune.com.pk/story/553008/view-from-mcleod-road-why-the-sino-pak-alliance-is-economically-worthless/

[298]Parvaiz Ishfaq Rana, 'Study finds discrepancy in Pak-China trade data', Dawn 26/05/2015, accessed at http://www.dawn.com/news/1184232/study-finds-discrepancy-in-pak-china-trade-data

[299]Atif Khan, 'Govt in a fix over Pak-China free trade pact', The Nation 05/11/2015, accessed at http://nation.com.pk/editors-picks/05-Nov-2015/govt-in-a-fix-over-pak-china-free-trade-pact

For China, Pakistan is a country that for its own strategic reasons is willing to accept practically anything that is asked of them. Once a Chinese label is attached to a deal (especially one that is backed by the Chinese government), no questions are asked, no due diligence is done, and whatever terms and conditions are laid down by the Chinese, more or less, get accepted by the Pakistanis. As long as there is a profit to be made, above and under the table, the Chinese are not squeamish, and therefore do not interfere, in what happens inside Pakistan. This gives the Pakistanis a lot of comfort and the high price they pay seems to make it all worth it. And there is always the high-sounding rhetoric to cover up the reality.[300]

In the entire CPEC programme, this is precisely what has been happening. The Chinese had made it quite clear to the Pakistanis fairly early on that all the projects in which they will invest money will have to be given to Chinese companies without any tendering or competitive bidding.[301] On the one hand, what such a condition means is that since the Chinese are spending the money they get to decide how much they will spend on any project and who will get the contract for that project; on the other hand, since the money is not a grant but a loan-cum-equity (given under sovereign guarantees from the Pakistan government), the Pakistanis have to pay it back. If the project cost is inflated, then the repayment will rise commensurately.[302] Already the cost of three major CPEC infrastructure projects has gone up by around $1 billion, which gave rise to rumours that “a non-career diplomat in Beijing's Pakistan embassy played an underhand role in determining the cost of these infrastructure projects”.[303] And this, even though months earlier officials were giving assurances that “each and every project had it was quite clear that these would be swept aside and not only would Pakistan give sovereign guarantees but also 15% of the project cost — in the form of land and related infrastructure — would be arranged

[300]Farooq Awan, 'Support for Pakistan free of any conditions: China', Daily Times 02/09/2014, accessed at http://www.dailytimes.com.pk/national/02-Sep-2014/support-for-pakistan-free-of-any-conditions-china

[301]Khalid Mustafa, 'China reveals its cards for investing $ 20 billion in Pakistan', The News International 20/01/2014, accessed on 20/01/2014 at http://www.thenews.com.pk/Todays-News-13-28050-China-reveals-its-cards-for-investing-$20-billion-in-Pakistan

[302]Zafar Bhutta, 'Power plants: Chinese investment promised higher return', Express Tribune 17/12/2014, accessed at http://tribune.com.pk/story/807914/power-plants-chinese-investment-promised-higher-return/

[303]Shahbaz Rana, 'Govt green-lights three CPEC projects at 23% higher cost', Express Tribune 15/12/2015, accessed at http://tribune.com.pk/story/1010145/cleared-in-haste-govt-green-lights-three-cpec-projects-at-23-higher-cost/

by the Pakistani government.[304] In addition, the rates of return — according to Pakistani officials, 'the most attractive upfront tariff for coal-fired projects in the world' of around 31% on Thar coal (lignite) and between 24.5% and 27.2% on other domestic and imported coal (all tariffs are dollar denominated) — that have been promised to the investors raise serious questions about their affordability.[305] Members of the Pakistan Senate Standing Committee on Water and Power have even claimed that the government would be paying anything between 20%–50% on 200–1,000MW power projects which would allow Chinese companies to recover their entire investment within a few years.[306] Even though the senators have not disclosed from where and how exactly they came up with the astronomical rates of return they allege are being given to the Chinese, the fact is that the agreements with Chinese power companies ensure that the entire debt will be paid off in 10 years.[307]

What is more, the Chinese have also used their investment as leverage against any attempt to revise and moderate some of the tariffs that had been offered. For instance, for solar power, Chinese companies were offered a tariff of 14 cents/kwh and the moment Pakistani authorities proposed to revise it to 9 cents, they threatened to pull out their investment, which according to them would no longer be feasible.[308] Even the Chinese government weighed in on the issue on the side of its companies and warned Pakistani authorities that any reduction in tariff would have a 'disastrous impact on Chinese enterprises working under the CPEC programme' and will affect both 'investor confidence and enthusiasm of Chinese enterprises'.[309] Subsequently, the Pakistan power regulator did

[304] Khaleeq Kiani, 'State-run Chinese energy firms may be exempted from bidding', Dawn 25/03/2014, accessed at http://www.dawn.com/news/1095334/state-run-chinese-energy-firms-may-be-exempted-from-bidding

[305] Khaleeq Kiani, 'High return offered to attract investment in coal power sector', Dawn 21/05/2014, accessed at http://www.dawn.com/news/1107585/high-return-offered-to-attract-investment-in-coal-power-sector

[306] Op. cit. (15)

[307] For details of power agreements see individual project agreements at http://www.nepra.org.pk/tariff_ipps.htm

[308] Zafar Bhutta, 'Investment of billions at stake as tariff cut likely', Express Tribune 13/10/2015, accessed at http://tribune.com.pk/story/972321/solar-power-investment-of-billions-at-stake-as-tariff-cut-likely/ ; also see the Chinese power company's protest and threat to pull out investment at: Zafar Bhutta, 'Tariff revision poses threat to solar power project', Express Tribune 11/11/2015, accessed at http://tribune.com.pk/story/988924/tariff-revision-poses-threat-to-solar-power-project/

[309] Zafar Bhutta, 'Chinese govt intervenes as $1.5b investment at stake', Express Tribune 11/11/2015, accessed at http://tribune.com.pk/story/989626/solar-power-plant-chinese-govt-intervenes-as-1-5b-investment-at-stake/

revise the tariff for solar power plants but this did not apply to the Chinese project — Quaid-e-Azam solar power project in Bahawalpur — being set up under the CPEC.[310]

According to the former governor of State Bank of Pakistan, Shahid Kardar, "the guaranteed returns on equity are truly excessive, with resulting incomes also exempt from tax", and this is all adding up to keeping power tariffs high. Calling the 27% rate of return higher than anywhere else in the world, he warns that it will lead to pressure on the foreign exchange situation in the country when the investors repatriate their earnings.[311] Another eminent economist and former finance minister, Salman Shah, believes that with 30% rates of return guaranteed, the power that Chinese coal-powered plants supply at 4 cents/kwh in China will be sold for around 10 cents/kwh in Pakistan, which will make setting up of industry by Chinese investors in Pakistan unviable.[312]

But even the sovereign guarantees and high returns haven't been enough for the Chinese. Given that Pakistan's power sector has been reeling under the almost insurmountable 'circular debt' crisis which has left independent power producers (IPPs) perpetually seeking payments from the government for the power they have supplied, the Chinese insisted that their power purchase agreements, which are for a period of 25 years, are protected from falling victim to the circular debt problem.[313] They asked for a special revolving fund to be created from which the Chinese power producers would be paid within 30 days of the power being purchased from them. The assurances given by Pakistani officials weren't enough to convince the Chinese to sign the power purchase agreements without such a fund being created.[314] Chinese banks were extremely reluctant to lend for power

[310] 'Solar tariff cut by 27pc for new plants', Dawn 17/12/2015, accessed at http://www.dawn.com/news/1226822/solar-tariff-cut-by-27pc-for-new-plants

[311] Shahid Kardar, 'Power sector woes', Dawn 25/11/2014, accessed at http://www.dawn.com/news/1146658/power-sector-woes

[312] Salman Shah, 'A mismanaged economy', The News International 22/05/2015, accessed on 23/05/2015 at http://www.thenews.com.pk/Todays-News-9-319506-A-mismanaged-economy

[313] Shahbaz Rana, 'CPEC: China expresses reservations before entering power purchase agreements', Express Tribune 12/07/2014, accessed at http://tribune.com.pk/story/734743/cpec-china-expresses-reservations-before-entering-power-purchase-agreements/

[314] 'Power deal with China: Govt balks at plea for special payment guarantees', Express Tribune 18/10/2014, accessed at http://tribune.com.pk/story/777362/power-deal-with-china-govt-balks-at-plea-for-special-payment-guarantees/

projects merely on the sovereign guarantees of the Pakistan government.[315] The logjam was broken after Pakistan managed to convince the Chinese to agree to a Rs 16 billion revolving fund as opposed to a Rs 145 billion fund that the Chinese were demanding.[316] The federal cabinet finally gave approval for giving special treatment to the Chinese investors and 'sparing' them 'from the adverse impact of crippling circular debt…' The revolving fund would have enough cash to pay for 22% of monthly electricity cost, which the Pakistanis believed was sufficient as almost 80% of the bills were recovered anyway.[317]

Effectively, what this arrangement means is that the Chinese will get the first charge over all the power bills that are collected and only after they have received their money will the other power producers get theirs. Given the unending crisis in the power sector, this means that the other power producers, both government and private, will get whatever is left after the Chinese have been paid. This will only add to their existing financial woes and create even greater problems for the power sector, in addition to increasing Pakistan's dependence on the Chinese plants for its power requirements. Most of all, it will mean that the power crisis, which was the supposed to be the main motivation and original purpose for getting the power plants included in the CPEC plan, isn't going to be addressed with the Chinese investments coming in. Quite to the contrary, it could end up worsening the circular debt crisis and with it the power crisis by increasing the financial difficulties of IPPs.

[315] Zafar Bhutta, ' Thar project: Chinese lenders refuse to accept sovereign guarantees', Express Tribune 25/10/2014, accessed at http://tribune.com.pk/story/780748/thar-project-chinese-lenders-refuse-to-accept-sovereign-guarantees/

[316] Mehtab Haider, 'Pakistan, China slash revolving fund seed money to $16 bn from $145 bn', The News International 10/11/2014, accessed on 10/11/2014 at http://www.thenews.com.pk/Todays-News-13-34017-Pakistan-China-slash-Revolving-Fund-seed-money-to-$16-bn-from-$145-bn

[317] Shahbaz rana, 'ECC: Govt imposes 25% regulatory duty on import of wheat, related products', Express Tribune 19/03/2015, accessed at http://tribune.com.pk/story/855983/ecc-govt-imposes-25-regulatory-duty-on-import-of-wheat-related-products/

VI. THE STRATEGIC DIMENSION

The economic utility of the Karakoram highway (KKH) connecting Pakistan and China through Pakistan-occupied Kashmir has always been questionable. Until around 2010, when the KKH was blocked by a landslide at Attabad, which caused submersion of around 25 km of the highway, only around 7–8% of Sino-Pak trade was conducted through the KKH.[318] Of course, given the fact that the development activity in Xinjiang was still low key, this was understandable. This number will most likely go up considerably once Xinjiang becomes an economic hub, which for the Chinese is one of the objectives propelling the OBOR plan. Even so, it is highly unlikely that all of Pakistan's trade with China will be routed through Khunjerab once the CPEC is ready. And it is beyond the realm of possibility that China will divert all or even a significant proportion of its trade to and from Europe and the Middle-East from Malacca Straits to the CPEC.

While the CPEC will certainly have an economic dimension, it is really the strategic dimension that is probably more important. In fact, even when the KKH was being built, the then Pakistani military ruler, Ayub Khan, had said that “in order of priority the first urgency was strategic and one of immediate significance” and that the “economic and commercial importance of the highway” was only “the second objective” for Pakistan.[319] The former Chinese President, Li Xiannian, has been quoted as saying that the completion of KKH “allows us [China] to give military aid to Pakistan”.[320] It is, of course, an altogether another matter that the KKH is far from being the most reliable route to be used in the event of hostilities. For instance, it took five years and $275 million to get around the Attabad landslide in January 2010 that blocked the Hunza river and submerged a portion of the KKH.[321] During this time, goods and traffic had to be ferried by boats across the lake created by the landslide. Even otherwise, the Khunjerab pass is closed for

[318]Op. cit. (Andrew Small pp 100)

[319]Andrew Small pp 106-07

[320]Ziad Haider, “Comments: Clearing clouds over Karakorum', Daily Times 04/04/2004, see POT Pakistan Series Vol. XXXII No. 127 pp 2475-76

[321]Jamil Nagri, 'Attabad road link with China restored', Dawn 15/09/2015, accessed at http://www.dawn.com/news/1207061/attabad-road-link-with-china-restored

traffic for at least four months every year because of snowfall.[322] In other words, the geography and geology of the area from which the KKH passes is not just extremely daunting but also very fragile, prone to earthquakes, landslides, rock-falls, avalanches, floods and what have you.[323] The Chinese know the reality of the terrain very well and have undertaken detailed geological surveys and seismic studies to try and cater for all natural problems that could affect the movement along the road.[324] But the danger that some natural disaster will always be lurking around the corner makes the CPEC route extremely unreliable to shift a significant part of traffic to and from China to it. Strategically, if things go very bad in a military sense, disrupting the traffic along the CPEC won't be such a big deal for India, and even less for the US. Therefore, in purely military terms, the KKH's utility is somewhat questionable.

More than KKH, it is the strategic location of Gwadar — on the mouth of the Persian Gulf — that is forcing people to sit up and take notice of the development of the port by the Chinese. At the turn of the century, the US media had started to write about the Chinese role in Gwadar as an exercise in power projection in South Asia which will accord China a 'potential staging ground to exert influence along some of the world's busiest shipping lanes flowing into and out of the Persian Gulf'. Moreover, attributing 'a sinister angle' to the Pak-China strategic economic ties, the US media also saw Chinese involvement in Gwadar as opening a new front in the India-Pakistan rivalry.[325] The Pakistanis, however, flatly denied that Gwadar had any military implications and described it as a commercial venture that would benefit the entire region.[326] But Pakistani analysts were quite candid that since Pakistan was a valuable military counterweight to India in Chinese strategy, the Gwadar port would not just serve as a docking station for the

[322] 'Khunjerab pass closed to traffic for four months', Daily Times 02/12/2015, accessed at http://www.dailytimes.com.pk/national/02-Dec-2015/khunjerab-pass-closed-to-traffic-for-four-months

[323] Adam Hodge, 'Karakoram Highway: China's treacherous Pakistan corridor', The Diplomat 30/07/2013, accessed at http://thediplomat.com/2013/07/karakoram-highway-chinas-treacherous-pakistani-corridor/?allpages=yes

[324] Shahbaz Rana, 'Special units to be set up in new Planning ministry', Express Tribune 21/07/2013, accessed at http://tribune.com.pk/story/579762/special-units-to-be-set-up-in-new-planning-ministry/

[325] 'China eyeing Persian Gulf through Gwadar', The News International 01/06/2001, see POT Pakistan Series Vol. XXIX No. 150 pp 2546-47

[326] 'Gas pipeline to be on summit agenda', Dawn 04/07/2001, see POT Pakistan Series Vol. XXIX No. 161 pp 2724-25

Chinese navy, but also as a base for Chinese submarines, which would deter any possible blockade by India of Pakistan's sea-lanes.[327] The strategic environment at this time was that US forces had moved into Afghanistan, and India and Pakistan were in a military stand-off as a result of the terrorist attack on the Indian Parliament. Even after the Gwadar port was ready in 2007, Chinese scholars, keeping alive the fiction of 'peaceful rise of China', continued to insist that Gwadar was 'not a fort to scout and dominate the Indian Ocean'.[328] But after the Pakistani defence minister publicly declared in 2011 Pakistan's desire to have a Chinese naval base in Gwadar, the fiction of China's benign intentions in Gwadar have been exposed.

Many security analysts in the US, India and other countries see Gwadar as an integral component of the so-called 'String of Pearls' strategy of China. Incidentally, the term itself is not coined by the Chinese but by the Americans. The former have another name for it — 21st Century Maritime Silk Road! For their part, the Chinese are insistent that they neither have any plans to dominate the Indian Ocean nor to build naval bases outside their territory, and the ports they have been investing in do not have the capability of forming a military chain. Even Gwadar isn't regarded as a strategic asset and 'would be a flawed pearl if aimed for military use'.[329] Notwithstanding the Chinese ability to dissemble on strategic issues, there is some substance to the fact that using Gwadar as a naval base for projecting power in the region suffers from inherent limitations.

The only country with the wherewithal to blockade Malacca is the US and it will be an extreme step, virtually a declaration of war. If such an unlikely event was to unfold, then to expect that Gwadar will be secure from any interdiction by the US forces is unrealistic. In fact, it will be far easier for the US to target Gwadar than to blockade Malacca.[330] As far as India is concerned, any Chinese naval presence in Gwadar is certainly no cause for

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[327] Ahmad Faruqi, 'Comments: Impact of 9/11 on Sino-Pak ties', Daily Times 18/06/2002, see POT Pakistan Series Vol. XXX No. 204 pp 4121-23

[328] 'Karachi: Beijing won't use Gwadar to dominate Indian Ocean', Dawn 08/03/2009, accessed at http://www.dawn.com/news/976719/karachi-beijing-won-t-use-gwadar-to-dominate-indian-ocean

[329] 'Hu Zhiyong, 'India wears unreal String of Pearls', Global Times 29/07/2013, accessed at http://services.globaltimes.cn/epaper/2013-07-29/29970.htm

[330] Andrew Small pp 103

comfort. If anything, it is a matter of serious concern as it complicates India's security environment. India has lodged strong protests with China,[331] and the external affairs minister has gone so far as to call the CPEC 'unacceptable'.[332] Despite Chinese rejection of India's protests on grounds that the CPEC isn't aimed against any third country,[333] India has declared that it will continue to oppose the CPEC.[334] Although Gwadar is well within the reach of the Indian Navy, and as compared to the long and unreliable lines of communication for the Chinese through Khunjerab pass or even via the Indian Ocean, India's lines of communication and logistics are much more secure; however, a Chinese base in Gwadar makes a two-front war scenario a much more real possibility confronting India. After all, if hostilities break out between India and either Pakistan or China, then Gwadar will become a legitimate target, more so if either the Pakistanis or Chinese use Gwadar to launch naval operations against India and/or place their naval assets there. If India hits Gwadar, then regardless of whether it is fighting China or Pakistan, the other country will get pulled into the conflict. This is probably one of the calculations, at least as far as the Pakistanis are concerned, that prompted them to offer Gwadar as a naval base to China.

For the Chinese, however, Gwadar can serve as a base not so much for taking on the US or India, but more for reasons of securing its shipping and its citizens in a highly unstable region. Andrew Small has argued that the evacuation operations that the Chinese conducted in Libya in 2011, their participation in anti-piracy operations in the Arabian Sea, and the possibility that the Chinese navy will be required to conduct more such operations in the future make it important for China to have a secure base from which it can operate. Gwadar serves the purpose of a base that can be used for

[331]Charu Sudan Kasturi, ' Sparks before PM China trip', The Telegraph 13/05/2015, accessed at http://www.telegraphindia.com/1150513/jsp/nation/story_19777.jsp#.Vn_uGBV97s0

[332]Transcript of Media Briefing by External Affairs Minister on Completing One Year in Government , Ministry Of External Affairs, 31/05/2015, accessed at http://www.mea.gov.in/media-briefings.htm?dtl/25304/Transcript_of_Media_Briefing_by_External_Affairs_Minister_on_Completing_One_Year_in_Government_May_31_2015

[333]'CPEC not against third party, declared China', The News International 02/06/2015, accessed at http://www.thenews.com.pk/print/12796-cpec-not-against-third-party-declares-china

[334]'India to keep opposing CPEC: Dr Raghavan', The News International 16/07/2015, accessed at http://www.thenews.com.pk/print/13650-india-to-keep-on-opposing-cpec-dr-raghavan

refuelling, and “more comprehensive supplying, replenishment and large-scale repairs of shipboard weapons”.[335]

From whatever information is available in the public domain, it doesn't seem as though the primary motivation behind the CPEC is to encircle India. This might well be one of the outcomes of the CPEC, if it does in fact become the 'game-changer', 'fate-changer' and destiny-determiner that it is touted to be. But if there is such an outcome, it will not be so much by design, but more by default, especially since one of the fundamental principles on which the China-Pakistan alliance is based is their adversarial relationship with India. The simple fact of the matter is that China has used Pakistan to keep India in a bind. In fact, China has done everything possible, and then some — from transferring nuclear weapons and missile technology to all sorts of conventional armaments to diplomatic and political support on not just issues like Kashmir but also to help Pakistan's policy of using terrorist groups like Lashkar-e-Taiba/Jamaatud Dawa as instruments of state policy without any let or fear of UN sanctions — to make sure that Pakistan has the sinews to keep harassing India.

And yet, the primary motivation behind China's decision to invest tens of billions of dollars on the CPEC isn't what impact it will have on India but what impact it will have on Pakistan. Apart from getting a return on its money (at least that is what it expects) and the fact that the corridor gives Xinjiang an outlet to sea (for whatever that is worth), China is hoping that its investments in Pakistan will help to stabilise that country, and with it China's increasingly disturbed western periphery.[336] This is also a theme that a stream of Chinese scholars have parroted during their interactions at various forums in India.

The Islamic Spectre

For China, Pakistan is its Israel.[337] As such, China has an interest in propping

[335] Andrew Small pp 104

[336] Raza Rumi, 'China wants to stabilize its entire western periphery', The Friday Times 24/04/2015 interview with Andrew Small, accessed at http://www.thefridaytimes.com/tft/china-wants-to-stabilize-its-entire-western-periphery/

[337] Mohan Malik, 'The China factor in the India-Pakistan conflict', Parameters Spring 2003, accessed cached version at http://webcache.googleusercontent.com/search?q=cache:Wx4Xa-ziuX0J:strategicstudiesinstitute.army.mil/pubs/parameters/Articles/03spring/malik.htm+&cd=3&hl=en&ct=clnk&gl=in

up Pakistan in pursuit of its regional, and even extra-regional, security and strategic calculus. But there is also another dimension to China's interest in rescuing Pakistan from itself. For more than a decade now, the Muslim-dominated province of Xinjiang has been very restive. Islamist terror groups have used the religious and ethnic grievances of the Uighur Muslims against the Chinese state. China hopes, somewhat fondly, that its development impetus in Xinjiang will help in getting over the problem of terrorism.[338] But they also know that the issue of supply of terrorism from the Afpak region will create its own demand among Chinese Muslims. The Chinese hope that by pumping money into Pakistan — their 'all-weather friend', who has been flirting, even protecting, some of the Uighur terrorists[339] — it will at least ensure that its Islamist proxies do not spread murder and mayhem inside China.

From time to time, Chinese officials have been issuing statements implicating Pakistan for being a sanctuary for Uighur militants, and these sanctuaries were not just in the tribal badlands but in the heartland of Pakistan — Rawalpindi and Lahore.[340] After nearly one score people were killed in terrorist attacks in Kashgar in 2011, Chinese officials openly blamed terrorists following an 'extremist religious ideology', trained in camps in Pakistan, for the violence.[341] The Pakistanis have been more or less doing to the Chinese what they did to their American patrons — give them crumbs in the form of actions like the Lal Masjid operation and Operation Zarb-e-Azb[342] to prove their bona fides and continue to support their enemies for keeping a leverage in place. In recent years, the Chinese have taken many draconian measures, including ban on burqas[343] and Ramadan fasting,[344] which have

[338]Imtiaz Gul, 'China, US and Pakistan', The Friday Times 05/06/2015, accessed at http://www.thefridaytimes.com/tft/china-us-and-pakistan/

[339]Andrew Small pp 90-91

[340]'China says terrorists from Xinjiang hiding in Pakistan', Daily Times 29/05/2004, see POT Pakistan Series Vol. XXXII No. 130 pp 2475-76

[341]'China blames terrorists trained in Pakistan for violence', Dawn 01/08/2011, accessed at http://www.dawn.com/news/648602/china-blames-terrorists-trained-in-pakistan-for-violence

[342]Sushant Sareen, 'Zarb-e-Azb: An evaluation of Pakistan Army's anti-Taliban operations in North Waziristan', VIF issue brief 2014, pp 26-28

[343]'Xinjiang legislature approves burqa ban', Xinhua 10/01/2015, accessed at http://news.xinhuanet.com/english/china/2015-01/10/c_133910351.htm

[344]'China bans Ramadan fasting in mainly Muslim region', Al Jazeera 16/06/2015, accessed at http://www.aljazeera.com/news/2015/06/china-bans-ramadan-fasting-muslim-region-150618070016245.html

been downplayed officially by Pakistan but have become part of the narrative in jihadist circles, not just in Afpak but also in rest of the Islamic world. This means that China will continue to remain in the cross-hairs of the jihadists regardless of how much money they spend in Xinjiang or in Pakistan.

At a regional level, the Chinese are also trying to nudge and push the Pakistanis to settle problems, especially in Afghanistan. Not only did the Chinese participate in the Murree talks between the Taliban and the Afghan government in July 2015, but have also engaged with the Taliban earlier in Beijing and then in Urumqi. Within weeks of the CPEC plan being announced in Beijing in July 2013, Chinese scholars and experts had made it clear that Pakistan had to give a 'guarantee of security' for the project, which depended on Pakistan's relations with both Afghanistan and India.[345] On the eve of President Xi Jinping's visit to Islamabad, the Chinese once again asked the Pakistanis to ensure normal relations with Afghanistan.[346] This was partly because the Chinese feared that if Afghanistan descended into chaos, the unrest would spread all across the region and make the CPEC infructuous. But partly it was also because the Chinese were keen on investing in the Afghan mining sector and unless there was stability in Afghanistan, this wouldn't be possible. On the face of it, therefore, the Chinese could use the CPEC as leverage to change the nature and character of the Pakistani state. But whether or not this will happen in reality is difficult to say.

The one area in which the Chinese money has made a difference is in Pakistan's ability to say 'No' to its Arab patrons who wanted Pakistan to send troops to fight against the Houthi rebels in Yemen. Apparently, the Pakistanis were able to risk Arab displeasure because they felt that with the Chinese investments pouring in, they didn't need the Arab money. According to one report, the Chinese President even assured his Pakistani interlocutors that China would stand behind Pakistan if its ties with the Arab

[345]'Economic corridor: Chinese expert for better tis between Pakistan, India', Business Recorder 01/09/2013, accessed at http://www.brecorder.com/top-stories/0:/1227107:economic-corridor-chinese-expert-for-better-ties-between-pakistan-india/?date=2013-09-01

[345]'China tells Pakistan CPEC success depends on peaceful Pak-Afghan ties', The News International 19/04/2015, accessed at http://www.thenews.com.pk/print/12091-china-tells-pakistan-cpec-success-depends-on-peaceful-pak-afghan-ties

states unravelled. He is believed to have said that with the CPEC coming up, Pakistan didn't need to look anywhere else for help.[347] While the Yemen case is an example of the CPEC dissuading Pakistan from undertaking any kind of adventurism, the trouble is that any emboldening of Pakistan by the Chinese, both in terms of building its military muscle and its economic strength, could just as easily tempt the Pakistanis to undertake an adventurist course, both to its west (Afghanistan) and to its east (India), in the belief that the Chinese will jump in on its side. The Pakistanis are wont to such miscalculations, which they have made in the past as well, and there is nothing on ground to suggest they won't make them in the future.

[347]Kamran Yousaf, 'Defying royal request: China helped Pakistan weather the storm over Yemen', Express Tribune 27/04/2015, accessed at http://tribune.com.pk/story/876495/defying-royal-request-china-helped-pakistan-weather-the-storm-over-yemen/

VII. CONCLUSION

Clearly, the economic logic of the CPEC is at best iffy. But strategically there is something to be said about the project. However, a lot will depend on how the security situation, especially on the terrorism front, unfolds in the months and years ahead. With Afghanistan spiralling out of control and the spectre of Islamist terrorism rising by the day, the portents are not good, certainly not for the CPEC. Ensuring security of the Chinese personnel and the corridor will take a lot more than the dedicated 20,000-odd persons who are being earmarked for the purpose. What is more, if the security situation deteriorates, it will put paid to all the investments that are being expected in Pakistan. Without a massive fillip in economic activity, Pakistan will find it difficult to service either the debt or ensure the high rates of return that Chinese investors have been assured. In other words, without an uptick in the economy, the CPEC will be yet another unaffordable white elephant for Pakistan. How that will colour the 'higher than mountains, deeper than seas' friendship between an infidel China and an Islamised Pakistan, will be interesting to watch. At the very least, CPEC will bind Pakistan into an immutable client relationship with China, a virtual colony. But while this might be the Chinese calculation, the Pakistanis see it quite differently. They have created for themselves this grand vision in which they are at the centre of the global geo-economics as well as geo-politics. Many Pakistani strategic thinkers are actually hallucinating about how China needs CPEC more than Pakistan does and that instead of China binding Pakistan in a comprador relationship, it will actually be Pakistan that will hold China's trade and energy lifeline in its hands. By all accounts, both China and Pakistan could end up disappointed: the Chinese because Pakistan is not exactly known to honour either financial obligations or political commitments; and the Pakistanis because the Chinese are unlikely to base their entire economic and strategic stability on Pakistan. In the ultimate analysis, the reality of CPEC is obscured by not just the exaggerated and over-hyped description of it by the Pakistanis, but more importantly, by the proclivity for conformity by Chinese officials to whatever is the official/party line regardless of how hare-brained that line may be. Not surprisingly, since President Xi has made CPEC a part of the OBOR and declared it his pet project, everyone down the line is blindly endorsing, nay extolling, it as the greatest thing to have ever happened. But the economics of the CPEC project, as well as the nuts and bolts of the larger OBOR are just so vague that it raises questions about what exactly it will mean, not just for China but also for the countries which are to become part of the Belt and Road.

As for India, while it must continue to oppose the CPEC, it needn't panic over the plan inalterably changing the strategic balance, much less the economic pecking order in the region. For all India knows, it might well be the death-knell of a relationship that has been a thorn in India's side for decades. On the economic front, while the Chinese are pressing India to become part of the OBOR through the BCIM plan, India has very sensibly resisted the temptation and the pressure to participate in it until there is more clarity on what its participation will entail. The manner in which the CPEC is unfolding until now, bears out the correctness of India's stand. In fact, until clear rules are laid down and the opacity that clouds the entire OBOR project ends, it would be unwise for India to jump into it. If anything, the experience of Pakistan can serve as a lesson for India on the pitfalls that must be avoided while seeking Chinese investments. India must insist on a rules based criteria that mutually benefit both the investing country as well as the recipient country. This means that there must be international tendering for projects coupled with provisions to ensure that local labour, management and technical staff as well as use of local materials and equipment. Without ensuring all this, India too will open itself to a comprador role to the predatory Chinese business model.

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