The China-Pakistan Economic Corridor: India’s Options

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The China-Pakistan Economic Corridor: Options before India

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Abstract

In 2013, China and Pakistan announced plans to construct an economic corridor to connect Kashgar in China’s Xinjiang Uygur Autonomous Region with the southwestern Pakistani port of Gwadar. Together with the proposed BCIM Economic Corridor (BCIM-EC), the China-Pakistan Economic Corridor (CPEC) extends to South Asia the broader trend of Asian regional economic integration through economic corridors. The CPEC assumes crucial significance for India in the larger context of China’s regional/transnational initiative, known as ‘One Belt, One Road’. So far, observers in India have either ignored the proposed CPEC or have rejected it as unviable. The Indian Government has also opposed this corridor as it will pass through territory disputed between Pakistan and India. It is true that some serious territorial disputes involving China, India and Pakistan are yet to be resolved. However, in the continually evolving regional dynamics marked by a remarkable upsurge in bilateral trade between India and China, increasing bilateral cooperation on various other fronts, including the development of the BCIM-EC, and attempts to revive the India-Pakistan peace process, the proposed CPEC presents to India some interesting and promising choices which, if exercised innovatively, may open new vistas of regional cooperation, stability and economic growth in the region.

Keywords: China-Pakistan Economic Corridor, BCIM Economic Corridor, Regional Economic Integration, ‘One Belt, One Road’, New Silk Roads, 21st Century Maritime Silk Road, Jammu and Kashmir

In recent years, economic corridors have emerged as an important tool of regional cooperation and development in a globalised world. Following the experience of regional economic integration through a network of transnational economic corridors in the Greater Mekong Sub-region (GMS), similar initiatives are now being promoted in different parts of Asia to accelerate economic growth by linking backward regions with more developed industrial centres and to improve access to markets through the integration of trans-border production networks.

A significant step in this regard was the proposal to construct two economic corridors in South Asia, one of the least integrated regions of the world. During his visit to Pakistan from 22 to 23 May 2013, Chinese premier Li Keqiang proposed a China-Pakistan Economic Corridor (CPEC) to connect Kashgar in China’s Xinjiang Uygur Autonomous Region with the southwestern Pakistani port of Gwadar (Government of Pakistan, Ministry of Foreign Affairs (GOP MOFA 2013a)). This visit took place immediately after his visit to India, during which India and China had agreed to explore the scope for a BCIM (Bangladesh-China-India-Myanmar)
Economic Corridor (BCIM-EC), a sub-regional initiative linking the north-eastern region of India with China’s Yunnan Province through Bangladesh and Myanmar.

Both these proposals assume significance in the context of certain other developments in South Asia and the broader Asia-Pacific region, in particular China’s plans to open up and develop its landlocked western regions in line with its ‘Marching Westwards Policy’ (Wang 2012), and the ‘One Belt, One Road’ (OBOR) project, a new initiative in Chinese foreign policy. As articulated by the Chinese president Xi Jinping in 2013, the OBOR project has two components: first, the land-based ‘New Silk Road’; and second, a ‘21st Century Maritime Silk Road’. Together these aim to create a Silk Road Economic Belt (SREB) through a vast network of transport corridors, pipelines, ports and fibre-optic cables spread across the entire Eurasian landmass connecting East Asia, Central and South Asia, the Middle East and parts of Europe (Map I). Along with these initiatives, in November 2014, China announced a US$40 billion Silk Road fund ‘to provide investment and financing support to carry out infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for countries along the ‘Belt and Road’ (Yang 2014). Before that China had also played a leading role in establishing an Asian Infrastructure Investment Bank to finance the building of roads, railways and other transport links in the poorer parts of Asia (The Economist 2014).

As events have unfolded since the announcement of the OBOR strategy, it would appear from various media reports and statements of Chinese policymakers and scholars that China sees both the BCIM-EC and the CPEC as integral parts of the OBOR project (Krishnan 2014; People’s Republic of China, Ministry of Foreign Affairs 2014).5

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2 The BCIM Economic Corridor (BCIM-EC) sub-regional initiative seeks to promote cooperation in fields such as trade and investment in goods and services, energy, multimodal connectivity, sustainable development, human resource development and people-to-people ties. Though the project had been discussed at the Track Two level for more than a decade, it received official mention in 2013 during Chinese Premier Li Keqiang to India. (See Ministry of External Affairs, Government of India 2013). The proposal was reaffirmed in the Joint Statement issued following the visit of Prime Minister Manmohan Singh to China, 22-24 October, 2013. See (Ministry of External Affairs, Government of India 2013).

3 Outlining this policy, Wang Jisi (Dean of International Relations, Beijing University) proposed that ‘a major route from China’s western regions through the Indian Ocean should be constructed as quickly as possible, supplementing a “new silk road extending from China’s eastern ports, through the centre of Asia and Europe, to the eastern banks of the Atlantic Ocean and the Mediterranean coastal countries in the west”. For more details, see (Wang 2012).

4 The idea of a New Silk Road was first proposed by President Xi Jinping during a speech at Nazarbayev University, Kazakhstan on 7 September, 2013 where he called for building a transport corridor connecting the Pacific Ocean to the Baltic Sea and linking East Asia to South Asia and the Middle East. See ‘President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries’ (Ministry of Foreign Affairs, The People’s Republic of China 2013) (). A month later, on 2 October 2013, addressing Indonesia’s Parliament, Xi called for the re-establishment of the old sea networks to create a twenty-first century Maritime Silk Road. See (Wu 2013)

5 In a media briefing on 10 August, 2014, Gao Zhentong, Counsellor, Department of International Economic Affairs of the Chinese Foreign Ministry said that the proposed Bangladesh–China–India–Myanmar (BCIM) Economic Corridor will play “a key role” in the economic belt. (Krishnan 2014)

Similar views were expressed by a Chinese delegation from the China Institute of International Studies during their visit to India (Wednesday Seminar 2014)
Most countries in South Asia have welcomed these Chinese initiatives but India has been reticent (The Times of India 2014). Many observers in India see these initiatives as a Chinese attempt to further its expansionist agenda in the wider Indo-Pacific region and to achieve a strategic encirclement of India in South Asia (Sibal 2014; Tharoor 2014). Though India’s relations with China have witnessed an incremental improvement in the last decade, with both countries working together on various platforms, including the recently established Asian Infrastructure Investment Bank (Subramanya 2015; The Economic Times 2015), contentious bilateral issues such as the border dispute remain unresolved. India is also deeply suspicious regarding China’s relations with Pakistan, which in its opinion, are aimed at containing India.

Map I: The New Silk Road and 21st Century Maritime Silk Route

Howsoever true, India’s static understanding of the regional environment, fails substantially to take into account the fluidity, complexity and nuances of contemporary regional dynamics in South Asia, driven by diverse processes of regional cooperation.6

It is against this backdrop that the proposed CPEC assumes crucial significance for Indian policymakers. The proposal presents some difficult yet interesting and promising options for India which, if exercised boldly and innovatively, may open new vistas of regional cooperation, stability and economic growth.

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6 Many observers and analysts have critiqued India’s inflexible and self-defeating approach to neighbourhood relations, especially vis-à-vis China and Pakistan, and have pointed out the need to instil pragmatism into India’s neighbourhood policy. See (Deshingkar 1999; Ganguly 2010; Gupta 2011; Rajamohan 2003, 2007 and 2014)
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Pakistan reciprocated Premier Li’s proposal for an economic corridor with great enthusiasm and signed a MoU to cooperate on a ‘long-term’ plan on the corridor (PRC MOFA 2014). In his very first speech after his election, Pakistani Prime Minister Nawaz Sharif made mention of the project, though his speech was essentially about Pakistan’s domestic issues and lacked any other foreign policy details (Sharif 2013). Later, during his visit to China in July 2013, he reiterated his commitment to the CPEC and highlighted its importance not only for Pakistan and China but for the whole of South Asia (Bi 2013). Expediting the process, both countries constituted a Joint Cooperation Committee for the CPEC headed by Ahsan Iqbal, the Pakistan Federal Minister for Planning, Development and Reforms and Zhang Xiaoqiang, the Vice Chairman of China’s National Development and Reforms Commission. The first meeting of this Joint Committee was held on 27 August 2013 in Islamabad (Government of Pakistan, Ministry for Planning, Development and Reforms 2014). The CPEC project received a significant impetus with the signing of various agreements and MoUs worth US$28 billion during Chinese president Xi Jinping’s visit to Pakistan from 20 to 21 April 2015 (GOP MOFA 2015).

Map II: The Pakistan China Economic Corridor

At first glance, the emerging contours of the proposed economic corridor are simply breathtaking. According to the plan, various industrial parks and economic zones, dams and energy stations, interlinked through world-class expressways and
railway lines, will be constructed along the Kashgar-Gwadar route, bisecting the entire length and breadth of Pakistan (Map II). The total cost of this entire set-up is estimated at US$45 billion, with the project expected to be completed in 2030 (Iwaki 2014).

**Major Components**

A) **Kashgar-Gwadar Expressway**

As per the available information, this trade corridor will be around 2,000km long within the territory of Pakistan (Government of Pakistan, Ministry of Communication 2014). Some important cities of Pakistan will also be connected to this corridor through many expressways, either proposed or under construction. In a presentation made by the Pakistan Ministry of Communications at the 13th CAREC Transport Sector Coordinating Committee (TSCC) Meeting, the following alignment was shown in the map as the main route for CPEC:


The alignment of the CPEC has generated heated debates in Pakistan. Many provinces, especially the backward areas of Balochistan and Khyber Pakhtunkhwa (KPK), have raised their voices alleging a change in the ‘original’ route of the economic corridor. While the government of Pakistan has denied any change in the route, opposition senators, mainly from Khyber Pakhtunkhwa and Balochistan, allege that the original ‘Western alignment’ has now been replaced by an ‘Eastern alignment’ (Wasim 2015). However, in an interview in March 2015, the Minister for Planning, Ahsan Iqbal, denied any change in the route and said that

the CPEC is not a project of just one road but it’s a network of multiple roads, which will go from Gwadar to Khunjerab and the government is only implementing the first phase of the route (Shahzad 2015).

Elaborating further, he mentioned three routes within the CPEC-

i) Kashgar - Khunjerab - Peshawar - Dera Ismail Khan - Zhob - Qilla Saifullah - Queta - Gwadar.

ii) Kashgar - Khunjerab - Peshawar - Kohat - Dera Ismail Khan - Dera Gazi Khan - Sukkur - Ratodero - Gwadar, and


iv) Given the critical infrastructural gaps in the Western part of Pakistan, it seems that the Asian Highway 4, that is, Urumqi (China)-Kashi-Khunjerab-Abbottabad-Hassanabdal-Rawalpindi-Lahore-Multan-Rohri-Hyderabad-Karachi, along the eastern flank of River Indus will act as the spine for the economic corridor in the first phase, and other regions of Pakistan will be connected with the corridor through various motorways and expressways later on.
Kashgar to Abbottabad is part of the already existing Karakoram highway (Map III) (from Kashgar to Hasanabdal, China’s National Highway 314, and National Highway N-35 of Pakistan). China is currently assisting the upgrading of this highway, constructed in 1979. Further south, the alignment is still unclear and many alternative routes are under consideration to connect important Pakistani cities with the proposed corridor through various motorways. One route under consideration is through the Indus Highway (National Highway N-55), a 1,264 km-long four-lane highway that runs along the Indus River connecting the port city of Karachi with the north-western city of Peshawar via Dera Ghazi Khan. Overlapping with it would be National Highway N5, Pakistan’s longest highway linking Karachi to the border crossing at Torkham (Khyber Pakhtunkhwa). N5 runs north from Karachi to Hyderabad, Moro and Khairpur (in Sindh) before crossing into Punjab where it passes through Multan, Sahiwal, Lahore, Gujranwala, Rawalpindi, Attock-Khurd, Nowshera and Peshawar before entering the Khyber Pass and reaching the border town of Torkham.

An important segment of this corridor would be the planned Lahore-Karachi Motorway. In July 2013, a MoU was signed between Pakistan’s Ministry for Planning and Development and the China State Construction Engineering Corporation to construct this motorway within three years (The News 2013).
Karachi will be further connected to Gwadar via two routes: (i) through the Makran Coastal Highway (National Highway N10), which runs primarily between Karachi and Gwadar, passing through the port towns of Ormara and Pasni. It is a 653km-long two-lane highway reportedly in good condition and operational since 2003; and (ii) via Khuzdar (National Highway N25) and Hoshab (National Highway N85 and Motorway M8).

Some of the important expressways criss-crossing and connecting important Pakistani cities with the proposed economic corridor are:

- Peshawar to Islamabad (Motorway M1): six lanes, 154km (operational since 2007)
- Islamabad to Lahore (Motorway M2): six lanes, 367km (operational since 1997)
- Pindi Bhattian to Faisalabad (Motorway M3): four lanes, 4, Length 53 km (Status-Operational since 2003)
- Faisalabad to Multan (Motorway M4): four lanes, 243km (under construction, to be completed by Dec 2014)
- Multan - Dera Ghazi Khan (Motorway M5): six lanes, 84km (planned)
- Dera Ghazi Khan to Kakkar via Ratodero (Motorway M6): four lanes, 467km (planned)
- Karachi to Gwadar via Kakkar and Rotadero (Motorways M7 and M8): four lanes, 892km (partially complete; two-lane Rotadero-Khuzdar section is operational while the expected date of completion for the remaining section is 2016)
- Karachi to Hyderabad (Motorway M9): four lanes (to be upgraded to six lanes), 136km (under construction, to be completed by 2015) (Government of Pakistan National Highway Authority 2012).

The construction of many trans-freight stations has also been proposed along the Kashgar-Gwadar corridor to facilitate trucks / containers carrying heavy goods. The proposed sites of freight terminals and industrial parks are: Sust, Gilgit (both in Gilgit-Baltistan), Abbottabad (Khyber-Pakhtunkhwa), Loralai, Kohlu Khuzdar, Basima, Panjgur, Turbat and Gwadar (all in Balochistan), Dera Ghazi Khan, Bhakkar, Rajanpur (all in Punjab), and Kashmore and Jacobabad (both in Sindh).

The Trans Asian Highway and the Pakistan-China Economic Corridor:

There are five designated Asian Highways routes passing through Pakistan (Map IV), of which the following overlap with the proposed corridor:

- **Asian Highway 1 (AH-1):** - Wagah border (India)-Lahore-Rawalpindi-Peshawar- Torkham (Total length in Pakistan 520km). AH-1 overlaps with the Lahore-Islamabad (Motorway M-2) and the Islamabad-Peshawar (Motorway M1). Both these sections are six lane highways, already operational.
- **Asian Highway 2 (AH-2):** Wagah border (India)-Lahore-Sahiwal-Multan-Rohri- Sukkur-Sariab (Quetta)-Lakpass-Nokundi-Taftan (Iran) (Total length in Pakistan; 763km): This AH-2 route overlaps with the Lahore- Karachi section
of the N5 from Lahore till Rohri (Sindh). The road condition is reportedly good with dual carriageway.

- **Asian Highway 4 (AH-4):** Urumqi (China)-Kashi-Khunjarb-Abbottabad-Hassanabdal-Rawalpindi-Lahore-Multan-Rohri-Hyderabad-Karachi (Total length in Pakistan: 1,391km). AH-4 connects Karachi port with China through National Highway N-35 (Karakoram Highway) and N-5 (Karachi-Torkham Highway). These two highways are both part of the economic corridor. In fact, this AH-4 route may well be the spine of the proposed corridor. Some of the sections are in good condition with dual carriageways, especially the Karachi-Lahore section of the N-5, while other sections need upgradation and repair (UNESCAP 2013).

![Map IV: Asian Highway Network in Pakistan](image)

Source. UNESCAP 2013

**B) Kashgar-Gwadar Rail Link**

In addition to the Kashgar-Gwadar expressway, a rail link between Kashgar and Gwadar is also planned. Several possible alignments are being discussed. According to media reports, the most likely alignment could be as follows:


The railway link from Kashgar to Hotan is already operational. It was opened for cargo transportation in 2010, while passenger transport started in 2011 (*People’s Daily* 2011).
Though no rail link exists at present between Hotan and Havelian, a rail link is proposed and the pre-feasibility study has reportedly already been done (Khan 2012). Havelian is connected to Pakistan’s railway network at Islamabad through a broad gauge single line. Islamabad is further linked to Rawalpindi by a broad gauge double line. In fact, the Islamabad-Rohri rail section is part of the Main Line (Karachi-Peshawar) of Pakistan Railway, mostly broad gauge double line except for two sub-sections, Rawalpindi-Lahore and Pattoki-Sahiwal which are broad gauge single lines. From Rohri, the route turns west on the Sukkar-Quetta line and goes up to Spezand via Jacobabad and Sibi via a broad gauge single branch line. Presently no rail link exists between Spezand and Gwadar but a railway line to connect Gwadar with Pakistan’s railway network via Mastung, Hoshab and Turbat is planned (Pakistan Today 2013).

This alignment runs along the eastern flank of the River Indus leaving out most of the relatively backward regions of Pakistan on the western side of the river. This has provoked a demand for two parallel road and railway networks to be developed on either side of the River Indus. In that case the route starting from Kashgar could possibly pass either through the Kilik and Mintaka Passes or through the Khunjerab Pass. It would then pass close to Gilgit and lead to Jaghlot and Raikot. From there it would be aligned towards Mansehra, then Abbottabad and on to the Havelian railhead which is already connected to Rawalpindi. From Havelian, the new railway line would follow the general route of the motorway to Peshawar, crossing the River Indus near Hund leading to Mardan, Charsadda and Peshawar and then to Kohat, Serai Naurang, Dera Ismail Khan, Dera Ghazi Khan and Kashmore. Kashmore is connected to Dadu and Karachi by an already existing railway line (Durrani 2013).

Another proposed alignment crisscrossing Western Pakistan is:

Kashgar-Hotan-Gilgit-Abbottabad-Havelian-Jand-Miyanwali-DaryaKhan-Zhob-

This alignment would require the construction of many new rail links and a massive up-gradation of existing rail links which have either been dismantled or abandoned. The Havelian-Darya Khan Section via Jand and Miyanwali is part of the Sukkar-Islamabad branch line, a broad gauge single line. A rail link is also proposed to connect Darya Khan to Bostan via Dera Ismail Khan and Zhob (Dawn 2007). Zhob used to be connected to Bostan through a narrow gauge track which was abandoned in the 1970s. From Bostan, the route will turn Southeast running up to Spezand on the Quetta-Sukkur Line, a broad gauge single branch line. Presently no rail link exists from Spezand to Gwadar, but as mentioned earlier a railway line to connect Gwadar with Pakistan’s railways network via Mastung, Hoshab and Turbat is planned (Pakistan Today 2013).

C) Kashgar-Gwadar Pipeline

Parallel to the expressway and rail link a pipeline to transport oil from the Middle East to China’s western regions through the port of Gwadar is also planned. In a related development Islamabad and Beijing have also included the Iran-Pakistan (IP) gas pipeline project in the planned economic corridor, extending this pipeline to connect with western China (Bhatta 2013).
D) Development of the Gwadar Free Trade Zone

Pakistan is also planning to develop Gwadar as a free trade zone on the lines of Hong Kong or Dubai and couple it with the Kashgar Economic Development Zone, already approved and being developed by China (Dawn 2013). During Pakistan Prime Minister Nawaz Sharif’s visit to China in November 2014 the various agreements signed with China included those to construct (i) the Gwadar New International Airport; (ii) the Gwadar Eastbay Expressway; and (iii) a Technical and Vocational Training Institute in Gwadar (Abrar 2013).

Institutional Mechanism, Financing and ‘Early Harvest’ Projects

Institutional Mechanism: Following the constitution of a joint coordination committee between China and Pakistan, a Pakistan-China Economic Corridor Secretariat has formally been set up in the Planning Division of the Pakistan Ministry of Planning and Development to oversee the planning and implementation of the economic corridor projects. So far, four meetings of the Joint Cooperation Committee have been held, the latest being in Beijing on 25 March 2015 (Government of Pakistan Press Information Department 2015).

In the meetings of the Joint Coordination Committee held in January and February 2014, both sides agreed on various connectivity projects. To start with, Kashgar, Xinjiang, Khunjerab, Islamabad, Lahore, Multan, Sukkur, Karachi and Gwadar were selected as the pivot cities. It was decided that a ‘Master Plan of CPEC’ will be prepared by July 2015 (Government of Pakistan, Ministry of Finance 2014). More recently it was decided that the project will broadly follow ‘a “1+4” cooperation structure with the Economic Corridor at the centre and the Gwadar Port, energy, infrastructure and industrial cooperation [as] the four key areas’ (Xi 2015).

Financing Mechanism: The CPEC will be almost entirely financed by China. So far, China has committed an amount of US$45.6 billion for various energy and infrastructure projects over the next six years (Reuters 2014). Out of this, approximately US$10 billion will be provided in the form of commercial loans (Hourdel 2015) while the rest will be made available through export credit and non-reimbursable assistance, etc., by the China Development Bank, the Export-Import Bank of China, the Industrial and Commercial Bank of China Ltd (ICBC) and other financial institutions. Major Chinese companies investing in Pakistan’s energy sector will include China’s Three Gorges Corp and the China Power International Development Ltd (GOP MOF 2014).

‘Early Harvest’ Projects: Both countries have also agreed to start some early harvest projects. The five guiding principles for the determination of prioritized projects/EHP are:

i. bilateral connectivity
ii. socio-economic urgency and impact
iii. mature projects
iv. relatively good economic returns and
v. quicker completion time. (GOP MOF 2014)

On the basis of above principles, various projects worth US$28 billion dollars spanning most provinces and regions of Pakistan have been approved under the China-Pakistan Economic Corridor during President Xi’s visit to Pakistan in April 2015.7 (Government of Pakistan, Ministry for Planning Development and Reforms 2015; Kiani 2015). These include:

- Coal based power projects at Port Qasim (Karachi, Sindh), Gadani and Hubco (Balochistan), and Sahiwal and Sheikhupura (both in Punjab)
- Zonergy 900 MW solar project (the world’s largest solar energy power plant) at Bahawalpur, Punjab
- A wind power plant at Jhimpir (Sindh)
- Karot Hydropower Project (Punjab)
- Sukhi Kinari hydropower project (Mansehra District, Khyber-Pakhtunkhwa)
- An Industrial Park in Faisalabad (Punjab)
- Up-gradation of the Karakoram Highway (Phase-II), Karachi-Lahore plus Peshawar (ML1) Railway track, Orange Line (Lahore Metro Project) and the Sukkur-Multan section of the Karachi-Multan-Lahore Motorway (KLM) project, etc.
- Development of Gwadar International Airport
- Establishment of Havelai dry port of Pakistan Railways (Khyber-Pakhtunkhwa)
- Gwadar port East Bay Expressway Project
- Gwadar-Nawabshah LNG Terminal and Pipeline Project (Balochistan- Sindh)
- Laying of optic fibre between the two countries
- Establishment of China-Pakistan Joint Cotton Bio-Tech Laboratory
- Establishment of National University of Modern Languages (NUML) International Centre of education (NICE), Islamabad etc. (Government of Pakistan, Prime Minister’s Office 2015).

A closer scrutiny of sanctioned, approved and proposed/agreed projects (both the early harvest and long term projects) under the CPEC reveals that most of the projects are related to energy (US$33.8 billion) and infrastructure / connectivity (US$11.8 billion), a trend similar to China’s overseas investment around the world. A sector-wise breakdown of China’s overseas investment between 2005 and 2013 shows ‘that energy tops the list of sectors for both investment and construction (power plants); metals are next for investment, while transport is second for construction (roads, rail lines, and port terminals’) (Scissors 2014). As Pakistan is facing a severe energy crisis along with a critical infrastructure deficit (Dawn 2014b; Kugelman 2013), these investments will also help Pakistan in solving the power shortages that have crippled its economy, thus serving mutual needs of both the countries.

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7 Much ambiguity surrounds the early harvest projects under the CPEC and varied figures and deadlines are given at different times. These projects are scheduled to be completed within a span of two to three years, a highly unrealistic deadline given the scale of the projects. For more details see (Ahmadani 2014; Haider 2014; Zafar 2014).
Imperatives/Implications for Pakistan

The proposed Economic Corridor could potentially be a blessing for the economic development of Pakistan. Pakistan has witnessed a sharp fall in FDI in recent years - from US $5.4 billion in 2007-8 to US $1.6 billion in 2013-14 (Government of Pakistan Board of Investment 2015) and the industrial sector is performing way below its potential due to the severe energy crises (Ahmad et al. 2012; Siddiqui et al. 2011). The proposed oil and gas pipelines from Gwadar and Iran to Kashgar across Pakistan would also be instrumental in easing the energy crises in Pakistan. Situated at the crossroads of huge supplying and consuming markets of the Middle East, Central Asia and China, it is projected that the proposed corridor could virtually rewrite the economic revival of Pakistan by generating huge transit revenues. Together with the economic assistance for infrastructure development from China, the corridor can transform Pakistan into a regional trade hub and energy transit corridor. All these factors could have a huge impact on the industrial, agricultural and overall economic growth and development of Pakistan.

Imperatives/Implications for China

For China, the proposed economic corridor would be very useful in pursuit of the policy of opening up and developing its western regions because of its geographical proximity to these areas. Along with the process of regional economic integration, the CPEC can help in the development of closer relations and cooperation between China and the countries of southern, central and western Asia (PRC MOFA 2015). Given that the bulk of China’s oil imports passes through the Strait of Malacca which is vulnerable to piracy and geopolitical uncertainties, a pipeline from Gwadar to China over the Karakoram would provide an alternative for the supply of oil from the Middle East to China’s western and central provinces in particular.8

Viability and other related issues

A careful analysis of ground realities raises many doubts regarding the CPEC project.

In purely theoretical terms, the pre-requisites of economic corridor development include (i) conceptualisation and crystallisation of a growth zone/region/sub-region based on cultural, historical, ecological and economic commonalities and complementarities; (ii) identification of economic nodes or industrial centres or clusters of the region; and (iii) the linking of these centres and clusters through various connectivity projects and production chains (Brunner 2013; Marian 2001; Srivastava 2011). The proposed corridor lacks most of these pre-requisites.

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8 The ‘Malacca Dilemma’ has become the centre of a number of strategic debates and an Achilles’ heel for Chinese policy-makers in recent times. The reliance on the Malacca Straits is considered to be a strategic weakness by Chinese policy makers and extrication from the ‘Malacca dilemma’ has turned out to be one of the foreign and defence policy goals of China. (For nuances of this debate, see (Chen Shaofeng 2010; Zha Daojiong 2006).
Pakistan and China have little in common when it comes to popular culture, religion, language and ecosystem. The volume of bilateral trade with Pakistan is also very low (approximately US$10 billion annually (Government of Pakistan, Ministry of Finance 2014). Pakistan is, at best, in a semi-industrialised state with very few industrial centres or clusters. Most of the proposed industrial parks are still only at the conceptualization stage and will need huge investment. Similarly, many missing links in the proposed connectivity projects would require enormous funding. Given the precarious condition of the Pakistan economy, such a scale of investment could be virtually impossible. Though China has agreed to finance many of these projects, it remains to be seen how much is actually delivered on the ground. As it is, the proposed corridor runs through two of the most disturbed areas of this region - Balochistan and the disputed territory of Jammu and Kashmir - and volatility surrounding both ends of this corridor may convert it into an uncertain gamble for Chinese investment. The internal security situation in Pakistan along with the connection between Pakistan-based terrorist groups and Muslim separatists in western China also continues to be a source of worry for Beijing (The Express Tribune 2011; Su 2014).

There are also voices of discontent within Pakistan regarding the route of the proposed corridor which, according to some reports, almost entirely avoids the comparatively underdeveloped regions of Balochistan and Khyber-Pakhtunkhwa on the western flank of the River Indus (Aamir 2015; The Nation 2015). Some provinces have also raised their voices against the so-called ‘dominance of Punjab’ in allotment of projects under the CPEC (Ali 2015). The inclusion of the Iran-Pakistan gas pipeline and Islamabad’s troubled relations with the neighbouring Afghanistan and India are some of the other factors which make the future of proposed economic corridor very unpredictable.

Though there are serious issues that can hamper the development of CPEC, the project also enjoys many positives. Despite being at very different levels of economic development, the economies of both countries can complement each other fairly well. The Chinese economy faces supply-side pressures for certain commodities on account of the demands of its rapidly growing economy, and Pakistan could be a reliable supplier to meet China’s needs for natural resources. Similarly, China can be a very dependable source of the manufactured goods, technology and investment needed to revive Pakistan’s struggling economy.

In recent years, the bilateral trade between China and Pakistan has also grown considerably. The Pakistan-China volume of trade, which was in the region of USUS$ 4.1 billion in the year 2006-07 reached an all-time high in 2012-13 amounting to USUS$ 9.2 billion, showing an increase of 124 percent (GOP MOF 2014) and is expected to reach US$15 billion by 2015 (The Nation 2013). Currently China is the largest trading partner of Pakistan while Pakistan is the second-largest trading partner of China in South Asia (Euro Stat 2014). An analysis of commodity shares in bilateral trade reveals that Pakistan’s imports from China largely consist of finished goods such as machinery, mechanical appliances, electrical equipment

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9 Addressing a press conference on 22 April 2015, the chief minister of Khyber Pakhtunkhwa, Parvez Khattak, alleged that out of the total agreements worth $27.7 billion signed during Chinese president Xi Jinping’s visit to Pakistan in April 2015, Punjab has got the lion’s share of $11 billion whereas Sindh and Khyber-Pakhtunkhwa share has been only $9 billion and $2.7 billion respectively. See (Ali 2015).
and chemicals, while China imports from Pakistan mainly primary goods like textiles, rawhides, skins, oil seeds and agro products, along with copper and other minerals (Hamid and Hayat 2012). The composition of the trade basket indicates the potential and scope for the further expansion of bilateral trade and economic cooperation between Pakistan and China. China and Pakistan have also signed a FTA (2006), a bilateral investment treaty (BIT) and many other agreements to increase trade and investment. The two countries are also cooperating on setting up a Chinese Overseas Special Economic Zone\(^{10}\) near Lahore in Pakistan (The Express Tribune 2013a).

In addition to increasing trade, people-to-people ties are also improving with substantial annual increases in the number of visitors and students to each other’s country. In 2013 around 8,000 Pakistani students were studying in China while more than 6,000 Chinese students were enrolled in various courses in Pakistan (The Express Tribune 2013b). Extensive government-to-government cooperation is also reflected across a range of other areas. The two sides have launched or confirmed more than 450 projects related to agriculture, water conservancy, biotechnology, environmental conservation and other fields (Du 2013). Most importantly, there exists a convergence of interests on most of the regional issues between China and Pakistan, and the shared perspective of the two countries ensures the requisite continuity in China-Pakistan ties to make this project attainable.

**India’s Options**

So far, taking a traditional stance, India has expressed its reservations about the project, as the proposed CPEC will pass through the through territory disputed between Pakistan and India. Speaking to reporters after the sixth round of strategic dialogue between India and China on 14 April 2014, then Indian Foreign Secretary, Sujatha Singh, said: ‘We have raised this issue and raised our concerns not (only) this time, we have made them known earlier. They have noted our concerns’ (The Economic Times 2014).

However, the rapidly changing regional environment provides some other options to Indian policymakers as well. Broadly put, India has two options in responding to the Gwadar-Kashgar project:

(i) India can continue to grumble and lodge protests which may delay or obstruct the construction of the corridor, but cannot ultimately stop it.

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\(^{10}\) In 2006, as part of the implementation of its 11th Five-Year Plan, the Chinese government announced that it would establish up to 50 overseas economic and trade cooperation zones. Since then, various overseas economic zones, designed to attract investment from Chinese manufacturers, have emerged in at least fifteen countries in Africa, Latin America, and Asia. Little is known about this program. The Ministry of Commerce, PRC has released almost no information about China’s overseas zone program. Interestingly, these economic zones are not financed by the Chinese foreign aid budget, but are subsidized by other government budget lines. A paper by Deborah Brautigam and Tang Xiaoyang (2012) investigates the first wave of 19 economic zones (approved in 2006 and 2007) to understand this aspect of China’s economic diplomacy. The paper finds that the main motivation of the government to create the zones has been to foster conditions under which Chinese companies can more easily invest overseas.
(ii) Alternatively, India can adopt a more constructive approach by reaching out to Pakistan and China to propose trilateral collaboration in the development of the proposed corridor, a position advocated by strategic analyst C. Raja Mohan (2013).

Undoubtedly, there exist very serious unresolved territorial disputes involving China, India and Pakistan, and the proposed CPEC passes through some of the disputed territory. At the same time in the changing bilateral and regional context marked by a remarkable upsurge in bilateral trade between India and China and increasing cooperation between the two on various other fronts, including the development of the BCIM-EC and attempts to revive the India-Pakistan peace process, kneejerk suspicion of and opposition to every Pakistan-China joint project may be unwarranted. China has given many signals to India of its desire to be get involved in the joint development of connectivity projects between China and South Asia (Krishnan 2014). As noted, during his visit to China from 3-8 July 2013, Pakistan’s Prime Minister Nawaz Sharif was also very careful to project the Gwadar-Kashgar corridor as an economic project that would benefit the entire region, including India (Bi 2013).

It is suggested here that, in the new regional scenario, joint development of the corridor and other trans-border connectivity projects can be undertaken without reference to the territorial claims of India, China and Pakistan. Given the deep sensitivities involved, such a step would have to be taken in a phased manner. Various transport and economic linkages already exist between India and Pakistan, though most of those links are presently in abeyance. In the first phase, both India and Pakistan should work together to revive and further develop those linkages.

For example, in Punjab trade is currently allowed only through the Wagah-Attari land route, while several other road links are ignored. The alternative land crossings that can easily be reopened in Punjab on both sides are:

(i) Ferozpur - Kasur (through Hussainiwala-Ganda Singh border point)

(ii) Fazilka - Sahiwal (linking Southern Punjab via the Sulemanki border point)

Both these routes have immense potential for the construction of trans-border ‘Joint Industrial Zones’ or a ‘mini economic corridor’. A somewhat similar initiative has already been proposed by the deputy chief minister of the Indian side of Punjab, Sukhbir Singh Badal, during his visit to Pakistan in November 2012 (Indian Express 2012). The Ferozpur - Kasur trade route could be developed as a corridor for petroleum products and leather goods, since the Bhatinda oil refinery

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11 Outlining the master plan for ‘One Belt One Road’ project, Gao Zhenting, Counsellor, Department of International Economic Affairs of the Chinese Foreign Ministry, told Indian reporters that China wants India to play a key role in the initiative as the Chinese government believes that India is naturally and inevitably one of the important partners for China to build one belt and one road. (Krishnan 2014)

12 Until 1970, this was the principal road crossing and trade route between India and Pakistan, mostly for fruits and food products from Pakistan and Afghanistan. This border crossing was replaced by the border crossing at Wagah, as the bridge on the Sutlej River was blown up during the 1971 India-Pakistan war to save Ferozepur. The bridge has now been reconstructed and was opened in 2013. (Sharma2013)
is only 100km from Hussainiwala. It will also give a boost to the leather industry of Punjab (both in India and Pakistan) as Kot Radha Kishan, a hub of tanneries in Kasur, is very close to the Ganda Singh border. Similarly the Sulemanki trade route could be developed as a corridor for textile and agro industries. Before Partition, Fazilka was a major wool and cotton market and traders used to export wool to Britain via the ports at Karachi in Sindh. Likewise, Sahiwal is also known for its cotton industry and dairy products. This entire area was connected through the Golden Track rail link, which ran between Ludhiana and Karachi via Ferozepur and Fazilka and was the most viable and the shortest route in pre-Partition days (Sharma 2012).

A similar mini economic corridor can also be constructed in Rajasthan and Sindh by allowing trade through the Munnabao-Khokhrapar route, which is already in use for passenger services since 2006 (Government of India, Ministry of External Affairs 2006). The corridor could be extended further up to Gujarat which was integrated with Sindh, not just culturally but also economically in the pre-Partition era. In pre-Partition days, Ahmedabad was connected to Hyderabad (now in Sindh, Pakistan) via the Hyderabad-MirpurKhas-Khokhrapar-Munnabao-Barmer-Luni-Jodhpur-Pali-Marwar-Palanpur-Ahmedabad route and the Sind Mail used to travel between Ahmedabad and Hyderabad (Murray 1949; Staynor 2013). The Gandhidam Chamber of Commerce has already made demands to open trade routes between Kutch and Sindh by extending the Bhuj-Lakhpar Road of Kutch to Badin in Pakistan, the Bhuj-Khaswa-Sardar post road of Kutch to Pakistan’s Mithi (via Ram ki bazar), and the Rapar-Bela-Nagarparker route (Desh Gujrat 2011). As some commentators have pointed out,

the opening up the Munabao-Khokhrapar land route for trade will have enormous economic ramifications for the backward Western Rajasthan region. Once the Hindustan Petroleum Corporation Limited Refinery and the petrochemical complex at Barmer, inaugurated in September 2013, actually commence operations, there is immense scope for selling products such as chemical dye, plastic and wax (Maini and Shahid 2013).

Extension of this corridor up to Gujarat would enhance the economic viability of the entire project significantly.

In the second phase, these mini economic corridors could be linked with the BCIM-EC and the CPEC through already existing or proposed connectivity projects such as the Amritsar-Kolkata Industrial Corridor13 and the Delhi-Mumbai Industrial Corridor (which passes through Punjab, Rajasthan and Gujarat and other states )14 in India, and National Highway N5 (from Karachi to Torkhum) and the Lahore-Karachi Motorway in Pakistan, or the SAARC Highway Corridor-1 (Lahore-New Delhi-

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13 The Amritsar - Delhi - Kolkata Industrial Corridor will cover the states of Punjab, Haryana, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand and West Bengal and will use the Eastern Dedicated Freight Corridor as the backbone. (Press Information Bureau 2013) Patterned on the Delhi-Mumbai Industrial Corridor (DMIC), the project has got cabinet’s approval in 2014. (Press Trust of India 2014 )

14 Delhi-Mumbai Industrial Corridor is a mega infrastructure development project covering six states - U.P, NCR of Delhi, Haryana, Rajasthan, Gujarat and Maharashtra, with end terminals at Dadri in the National Capital Region of Delhi and Jawaharlal Nehru Port near Mumbai with an overall length of 1,483 kms between Delhi and Mumbai. (Delhi Mumbai Industrial Corridor n.d)
Kolkata-Petrapole-Benapole-Dhaka-Akhaura-Agartala). This could be done relatively simply under the ambit of the India-Pakistan trade normalisation process. Moreover, since no territorial disputes exist in these regions, these would not require an explicit endorsement or rejection of the China-Pakistan Economic Corridor.

If the results of the above-mentioned initiatives are encouraging, then in the last phase similar small-scale trans-border mini economic corridors could also be set up in Jammu and Kashmir. Currently the cross-LoC trade between India and Pakistan in Jammu and Kashmir takes place via two routes, Muzaffarabad-Uri and Poonch-Rawlakote, but many new routes can be opened in the region as was suggested by the Working Group on Strengthening Cross-LoC Relations. These include Kargil-Skardu, Jammu-Sialkote, Turtuk-Khapulu, Chahamb-Jorian to Mirpur, Gurez-Astoor-Gilgit, Titwal-Chilhan (across Neelam Valley), Jhangar (Nowshera)-Mirpur and Kotli (Chowdhary 2010).

Similarly the old trade routes between Xinjiang, Ladakh and Tibet can be revived and the region can be developed as a Kashgar-Ladakh-Tibet trade and transit corridor. A demand to open Demchok for cross-border trade has already been made by the people of Ladakh. In 2003, India and China had reportedly come close to opening borders across the Line of Actual Control (LAC) via Nyoma in Ladakh (Hussain 2003). The route connects Demchok with the Tashigang belt of Tibet. The opening up of the Nyoma route to full-fledged trading would also create huge trade opportunities for Punjab and Haryana (Hussain 2003). Two other routes that can be opened via Ladakh are:

i) The Ladakh Route between Amritsar and Kashgar via Srinagar, Leh, and Yarkand, This route was regularly used for trade and other dealings with Central Asia during the Dogra rule in Jammu and Kashmir, with Ladakh being ‘the entrepot of Indo-Central Asian trade’ (Warikoo 1990); and

ii) The Kalimpong Route between Leh and Lhasa via Gartok which, if all parties agreed, could be further used to connect this region with the BCIM-EC at Kalimpong via Chusui-Karos-Gyantse-Guru-Phari-Nathu La-Jelep La and Kalimpong. This route was used by Indian and Tibetan traders until it was closed following the 1962 India-China war. There is now a motorable road between Kalimpong and Lhasa (Chaudhuri 2003).

Along all these routes, various trans-border projects, especially related to hydroelectricity, agro-industries, silk products and sports goods manufacture could be set up. With the State of Jammu and Kashmir being situated at the junction of China, Central Asia and South Asia, such initiatives could well revive the old Silk Route and make the region a ‘bridge linking India, Pakistan and China’ (Mohan 2005). While this scenario may sound idealistic at the present moment, there are indeed concrete gains to be had for each of the parties involved.

To start with, for India such cooperation would greatly improve the chances of achieving transit to Afghanistan, thus further opening the large Central Asian markets and a greater access to the region’s abundant natural resources, a long
cherished dream for India (GOI MEA 2012; Government of India Embassy of India Kabul 2015). Pakistan would also get huge benefits as a trilateral cooperation on these lines would either mellow or put an end to the opposition from India as far as the CPEC is concerned. It would also provide Pakistan an access to the South East Asian region, a stated objective of the ‘Vision East Asia policy’ of Pakistan (GOP MOFA 2013b; Dawn 2010). As far as China is concerned, ‘connecting all sub-regions in Asia, and between Asia, Europe and Africa’ is seen as a pre-requisite for the success of the Silk Road Economic Belt (People’s Republic of China National Development and Reforms Commission 2015). That is, these smaller initiatives would provide an enabling regional environment for the OBOR project by creating a greater synergy between two economic corridors in South Asia.

Ultimately, such a trilateral cooperation may trigger the wider process of regional economic cooperation as a first step towards regional integration and development. If this should happen, both the recently proposed economic corridors connecting China and South Asia - the BCIM-EC and the CPEC - can together be the real game-changers.

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