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CPEC and Regional Connectivity: Navigating the South Asian Politics

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Abstract

New dynamics of competition between countries are emerging in the quest for promoting regional connectivity. Several economic corridor projects are being pushed by different countries in South Asia to advance their respective interests. Pakistan and China are promoting the China-Pakistan Economic Corridor (CPEC), a north-south trade and transit corridor for enhancing connectivity and regional integration. Regional countries, in response, are advancing separate connectivity projects. The challenge for Pakistan is to operationalise the CPEC, while being cognisant of markets present across the eastern and western frontiers. The regional connectivity agenda of the South Asian states and the framework of the South Asian Association for Regional Cooperation (SAARC) provides opportunities for establishing new patterns of economic and trade cooperation in the region.

Keywords: South Asia, CPEC, Regional Connectivity, North-South, East-West.

Introduction

South Asia¹ is at a crossroads. Comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, it is home to around one-fourth of the world's population.² South Asian nations are exploring avenues for cooperation despite their historical conflicts. Over the decades, they have followed diverse pathways for nation-building and development. Presently, these nations are dealing with poverty, inequalities

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¹ South Asia here refers to members of the South Asian Association of Regional Cooperation (SAARC).

² Total population of the SAARC countries is close to 1.9 billion, making South Asia the most populated sub-region in the world, for further details see, "2018 World Population Data," <http://www.worldpopdata.org/>

and urbanisation challenges. Meanwhile, the challenges related to infrastructure development and environment, along with food and energy security have become more complicated. These issues are directly linked with intra- and inter-linkages regional connectivity.

It is generally believed that the establishment of Economic Corridors (ECs) will improve transit and trade facilities to ease regional trade and spur economic growth. In South Asia, infrastructure is of poor quality compared to other neighbouring regions.³ The ECs can address this challenge and open up new avenues for instituting intra- and inter-linkages regional linkages. Connectivity in South Asia, however, has been overshadowed by political hostility and tensions between key regional states. ECs have the potential to integrate economies within the region⁴ and also function as the building blocks of wider regional economic integration, while becoming confidence-builders between feuding states.⁵

Since early 2016, Pakistan has been presenting the China-Pakistan Economic Corridor (CPEC) as the fulcrum of regional connectivity.⁶ In its essence, the CPEC is a north-south corridor for bilateral trade and transit between western China and Pakistan. Islamabad is focused on reducing transportation costs and putting in place an affordable integrated transportation system. As part of the CPEC, Beijing is investing in Pakistan's energy and infrastructure sectors to build Pakistan's economy. In the next phase, both countries plan to commence the industrialisation process, leading to manufacturing by the Chinese companies in Special

³ Tariq Karim, "Connecting South Asia with South East Asia: A Reality Check," Observer Research Foundation, February 9, 2017, <https://www.orfonline.org/research/connecting-south-asia-with-south-east-asia-a-reality-check/>.

⁴ Roger Vickerman, "Restructuring of Transportation Networks," in *Regional Development Reconsidered*, ed., G Atalik and M M Fischer (Berlin: Springer, 2002): 148-158.

⁵ Haruhiko Kuroda, Masahiro Kawai and Rita Nangia, "Infrastructure and Regional Cooperation," Asian Development Bank, September 2007, <https://www.adb.org/sites/default/files/publication/156715/adbi-dp76.pdf>.

⁶ "CPEC has Opportunities for Every Sector of Economy: Ahsan," *Pakistan Today*, March 6, 2016. Also see, "CPEC will Play an Important Role in Regional Connectivity: Ahsan Iqbal," *Pakistan Today*, March 25, 2018, <https://www.pakistantoday.com.pk/2018/03/25/cpec-will-play-an-important-role-in-regional-connectivity-ahsan-iqbal/>

Economic Zones (SEZs) of Pakistan. All of these initiatives have the potential to transform the economy of Pakistan.

An added benefit is Pakistan's geostrategic location, which has been viewed as a pivotal point for connecting China with Central Asia, South Asia and West Asia by both the governments. Over the decades, the Pakistani leaders have been expressing their interest in making the country a regional hub of trade, transit and economic activity. This outlook is a continuation of a constant theme in Pakistan's strategic literature. Yet, Pakistan's trade and connectivity with its neighbours, with the exception of China and Afghanistan, remains low.

Pakistan is situated in a complicated neighbourhood with a contentious relationship with its two neighbours — Afghanistan and India. With Afghanistan, Pakistan shares extensive historical and social affinities owing to the presence of the Pashtun population on both sides of the Pak-Afghan border. Social and economic linkages have continued despite tensions in their inter-state relations. The on-going conflict in Afghanistan has further strained Islamabad-Kabul ties. Meanwhile, the US is deepening its strategic engagement with India, Pakistan's arch-rival. On the other hand, Pakistan's ties with its southwestern neighbour, Iran, have become increasingly strained. In the Pak-Iran equation, India is an irritant since it is actively investing in Iran's Chabahar port to gain access to Central Asia and Afghanistan. This way, New Delhi is also providing Kabul with an alternate route to sea via Iran. Situated in this complex scenario of regional politics, Pakistan has also permitted China to access the Gwadar port, just 72-km off Chabahar port. Now, it has become a challenge for the Pakistani policy-makers to operationalise the CPEC, while navigating the complex South Asian politics. Against this background, this study tries to answer: Can the CPEC centric North-South connectivity function optimally without East-West connectivity?

This study explores these contentious regional dynamics that the Pakistani policy-makers would have to navigate in order to realise the goal of regional integration and connectivity. The first section of the study analyses the regional connectivity agenda of regional states and situates it in the broader dynamics of conflict and cooperation in South Asia. The second section looks at how CPEC influences India-Pakistan relations and prospects of East-West connectivity. Finally, some recommendations are

made for policy-makers that can place Pakistan in a better position to navigate regional politics and advance regional connectivity.

Regional Connectivity Trends in the South Asian Politics

South Asia is the most populous region in the world. It is home to two nuclear-armed nations and six smaller states. Its economic growth has made it a global market with enormous opportunities for trade. According to the World Bank, South Asia grew at a rate of 6.7 per cent in 2017. In the medium term, it is expected that the regional growth rate will stabilise around 7 per cent.⁷ Economic growth, in itself, creates new opportunities for expanding intra-regional trade and connectivity. Yet, connectivity within and across South Asia remains the lowest in the world.

Geographically, South Asia is bordered by Central Asia, West Asia and Southeast Asia on its different ends. The South Asian nations are also members of regional organisations such as the Economic Cooperation Organisation (ECO), the South Asian Association for Regional Cooperation (SAARC) and Shanghai Cooperation Organisation (SCO). It reflects the political and strategic significance of South Asia in regional and international politics. South Asia is important because of the diverse traditional and non-traditional security challenges. Meanwhile, as political issues and security interests have taken precedence over economic cooperation in the region, active conflicts have also undermined prospects of regional cooperation.

Despite strategic differences among the South Asian states, particularly between India and Pakistan, efforts have been made to promote regional integration and cooperation. Since transport connectivity influences trade patterns and regional production networks by directly impacting the competitiveness of goods, the South Asian countries have made efforts to improve cross-border transport connectivity, however, transport facilitation measures have lagged behind. Connecting inland production hubs and manufacturing centres across South Asia is crucial for enhancing regional trade.

India and Pakistan have proposed a number of overland transport

⁷ “South Asia Economic Focus, Fall 2017: Growth Out of the Blue,” World Bank, October 2017, <https://openknowledge.worldbank.org/handle/10986/28397>

corridors and a few projects are in the development phase. These corridors have been identified under the framework of SAARC Regional Multimodal Transport Study, BIMSTEC Transport, Infrastructure and Logistics Study (BTILS), the Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM), the International North-South Transport Corridor (INSTC) connecting India with Iran and the Central Asian countries⁸ and the ECO regional transport framework.⁹ To take optimum advantage of these corridors, a route-feeder model is in place, i.e., connecting as many countries as possible rather than a selected group of nations along a particular route. The UN-backed Asian Highway (AH) and Trans-Asian Railway (TAR), supported by several inter-governmental agreements can provide a strong basis for connecting sub-regional corridors.

Aside from groups of countries instituting connectivity, the South Asian countries are also instituting bilateral arrangements to pursue regional connectivity and integration. In South Asia, it has been an emerging trend that the regional countries are entering into bilateral agreements with China, a neighbour of South Asia, for infrastructure development to boost connectivity.

Since 2013, Beijing has undertaken its economic engagement in the region through Belt and Road Initiative (BRI). Pakistan and China are advancing the CPEC as a bilateral project. At the same time, both sides have indicated that they are open to the participation of third-parties in projects being pursued under the CPEC framework.¹⁰ China considers the CPEC a flagship project of BRI. **Pakistan has been the biggest beneficiary of the Chinese investments under BRI.** Similarly, China has made investments of US\$14 billion in the Sri Lankan infrastructure

⁸ Ministry of Commerce and Industry, Government of India, *International North-South Transport Corridor*, 2014,

http://commerce.nic.in/publications/INSTC_Dry_run_report_Final.pdf

⁹ Ahsan Ali Mangi, "Presentation on ECO's Activities for Strengthening Transport Connectivity and Facilitation of Transit in the Region," UNECE Workshop Road-Rail Transport Corridors along Europe and Asia, Geneva, September 7, 2015, https://www.unece.org/fileadmin/DAM/trans/doc/2015/wp5/WP5_workshop_7_Sep2015_Mr_Ahsan_Ali_Mangi_ECO.pdf

¹⁰ Ministry of Foreign Affairs, People's Republic of China, Foreign Ministry Spokesperson, Geng Shuang's Regular Press Conference, December 4, 2017, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1516395.shtml

projects during the last decade. Meanwhile, Beijing has committed government and private sector investments and financing up to US\$38 billion to Bangladesh¹¹ and more than US\$8 billion to Nepal.¹² India, however, has perceived deepening engagement of China with its South Asian neighbours and in the Indian Ocean Region against its regional interests. Consequently, New Delhi stayed away from participating in Belt and Road summit, held in May 2017, citing sovereignty and transparency issues.¹³

These Chinese investments in South Asia symbolise that the region is undergoing a gradual change in terms of economic development and connectivity. Whereas, India has traditionally viewed South Asia as its 'natural' sphere of influence. India has responded by initiating development projects in the South Asian countries in cooperation with the US. In line with the 2016 India-US Joint Statement, both countries are supporting a development project in Afghanistan and a transmission line project in Nepal.¹⁴ Meanwhile, India has partnered with Japan on building up a liquid-gas terminal in Sri Lanka.¹⁵ India is also engaged in the development of INSTC with Russia and Iran. In December 2017, Iran and India inked a trilateral agreement with Afghanistan to develop the Iranian port of Chabahar and its connection with INSTC.¹⁶ In May

¹¹ Ruma Paul, "China Signs Deals Worth Billions with Bangladesh as Xi Visits," *Reuters*, October 14, 2016, <https://www.reuters.com/article/us-bangladesh-china/china-signs-deals-worth-billions-with-bangladesh-as-xi-visits-idUSKCN12D34M>

¹² "Nepal in Talks with China to Build US\$8 billion Cross-border Rail Link: Finance Ministry Official," *Reuters*, May 14, 2017, <https://www.reuters.com/article/us-china-silkroad-nepal/nepal-in-talks-with-china-to-build-8-billion-cross-border-rail-link-finance-ministry-official-idUSKBN18A05F>

¹³ Ministry of External Affairs, Government of India, Official Spokesperson's Response to a Query on Participation of India in OBOR/BRI Forum, May 13, 2017, <http://mea.gov.in/media-briefings.htm?dtl/28463/Official+Spokespersons+response+to+a+query+on+participation+of+India+in+OBORBRI+Forum>

¹⁴ "US-India Triangular Cooperation," USAID, <https://www.usaid.gov/india/us-india-triangular-cooperation>

¹⁵ "Petronet, Japanese Company to Set up US\$300 Million LNG Terminal in Sri Lanka," *Economic Times*, February 11, 2018, <https://economictimes.indiatimes.com/industry/energy/oil-gas/petronet-japanese-company-to-set-up-300-million-lng-terminal-in-sri-lanka/articleshow/62871145.cms>

¹⁶ Ministry of External Affairs, Government of India, *Joint Statement of Afghanistan, India and Iran Trilateral Meeting on Implementation of Chabahar*

2016, India pledged investment of US\$500 million in development of Chabahar port.¹⁷ In October 2017, India sent its first shipment of wheat to Afghanistan via Chabahar port. This corridor is aimed at advancing the Indian-Afghan trade in future. Similarly, India and Afghanistan have recently established an air trade corridor for enhancing bilateral trade.¹⁸

On the other hand, Pakistan is pursuing alternate routes to connect with Central Asia, via Tajikistan.¹⁹ Afghanistan and Pakistan are in talks with Tajikistan to extend their bilateral transit trade agreement for connecting with Central Asia. Iran-Pakistan-India (IPI) gas pipeline project has shrunk to Iran-Pakistan (IP) due to the US pressure and threat of sanctions on banks and commercial entities doing business with the Iranian firms and state-owned enterprises.²⁰ Washington, conversely, has supported Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project.²¹ Work on construction of Turkmenistan section of the pipeline commenced in 2015²² and Afghan section in February 2018.²³ The project is stated to be completed by 2020.²⁴

Agreement, December 3, 2017, <http://www.mea.gov.in/bilateral-documents.htm?dtl/29147/Joint+Statement+of+Afghanistan+India+and+Iran+Trilateral+Meeting+on+Implementation+of+Chabahar+Agreement>

¹⁷ "India to Invest US\$500m in Iranian Port of Chabahar," *Guardian*, May 23, 2016, <https://www.theguardian.com/world/2016/may/23/india-invest-500m-iran-port-chabahar-modi-transit-accord-afghanistan>

¹⁸ "India, Afghanistan Reach Agreement to Establish Air Corridor," *Indian Express*, September 25, 2016, <http://indianexpress.com/article/india/india-news-india/india-afghanistan-reach-agreement-to-establish-air-corridor-3049115/>

¹⁹ "Tajikistan to Join Pakistan Road Link Bypassing Afghanistan," *Express Tribune*, February 24, 2017, <https://tribune.com.pk/story/1337274/tajikistan-join-pakistan-road-link-bypassing-afghanistan/>

²⁰ Shahbaz Rana, "Clashing Interests: US Threatens Sanctions over Iran Gas Deal," *Express Tribune*, September 16, 2011, <https://tribune.com.pk/story/253496/clashing-interests-us-threatens-sanctions-over-iran-gas-deal/>

²¹ "US Supports TAPI not Pak-Iran Pipeline: Olson," *Pakistan Today*, March 5, 2013, <https://www.pakistantoday.com.pk/2013/03/05/us-supports-tapi-not-pak-iran-pipeline-olson/>

²² "Turkmenistan Starts Work on Gas Link to Afghanistan, Pakistan, India," *Reuters*, December 13, 2015, <https://uk.reuters.com/article/turkmenistan-gas-pipeline/turkmenistan-starts-work-on-gas-link-to-afghanistan-pakistan-india-idUKKBN0TW05Q20151213>

²³ Marat Gurt, "Leaders Launch Start of Afghan Section of TAPI Gas Pipeline," *Reuters*, February 23, 2018, <https://www.reuters.com/article/us-turkmenistan->

SAARC and Connectivity in South Asia

At its inception in 1985, the SAARC emerged as an organisation with the potential to enhance regional cooperation in South Asia. In later decades, however, the SAARC became a victim of India-Pak tensions, arguably the first and second major states in South Asia. Moreover, mistrust and insecurities have hampered the SAARC's development. In contrast, other regional organisations with common borders and different political-security interests have found a middle ground to keep their organisations vibrant through economic and connectivity cooperation. Economic and trade interests have not been compromised by political challenges. An example is robust economic engagement by the Association of Southeast Asian Nations (ASEAN) countries despite political differences between them.

The most recent case of India-Pakistan tensions over Kashmir, impacting a SAARC summit, took place in 2016. In September 2016, the Indian Prime Minister, Narendra Modi, vowed to isolate Pakistan internationally at the diplomatic level following an attack on the Indian army camp in Kashmir region.²⁵ Resultantly, India withdrew from the SAARC summit which was scheduled to be held in Islamabad in November 2016. The other SAARC members followed suit.²⁶ Instead, New Delhi hosted the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in October 2016.²⁷ India invited Afghanistan and Maldives — member countries of the SAARC but not of BIMSTEC — to the summit in Goa. In a way, it was the SAARC minus Pakistan summit. In response, Islamabad refused to shift the venue of the SAARC summit. Pakistan insisted if the SAARC summit was going to

afghanistan-gas-pipeline/leaders-launch-start-of-afghan-section-of-tapi-gas-pipeline-idUSKCN1G70PU

²⁴ Leman Mammadova, "Turkmen Gas will Reach South Asia in 2020," *Azernews*, November 16, 2018, <https://www.azernews.az/region/141036.html>

²⁵ David Keohane and Farhan Bokhari, "India's Modi Threatens to 'Isolate Pakistan' after Kashmir Attack," *Financial Times*, September 25, 2016, <https://www.ft.com/content/bb7592de-82e3-11e6-8897-2359a58ac7a5>

²⁶ Mehreen Zahra Malik, "Regional SAARC Summit Postponed Amid Rising Pakistani-Indian Tensions," *Reuters*, September 30, 2016, <https://www.reuters.com/article/us-pakistan-india/regional-saarc-summit-postponed-amid-rising-pakistani-indian-tensions-idUSKCN120252>

²⁷ Ministry of External Affairs, Government of India, *BIMSTEC Leaders' Retreat 2016 Outcome Document*, October 17, 2016, http://www.mea.gov.in/bilateral-documents.htm?dtl/27501/BIMSTEC_Leaders_Retreat_2016_Outcome_Document

happen, it would take place in Islamabad. Given the deadlock, the SAARC has been unable to make any headway in recent years.

Political interests in South Asia are not only confined to India-Pakistan relations. As the smaller South Asian nations attempt to find a balance between the Indian and Chinese influences in the region, differences have emerged between India and Nepal; and India and Sri Lanka. Despite occasional differences, smaller nations, however, have not held back the agenda of SAARC. As described above, India-Pakistan tensions have directly impacted the SAARC agenda. 2010-2020 was designated as the SAARC decade of intra-regional connectivity²⁸ and at the 18th SAARC summit, there was an opportunity to finalise three significant agreements that could have spurred regional trade and economic growth. These accords included an electricity trade agreement, a motor vehicle agreement and a railway agreement to put in place a fundamental framework of regional cooperation. However, the only agreement which was signed was the power trade agreement while differences emerged on the other two agreements.²⁹ An accord on power would enable trade in electricity and improve the availability of electricity in the region, allowing power to be traded like a normal commodity and, in due course of time, facilitating the operationalisation of a regional power grid.

Notwithstanding tensions between India and Pakistan, opportunities exist for the SAARC member states to move ahead and make substantial progress to enhance regional integration and connectivity. The South Asia Free Trade Agreement (SAFTA) has been in force since 2006³⁰ but high tariffs and other barriers have constrained intra-regional trade to a meagre five per cent of the overall trade of member nations.³¹ The South Asian nations can begin by enhancing intra-regional trade, particularly, between

²⁸ “Designated SAARC Decades,” SAARC Secretariat, <http://globalsummitryproject.com.s197331.gridserver.com/archive/saarc/saarc-sec.org/Designated-SAARC-Decades/11/index.html>

²⁹ “SAARC Countries Ink Electricity-sharing Pact,” *News International*, November 28, 2014, <https://www.thenews.com.pk/archive/print/641934-saarc-countries-ink-electricity-sharing-pact>

³⁰ “South Asian Free Trade Area,” *United Nations*, December 28, 2016, <https://www.un.org/ldportal/south-asian-free-trade-area/>

³¹ “The Potential of Intra-regional Trade for South Asia,” World Bank, May 24, 2016, <http://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia>

India and Pakistan. For instance, railway network can be inter-linked as part of the South Asian connectivity. Such initiatives can foster an environment of trust, leading to enhanced economic integration.

India-Pakistan Competition and Regional Connectivity

The rivalry between India and Pakistan has directly affected regional connectivity initiatives. An unintended consequence of the CPEC has been a revival of claims related to the Kashmir region. Soon after Beijing and Islamabad made public details of the CPEC framework and projects in energy and infrastructure sectors, New Delhi raised objections primarily on its route. The CPEC route traverses through Pakistan's northern region of Gilgit-Baltistan (GB). GB is part of Jammu and Kashmir region, a disputed territory under the United Nations Security Council (UNSC) resolutions and claimed by both India and Pakistan. The UNSC resolutions, passed in 1948 and 1949, recommended that the final status of the Kashmir region would be determined through a plebiscite.³² A plebiscite is yet to be held and the Kashmir dispute has led to three wars and persistent rivalry between India and Pakistan.

India contends that the CPEC route through GB is a violation of "India's sovereignty and territorial integrity."³³ Beijing posits that the CPEC is an "economic cooperation initiative" and separate from Kashmir issue, which it considers "leftover from history" between the two South Asian neighbours.³⁴ China has, since June 1980, stated that Kashmir is a "bilateral issue" and should be "resolved peacefully."³⁵ Beijing has reaffirmed this stance in recent years as well.³⁶

³² "UNSC Resolution 47 of April 21, 1948," UN Document System, [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/47\(1948\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/47(1948))

³³ Ministry of External Affairs, Government of India, Participation of India in OBOR/BRI Forum.

³⁴ Ministry of Foreign Affairs, People's Republic of China, Foreign Ministry Spokesperson, Geng Shuang's Regular Press Conference, May 9, 2017, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1460040.shtml

³⁵ John Garver, "China's Kashmir Policies," *India Review* 3, no. 1 (2004): 4, doi:10.1080/14736480490443058

³⁶ Ministry of Foreign Affairs, People's Republic of China, Foreign Ministry Spokesperson, Hua Chunying's Regular Press Conference, August 31, 2016, <http://frankfurt.china-consulate.org/det/fyrth/t1393461.htm>

Similarly, Islamabad has argued that the CPEC is a “broad-based economic cooperation project” between Pakistan and China and it will contribute to the development of the entire region. Pakistan, thus, emphasises that opposition to such economic initiatives by India or any nation is “beyond comprehension.”³⁷ Moreover, in recent years, Islamabad has underscored that India’s repeated claims over GB cannot “change legality of Jammu & Kashmir dispute.”³⁸

These statements reflect that an economic development initiative has revived competing claims of Pakistan and India over the Kashmir region. China has attempted to navigate Islamabad-Delhi discord over Kashmir by de-linking the CPEC from Kashmir issue. Analytically, Beijing is pursuing de-coupling of economics and politics. Pakistan has signalled that it views the CPEC purely as an economic development initiative, while India has raised political questions on it. This, however, will not jeopardise on-going Pakistan-China cooperation related to the CPEC. Meanwhile, in the medium term (5-year time frame), Pakistan-India ties are likely to remain tense as Pakistan regains political and economic stability on the back of economic cooperation with China. This increase in relative national prowess of Pakistan will mean that it will be more confident in dealing with India. Pakistan will pursue its foreign policy agenda with more vigour as it showed in 2015-16 by prioritising Kashmir issue. The deadlock in bilateral engagement with India will persist in one form or another.

Beside CPEC, India and Pakistan are competing in Afghanistan and for access to Central Asia. For Pakistan, the prospect of India gaining a foothold in Afghanistan is a strategic challenge. Pakistan contends that owing to its geographical and societal linkages with Afghanistan, the latter falls under its sphere of influence. Islamabad-Delhi competition has the potential to be intense because of the denial of access routes for trade and transit. India has not granted Pakistan overland access to Bangladesh, Nepal and Bhutan. Similarly, Pakistan continues to deny India an overland passage to Afghanistan. Meanwhile, Kabul has attempted to condition its trade with Pakistan with access to India. Islamabad, however, has strongly objected.

³⁷ Ministry of Foreign Affairs, Government of Pakistan, Record of the Press Briefing by Spokesperson, August 18, 2016, mofa.gov.pk

³⁸ “FO Rejects Indian Protest over CPEC Bus Service,” *Dawn*, November 2, 2018, <https://www.dawn.com/news/1443020>

Operationalisation of CPEC and Prospects of East-West Connectivity

Pakistan's strategic goal of turning the country into a hub of regional transit and trade looks to be realised through operationalisation of the CPEC. Focus on improving Pakistan manufacturing capacities will enhance the competitiveness of Pakistani exports in the international market and increase its share in global trade.³⁹ Initiatives under the CPEC to improve trade and transport will link the main industrial cities with the ports of Karachi, Bin Qasim and Gwadar. When Gwadar port becomes operational, these new and upgraded ports, railways lines and highways will transport the bulk of international trade and land freight.

A decade ago, the Planning Commission of Pakistan undertook a feasibility study of the National Trade Corridor (NTC).⁴⁰ The NTC proposed transit and trade corridors with Pakistan neighbours. It included routes to China, Afghanistan and the Central Asian states of Tajikistan, Turkmenistan, Kazakhstan, Iran and India.⁴¹ The CPEC is a continuation of the original NTC route connecting Pakistan to western China through three different overland routes. Trade and transit agreements with China, Iran and the Central Asian states already exist but there is a need to operationalise them. For instance, trade and transit with Iran and Central Asia can take place under the framework of ECO Transit and Trade Framework Agreement. Pakistan has also signed a quadrilateral transit agreement with China, Kyrgyz Republic and Kazakhstan for transit and trade with Central Asia through Xinjiang region of China.⁴² In December 2017, China proposed incorporating Afghanistan into the CPEC framework.⁴³ For this to materialise, China and Pakistan would need to define the modalities of

³⁹ Ghulam Samad and Vaqar Ahmed, "Trade Facilitation through Economic Corridors in South Asia: The Pakistan Perspective," in *Developing Economic Corridors in South Asia*, eds., Prabir De and Kavita Iyengar, Asian Development Bank, 2014, <https://www.adb.org/sites/default/files/publication/162073/developing-economic-corridors.pdf>

⁴⁰ "Pakistan: National Trade Corridor Programme," World Bank, <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1174426445479/annex27.pdf>

⁴¹ Ibid.

⁴² "Quadrilateral Agreement," The Pakistan Trade Facilitation Portal, <http://www.ptfp.com.pk/Transit/Content/quadrilateral-agreement/Regional-Transit>

⁴³ Ministry of Foreign Affairs, People's Republic of China, *Wang Yi: To Discuss Extending CPEC to Afghanistan in a Proper Manner*, December 26, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1522540.shtml

including third-parties in the CPEC projects and routes. The next step would be to engage with the respective third party on the scope and level of its participation.

As mentioned earlier, western China is the starting node of the CPEC, which comprises of three provinces namely Xinjiang, Gansu and Qinghai, with a total population of over 50 million. China is still developing its western regions, as they lag behind in economic and social development. The over 50-million population also means that the economies of scale of trading with western China will be limited due to the size of the market and long distances. This raises the cost of doing business for the Pakistani businesses. Conversely, for businesses and entrepreneurs in western China, Pakistan is a large market of over 200 million people, thus, opportunities exist to take advantage of the improved infrastructure and trade corridor.

The CPEC framework envisions the establishment of SEZs to commence industrialisation and manufacture products to be sold in the international market. Similarly, the CPEC long-term plan (2017-2030) focuses on introducing new agricultural techniques to increase agriculture output of Pakistan.⁴⁴ These products would need to be exported to earn foreign exchange. The Pakistani businesses would have two options:

- a. To sell these products in international markets e.g. the Gulf, Europe and North America.
- b. To sell these products in China.

Given that Pakistan's present trade already focuses on these regions, businesses can earn more profits by penetrating markets in eastern and western regions of Pakistan.

On Pakistan's east are located the major Indian population centres of the Punjab, Haryana, Rajasthan, Gujarat and New Delhi. Collectively, these regions have the same population as Pakistan i.e., around 200 million. Across the western and southwestern borders are the markets of Afghanistan and Iran, with a total population of over 110 million. In sum, Pakistan is in close proximity to a combined market of over 300 million

⁴⁴ Ministry of Planning, Development & Reform, *Long-Term Plan for China-Pakistan Economic Corridor (2017-2030)*, December 2017, <https://www.pc.gov.pk/uploads/cpec/LTP.pdf>

people. However, Pakistan has not yet tapped into these markets. By leveraging comparative advantages that will be offered by the products produced in new SEZs Pakistani business can penetrate into these markets. Additionally, Pakistani businesses will be able to establish a comprehensive supply chain across the region. This will complement North-South trade and transits envisioned through the CPEC and bring regional buy-in for the CPEC framework from the regional countries.

Pakistan could begin by expanding trade and transit with Iran and Afghanistan. Pakistan has historic trade, linguistic and cultural links with both countries. Given the on-going conflict in Afghanistan, the scale and scope of trade will be limited. With Iran, however, opportunities exist albeit constrained by the US economic sanctions. An increase in trade with Iran will enable the Iranian cities to emerge as a viable market for goods produced in Gwadar Free Zone. Initially, trade with Iran will be constrained due to the on-going US economic sanctions after its withdrawal from the Iran nuclear deal. The European countries have established a special mechanism to trade with Iran while bypassing the US sanctions. With necessary political will, Islamabad can also take advantage of the Instrument in Support of Trade Exchanges (INSTEX)⁴⁵ which European governments have stated is “open to economic operators from third countries who wish to trade with Iran.”⁴⁶

Pakistan trades with India by road and rail through the Wahgah border, which lies equidistant between Lahore and Amritsar. Also, Pakistan railways carry goods from Pakistan to Amritsar in India. Similarly, the Indian exports reach Lahore via the Indian railways. The potential exists to establish new trade and transit routes between the two countries. Both governments can implement effective measures to reduce transportation time and delays on rail and road routes. The constraints to India-Pakistan trade and transit are multi-dimensional, which include bureaucratic inertia on policy directions, cumbersome visa regimes, customs and payments

⁴⁵ INSTEX (Instrument for Supporting Trade Exchanges) is a special purpose channel to enable trade with Iran. It is registered in France.

⁴⁶ The special purpose vehicle aimed at facilitating legitimate trade with Iran in the framework of the efforts to preserve the Joint Comprehensive Plan of Action (JCPOA), see French Ministry for Europe and Foreign Affairs, *Joint Statement on the Creation of INSTEX*, January 31, 2019, <https://www.diplomatie.gouv.fr/en/country-files/iran/events/article/joint-statement-on-the-creation-of-instex-the-special-purpose-vehicle-aimed-at>

processes, lack of state-of-art infrastructure and political opposition. Industrialisation through the CPEC will create incentives for Pakistan to reach out to New Delhi and take trade dialogue between the two countries forward.

At the same time, given India's opposition to the CPEC and BRI, New Delhi will find it difficult to review its policy. Pakistan's officials have offered India to join the project and shun opposition. India, for its own sake, might first prefer to hold talks with China on the CPEC and if an understanding is reached between Beijing and New Delhi, only then it may consider revising its policy.

Policy Options for Pakistan

Transport connectivity is the engine of economic development. Pakistan plans to spur economic growth leading to development through the CPEC transport routes. The challenge for Pakistan is to operationalise the CPEC and make it work in an uncertain regional environment. In turning the CPEC into a functional corridor, Pakistan has two pathways:

1. To focus on existing North-South connectivity through the CPEC. This will mean building the required road and railway infrastructure in Pakistan to connect with western China and turn Gwadar port into a key regional trade hub. With the construction of SEZs under the CPEC and the implementation of the Long-Term Plan targeting agriculture and tourism sectors, Pakistan can strengthen its existing linkages with the Chinese economy. The products manufactured in SEZs and agricultural goods under the CPEC framework would have two avenues:
 - a. Overland transport to the Chinese markets, particularly in western China via the Karakoram Highway (KKH) and Central Asian Republics also via western China;
 - b. Transport overland to Gwadar and Karachi for onward shipping to eastern China, Southeast Asia, Europe and North America.

2. To begin connectivity on the western side, with Afghanistan and Iran and India on the eastern side and tap into these markets. The transport infrastructure which is being constructed under the framework of the CPEC can be linked with the road and railway networks of these three neighbouring countries.
 - a. A corollary of this option is to start by focusing on linking Afghanistan and Iran on the western side. For Afghanistan, Gwadar port can be a new avenue for enhancing its external trade while products manufactured in SEZs of Balochistan and Khyber Pakhtkhua can find a viable market in neighbouring Iran and Afghanistan.

It is imperative for Pakistan to engage its neighbours, particularly Afghanistan and Iran, in the CPEC-centric connectivity, while responding to India's initiatives. China has bilateral connectivity projects with Afghanistan and Iran. This provides Pakistan with an opportunity to link up with the Chinese projects in these countries. As India expands its footprint and reach within Pakistan's neighbours, it is crucial that Pakistan also deepens its existing trade and transit linkages with them. This can be achieved by:

- i. Focusing on building an integrated road and railway network, maritime connections between the Iranian and Pakistani ports.
- ii. Increasing aerial connectivity between the three countries.
- iii. Easing customs on borders for trade.
- iv. Inking transit facilitation agreement for containers moving onwards from these countries.

In the next phase, within the framework of SAARC, Pakistan can promote the regional infrastructure development by providing technical assistance, training and capacity building of the other SAARC countries. The SAARC countries can focus on the establishment of trade and transit corridors across the region. To facilitate trade in the region, an accord on regional trade facilitation would have to be negotiated, which would also include components in customs cooperation. Moreover, the countries can move ahead to finalise the SAARC Motor Vehicles Agreement and the SAARC Railway Agreement. These accords will put in place the building blocks of future cooperation. Through the framework of SAARC, Pakistan will be able to tap into markets in the major Indian cities along its borders,

thus, complementing eastern connectivity to the larger North-South corridor and linkages with its western neighbours.

Conclusion

The ECs have the potential to drive economic growth and development. Production and trade have multiplied through expansion in transport connectivity. However, the regional integration and transport cooperation in South Asia have been marred by mistrust and hostilities. Under the framework of SAARC, regional cooperation has not made much headway. In recent years, Pakistan has focused on investing in building on transport infrastructure to enhance national and regional connectivity. The CPEC is a North-South trade and transit corridor focusing on infrastructure development and industrial development. Linking up to the CPEC with Pakistan's western and eastern neighbours, Afghanistan, Iran and India respectively, would address the challenge of navigating regional politics. It would also allow the Pakistani and Chinese businesses to tap into the markets in Afghanistan, Iran and India. For this purpose, the regional cooperation, under the framework of SAARC, to connect with Afghanistan and India, can be initiated to lower trade barriers, link road and railway networks and encourage trade, thus, leading to regional economic cooperation. With Iran, Pakistan can strengthen bilateral cooperation and also operationalise the ECO and European trade frameworks. East-West linkages with Pakistan's neighbours can, in future, lead to the building of trust and confidence between Pakistan and India and also improve Pakistan's relations with Afghanistan and deepen existing ties with Iran.