

Report Part Title: CPEC'S GENESIS

Report Title: Returning to the Shadows:

Report Subtitle: China, Pakistan, and the Fate of CPEC

Report Author(s): Andrew Small

Published by: German Marshall Fund of the United States (2020)

Stable URL: <https://www.jstor.org/stable/resrep27627.5>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

German Marshall Fund of the United States is collaborating with JSTOR to digitize, preserve and extend access to this content.

CPEC'S GENESIS

The Inception

When then-newly elected Pakistani Prime Minister Nawaz Sharif and Chinese Prime Minister Li Keqiang sat down together at the Serena Hotel in Islamabad in May 2013, there was little reason to think that they would unleash one of the most dramatic and controversial new infrastructure plans of the decade. After all, Pakistan had been knocking on China's door for years attempting to solicit big-ticket investments and had generally come up short. This time, when Sharif sketched out the proposals that would eventually become CPEC, the Chinese premier's message was unequivocal. One attendee of the meeting summarized it in three words: "Let's do it."¹

During his time in office, Sharif's predecessor,² Asif Ali Zardari, had turned up in China every few months to court the leadership of the Chinese Communist Party (CCP) and draw capital into the country's struggling economy.³ Zardari had one notable achievement: Beijing's reluctant agreement to take over the management of Gwadar port, in Balochistan, which China had originally built between 2002 and 2006 but had been in stasis during the subsequent period of management by the Port of Singapore Authority.⁴ Gwadar aside, the statistics for the preceding decade presented a stark picture of promises unfulfilled and projects that were never delivered: \$66 billion in Chinese investments were announced in various incarnations between 2001 and 2011, only 6 percent of which came through.⁵

For years, Pakistan had consistently sought to pitch China on the virtues of its supposed strategic economic geography. But Beijing was deeply skeptical. Vague talk of the strategic benefits that could be derived from energy pipelines and railways connecting China and Pakistan ran up against stubborn topographic facts. The land artery between the two countries, the spectacular Karakoram Highway, was largely built in the 1960s and 1970s, during China's Cultural Revolution, when rational economic planning was far from the top priority.⁶ But it had never functioned as a serious conduit for cross-border trade, which was almost entirely conducted by sea. In more recent years, the problems of worsening insecurity in Balochistan, and in Pakistan as a whole, had only raised more questions about the utility of the route.

1 Interviews in Pakistan, 2014-2019.

2 Zardari occupied the Presidency rather than the Prime Minister's office, but executive powers shifted to the parliamentary system after the 18th amendment to Pakistan's constitution.

3 Chris Buckley, "Pakistan leader backs China over Xinjiang," Reuters, August 21, 2009.

4 Dawn, "President Zardari announces Chinese takeover of Gwadar port," February 18, 2013.

5 Charles Wolf Jr., Xiao Wang, and Eric Warner, [China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations and Implications](#), Rand National Defense Research Institute, 2013.

6 For the history, see Muhammad Mumtaz Khalid, *History of the Karakoram Highway*, Vol. I and II, Hamza APSC Rawalpindi, 2009.

While Pakistani leaders kept pitching plans for transport and energy corridors, Beijing was open about its doubts. Late in Zardari's term, one senior Chinese economic policymaker, presented with yet another Pakistani proposal to connect Gwadar and Xinjiang, responded baldly: "This is a plan that could only be realized in decades. Where is the plan that can work now?"⁷

Beijing was not entirely unwilling to invest in Pakistan. When it did so, however, this typically involved projects in which it could work directly with the army, the sole institution that China trusted to deliver on its promises. The record was quite clear: while military-industrial cooperation and nuclear power plants had moved ahead, civilian projects were limited to a few telecoms and mining projects.⁸ When Nawaz Sharif laid out his vision for power projects, roads, and other infrastructure investments during his 2013 meeting with Li Keqiang, the positive response he received was therefore a genuine break from precedent.

What led to Beijing's change of heart? One key element was the change in political leadership in Islamabad. The earlier PML-N government had a track record of pulling off major infrastructure projects, most notably during Sharif's last phase in office in the 1990s. More recently, China had developed a good working relationship with the prime minister's brother, Shabaz Sharif, then the chief minister of Punjab province. The newly elected government handled relations with Beijing deftly: whereas its Pakistan Peoples Party (PPP) predecessor had asked the Chinese government for a bailout soon after taking office, the PML-N took a different tack, sending senior foreign and economic policymakers to explain why, rather than assistance, it wanted investments and would deliver on them where the PPP had fallen short.⁹

For years, Pakistan had consistently sought to pitch China on the virtues of its supposed strategic economic geography. But Beijing was deeply skeptical.

At the same time, Pakistan was on an upswing in 2013. The security situation had improved considerably, and the economy was starting to take off again after several bad years. The biggest obstacle to continued growth was the country's energy crisis, which saw rolling blackouts in major cities that decimated critical economic sectors, such as textiles. The new government had a single-minded focus on fixing the problem quickly and a clear view of how China could help.¹⁰

Yet the leadership change in Beijing was even more significant. Xi Jinping, who had taken over as general secretary of the CCP in 2012, was putting together an ambitious set of plans to expand China's geo-economic profile. Where Chinese economic planners had previously viewed Pakistan with trepidation, the new scheme, which would later be dubbed the Belt and Road Initiative, gave the country a far more prominent role in China's grand strategy than it had ever enjoyed before.

7 Author interviews in China, Pakistan, and Washington, DC, 2013-2017.

8 For a history of economic ties before CPEC, see Fazal-ur Raman, [Pakistan-China Trade and Investment Relations](#), Institute of Strategic Studies Islamabad, 2011, p. 3, and Hailin Ye, "China-Pakistan Relationship: All-Weathers, But Maybe Not All-Dimensional," in Kristina Zetterlund (ed.), *Pakistan—Consequences of Deteriorating Security in Afghanistan*, Stockholm: Swedish Defence Research Agency, 2009.

9 Dawn, "[Ahsan Iqbal discusses trade, energy with Chinese minister](#)," June 26, 2013.

10 Farhan Bokhari and Victor Mallet, "[Nawaz Sharif takes steps to revive Pakistan's economy](#)," Financial Times, May 13, 2013.

The “Belt and Road” Meets the “All-Weather Friendship”

Even before the BRI was formally launched in 2013, the CCP leadership had been engaged in a multifaceted debate about how its domestic economic transition and its foreign policy agenda could be joined. In the aftermath of the 2008 global financial crisis, China had spent heavily on domestic investment in order to continue to stimulate growth, and it was left with considerable excess capacity and diminishing returns on those investments.

At the same time, on its western periphery China was warily contemplating the United States drawing down its military presence, as over a decade of engagement in Afghanistan—with heavy supporting activity in Pakistan and in Central Asia—came to a close. At one level, this provided an opportunity for China: continental Asia was one of the few regions of the world where it could expand its economic and security presence without running into resistance from Washington. Indeed, for years, the United States had been actively encouraging China to step up its role in Afghanistan and Pakistan.¹¹

Yet on the military and security side, there were considerable grounds for caution on Beijing’s part. Some on the Chinese side saw a trap, in which the United States stepped down from its military commitments in Afghanistan and the Middle East in order to facilitate its proposed “pivot to Asia,” only for China to be sucked into the region’s instability.¹²

The potential for an expanded economic role was much more in China’s comfort zone. Afghanistan was still too insecure for any serious investments to be viable, but Pakistan was a greater concern and a more significant opportunity. An economic development plan that helped strengthen the country would benefit Beijing in various ways.

In general, China wanted to see a strong, capable Pakistani state that could counterbalance India, which had always been the central factor in Sino-Pakistani relations. A weakening Pakistan would be more prone to internal instability and to risk-taking in its relations with its neighbors, as well as less able to act effectively against the militant groups that targeted China. Beijing also saw the gap between India and Pakistan widening, and the root of this development as economic: India was always going to be larger in population and in land-mass but if Pakistan did not even come close to matching India’s growth rates, it was going to fall further and further behind on all dimensions of national power, including the ever-greater strain that would be placed on its military budgets.

At the same time, Chinese experts talked about a version of regional balancing that went beyond narrow security calculations. Through CPEC, China sought to encourage Pakistan to think about its power position in more expansive terms, as Beijing itself did. As one Chinese analyst put it in a 2015 interview, “We want to change the mindset. Pakistan talks about catching up with India militarily. We want to see it balancing India

11 For some of the early debates on the subject, see Wang Jisi, *Westward: China’s Rebalancing Geopolitical Strategy*, Center for International and Strategic Studies at Peking University, 2012, pp. 6-7.

12 Yun Sun, [March West: China’s Response to the U.S. Rebalancing](#), Brookings Institution, January 31, 2013.

more comprehensively—economically, socially, culturally.”¹³ Another Chinese expert framed things even more boldly: “The purpose of the China-Pakistan Economic Corridor is to transform the social and economic structure of Pakistan.”

Pakistan also offered the chance for China to build a showcase that would display to the rest of the world the tangible benefits that would flow to countries that build closer ties with it. As China’s global footprint has grown, its need for reliable access to overseas military facilities has grown along with it. That access depends on a network of friendly countries that would allow the People’s Liberation Army to use ports, airbases, and other logistical and military facilities.¹⁴ When CPEC was first set in motion in 2013, Pakistan was one of the few countries that already provided such access, and there was an increasing imperative to demonstrate that being a close friend of China was correlated with economic rewards.¹⁵

For decades, the Pakistani rationale for deep ties had always been clear: China offered essential support for the military, political backing in international institutions, and the extension of other forms of assistance—financial, technological, logistical—when needed. As China’s influence grew over the years, the value to Pakistan of the “all-weather friendship”—a term coined early in the two sides’ relationship as a pointed contrast to the “fair-weather friendship” with the United States—grew along with it.

Many in Pakistan hoped that China might take the place of the United States, which had been an important—if also ambivalent—ally in the years after 9/11.

By 2013, the argument in favor of even deeper ties seemed almost incontrovertible. In the early 2000s, Pakistan’s economy had gone through an acutely difficult phase, with investors pulling back as a result of the political turmoil and perilous security situation, which saw unprecedented levels of terrorist violence in major cities and a Taliban insurgency in Swat valley.¹⁶ Even as economic and security conditions started to improve, outside finance was hard to come by and private investors were still skittish about returning. CPEC was a rare chance to change the narrative, in rapid and dramatic fashion. For Sharif’s government, it also offered a quick fix for the country’s energy crisis, with Chinese companies ready to step in immediately to add capacity that would come online even before the next elections.

Many in Pakistan also hoped that China might take the place of the United States, which had been an important—if also ambivalent—ally in the years after 9/11. Following a decade in which tens of billions of dollars of financial assistance had been extended by the United States, relations were on the slide. For many years, Washington had been willing to overlook Pakistan’s support for the Taliban’s activities in Afghanistan,

13 Author interviews in Washington, DC and Beijing, May 2015.

14 Feng Zhang, “China’s New Thinking on Alliances”, *Survival*, 54(5): 129-148, 2012.

15 Pakistan would be described as a “model to follow” for other countries in their relations with China, see Liu Zongyi, “Pakistan Remains Faithful Partner of China,” *Global Times*, December 28, 2015.

16 See Ahmed Rashid, *Pakistan on the Brink: The Future of America, Pakistan, and Afghanistan*, Penguin Group, 2012.



Gwadar port, CPEC's most prominent project.

given its willingness to provide supply lines for U.S. forces in the country, to allow U.S. drone strikes on its territory, and to assist with the targeting of groups that both saw as threats.¹⁷

But tensions had come to a head. Even before the *annus horribilis* of 2011 in their relations,¹⁸ Pakistan was chafing at the scale of the U.S. security footprint in the country and the deep unpopularity of the government's role in facilitating the U.S.-led war in Afghanistan. At the same time, the willingness of the United States to tolerate the escalating attacks from Pakistani-backed groups on its soldiers, intelligence personnel, and the Afghan population was diminishing.

The United States had attempted to step up its civilian assistance to Pakistan through the Kerry-Lugar-Berman Act in 2009, but it did so amid a backdrop of intense mutual distrust. At the time, Special Representative for Afghanistan and Pakistan Richard Holbrooke suggested to Chinese officials that the most helpful thing that Beijing could do in the wider region was to provide economic assistance to Pakistan, given the limitations that now existed on the U.S. side.¹⁹

¹⁷ For a summary, see Daniel Markey, *No Exit from Pakistan: America's Tortured Relationship with Islamabad*, Cambridge University Press, 2013.

¹⁸ The year saw tensions explode on every front, including the special forces raid that killed Osama Bin Laden, the Salalah border confrontation (which saw 28 Pakistani soldiers killed by NATO forces), and the Raymond Davis incident, in which a U.S. security contractor was detained after killing three Pakistanis in Lahore.

¹⁹ Aubrey Carlson, "[SRAP Holbrooke's April 15 dinner with Chinese foreign minister Yang Jiechi](#)," U.S. State Department Cable, April 20, 2009.

Meanwhile, the relationship between the United States and India continued to deepen and expand, in part because both were worried about the geostrategic implications of China's rise. In this context, Pakistan saw diminishing prospects of Washington playing an even-handed role in security crises in the region and a nascent hardening of geopolitical battle lines. As a result, any opportunity for a clear, visible strengthening of relations with China needed to be seized, as a demonstration that Pakistan was not in danger of isolation, as a bulwark against U.S. and Indian pressure, and as a new source of financial backing. Strategic and economic goals were not just in alignment—drawing in stronger Chinese support seemed to be a virtual necessity.

And, for China, given this complex and shifting backdrop, CPEC seemed to provide a way to achieve several of its objectives simultaneously: stabilizing its western periphery, outsourcing overcapacity, bolstering its strategic partner, and setting the stage for a more expansive form of cooperation between the two countries that others would see and wish to imitate.

The Master Plan

The plans for CPEC were teed up during the transition between governments in Pakistan after the 2013 elections. Li's visit set off an extended process of consultation between China's National Development and Reform Commission, headed by Xu Shaoshi, and Pakistan's Planning Commission, headed by Ahsan Iqbal.

For China, this was an unusually deep and comprehensive level of involvement with the civilian government in Pakistan. Its most important channels had always been through the army, with even economic deals typically receiving the imprimatur of the General Headquarters in Rawalpindi. The more diffuse centers of power that had been increasingly involved in Pakistan's political and economic life beginning in the early 2000s—the burgeoning media sector, the Supreme Court, new political parties, the provinces newly empowered by the eighteenth amendment to the constitution²⁰—were more of a challenge for Beijing, which wanted decisions taken, stuck to, and implemented quickly on everything from energy pricing to land acquisition.

While nominally accepting the authority of key civilian bodies, such as electricity regulators or provincial governments, Chinese negotiators periodically suggested CPEC decision-making structures that would give greater weight to a central point of authority, including a more formal role for the army, where decisions could be executed quickly. “The Chinese complained early on,” one Pakistani expert close to the discussions noted, “they would go directly to Raheel Sharif [the then-Chief of Army Staff]. They wanted a CPEC body that would override the law and the system.”²¹

This was not just the reflection of a desire for a system that more closely mirrored China's own decision-making structures, or that valorized authoritarianism. It was a function of the difficulty of launching such a dramatically transformative agenda that would require Chinese officials to immerse themselves much more deeply in Pakistan beyond their usual circle of relationships.

20 The Eighteenth Amendment, passed by the National Assembly in April 2010, effectively changed Pakistan from a presidential to a parliamentary system and strengthened the fiscal and administrative authority of the provinces.

21 Interviews in Islamabad, November 2016.

As the discussions on CPEC moved forward, it quickly became clear how little expertise on Pakistan there was in Beijing, particularly when it came to economic and social matters. While plenty of Chinese officials and experts had some degree of facility with the economies and societies of their East Asian neighbors, Pakistan was unfamiliar turf despite its supposed status as China's closest partner. One Chinese expert who was pulled into deliberations on Pakistan noted that the discussions lacked any center of gravity: in larger internal meetings on CPEC, everyone would stick to the script about the two countries being "iron brothers"; in smaller gatherings, many of the same people would vent their concerns about what they were doing in a country that they viewed with suspicion, even prejudice, and very little understanding.²²

Still, the problems that would eventually accumulate were not fully apparent as the plans for CPEC were first drawn up, in part because both sides shared two objectives that had not been present before: speed and scale. In years past, when economic cooperation efforts ran into problems, Chinese officials and businesspeople would simply slow down or withdraw altogether.²³ They had plenty of latitude to do so: Pakistan was not a priority market for China, the economic and political situation was unpredictable, and poor security conditions heightened the level of risk aversion.

As the discussions on CPEC moved forward, it quickly became clear how little expertise on Pakistan there was in Beijing, particularly when it came to economic and social matters.

Now, with the BRI starting to move ahead, Chinese officials were desperate to find concrete projects that would demonstrate that Xi's vision could translate into an on-the-ground reality. This was not straightforward: in the early days of the BRI, many countries would offer up poor-quality projects that had not been able to attract outside financing for good reason. Many host-country government officials took their time to identify sensible prospects for cooperation. Some were cautious about taking on Chinese investment on too large a scale. There were reports that Xi was becoming impatient: one Chinese expert close to the CCP leadership described him literally banging his fist on the table and demanding projects from the officials who were tasked with making BRI happen.²⁴

Pakistan was a rare country that was willing to oblige. Its officials shuttled back and forth to China to make sure that the opportunity was seized. For the PML-N government, CPEC was not just a way to change Pakistan's economic narrative, it was potentially the ticket to win the next election: if it fixed the country's chronic power crisis, it would be delivering on the party's main campaign promise.

These political considerations heavily influenced the shape of the plan that emerged, which was very far removed different from the supposed "corridor" that formed part of the CPEC brand. The pitch that Pakistan had been making to China for decades was a simple one: Beijing should use the country for transit purposes.

22 Interviews in Beijing and Shanghai, 2015-2018.

23 Mathieu Duchâtel, China's Policy Towards Pakistan and Stability in South Asia, presentation at the Asia-Pacific Security Forum, Europe Institute for Asian Studies, Brussels, September 10-11, 2010, p. 14.

24 Interview, Washington, DC, 2015.

Shorter land routes to the Indian Ocean would, in theory, provide alternatives for energy and goods transportation to maritime choke points such as the Malacca Strait.

Yet there are many problems with this notion. First is the cost. By any estimate, land routes through Pakistan are vastly more expensive than transportation by sea, and Chinese officials have openly stated that they make little commercial sense.²⁵ The costs also extend to the up-front expenses for construction of the transportation infrastructure, such as railways or pipelines. Building a railway line parallel to the road, for instance, is technically feasible but would almost certainly necessitate extensive and extraordinarily expensive tunneling in order to ensure that the route was not routinely affected by landslides and the other natural disasters that make the existing road so fragile.²⁶ Even after well over a decade of upgrades, the Karakoram Highway is still subject to seasonal closures and regular blockages.

The costs of developing more reliable infrastructure connections between the two countries would make more sense if the Pakistani economy were substantially larger or if Pakistan genuinely functioned as a regional trade hub. Yet the only way of achieving the latter would be a normalization of economic relations with India.²⁷ As long as old political obstacles—including the army's opposition—made that impossible, the prospect of a serious cross-border economic link between China and Pakistan remains prohibitively expensive.

The limited scope of these plans did not stop the notion of a “corridor” from having considerable political purchase in Pakistan and internationally.

Equally, if the route had real military value for China and Pakistan, there would also have been some grounds for them to bear the sky-high costs. In fact, it is extremely vulnerable: a narrow route that is readily blocked even in normal times, passes through territory that is subject to militant attacks, and culminates in a province that remains highly insecure. While it is possible to protect the port of Gwadar itself, transport routes through the rest of Balochistan are a different matter. Indeed, when some of the new road connections were being built, the province was the location where the greatest number of CPEC workers were killed by militants attempting to disrupt the project.²⁸

Therefore, the CPEC plan that emerged from the consultation process did not really resemble a corridor at all, though it included upgrades to Pakistan's internal infrastructure and some cross-border fiber-optic cabling. There was also a fix for the most egregious lack of internal interconnectedness: the fact that the Gwadar port's only road route ran along the coast to Karachi and not into the country's interior.

25 Gabe Collins and Andrew Erickson, “[Still a Pipedream: Pakistan-to-China Rail Corridor is not a substitute for Maritime Transport](#),” China SignPost, No. 13, December, 22 2010.

26 Author interviews, Islamabad, 2014–2018. See also, Tim Craig, “[Pakistan's route to China sees ferrymen's livelihoods dry up](#),” Washington Post, October 12, 2015.

27 Interviews, Islamabad, Beijing, and Washington, DC, 2015–2019.

28 Syed Raza Hassan, “[Attacks have killed 44 Pakistanis working on China corridor since 2014](#),” Reuters, September 8, 2016.



Pakistani students in a Mandarin class, National University of Modern Languages in Islamabad.

Yet the limited scope of these plans did not stop the notion of a “corridor” from having considerable political purchase in Pakistan and internationally. Domestically, the planning stage was characterized by considerable controversy over the CPEC’s “route.”²⁹ While there were undoubted differences in the economic benefits that might accrue to different parts of the country depending on whether roads were built or upgraded in one location or another, the notion of a super-highway of Chinese goods, industrial parks, and other benefits that would deliver rewards to whatever it touched was always fanciful. Exasperated Chinese officials attempted to persuade unhappy opposition parties that “all of Pakistan is a corridor,” a more reassuring formulation than “there is no real corridor.”³⁰ While this controversy eventually died down, its external ramifications persisted.

The CPEC plan had a different set of focal points, stretched over three five-year phases.³¹ The first part was composed of the “early harvest”—projects that would largely be completed in time for the next Pakistani elections scheduled for 2018—and other short-term projects to be completed by 2020. Over the next two phases, medium-term projects would run until 2025 while long-term projects would be completed by 2030. The first phase was supposed to address energy and infrastructure, while the second phase would be focused on industrial cooperation. The final phase would encompass a broader array of cooperation on everything from agriculture to tourism.

²⁹ Malik Muhammad Ashraf, “[The CPEC Controversy](#),” Pakistan Today, December 4, 2015.

³⁰ The phrase was used at events the author attended in Islamabad in 2015-2016.

³¹ The CPEC plan is summarized at the official website: CPEC, “[CPEC Homepage](#),” 2020 and at CPEC, “[Long term plan for China-Pakistan Economic Corridor \(2017-2030\)](#),” 2017. See also, Arif Rafiq, [The China Pakistan Economic Corridor: Barriers and Impact](#), United States Institute of Peace, October 2017.

Each phase was meant pave the way for the next: first, fix the energy crisis and infrastructure deficiencies; then, build up industry and exports, with an improved energy and infrastructure situation providing a foundation for these efforts; and finally move to other sectors of what should, by the mid-2020s, be a more successfully functioning economy.³² These later phases were to be addressed in subsequent negotiations between the two sides, with the early stages of the planning heavily focused on getting the first round of projects in motion.

The most internationally eye-catching element of the scheme was the plan to turn Gwadar into a working port, which had already been signed off by the previous government. China had been responsible for the original construction of the port, but the contract for its operations was then handed over to the Port of Singapore Authority (PSA) from 2007.

The following years saw a tug of war between the two sides: the PSA blamed the Pakistani navy for being unwilling to resolve a land dispute that held up the next stage of the port's development. The Pakistani side blamed the PSA for failing to fulfill its commitments, which included several hundred million dollars of investments in the port.³³ The issue wound its way through the courts, while the port saw almost no commercial activity.

Gwadar has not only been a political lightning rod but also rife with problems that have proved difficult to solve.

For both parties, the resumption of control by Chinese companies in 2013 appeared to provide the optimal solution. There was considerable reluctance in Beijing, however. For all the nominal advantages that Gwadar offers in terms of its location near the Persian Gulf and the depth of the harbor, it has not only been a political lightning rod but also rife with problems that have proved difficult to solve: as a work site, it has been extremely dangerous for Chinese workers; its economic prospects have always been dubious; and it has lacked the basic necessary elements of a reliable water or power supply.³⁴

Under CPEC, China would fix many of the outstanding issues around the port. It would upgrade the tiny airport, build a freshwater treatment plant to create the needed water supply, complete the dredging and construction of breakwaters at the port, construct a free trade zone adjacent to the port, build higher-grade road connections between the port and the city proper, and take on several smaller-scale development projects. The Pakistani military's Frontier Works Organization would be largely responsible for the difficult task of road construction in Balochistan to connect Gwadar to the provincial capital of Quetta, as well as for roads stretching further afield. Somewhat unusually for a BRI project, all of the Gwadar investments would take the form of direct grants rather than loans from the Chinese government. They would make up around 10 percent of CPEC's overall value.

32 Interviews in Beijing, Islamabad, Lahore, Karachi, and Washington, DC, 2014-2017.

33 Syed Fazl-e-Haider, "China set to run Gwadar port as Singapore Quits," Asia Times, September 5, 2012, .

34 Khaleeq Kiani, "Gwadar facing water and power shortfall," Dawn, January 22, 2018.

The second major component of CPEC's first phase was internal infrastructure. This involved road and rail upgrades, including expanded connections between Karachi and Peshawar as well as Karachi and Lahore; improvements to the lower reaches of the Karakoram Highway; and—more controversially—the Orange Line Metro project in Lahore, a pet project of Shabaz Sharif that the Chinese side largely agreed to as a political favor. These investments would primarily be financed by loans from the Chinese government and would comprise the largest part of the government-to-government lending in CPEC, amounting to approximately 20 percent of its initial total value.

The first phase would also include the only significant cross-border project: a fiber-optic cable linking the Khunjerab pass, at the China-Pakistan border, with Rawalpindi. The link, which would be built by Huawei, carried a relatively small \$44 million price tag, but was part of a more ambitious set of digital connectivity plans for Pakistan by undersea cabling through Gwadar, optical remote-sensing satellites, and the use of China's Beidou navigation satellite system in place of the U.S.-owned Global Positioning System.³⁵

By far the most significant component of CPEC's first phase, however, was the energy-sector,³⁶ the element most closely associated with the PML-N's election promise. CPEC's initial plan promised a considerable increase in productive capacity, as much as 11,190 MW for the first phase of projects, incorporating 70 percent of the initial project value.

The specifics of the energy-sector development plan were controversial for several reasons.

The specifics of the energy-sector development plan were controversial for several reasons. The plan focused heavily on the construction of coal-fired power stations. In contrast to renewable-energy schemes, which would be harder to connect to Pakistan's existing energy grid, coal-fired plants had the advantage of speed, as well as the potential over time to draw on the country's coal supplies. But initially, they were heavily import-reliant. Some experts also worried that China was moving to find overseas markets for its carbon-heavy industries, just as it had promised to clean up its climate act at home.

There was another concern about the energy-sector development plan: concentrating on development of capacity alone meant that many endemic problems would persist. The biggest of these is Pakistan's long-standing "circular debt" problem. Distribution losses, theft, and the non-payment of tariffs result in power-distribution companies not receiving full payments; they in turn are unable to pay the generation companies, which are then unable to pay the fuel suppliers. At the end, the government ends up taking on the debt burden once the crisis becomes unsustainable.

The proposed financing model would leave Chinese companies directly exposed to this deep-seated problem. The new power plants to be built under the CPEC plan were to be financed by Chinese lending institutions and executed by Chinese companies, with their returns coming directly from the generous energy pricing

35 Tahir Amin, "US-owned GPS: Military reliance will be reduced after use of China's Beidou satellite," Business Recorder, March 18, 2019.

36 In addition to the above resources, the author benefited from an advance copy of Erica Downs, [The China-Pakistan Economic Corridor Power Projects](#), October 2019.

rates that Pakistan offered. While this would, in theory, largely keep loans off the books of the Pakistani government, the unknown variable was the circular debt. Beijing continually pushed for the establishment of a dedicated “circular debt” or “revolving” fund, in the form of an escrow account through which the Pakistani government would close the anticipated gap between the revenues the companies were supposed to receive and what they recovered in practice, which would often exceed 20 percent of the overall payments.³⁷ In practice, this was not delivered. “We didn’t have the money,” as one former minister ruefully admitted.³⁸

Provisional plans were put in place for CPEC’s future phases: discussions began on dozens of special economic zones (SEZs) around the country while work started on a comprehensive “long-term plan” for CPEC that would lay out the cooperation plans up to 2030 and put the other elements of the scheme into a lasting structure. With this overall framework in place, negotiations continued through 2014 on the initial projects that would be included in CPEC’s public launch, as well as their specific terms.

The Launch

Xi Jinping was scheduled to visit Pakistan at some point relatively early in his tenure as president. While it was partly a routine matter to have a plan of CPEC’s scale launched during a major bilateral visit, Xi’s personal involvement and political stamp of approval carried even more weight than usual.

Since CPEC had been first mooted, China had launched an even more comprehensive initiative, in what was then more commonly known by its direct translation from the Chinese as “One Belt, One Road.” The Silk Road Economic Belt—the land-based dimension of the scheme—was announced in Kazakhstan in September 2013; the 21st Century Maritime Silk Road was announced in Indonesia a month later.³⁹ While “One Belt, One Road” was initially understood by many outside China either as another ineffectual slogan or at most a new global infrastructure scheme, it soon became evident that this was going to be a substantially resourced effort at the heart of Chinese grand strategy, closely tied to a newly installed leader who was rapidly consolidating his hold on power.

There was some anxiety in Pakistan about whether CPEC would be formally included in the Belt and Road Initiative at all, particularly after some official Chinese maps were published in which it did not feature.⁴⁰ But CPEC was a natural fit. It had a maritime and a continental component. It had demonstration potential for showing that true friends of China could attract some of the largest early investment packages. And, perhaps most importantly, Pakistan had “shovel-ready” projects that could make the BRI an on-the-ground reality

37 Khalid Mustafa, “[Chinese Investors in CPEC Power Projects Seek Revolving Fund](#),” The News International, June 23, 2018.

38 Interviews, Islamabad and Karachi, 2019.

39 National Development and Reform Commission (People’s Republic of China), [Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road](#), March 2015.

40 Shannon Tiezzi, “[China’s ‘New Silk Road’ Vision Revealed](#),” The Diplomat, May 9, 2014.



Slogan along the Karakoram Highway, Pak-China friendship tunnel No. 1 at Attabad lake, Hunza.

sooner rather than later. Far from the country being left out, Chinese officials dubbed CPEC the “flagship” of the BRI, which would demonstrate the scope and ambition of China’s newest overseas endeavor.⁴¹

The decision to make CPEC the showcase of the BRI was not devoid of controversy on the Chinese side. Many officials and non-government experts questioned the wisdom of making enormous commitments to a country whose security and economic situation remained highly fragile. For some, this skepticism extended to the BRI as a whole. Many of the external criticisms that would later be voiced about BRI—including jibes about “the transnational Great Leap Forward” or “One Belt, One Trap”—were shared inside the Chinese system as well, usually behind closed doors.⁴² But the critics soon got in line as the initiative become ever more directly associated with Xi, and was ultimately even placed in the CCP constitution.

Xi was originally due to visit Pakistan as well as India in September 2014 but, to the considerable embarrassment of the Pakistani government, this proved impossible as election protests led by Imran Khan shut down the capital.⁴³ The question of when the visit would be rescheduled was highly political. Xi was going to add Pakistan to his planned trip to the Middle East in 2015, but Saudi Arabia’s decision to launch a war in Yemen

41 Li Keqiang, [Building the China-Pakistan Economic Corridor Flagship Project](#), Ministry of Foreign Affairs of the People’s Republic of China, Press Release, November 8, 2014, and Xi Jinping, [Pak-China Dosti Zindabad](#), April 19, 2015.

42 Interviews, Washington, DC and Beijing, 2015 and 2016.

43 Abdul Shakoor Khan, [“PTI, PAT protests hindering free movement on Constitution Avenue: SC,”](#) Dawn, August 25, 2014.

meant that any Middle East trip had to be postponed until an itinerary that successfully navigated Saudi-Iranian tensions over the war could be found.⁴⁴

The war in Yemen had real implications for whether Xi would go to Pakistan at all: as the conflict escalated in early 2015, key Gulf States demanded that it participate in the Saudi-led coalition fighting the war. However, China worried that this would put CPEC in jeopardy, given neighboring Iran's likely reaction to any Pakistani decision to support the Arab coalition fighting in Yemen. Islamabad knew that the decision to stay out of Yemen might come at a cost: the Gulf States threatened to withhold future economic support from the country if it did so.⁴⁵ This threat carried special weight in part because—unlike China—Gulf donors provided Pakistan with direct budgetary support.

The decision to make CPEC the showcase of the BRI was not devoid of controversy on the Chinese side.

When the Pakistani government made the dilemma it faced clear to its Chinese counterparts, Beijing provided some unusual reassurances: if needed, China would be willing to extend more expansive forms of direct financial support to the country. In return, Pakistan would have to stay out of Yemen.

As Xi's visit drew nearer, a final outstanding issue was what scale of package would be announced during the visit. China leaned toward the conservative end of the spectrum, concerned about the expectations that larger figures would generate, not only in Pakistan but also in other countries that might well demand similarly large BRI deals.

But the Pakistani government was eager to announce as large a number as possible, in order to show that the country really had turned a new page. In practice, although \$28 billion was the mutually approved and announced figure, encompassing the projects that had actually been agreed for the visit, a larger Pakistani-circulated number, \$46 billion, which encompassed a number of additional projects that were still under negotiation, received the most public attention.⁴⁶ The gap between higher, more speculative Pakistani numbers and more cautious Chinese ones, restricted to projects that were moving ahead, proved to be enduring.

Xi's trip took place in April 2015. For some on the Chinese side, the fact that it was not paired with a visit to India—a first for a Chinese leader in decades—provided a rare opportunity. It could be used to undertake a form of de-hyphenation, in which China upgraded its relationship with Pakistan without every element of the visit being compared to one across the border.⁴⁷ The Sino-Pakistani relationship could be placed on its own footing, focused on economics in addition to security, and looking south and west to the Indian Ocean and the Middle East rather than exclusively at India. With the relationship expanding beyond the confines of

44 Mu Chunshan, "China's Xi To Make First Middle East Trip," *The Diplomat*, March 26, 2015. See also Mu Chunshan, "Revealed: How the Yemen Crisis Wrecked Xi Jinping's Middle East Travel Plans," *The Diplomat*, April 22, 2015.

45 Dawn, "UAE minister warns Pakistan of 'heavy price for ambiguous stand' on Yemen," April 11, 2015.

46 Saeed Shah, "China's Xi Jinping Launches Investment Deal in Pakistan," *Wall Street Journal*, April 20, 2015.

47 Interviews, Beijing, Islamabad, and Washington, DC, 2015–2016.

military and intelligence ties, China could also start talking more enthusiastically and expansively about its “all-weather friend.” For those among China’s South Asia experts who saw a stable relationship with India as the most important precondition for a successful foreign policy in the region, this was still risky. But a more forward-leaning approach to Pakistan was in keeping with the less inhibited international stance that Xi had adopted. Over the next year, Chinese intellectuals would start writing about Sino-Pakistani ties being a “model to follow,” and about Pakistan being China’s “one real ally.”⁴⁸

The choreography of the visit went smoothly, from the eight JF-17s—the two sides’ jointly developed fighter jet—that accompanied the Chinese president once he entered Pakistani airspace, to the signing ceremony for the key CPEC agreements on April 20. And with that, CPEC was officially launched.

48 Yufan Huang, “Q. and A.: Yan Xuetong Urges China to Adopt a More Assertive Foreign Policy,” New York Times, February 9, 2016.