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II. The Beijing Connection

A. *Balancing Geopolitics and Economics*

Geopolitics and security dynamics have long determined the contours of Pakistan's China policy, with mutual animosity toward India a major factor. In the 1950s, Pakistan anchored its foreign policy in close relations with the U.S., while China and India established strong ties in the Non-Aligned Movement. When a border dispute triggered the 1962 war and unravelled the Sino-Indian relationship, Islamabad seized the opportunity to forge stronger ties with Beijing, including settling their own border dispute by ceding Gilgit-Baltistan's Shaksgam valley to China.⁴ During Pakistan's 1965 war with India, China provided it limited military but significant diplomatic support. After Pakistan's loss in the 1971 war with India, resulting in East Pakistan's secession and the formation of Bangladesh, military ties between Islamabad and Beijing deepened and soon came to define the relationship, including China's eventual support for Pakistan's nuclear weapons program.⁵

Economic ties were also historically shaped by strategic priorities such as road connectivity in the border region of Gilgit-Baltistan and Xinjiang. Built in the 1970s, the Karakoram highway connects Pakistan's north, via Gilgit-Baltistan, through the Khunjerab pass, to Xinjiang's Kashgar prefecture, rising to 4,700m above sea level in rough mountainous terrain.⁶

Yet Pakistan's alliance with China has thus far yielded few economic benefits. Not only does China-Pakistan trade lag far behind Sino-Indian trade, it is also outstripped by Chinese trade with similar-sized and even smaller economies than Pakistan's, such as those of the Philippines and Vietnam.⁷

Moreover, Pakistan's trade deficit with China has tripled over the last five years, reaching around \$12 billion in 2017.⁸ Leading economists and representatives of Pakistan's business community see the country's Free Trade Agreement (FTA) with China, signed in 2006 and operational the following year, as disproportionately benefiting the latter.⁹ Chinese goods have flooded Pakistani markets because the FTA's

⁴ Until 2009, Gilgit-Baltistan was officially called the Northern Areas.

⁵ A prominent Chinese academic argues that for Beijing this relationship's objective "has not been to strengthen the two countries' welfare interests but to strengthen them against common threats. It should be described as a shield to protect their traditional security interests rather than a bridge to lead to common prosperity and wealth". Quoted in Small, *The China-Pakistan Axis*, op. cit., p. 25. Paul K. Kerr, Mary Beth Nikitin, "Pakistan's Nuclear Weapons", Congressional Research Service, 1 August 2016, p. 3.

⁶ The 1,300km road, officially called National Highway 35 but commonly known in Pakistan as the Karakoram highway, was built between 1959 and 1986. The 887km highway starts in Punjab's Hasan Abdal district, and then traverses Khyber Pakhtunkhwa and Gilgit-Baltistan; the remaining 413km are in Chinese territory, where the road is designated China National Highway 314.

⁷ Small, *The China-Pakistan Axis*, op. cit.

⁸ Pakistani exports to China increased from \$0.5 billion in 2006-2007 to \$1.47 billion in 2016-2017. Chinese exports to Pakistan jumped from \$4 billion to \$14.56 billion in the same period. "Trade bodies meet commerce officials over China FTA concerns", *The News*, 28 March 2018; "All set for signing of revised FTA with China", *Dawn*, 20 March 2018; "Pak-China FTA", *Dawn*, 10 February 2018.

⁹ Crisis Group interviews, economists, representatives of business and industry and the finance sector, Lahore and Karachi, November-December 2017.

concessions mainly favour China and also because Pakistan's liberal import policy, including low duties and general sales tax, keep down the prices of Chinese machinery and other imports.¹⁰ Meanwhile, high Chinese tariffs make it hard for Pakistani exports to penetrate the Chinese market. A former State Bank governor pointed out: "Part of the problem is our own policies, but the Chinese haven't done what they could have".¹¹

Islamabad is renegotiating the FTA, seeking safeguards for local industries and incentives for exports and Chinese measures to facilitate duty-free import of some 70 Pakistani items. China has reportedly agreed to liberalise 90 per cent of tariff lines, among other measures to appease Pakistani industry.¹² A prominent economist described Islamabad's efforts to renegotiate the FTA as "locking your door after everything's already been stolen".¹³ That said, improved conditions would benefit Pakistan's economy.

Economic ties appear to have gained more importance since CPEC was launched in 2015, as part of China's Belt and Road Initiative, an ambitious program to invest as much as \$1 trillion in new transport and trade infrastructure connecting China to the rest of the world.¹⁴ Islamabad and Beijing conceived CPEC in mid-2013 and formally launched it in April 2015 as a \$45 billion economic and development package including loans, investments and grants that could grow to around \$60 billion. Some Chinese analysts now consider it the "flagship" of the Belt and Road.¹⁵

Despite this new emphasis on economic ties, Pakistani policymaking is still shaped by the ostensible strategic dividends of a close relationship with China as a counterpoint to India and a means of deflecting U.S. pressure. A Lahore-based business leader with close knowledge of Pakistan's dialogue with China said, "as Pakistan gets more isolated internationally, we're hoping that China will give us a veto [exercise a veto on Pakistan's behalf] in the UN Security Council, diplomatic and moral support, as well as put pressure on India. That's what the military wants". A senior journalist who has long covered security issues said, "the military sees CPEC as a counterforce to a hostile U.S. and India. It will latch on to China even if the deals [under CPEC] are unfair to Pakistan".¹⁶

Pakistan's ties with China have weathered political instability, including previous regime changes and coups, but the removal of former Prime Minister Nawaz Sharif in July 2017 has slowed the pace of CPEC projects, and damaged investor confidence,

¹⁰ In the FTA, Pakistan's concession list covered 59 per cent of Chinese imports, while China's concession list covered 5 per cent of Pakistani imports. Hussain H. Zaidi, "Revising FTA may not make a big difference", *Dawn*, 19-25 February 2018. See also Ehsan Malik, "Don't let Chinese imports kill Pakistan's local industry", *Dawn*, 20 May 2018. Malik is CEO of the Pakistan Business Council.

¹¹ Crisis Group interview, Shahid Kardar, Lahore, November 2017.

¹² "China urged to encourage imports from Pakistan", *Dawn*, 17 January 2018; "Pakistan, China agree on terms of FTA phase II", *The Nation*, 26 May 2018.

¹³ Crisis Group interview, Faisal Bari, Lahore, November 2017.

¹⁴ Crisis Group Report, *Central Asia's Silk Road Rivalries*, op. cit.

¹⁵ In late April, Ahsen Iqbal, then minister for interior, planning and development, disclosed that the two countries had spent \$29 billion on CPEC projects by that month. "PM hails CPEC as springboard for development", *Dawn*, 24 April 2018; Ruan Zongze, "Belt and Road Initiative: A New Frontier for Win-Win Cooperation", *China International Studies*, July/August 2017.

¹⁶ Crisis Group interviews, Lahore, November 2017.

local and Chinese.¹⁷ Although China insists that political changes in Pakistan have no impact on the bilateral relationship, a senior Sindh official who interacts regularly with Chinese officials and investors said, “the Chinese were disappointed when Nawaz Sharif was ousted; they don’t like this political merry-go-round”.¹⁸ A political economist added, “CPEC has been on hold since Nawaz Sharif’s dismissal; the Chinese are waiting to see what happens after the elections.”¹⁹ Polls are scheduled for 25 July 2018.

B. *The Jihadist Factor*

The military’s support for Islamist militants and their political fronts, both to protect its jihadist proxies and to destabilise the civilian government, could frustrate Pakistan’s hopes that China would help to neutralise U.S. pressure. Most recently, these fronts include two new Islamist groups, the Bareilvi Tehreek-i-Labaik Ya Rasool Allah (or Labaik), and the Milli Muslim League, a political front for the anti-India Lashkar-e-Tayyaba/Jamaat-ud-Dawa; both contested 2017 by-elections in Peshawar and Lahore.²⁰ A retired top intelligence official said, “there’s a misperception about being able to handle the fallout of the games we play. We assure Beijing, ‘don’t worry’, but then look at our record. The immediate objective might have been to undermine Nawaz Sharif, but we won’t be able to manage the fallout”.²¹

China is particularly concerned about links between militants in Pakistan’s tribal borderlands and disgruntled Uighurs organised as the East Turkestan Islamic Move-

¹⁷ A Lahore-based business representative who strongly supports CPEC said: “The day the JIT [joint investigation team] was formed [to investigate Sharif], I told people not to invest in Gwadar”. Crisis Group interview, Lahore, November 2017. The Supreme Court used a controversial constitutional provision, Article 62 (1) (f) [requiring that parliamentarians be *sadiq* (truthful) and *ameen* (trustworthy or righteous)], to disqualify Sharif from holding public office. The judgment, given in a case related to leaked records of offshore assets disclosed in the Panama papers, was based on Sharif’s failure to disclose employment in his son’s Dubai-based firm in his 2013 election nomination papers even though he did not take a salary. The Supreme Court’s verdict was based on the findings of the JIT that had two military representatives, one each from Military Intelligence (MI) and Inter-Services Intelligence (ISI). At the time of the verdict, Sharif’s relations with the military had soured as he tried to expand civilian control over national security and foreign policy, particularly attempting to improve relations with India. Aqil Shah, “Pakistan’s court sets a dangerous precedent”, *The New York Times*, 28 July 2017; “Nawaz Sharif steps down as PM after SC’s disqualification verdict”, *Dawn*, 28 July 2017; Article 62: Qualifications for membership of Majlis-e-Shura (parliament), constitution of Pakistan.

¹⁸ Crisis Group interview, Karachi, December 2017. A senior Chinese foreign ministry official said, “it makes no difference (to China) who comes in (government) and who goes out as both countries have brotherly relations”. “Change of govt in Islamabad won’t affect CPEC: China”, *Dawn*, 3 November 2017.

¹⁹ Crisis Group interview, Karachi, January 2018.

²⁰ In November 2017, Labaik occupied a road and bridge linking Islamabad and Rawalpindi, which hosts the army’s headquarters, gravely undermining the PML-N government’s credibility as access to the federal capital was barred by violent Labaik protesters. The government’s public standing was further eroded after it had to agree to Labaik’s demands for the resignation of Law Minister Zahid Hamid, held responsible for an election reform bill which the protesters believed weakened the oath taken by legislators on the finality of the prophethood. The siege ended after a military-brokered deal, with a serving major general signing it as guarantor. “Faizabad sit-in ends as army broker’s deal”, *Dawn*, 28 November 2017.

²¹ Crisis Group interview, Lahore, November 2017.

ment (ETIM) in Xinjiang Uighur Autonomous Region.²² After the 11 September 2001 attacks in the U.S., ETIM members found sanctuary along with other jihadist groups in Pakistan's Federally Administered Tribal Areas (FATA). Pressured by China, the Pakistani military moved against Uighur militants, claiming to have eliminated them, though many appear to have crossed the border into Afghanistan after the Pakistani military's 2015 operation in FATA's North Waziristan.²³

According a senior ex-intelligence official, "the [Pakistani] military and Chinese perceptions on the jihadi proxy issue will diverge and become an issue but the India factor will prevail and limit any serious Chinese pressure".²⁴ Indeed, Beijing has repeatedly blocked the U.S.-backed Indian bid at the United Nations to list Masood Azhar, the leader of the anti-India jihadist Jaish-e-Mohammed, as a "global terrorist".²⁵

That said, China's patience with the military's support for jihadist proxies may be waning. At the September 2017 BRICS (Brazil, Russia, India, China, South Africa) summit in China's city of Xiamen, those countries expressed concern over "the security situation in the region and violence" because of several transnational organisations – these included Pakistan's Lashkar-e-Tayyaba, Jaish-e-Mohammed and a close ally, the Afghan Haqqani network.²⁶ China's decision to support the Financial Action Task Force (FATF)'s move to "grey-list" Pakistan – in other words to include it in the list of countries with weak "anti-money laundering" (AML) and "countering financing of terrorism" (CFT) regimes – during the task force's plenary session in February this year is yet another signal that it shares, at least to some degree, U.S. and Indian concerns about Pakistan-based jihadist groups.²⁷

Warning that Pakistan faced international isolation because it had failed to end state support for such groups, former Prime Minister Nawaz Sharif said that allies like China were concerned.²⁸ There are even signs that the coming together of U.S. and Chinese positions on these proxies might inspire a rethink in the military command about the institutional costs of such support – the first step toward policy

²² Crisis Group Report, *Central Asia's Silk Road Rivalries*, op. cit.

²³ No political party, not even the Islamists, condemns reports of Chinese abuses of Uighur rights or military action against the Uighurs. Crisis Group interview, Ahmed Rashid, journalist and author, Lahore, November 2017. "Bombing of Chinese separatists shows how Trump's Afghan war changed", *The Washington Post*, 11 February 2018; "Pakistan says 'almost all' Uighur militants eliminated", Reuters, 2 September 2015; "China leans on Pakistan to deal with militants", *Time*, 10 April 2009; "Pakistan announces it has defeated ETIM. So what?", *The Diplomat*, 22 October 2015.

²⁴ Crisis Group interview, Lahore, November 2017.

²⁵ "China blocks Indian bid to list Masood Azhar as global terrorist", *The News*, 2 November 2017. Also Crisis Group Report, *Pakistan's Jihadist Heartland*, op. cit.

²⁶ "Brics name Pakistan-based militant groups as regional concern", Reuters, 4 September 2017.

²⁷ Pakistan will be included in the watch list in June 2018. It was first put on the list during 2012-2015, but for failure to curb money laundering. The charge of terror financing is now included. China first reportedly opposed the U.S.-sponsored motion, backed by the UK, France and Germany, to include Pakistan in the watch list and then withdrew its objection during the second vote called by the U.S. Crisis Group discussion, analyst, Washington, April 2018; "Pakistan set to be placed on FATF grey list in June", *Dawn*, 24 February 2018; "Economic fallout of being on grey list", *Dawn*, 5-11 March 2018.

²⁸ "We have isolated ourselves", Sharif warned, because "militant groups are active", adding, "President Xi has said it". Cyril Almeida, "For Nawaz, it's not over till it's over", *Dawn*, 12 May 2018.

change – given the possible impact on Pakistan's already troubled economy of a FATF grey-listing (and possible blacklisting).²⁹

C. Security Challenges for Chinese Nationals and Projects

As China's economic footprint expands in Pakistan through CPEC, so, too, do concerns about security threats to its interests and personnel. While exact numbers are not available, there are an estimated 30,000 Chinese nationals living in Pakistan. The numbers of Chinese visiting Pakistan on short term, including tourist visas (often used to bypass bureaucratic hurdles in obtaining business visas) could be as high as 70,000. "With large numbers of Chinese citizens coming into Pakistan", said a senior police official in Lahore, "security challenges are becoming graver".³⁰

In October 2017, the Chinese embassy in Islamabad claimed there was a militant threat against the ambassador and requested additional security. In December, the embassy said it had received "some information that the security of Chinese institutions and personnel in Pakistan might be threatened".³¹ Chinese firms and analysts see a need to train and employ more private security personnel and enhance security protocols.³²

A report by a leading Chinese think tank warned that CPEC risks becoming a new arena for competition among deeply divided political parties, levels of government, the military and civilians, and ethnic groups in Pakistan; other Chinese analysts concurred.³³

Deeming it a national security priority, the Pakistani military has sought more control over key parts of the project. Along with thousands of police and paramilitary officers, a Special Security Division, comprised of 15,580 army personnel and the Maritime Security Force, are tasked with protecting Chinese workers and CPEC

²⁹ The military leadership, in closed-door discussions, has acknowledged that Islamabad will have to respond to Beijing's concerns. In a briefing to a hand-picked group of journalists and security analysts, army chief Qamar Javed Bajwa, reportedly declaring his intention to eliminate all militant and jihadist groups in Pakistan, said that the military would heed China's advice to peacefully resolve differences, including over Kashmir, with India. Suhail Warraich, "The Bajwa doctrine", *The News*, 18 March 2018; "The 'Bajwa doctrine'", *Dawn*, 25 March 2018.

³⁰ Crisis Group interview, Lahore, November 2017. According to a Chinese analyst, there are approximately 10,000 Chinese employed in CPEC projects, and a further 9,000 participating in other construction projects. Crisis Group interview, Beijing, April 2018. "Massive Chinese investments a boon for Pakistan", *Economist*, 8 September 2017; "Braving security fears, Chinese seek 'Silk Road' riches in Pakistan", *Reuters*, 28 August 2017.

³¹ "Chinese embassy warns of threat to envoy", *The Nation*, 22 October 2017; "Chinese citizens in Pakistan warned of possible terror attacks", *Dawn*, 8 December 2017.

³² Zi Yang, "China's Private Security Companies: Domestic and International Roles", *China Brief*, vol. 16, issue 15, 4 October 2016; Fu Xiaoqiang, "Holistic Counter-terrorism Efforts and Better Protection of Overseas Interests", *Contemporary International Relations*, March/April 2018.

³³ "Opportunities and Challenges of Implementing the 'Belt and Road' Initiative in South Asia", Research Report Vol. 17, China Institute of International Studies, April 2017; Crisis Group discussions, Chinese analysts, Beijing and Shanghai, March-May 2018.

projects.³⁴ This larger military footprint is alienating locals even as CPEC strains relations between the federal units and the federation.³⁵

³⁴ "Over 92,000 foreigners visit Pakistan since launch of CPEC", *The News*, 5 March 2018; "Murder of Chinese man was inside job, says police official", *Dawn*, 8 March 2018.

³⁵ Several Pakistani observers are concerned that absent safeguards, the Long-Term Plan's inclusion of information connectivity with China, including the construction of optical fibre cables and networks and electronic border monitoring, could further shrink space for civil society, including anti-CPEC dissent. Crisis Group interviews, journalists, retired senior officials, business community representatives, Karachi, December 2017. See also "Long-Term Plan for China-Pakistan Economic Corridor", *op. cit.*