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# China-Pakistan Economic Corridor: Opportunities and Risks

## I. Introduction

Security cooperation has long defined Pakistan's relationship with China, with economic ties lagging far behind military engagement. Since 2015, such ties, focused on the China-Pakistan Economic Corridor (CPEC), a set of projects that are part of Beijing's Belt and Road Initiative, have assumed new significance.<sup>1</sup> Pakistan's political leadership calls CPEC a "game changer" that would bring prosperity by revitalising a fragile economy. Its military, which dominates foreign, defence and security policy, perceives closer ties with China as an opportunity to offset rising tensions with the U.S. over Pakistan's support for Afghanistan- and India-oriented militant groups.<sup>2</sup> For China, geopolitical ambitions, sustained by greater connectivity and trade infrastructure across the region, drive the evolution of the relationship.<sup>3</sup>

This report examines CPEC's economic and development projects within Pakistan, discusses whether it will bring the broad economic revival that Pakistani leaders claim it will generate, and assesses its political and security costs for Pakistan. It analyses CPEC's impact on domestic stability and security, particularly the potential

<sup>1</sup> For analysis of China's Belt and Road Initiative, see Crisis Group Asia Commentary, "The Twists and Turns along China's Belt and Road", 2 October 2017; and Crisis Group Europe and Central Asia Report N°245, *Central Asia's Silk Road Rivalries*, 27 July 2017. "Pak-China bilateral ties are time tested: Our relationship has attained new heights after the China-Pakistan Economic Corridor that is a game changer for the region and beyond", stated then Prime Minister Shahid Khaqan Abbasi. Quoted in "Long Term Plan for China-Pakistan Economic Corridor (2017-2030)", Ministry of Planning, Development and Reform, Government of Pakistan and National Development and Reform Commission, People's Republic of China (2017), at [www.cpec.gov.pk](http://www.cpec.gov.pk).

<sup>2</sup> For Crisis Group analysis of military-led security policy and militant proxies, see Asia Reports N°279, *Pakistan's Jihadist Heartland: Southern Punjab*, 30 May 2016; N°271, *Revisiting Counter-Terrorism Strategies in Pakistan: Opportunities and Pitfalls*, 22 July 2015; N°255, *Policing Urban Violence in Pakistan*, 23 January 2014; N°242, *Pakistan: Countering Militancy in PATA*, 15 January 2013; N°178, *Pakistan: Countering Militancy in FATA*, 21 October 2009; N°164, *Pakistan: The Militant Jihadi Challenge*, 13 March 2009.

<sup>3</sup> Crisis Group discussions, Chinese and Western analysts, Beijing, Hong Kong, Shanghai and Washington, March-May 2018; Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics* (London, 2015); "China's diplomatic efforts to promote energy and resources cooperation along the 'One Belt and One Road'", CIIS Report No. 5, China Institute of International Studies, May 2015; Daniel Markey and James West, "Behind China's gamble in Pakistan", Council on Foreign Relations, 12 May 2016; Li Qingyan, "Opportunities and Challenges for Constructing CPEC: Regional and National Economic Perspectives", *China International Studies*, vol. 62, January/February 2017; "Opportunities and Challenges of Implementing the 'Belt and Road' Initiative", CIIS Report, vol. 17, China Institute of International Studies, April 2017; Huang Ying, "B&R, AIIB: Opportunities for Enhancing FDI in South Asia", *Contemporary International Relations*, vol. 27, no. 1, January/February 2017; Michael Kugelman, "The China-Pakistan Economic Corridor: What It is, How It is Perceived and Implications for Energy Geopolitics", in *Asia's Energy Security and China's Belt and Road Initiative*, NBR Special Report no. 68, National Bureau of Asian Research, November 2017; Andrew Small, "The Backlash to Belt and Road", *Foreign Affairs*, 16 February 2018.

for heightened tensions between the federation and federal units, between Islamabad and Gilgit-Baltistan, and on conflict dynamics within provinces. It does not analyse in detail Beijing's Pakistan policy or its options for CPEC. The report is based on interviews with officials, economists, politicians, security analysts, journalists, activists and other stakeholders in the federal capital, Islamabad, as well as in Balochistan, Punjab and Sindh, conducted from November 2017 to January 2018.