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## THE DEEPENING CHINA-PAKISTAN FRIENDSHIP: Not All Fortune Cookies & Cakes?

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**W**hen recently I asked a Pakistan-based economic investment advisor how he was doing, his reply was: “Learning Chinese” – a telling comment in the light of China’s \$46 billion investment deal and the 51 Memoranda of Understanding for energy and infrastructure projects with Pakistan signed during the Chinese President’s two day visit to Islamabad on April 20 and 21 2015. Indeed, this first visit by a Chinese head of state for nine years is being viewed by some within Pakistan as “fate-changing”.

However, this massive Chinese investment does not come cost-free, nor is it certain to materialise in full. The ambitious new development plans center on a network of Chinese rail and road projects linking the port of Gwadar, on the Arabian Sea, with Xinjiang Province in western China. Reportedly, up to \$37 billion would go toward fixing Pakistan’s dilapidated power infrastructure — an urgent but long-unresolved problem that experts say lowers the country’s GDP by approximately 2% per year. What is not clear however is how this investment would address the chronic inadequacy of management including collection and distribution, in the power sector’s main agency WAPDA.

Let us be clear - China is not funding these projects as an act of charity. It is doing so to serve its strategic interests, and under commercial terms. What is being offered is therefore neither aid nor concessionary funding, but commercial agreements and project financing, including commercial-rate returns on investments. However, given that multilateral agencies have drawn back from further financing of infrastructure projects in Pakistan, with most bilateral donor assistance goes into smaller-scale projects, and because foreign direct investment is virtually at a standstill, it is easy to see the surface appeal of what looks like “easy money”. None the less, as pointed out by financial journalist Khurram Hussain recently in Dawn newspaper (April 23 2015) “It is a historic opportunity, but let’s also tally up the costs and benefits clearly upfront, and keep our commitment to procedures and transparency”. In other words, it is not all cake and fortune cookies. There will have to be bread and rice on the table too.

Whilst the massive influx of funds could be undoubtedly be a huge benefit for the struggling Pakistani economy, related security concerns and provisional divisions loom large. The over 2000 kilometer China-Pakistan Economic Corridor (CPEC) aims to link the Xinjiang region in western China to Pakistan’s southern Arabian

Sea seaport, Gwadar, through roads and rail links, passing through the troubled province of Baluchistan. It would offer China easier sea access to Africa, South Asia and the Persian Gulf, but the area remains deeply unstable. The Chinese know this difficulty at first hand when, in 2004, three Chinese engineers helping to build the Gwadar port were shot dead, reportedly by Baluchi insurgents.

Therefore, despite mutually gushing statements about all-weather friendship, described as “taller than the Himalayas” and the Pakistan’s prime minister’s comment that “Pakistan considers China’s security as its own security,” the picture may be cosy, but it is not entirely rosy.

First, the Baluchistan separatist movement has long been a thorn in the side of successive governments unable or unwilling to address it politically. The insurgency is fuelled in part by grievances that local resources are inequitably exploited by the Pakistani state. The idea of China, at the invitation of Islamabad, building ports, airports, roads, and railroads whose benefits will largely bypass local communities, helps explain why Islamabad has apparently agreed to provide 10,000 troops to protect Chinese workers. Additionally, China might pull back if it believes Pakistan is not making sufficient progress dealing with Uighur militants operating from Pakistani territory and threatening Xinjiang.

As noted recently by Raza Rumi of USIP, much hinges on Pakistan’s ability to manage the Baluch insurgency: “Sooner or later, Pakistan will have to find a political solution to ensure that work in Gwadar and Baluchistan proceeds as planned.” But such a solution has long been elusive, and if Pakistan has been able to go only part of the way towards resolving its overall domestic security concerns regarding the Pakistani Taliban, even with Chinese support, what is it really willing to do about Baluchistan, regardless of what Islamabad promises Beijing?

In addition, the location of the proposed corridor has been the subject of much wrangling domestically at the provincial level in Pakistan. Leaders from Khyber-Pakhtunkhwa as well as Baluchistan are accusing the government (whose strong support base is the Punjab province) of re-routing the corridor away from the former two less-developed provinces. The apparent bypassing of less-developed regions at the behest of Chinese government has led to accusations of acquiescence to Chinese demands in contravention of Pakistan’s national interests. The government’s answer is that this was done purely in response to technical considerations raised by China.

What is certain is that, if it comes to fruition, this project will consolidate the growing Chinese power in the region, thereby posing a formidable challenge to Western influence. Despite the inherent difficulty, the wins would be high: a corridor for China to the Arabian sea; leverage for China over the growing US-India friendship; and a symbolic building block for China’s more assertive and growing role in the region. All this at a time when the United States is drawing down in Afghanistan, an event that is likely to bring with it a diminishment of the hitherto transactional U.S.-Pakistan relationship.

India however has its concerns, since the Pakistan-China nexus is always a strategic problem for New Delhi. Unless India is eventually granted access to the corridor, trade with Afghanistan and beyond will be hampered. The strong trading-commercial interests of the present Pakistan Prime Minister may just be sufficiently pragmatic to enable this happening.

Further afield, the China-Pakistan Economic Corridor’s investment far exceeds the \$1.5 billion in economic assistance that the United States — one of Pakistan’s most generous bilateral donors — authorized between 2009 and 2014, and Beijing’s broader investments in South and Central Asia are meant not just to bolster

China's economy, but also to stimulate greater connectivity and commerce in one of the world's least integrated regions. This is the explicit goal of Washington's New Silk Road Initiative as well. Washington wants infrastructure investments to strengthen trade, bolster economic development, and ultimately forge stability — particularly in Afghanistan, where U.S. forces are no longer fighting. A win-win situation, therefore for the US, but it remains to be seen what will be won, and by whom, in Pakistan.