

## IN-DEPTH ANALYSIS

# Pakistan and China: 'Iron brothers' forever?

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### ABSTRACT

The Islamic Republic of Pakistan and the People's Republic of China have enjoyed long-lasting and friendly ties – despite their ideological differences, evident in their very names. The two share far more than a 520 kilometre border, as underscored by the April 2015 visit of Chinese President Xi Jinping to Pakistan. On that trip – his first trip abroad in 2015 – Xi announced a EUR 41.30-billion commitment to building a multi-faceted network called the China-Pakistan Economic Corridor (CPEC). The CPEC can be understood as part of China's 'pivot to Asia' and plays a role in Beijing's broader 'One Belt One Road' initiative. If completed, the CPEC has the potential to fundamentally alter South Asia's economy and geopolitics.

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This paper is an initiative of the Policy Department, DG EXPO.

English-language manuscript was completed on 18 June 2015.

Printed in Belgium.

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This paper will be published on the European Parliament's online database, '[Think tank](#)'.

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## 1 Introduction

Chinese President Xi Jinping visited Pakistan on 20 and 21 April 2015 to sign 51 Memoranda of Understanding (MoUs).

The MoUs detailed China's EUR 41.30 billion commitment to various projects in the China-Pakistan Economic Corridor (CPEC).

The People's Republic of China (PRC) and the Islamic Republic of Pakistan have enjoyed a strong friendship since Pakistan recognised the PRC in 1950. Despite the fact that the two are not obvious ideological allies; they share much more than a 520-kilometre border. Their historical ties – rooted in Beijing's economic, political, military and nuclear assistance to Islamabad and in a common (albeit lessening) antagonism towards India – are profound. In July 1971, Pakistan helped write a page of 20th century history when it facilitated the secret visit of then US Secretary of State Henry Kissinger to Beijing, a visit that paved the way for US President Richard Nixon's own trip to China in 1972. Pakistan has consistently supported Beijing on crucial issues for the PRC regime, including by offering assistance after the 1989 Tiananmen massacre. However, in recent years, China has adopted a more critical stance towards Pakistan, stressing the need for greater stability in South Asia.

The first Chinese president to address a joint session of the Pakistani National Assembly and the Senate, Xi Jinping, received an imperial welcome on his visit to Pakistan on 20 and 21 April 2015. The emphatic speeches he delivered to the joint parliamentary session affirmed 'China's commitment and Pakistan's joy'. Xi Jinping stated that 'Pakistan and China's struggles have brought their hearts and minds together', adding that 'Pakistan was with us when China stood isolated'. Prime Minister Nawaz Sharif (of the centre-right Pakistan Muslim League-N party – PML-N) claimed that the two countries are 'truly iron brothers' and 'Pakistan considers China's security as important as its own security'<sup>1</sup>, while National Assembly Speaker Ayaz Sadiq (also PML-N) termed Xi Jinping's visit 'a brother's homecoming'. The two 'brothers' then signed 51 memoranda of understanding (MoUs) worth EUR 41.30 billion for the China-Pakistan Economic Corridor (CPEC)<sup>2</sup>.

## 2 'All-weather friends'

Despite the countries' differences in size and in development, Pakistan has always been a precious ally for China. While Islamabad remains the greater beneficiary of this friendship, at least in financial terms, Beijing's benefits should not be underestimated. Strategically located, Pakistan provides China with the possibility to nearly 'encircle' India geographically, from west to east by land and partially by sea. Pakistan and China also support one other in south Asia and beyond: Islamabad supports Beijing's membership to the South Asian Association for Regional Cooperation (SAARC), to which China has been an

<sup>1</sup> Full text of PM Nawaz speech at Joint Session of Parliament during Xi Jinping visit <<http://www.dawn.com/news/1177312/full-text-of-pm-nawaz-speech-at-joint-session-of-parliament-during-xi-jinping-visit>>

<sup>2</sup> Agreements signed between Pakistan and China, 26 April 2015,

<<http://tribune.com.pk/story/876286/agreements-signed-between-pakistan-and-china/>>

While Chinese assistance to Pakistan is mainly monetary, strategically-located Pakistan also supports Beijing politically in important areas.

The CPEC may help unlock China's westernmost region, Xinjiang, and serve as to stabilise China's borders.

observer since 2006, and China has endorsed Pakistan's bid to join the Shanghai Cooperation Organisation (SCO)<sup>3</sup>, which focuses on security, economic and cultural cooperation. The security pillar of the SCO encompasses military cooperation, intelligence exchanges and – particularly – joint counterterrorism efforts.

Creating trade routes through Pakistan could help the PRC unlock its most western region, the Xinjiang Uighur Autonomous Region (XUAR), which is inhabited in majority by Uighur and Hui Muslim ethnic groups. Most of China's Uighur population, numbering 10 million, and Hui population, numbering 8 million, reside in Xinjiang. The CPEC is also part of a stabilisation plan for China's borders. As the International Security Assistance Force (ISAF) withdraws from Afghanistan, China is concerned by growing militancy in south and central Asia, and in particular by militants' influence on the Muslim population living in XUAR; there have been reports of Uighur fighters based in Pakistani tribal areas. China has therefore insisted that its ally intensify efforts to stabilise relations with its neighbours, and to prevent elements within Pakistan from destabilising the region<sup>4</sup>. Finally, the CPEC is anticipated to provide new markets in which Chinese companies can pursue large infrastructural investments. This would compensate for the slowing growth rate of the Chinese economy as its growth shifts to a more consumption-driven model. Beijing and Chinese banks intend to lend money to Chinese companies carrying out CPEC work in Pakistan<sup>5</sup>.

This new stage of China's involvement in Pakistan can be considered part of China's 'pivot to Asia'. Just as the United States pivoted towards East Asia in recent years, China has been pivoting to central, south and west Asia since the mid-1990s – a shift that intensified after Xi Jinping outlined China's priorities in foreign affairs at the Central Conference on Work Relating to Foreign Affairs, held in Beijing on 28 and 29 November 2014.

### 3 The China-Pakistan Economic Corridor (CPEC)

The four main areas of cooperation under the CPEC are transport, infrastructure, energy and industrial cooperation.

The CPEC belongs to the Silk Road Economic Belt/Maritime Silk Road, which Beijing has begun to build across south Asia to the Indian Ocean, and across central Asia to Europe. The CPEC is a project for a network of railways, roads and pipelines connecting Pakistan's port city of Gwadar in the province of Balochistan with the Chinese city of Kashgar in the landlocked XUAR. It requires infrastructural upgrades to Pakistan's outdated railway system, road network, pipelines, ports and electricity production, as well as the stabilisation of Pakistan's security environment. Of a total of EUR 41.30 billion foreseen for the corridor, EUR 33.22 billion is private investment, while the remainder is made up of soft loans. The sum pledged by China originates from a variety of financial

<sup>3</sup> Current members are : China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan,

<sup>4</sup> Dominguez, Gabriel. "Xi Visit Takes Sino-Pakistani Ties to New Level." DW.DE. 21 Apr. 2015. Web. 12 May 2015. <<http://www.dw.de/xi-visit-takes-sino-pakistani-ties-to-new-level/a-18396165>>.

<sup>5</sup> "China's Xi Jinping Agrees \$46bn Superhighway to Pakistan." BBC News. 20 Apr. 2015. Web. 18 May 2015. <<http://www.bbc.com/news/world-asia-32377088>>.

The corridor will stretch between the cities of Kashgar in China and of Gwadar in Pakistan.

Chinese assistance focuses on developing the deep-sea port of Gwadar, which could provide China with direct access to the Indian Ocean, thereby allowing China to bypass the Malacca Straits.

sources, ranging from the government budget to loans from banks, as well as investments from private companies involved in the projects. The Chinese government intends to grant subsidies to Chinese companies working on the CPEC's infrastructure-related projects<sup>6</sup>. The four main areas of cooperation between the two countries in this context are transport, infrastructure, energy and industrial cooperation. The route of the corridor has not yet been finalised, and all that is certain for the moment is its reach, from Kashgar to Gwadar.

Massive works should target Pakistan's road system, in particular the second phase of the 1 300-km Karakoram highway, a six-lane high-speed motorway running along the ancient Silk Road from Xinjiang into the province of Punjab, between the cities of Karachi and Lahore<sup>7</sup>. Further improvements are foreseen for public transport, including metro and bus services in six main cities.

Chinese assistance focuses particularly on Gwadar<sup>8</sup> and its recently built deep-sea port on the Arabian Sea. The port is managed by the China Overseas Ports Holding Company (COPHC). When completed, the harbour, which China has both financed and constructed, will offer a direct access route to the Indian Ocean and the possibility to bypass the Malacca Straits. This may prove useful if tensions in the South China Sea continue to rise. The port could later also provide an observation post – and even a foothold – for the Chinese People's Liberation Army: Gwadar is strategically located outside the Strait of Hormuz, through which 40 % of the world's oil tanker traffic pass<sup>9</sup>.

Converting the city in to a free-trade zone and attracting Chinese investors are part of the policy plan to transform the harbour into a major Indian Ocean port. The entire network of projects could connect with pipelines to Iran and trade routes through Afghanistan, and could potentially even help develop economic links with India, according to experts<sup>10</sup>. In the long term, improved regional connectivity could resurrect the project of the Pakistan-Iran gas pipeline, previously abandoned by Pakistan under pressure from the United States and

<sup>6</sup> Embassy of Pakistan in Belgium

<sup>7</sup> "Economic Corridor in Focus as Pakistan, China Sign 51 MoUs." DAWN. 20 Apr. 2015. Web. 09 May 2015. <<http://www.dawn.com/news/1177109/economic-corridor-in-focus-as-pakistan-china-sign-51-mous>>.

<sup>8</sup> Pakistan purchased the small town of Gwadar from Oman in 1958; it was originally a remote fishing village located in the poor Pakistani province of Balochistan, bordering Afghanistan to the northwest and Iran to the southwest. In 1973 when United States President Richard Nixon visited Pakistan, the Prime Minister of Pakistan Zulfikar Ali Bhutto (Pakistan People's Party) sought his help to construct a new port at Gwadar. Unsuccessful Pakistan then turned to China; Work started in 2002. The first construction phase was completed in 2006. The Port of Singapore Authority was originally chosen to manage Gwadar harbour in 2007 but in 2010 the Supreme Court of Pakistan asked the Gwadar Port Authority to seek cancellation of the concession agreement with the Port of Singapore Authority. The management was given to China Overseas Ports Holding Company in 2013 <<http://yaleglobal.yale.edu/content/tale-two-ports>>

<sup>9</sup> Gladstone, Rick. "Strait of Hormuz Once Again at Center of U.S.-Iran Strife." The New York Times. 01 May 2015. Web. 03 June 2015. <<http://www.nytimes.com/2015/05/02/world/middleeast/strait-of-hormuz-once-again-at-center-of-us-iran-strife.html?ref=topics&r=0>>.

<sup>10</sup> Small, A. (2015). The China-Pakistan axis: Asia's new geopolitics. New York: Oxford University Press.

Saudi Arabia. The economic potential for the region has generally risen with advances in negotiations on a nuclear deal between the 'E3+3'<sup>11</sup> group and Iran.

For these potentialities to become reality, Pakistan's recurrent power shortages must cease. Currently certain parts of the country suffer from power cuts of up to 18 hours a day. Energy projects under the CPEC aim to ease this through massive investments; EUR 13.65 billion of investments in coal, solar and hydroelectric power have been evoked. Some projects, in particular those related to producing electricity and small infrastructure construction projects could be completed in one to three years. On the other hand, the main energy and infrastructure projects could, according to Pakistani officials, continue until 2030<sup>12</sup>.

The infrastructure upgrades foreseen in the CPEC could translate into a general industrial upgrade for Pakistan, where 67 % of the population live in rural areas. A 'roadmap on industrial parks and economic zones under CPEC' was announced but not yet finalised. By August 2015, a joint working group on the CPEC is expected to launch a consultation with Pakistani provinces situated along the route, regarding the locations of industrial parks and economic zones.

However controversy and scepticism exists on both sides. First of all, the project could fall prey to the problem that plagues many economic ventures in Pakistan: corruption. According to Transparency International's corruption perceptions index, Pakistan ranks 126th of 175 countries in the world. In an index in which each country is scored on from 0 (highly corrupt) to 100 (very clean), Pakistan's score is very low: 29. Second, while China's economic promises seem considerable, the country has a history of not paying the money pledged; only about 6 % of the EUR 58.12 billion that China pledged in aid, assistance and investment to Pakistan was actually delivered between 2001 and 2011. The CPEC faces considerable hurdles and ultimately may not become the long-awaited game-changer helping to stabilise and develop Pakistan.

The CPEC is may be undermined by Pakistan's energy crisis, corruption and volatile security situation – as well as by China's failure to deliver the money pledged.

## 4 Main areas of cooperation outside the CPEC

Aside from the CPEC, other important areas of cooperation discussed during the Chinese President's visit are detailed below:

- **Trade**

The China-Pakistan free trade agreement (FTA) entered into force in 2007, and bilateral annual trade currently exceeds EUR 13.48 billion. Both sides committed to increasing their bilateral trade to around EUR 18 billion over the next three years. They also committed to expediting the ongoing talks on an extension of the FTA, focussing on

<sup>11</sup> France, Germany, United Kingdom, China, Russia, USA and the EU

<sup>12</sup> Zafar, Humayun. "The Corridor of Hope." *Daily Times*. 25 July 2014. Web. 03 June 2015. <<http://www.dailytimes.com.pk/business/25-Jul-2014/the-corridor-of-hope>>.

widening banking industry cooperation in the Pakistan-China agreement on trade in services discussed during President Xi's visit<sup>13</sup>.

- **Defence and Security Cooperation**

The two countries agreed to further strengthen cooperation in areas such as joint exercises and training, personnel training and equipment, technology transfers, and cooperation in defence technology and production. During his visit, President Xi finalised a long-promised deal to sell eight conventional submarines to Pakistan for EUR 4.4 billion. According to the Stockholm International Peace Research Institute, Pakistan is China's largest buyer of arms<sup>14</sup>.

- **Nuclear Energy**

China has supported the construction of six nuclear reactors with a total capacity of 3.4 million kilowatts (MK) in Pakistan. The two new plants being built in Karachi, with a capacity of 220 MW, also benefit from technological and financial assistance from the China National Nuclear Corporation and Chinese banks<sup>15</sup>.

- **Afghanistan**

Afghanistan's stability has an impact on domestic stability in both China and Pakistan. The two countries committed to strengthen cooperation to support the Afghan-led peace and reconciliation process. China, which shares a 76-km-long border with Afghanistan in XUAR, has a growing industrial and economic interest in the country and is discretely stepping up its involvement there. One example is Beijing's offer to help mediate talks with the Taliban and to support Pakistan in hosting the Fifth Ministerial Conference of the Istanbul Process, to be held in Islamabad on 29 and 30 April 2015.

Important areas of cooperation outside the CPEC are trade, defence and security cooperation, nuclear energy and the situation in Afghanistan.

## 5 Potential impact on security

Trade is not the only motivation for advancing the CPEC: security is another one.

Trade is not the only motivation for advancing the CPEC. The project may also help tackle Pakistan's most unsavoury challenge: its volatile security situation. The CPEC route is supposed to cross the province of Khyber-Pakhtunkhwa and an area of North Waziristan that falls in the Federally Administered Tribal Areas (FATA)<sup>16</sup>. Both are home to Taliban and militant activity. The local Taliban are

<sup>13</sup> Sajjad Syed, Baqir. "Pakistan-China Ties' Strategic Content to Be Bolstered." DAWN. 21 Apr. 2015. Web. 12 May 2015. <<http://www.dawn.com/news/1177236/pakistan-china-ties-strategic-content-to-be-bolstered>>.

<sup>14</sup> Stockholm International Peace Research Institute <[http://armstrade.sipri.org/armstrade/html/export\\_values.php](http://armstrade.sipri.org/armstrade/html/export_values.php)>

<sup>15</sup> Craig, Tim. "Outcry and Fear as Pakistan Builds New Nuclear Reactors in Dangerous Karachi." The Washington Post. 05 Mar. 2015. Web. 12 May 2015. <[http://www.washingtonpost.com/world/asia\\_pacific/outcry-and-fear-as-pakistan-builds-new-nuclear-reactors-in-dangerous-karachi/2015/03/05/425e8e70-bc59-11e4-9dfb-03366e719af8\\_story.html](http://www.washingtonpost.com/world/asia_pacific/outcry-and-fear-as-pakistan-builds-new-nuclear-reactors-in-dangerous-karachi/2015/03/05/425e8e70-bc59-11e4-9dfb-03366e719af8_story.html)>.

<sup>16</sup> FATA is a semi-autonomous tribal region in the northwest of Pakistan bordering Khyber Pakhtunkhwa and Balochistan in Pakistan and Afghanistan to the west. FATA has its own set of laws called the Frontier Crimes Regulations and is loosely governed by Pakistan's federal government.



Terrorism and militant activity in Pakistan, as well as separatist elements in Balochistan, pose a threat to Chinese workers building CPEC infrastructure. The routes constructed may never be secure enough to be economically viable.

different than Afghanistan's, and there are occasional clashes between the two. Following the 16 December 2014 attack on a Peshawar school in which more than 140 people – mostly children – were killed, the Pakistani army launched an armed offensive<sup>17</sup>, called operation Zarb-e-Azb, against Taliban militants.

Local terrorism represents a danger for the Chinese workers and infrastructure in the region, and to the CPEC project as a whole: it is currently uncertain that the routes will ever be secure enough to be economically viable. At Beijing's request, the Pakistani government has therefore established a special security division for the sole purpose of providing security for Chinese workers, engineers and other personnel.

Two Pakistani provinces pose particular security problems for the project:

- **Balochistan:**

The harbour of Gwadar is located in Balochistan, the poorest and largest of Pakistan's provinces. Mostly inhabited by the Baloch population group, Balochistan is home to an ongoing conflict with the central government; Baloch nationalists demand greater autonomy – and, in some cases, full independence. According to the NGO Human Rights Watch, the local human rights situation is 'abysmal'<sup>18</sup>. Separatist armed groups<sup>19</sup> are fighting against what they perceive to be the exploitation of local resources by the central government. In their eyes, the development of the harbour represents a process of colonisation by Islamabad. Radical separatists have regularly targeted Chinese staff in the past and have blown up numerous gas pipelines and trains<sup>20</sup>.

- **Kashmir:**

The route between China and Pakistan crosses Kashmir, the disputed area between India, Pakistan and China<sup>21</sup>. Kashmir remains the most militarised territorial dispute in the world. In 2003, tensions decreased after Pakistan and India agreed on a ceasefire. However hostilities occur regularly at the highly militarised Line of Control (LoC) between the two countries. In 2014, the highest number of ceasefire violations

<sup>17</sup> At a Glance The Peshawar Army Public School attack: From nightmare to greater darkness? DG EXPO/B/PolDep/Note/2014\_245 <[http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/536429/EXPO\\_ATAG%282014%29536429\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/536429/EXPO_ATAG%282014%29536429_EN.pdf)>

<sup>18</sup> HRW world report 2015 Pakistan <http://www.hrw.org/world-report/2015/country-chapters/pakistan?page=2>

<sup>19</sup> Mainly the Balochistan Liberation Army, Balochistan Liberation Front, and People's Liberation Army

<sup>20</sup> Baloch Ire Prompts Security Fears for China-Pakistan Economic Corridor." The Express Tribune. 21 Apr. 2015. Web. 03 June 2015. <<http://tribune.com.pk/story/873432/baloch-ire-prompts-security-fears-for-china-pakistan-economic-corridor/>>.

<sup>21</sup> The conflict dates back to the partition of India when the former colonial power, the United Kingdom, withdrew between 1945 and 1947. The majority of the state is administered by India, another part is de facto administered by Pakistan (Azad Kashmir and Northern Areas) while a third part, Aksai Chin, is held by China

The route of the corridor crossing Pakistani-controlled Kashmir is a serious point of contention for India.

China's security interests in the CPEC centre on alleviating tensions in its Xinjiang territory.

on the LoC occurred since the entry into force of the ceasefire agreement, causing at least a dozen deaths<sup>22</sup>. In this, tense context, the proposed route of the CPEC, traversing Pakistani-controlled Kashmir, is a point of contention for India.

In addition, China has its own, local security interests in pursuing the CPEC. While relations between XUAR's Muslim populations and the Han (ethnically Chinese population) have been tense for decades, tensions have increased since the 2009 riots in the XUAR capital, Ürümqi. A recent series of incidents, with a different *modus operandi*, has targeted civilians: deadly incidents include a deliberate car crash in the crowd on Beijing's Tiananmen in October 2013, a suicide bomb attack in Urumqi on 22 May 2014<sup>23</sup> and a knife attack at Kunming train station in 2014. Beijing has blamed Uighur extremists and has even jailed moderate Uighur leaders, including Ilham Tohti. No figures are available for the number captured or killed by paramilitary troops during the ongoing crackdown<sup>24</sup>. In 2014, Pakistan and China vowed to work together to fight the East Turkistan Islamic Movement (ETIM), a separatist group allegedly founded by members of the Uighurs. Pakistan, along with China and the US, lists the ETIM as a terrorist organisation.

The Uighur complain of forced assimilation and religious persecution. They are, for example, required to use a state-approved Koran. Men must to shave their beards to hold government jobs, women may not wear head scarfs, and the practice of Ramadan is restricted, especially for civil servants and students. Additionally, all mosque activities are scrupulously controlled by the Chinese government, which imposes detailed restrictions on the length of sermons. Uighur scholars and rights activists are frequently harassed by the authorities<sup>25</sup>. This situation has contributed to the radicalisation of some Uighur, and Uighur fighters are reported to train in camps run by Al-Qaeda in North Waziristan<sup>26</sup>. Islamabad is actively working to suppress Uighur radicalisation, as demonstrated by the Pakistani Army's 2002 assassination of Hasan Mahsum, the leader of ETIM, in a raid on a suspected Al-Qaeda training camp in South Waziristan<sup>27</sup>.

<sup>22</sup> In-Depth Analysis Pakistan: Terrorism impedes development, DG

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<[http://www.poldepnet.ep.parl.union.eu/poldept/webdav/site/poldept/shared/2015\\_02\\_11\\_50\\_pakistan\\_ida.pdf](http://www.poldepnet.ep.parl.union.eu/poldept/webdav/site/poldept/shared/2015_02_11_50_pakistan_ida.pdf)>

<sup>23</sup> "China Touts Success of Crackdown in Restive Muslim Region." The New York Times. 26 May 2015. Web. 03 June 2015. <[http://www.nytimes.com/aponline/2015/05/27/world/asia/ap-as-china-security-crackdown.html?\\_r=0](http://www.nytimes.com/aponline/2015/05/27/world/asia/ap-as-china-security-crackdown.html?_r=0)>.

<sup>24</sup> "China Touts Success of Crackdown in Restive Muslim Region." The New York Times. 26 May 2015. Web. 03 June 2015. <[http://www.nytimes.com/aponline/2015/05/27/world/asia/ap-as-china-security-crackdown.html?\\_r=0](http://www.nytimes.com/aponline/2015/05/27/world/asia/ap-as-china-security-crackdown.html?_r=0)>.

<sup>25</sup> Wong, Edward. "Wary of Islam, China Tightens a Vice of Rules." The New York Times, 18 Oct. 2008. Web. 08 June 2015.

<[http://www.nytimes.com/2008/10/19/world/asia/19xinjiang.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2008/10/19/world/asia/19xinjiang.html?pagewanted=all&_r=0)>

<sup>26</sup> Joscelyn, Thomas. "Evaluating the Uighur Threat." The Long War Journal. 09 Oct. 2008. Web. 03 June 2015. <[http://www.longwarjournal.org/archives/2008/10/evaluating\\_the\\_uighu.php](http://www.longwarjournal.org/archives/2008/10/evaluating_the_uighu.php)>.

<sup>27</sup> Depending on the particular faction, the demands of ETIM members range from equitable treatment in the PRC to calls for an independent state called East Turkestan. This state would cover an area that included parts of Turkey, Kazakhstan, Kyrgyzstan, Uzbekistan, Pakistan, Afghanistan and China.

Beijing hopes that the CPEC could alleviate poverty in the Xinjiang Uighur Autonomous Region (XUAR) and reduce the local population's resentment of the central government.

The Chinese government, for which territorial integrity is of paramount importance, is not ready to relax power over its furthest provinces. In addition to adopting domestic initiatives – such as increasing the Han population in the region and exerting strong military control over China's Muslim population – Beijing is working to stabilise its western neighbours and eradicate foreign breeding grounds for extremism. Beijing hopes that the CPEC can alleviate poverty in XUAR and thereby reduce locals' resentment of the central government. In this sense, China could be said to pursue its commercial objectives across Pakistan not in spite of the security situation, but because of it.

## 6 International Implications

### 6.1 India

India is concerned about the military potential of the Gwadar harbour and Chinese arms sales to Pakistan.

Relations between Pakistan and India have thawed somewhat in recent years, but they remain tense. The fact that the CPEC is projected to cross the disputed region of Kashmir worries India. Indian Prime Minister Narendra Modi lodged an official complaint to China on 13 May 2015 regarding the project, particularly regarding the route of the corridor. Another source of concern for India is the military potential of Gwadar harbour, which comes on top of China's largest arm sales ever – a EUR 4.49-billion deal for conventional submarines for Pakistan.

Yet Chinese and Indian interdependence is growing, as demonstrated by President Xi Jinping's 2014 visit to India and by Prime Minister Modi's May 2015 visit to Beijing and Xian. China has promised EUR 17.97 billion of infrastructural development in India, and India relies on this Chinese financing – and Chinese engineering – for several of its infrastructure projects. These, in turn, are necessary for the Indian government to deliver economic growth. It is too early to evaluate the impact of the progressive improvement of China-India relations on Pakistan, but any potential improvement of the security situation of Pakistan is to be analysed in this context.

### 6.2 Saudi Arabia and Iran

Despite Pakistan and Saudi Arabia's past cooperation, the CPEC may lead to a gradual shift in Pakistan's regional alliances, away from Saudi Arabia and towards China and Iran.

Saudi Arabia and Pakistan have long cooperated closely in the field of security, and Riyadh has often helped governments in Islamabad in times of financial need. The CPEC may nevertheless reflect the beginning of a gradual shift in Pakistan's regional outlook. The announcement of the project comes at a time when Saudi Arabia is disappointed that the Pakistani parliament voted against joining the Saudi-led attacks (Operation Decisive Storm) against Iranian-supported Houthi rebels in Yemen. Saudi Arabia considers the Houthi rebels to be an extended arm of the Iranian regime and was keen for Pakistan – a long-standing partner – to send a clear message to Tehran, which is perceived by Saudi Arabia as meddling in the region.

Pakistan, however, appears interested in deepening its economic ties with Iran, as well as China. Sharing a long border with Iran, Pakistan may be adopting a less divisive regional position – including a less clear alignment with Saudi Arabia – in an attempt to keep its options open. Yet Islamabad is also in no rush

to sever its ties with Riyadh. The CPEC project will require that Islamabad balance carefully in order not to sour its strong relationship with Saudi Arabia.

## 6.3 The EU

The EU's developmental assistance to Pakistan focuses on rural development, education, good governance, human rights and the rule of law.

In recent years, Islamabad's relation with Washington has progressively waned, leaving room for other contenders. The EU could seize advantage of this situation and continue to increase its presence the country. Relations between the EU and Pakistan are generally very good, despite tensions over human rights, especially when Pakistan lifted its moratorium on the death penalty last March after seven years without executions. The EU's development assistance to Pakistan has increased under the current Multiannual Financial Framework (2014-2020): the indicative allocation under the Development Cooperation Instrument (DCI) amounts to EUR 653 million, substantially up from EUR 425 million in 2007-2013. This assistance focuses on rural development, education, good governance, human rights and the rule of law. The EU also supports the country's parliament through the Improving Parliamentary Performance in Pakistan (IP3) project, which will run from 2012 to 2016 with a budget of EUR 5.75 million.

Pakistan is a beneficiary of the GSP+ scheme and is supported by the EU in areas of security, counterterrorism and non-proliferation under the EU-Pakistan Five-Year Engagement Plan.

In the field of trade, Pakistan is a beneficiary of the GSP+ scheme, which allows Pakistani goods to be imported into the EU with reduced tariffs. In the field of security, the EU supports Pakistan's fight against terrorism, as outlined in the EP resolution on Pakistan following the Peshawar school attack<sup>28</sup>. The EU's support to Pakistan prioritises security, counterterrorism and non-proliferation, as discussed in the Fourth EU-Pakistan Political Counter-Terrorism dialogue held under the framework of the EU-Pakistan Five-Year Engagement Plan<sup>29</sup>.

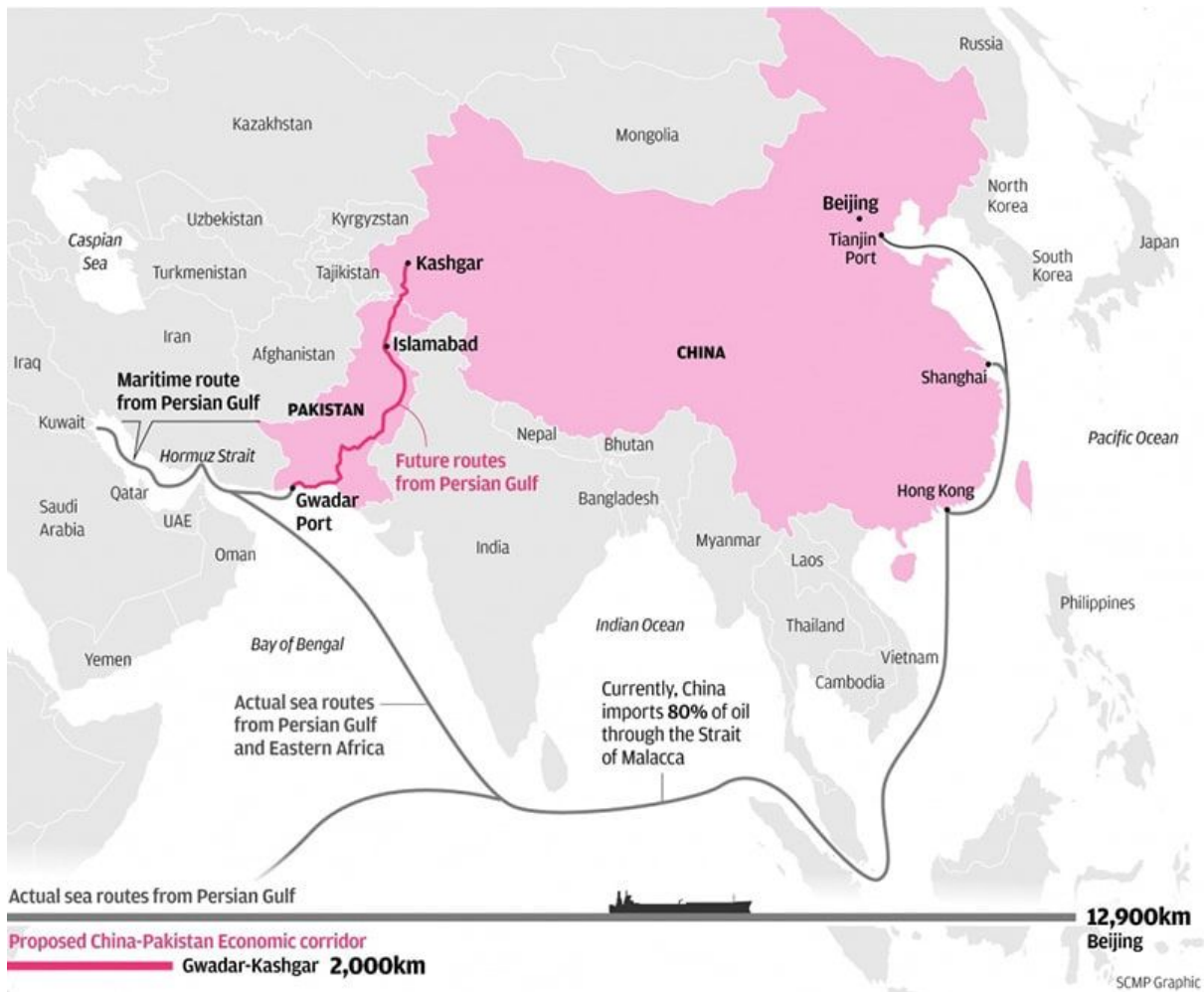
The announcement by China of the 'One Belt, One Road' strategy (of which the CPEC is a part) has been positively received in the EU. As European objectives in Asia focus on infrastructural connectivity, economic corridors and, most importantly, fostering regional integration, the interests of the EU seem so far complementary to the Chinese ones. It remains to be seen what impact the CPEC may have on commercial and political relations between the EU and Pakistan in the long run.

<sup>28</sup> European Parliament resolution on Pakistan 2015/2514(RSP) <<http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B8-2015-0057&language=EL>>

<sup>29</sup> "Pakistan, EU reaffirm pledge to combat terrorism." *The News*. 25 Feb. 2015. Web. 03 June 2015. <<http://www.thenews.com.pk/Todays-News-2-303621-Pakistan-EU-reaffirm-pledge-to-combat-terrorism>>.

## 7 Maps

### Proposed China-Pakistan Economic Corridor



Source: South China Morning Post<sup>30</sup>

<sup>30</sup>Chowdhury, Debashish Roy. "Pakistan Happy to Aid in China's Quest for Land Route to the West; India, Not so Much." South China Morning Post. 19 Nov. 2013. Web. 12 May 2015. <<http://www.scmp.com/business/commodities/article/1359761/pakistan-happy-aid-chinas-quest-land-route-west-india-not-so>>.

## New trade Routes in Pakistan



Source: Wall Street Journal<sup>31</sup>

<sup>31</sup> Shah, Saeed. "China Readies \$46 Billion for Pakistan Trade Route." Wall Street Journal. 16 Apr. 2015. Web. 12 May 2015. <<http://www.wsj.com/articles/china-to-unveil-billions-of-dollars-in-pakistan-investment-1429214705>>.

## 8 Details of recent agreements between Pakistan and China

1. Joint Statement between China and Pakistan on establishing the all-weather strategic cooperative partnership.
2. Minutes of the 4th JCC of China-Pakistan Economic Corridor.
3. Economic and Technical Cooperation Agreement between China and Pakistan.
4. Exchange of notes of feasibility study of the demonstration project of the DTMB between China and Pakistan.
5. Exchange of notes on provision of anti-narcotics equipment between China and Pakistan.
6. Exchange of notes on provision of law enforcement equipment between China and Pakistan.
7. Exchange of Notes on Feasibility Study of Gwadar Hospital between China and Pakistan.
8. MoU on provision of Chinese governmental concessional loan for second phase up-gradation of Karakorum Highway (Havelian to Thakot) between Chinese Ministry of Commerce and Pakistan's Ministry of Finance and Economic Affairs.
9. MoU on provision of Chinese governmental concessional loan for Karachi-Lahore Motorway (Multan to Sukkur) between Chinese Ministry of Commerce and Pakistan's Ministry of Finance and Economic Affairs.
10. MoU on provision of Chinese governmental concessional loan for Gwadar Port East Bay Expressway Project between Chinese Ministry of Commerce and Pakistan's Ministry of Finance and Economic Affairs.
11. MoU on provision of Chinese governmental concessional loan for Gwadar International Airport between Chinese Ministry of Commerce and Pakistan's Ministry of Finance and Economic Affairs.
12. Protocol on Banking Services to Agreement on Trade in Services between Pakistan and China.
13. MoU on provision of Material for Tackling Climate Change between National Development and Reform Commission of the People's Republic of China and Ministry of Finance (EAD) of Pakistan.
14. Framework Agreement on Cooperation on Major Communications Infrastructure Project between China and Pakistan.
15. MoU on cooperation between Chinese NDRC and Pakistan's Ministry of Planning, Development and Reforms.
16. MoU on Pro Bono Projects in the Port of Gwadar Region between Ministry for Planning, Development and Reforms of Pakistan and the International Department of the Central Committee of the Communist Party of China.
17. MoU on establishment of China-Pakistan Joint Cotton Bio-Tech Laboratory between the Ministry of Science and Technology of China and Ministry of Science and Technology of Pakistan.
18. Framework Agreement between the Chinese National Railway Administration and Pakistan's Ministry of Railways on Joint Feasibility Study for up-gradation of ML1 and Establishment of Havelain Dry Port of Pakistan Railways.
19. Protocol on the Establishment of China-Pakistan Joint Marine Research Centre between State Oceanic Administration of China and Ministry of Science and Technology of Pakistan.

20. MoU on cooperation between the State Administration of Press, Publication, Radio, Films and Television of China and Ministry of Information, Broadcasting and National Heritage of Pakistan.
21. Triple Party Agreement between China Central Television and PTV and Pakistan Television Foundation on the re-broadcasting of CCTV-NEWS/CCTV -9 Documentary in Pakistan.
22. Protocol on establishment of sister cities relationship between Chengdu city Sichuan Province of PRC and Lahore.
23. Protocol on establishment of sister cities relationship between Zhuhai, Guangdong, China and Gwadar, Balochistan, Pakistan.
24. Protocol on establishment of sister cities relationship between Karamay, Xianjian Ugur, autonomous region China and Gwadar, Balochistan, Pakistan.
25. Framework Agreement between NEA and MoPN on Gwadar-Nawabshah LNG Terminal and Pipeline Project.
26. Commercial contract on Lahore Orange Line Metro Train Project.
27. Agreement on financing for Lahore Orange line Metro Train Project.
28. MoU on financing for KKH Up-gradation Phase-2 (Havelian to Takot), KLM, Gwadar East Bay Expressway, Gwadar International Airport projects.
29. Financing agreement relating to the 870 MW Hydro-Electric Suki Kinari Hydropower Project between EXIM Bank of China, Industrial and Commercial Bank of China Limited and SK Hydro (Private) Limited.
30. Financing cooperation agreement between the EXIM Bank of China and Port Qasim Electric Power Company (Private) Limited (on Port Qasim 2x660MW Coal-fired Power Plant).
31. Framework Facility Agreement for 720MW Karot Hydropower Project between China Development Bank Corporation, EXIM Bank of China and Karot Power Company (Private) Limited.
32. Term Sheet of the facility for Zonergy 9x100 MW solar project in Punjab between China Development Bank Corporation, EXIM Bank of China and Zonergy Company limited.
33. Drawdown agreement on Jhampir Wind Power Project between UEP Wind Power (Private) Limited as borrower and China Development Bank Corporation as lender.
34. Terms and conditions in favour of Sindh Engro Coal Mining Company for Thar Block II 3.8Mt/a mining project, Sindh, Pakistan, arranged by China Development Bank Corporation.
35. Terms and conditions in favour of Engro Powergen Thar (Private) Limited, Sindh, and Pakistan for Thar Block II 2x330MW Coal Fired Power Project, arranged by China Development Bank Corporation.
36. Framework agreement of financing cooperation in implementing the China-Pakistan Economic Corridor between China Development Corporation and HBL.
37. MoU with respect to cooperation between WAPDA and CTG.
38. MoU among PPIB, CTG, and Silk Road Fund on development of private hydro power projects.
39. Facility operating agreement for Dawood Wind Power Project between ICBC and PCC of China and HDPPL.
40. Framework agreement for promoting Chinese investments and industrial parks developments in Pakistan between ICBC and HBL on financial services corporation.



41. The financing term sheet agreement for Thar Block –I between ICBC, SSRL.
42. Energy strategic cooperation framework agreement between Punjab, Pakistan and China's Huaneng Group.
43. Framework agreement on the China Pakistan Economic Corridor Energy Project cooperation between Ministry of Water & Power and China Export & Credit Insurance Corporation (SINOSURE).
44. Cooperation agreement between Sino-Sindh Resources (Pvt) Ltd and Shanghai Electric Group for Thar Coalfield Block I Coal-Power integrated project in Pakistan.
45. Cooperation agreement for Matiyari-Lahore and Matyari (Port Qasim)-Faisalabad Transmission and Transformation Project between National Transmission Distribution Company (NTDC) and National Grid of China.
46. Agreement on Port Qasim coal fired power plant between Power China and GoP.
47. Facility agreement for the Sahiwal coal-fired power plant project between Industrial and Commercial Bank of China Limited, Huaneng Shandong Electricity Limited and Shandong Ruyi Group.
48. Cooperation agreement on Hubco coal-fired power plant project between CPIH and Hubco Power Company.
49. Facilitation agreement on Salt Range coal-fired power project between CMEC and Punjab government.
50. MoU between NUML Pakistan and Xinjiang Normal University, Urumqi China for Cooperation on Higher Education.
51. Agreement on collaboration on establishment of NUML International Centre of education (NICE) between NUML Pakistan and Xinjiang Normal University, Urumqi, China.

On this occasion the following projects were inaugurated:

1. Industrial and Commercial Bank of China, Lahore Branch.
2. 100 MW solar power plants at Quad-e-Azam Solar Park, Bahawalpur.
3. FM 98 Dosti Channel studio PBC-CRI, Islamabad.
4. Demonstration project of DTMB Broadcasting in Pakistan.
5. China Cultural Centre, Pakistan.
6. China-Pakistan Joint Research Centre for Small Hydropower, Islamabad.
7. China-Pakistan cross-border optical fibre cable system project.
8. Metro rail transit system on the Orange Line in Lahore.

The following power projects were launched jointly by Prime Minister Nawaz Sharif and Chinese President Xi Jinping:

1. Karot 720 MW Hydropower Project.
2. Dawood 50 MW Wind-Power Project.
3. Sachal 50 MW Wind-Power Project.
4. Zonergy 900 MW Solar Project.

5. Jhimpir 100 MW Wind-Power Project.

Source: *Embassy of Pakistan in Belgium*