

China-Pakistan Economic Corridor : Connecting the Dots

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Introduction

Connectivity is an old game which great nations and empires have played since times immemorial. The Grand Trunk (GT) Road, with a length of over 1,600 miles (2500 km), which has existed from the reign of Chandragupta Maurya, is one of Asia's oldest and longest major roads.¹ It was extended westwards during the Mughal rule. Over two millennia old, the GT Road has linked India with Central and Western Asia and beyond. Today, it coincides with N1, N4 and N405 and N6 in Bangladesh; NH12, NH27, NH19 and NH44 in India; N45 in Pakistan and AH1 in Afghanistan. During the Mauryan Empire in 3rd Century BC, overland trade between India and Western Asia and the Hellenistic world went over this road. But what needs to be remembered is that all these connectivity projects always had commercial as well as strategic security connotations. It will not be any different today. As regards the strategic importance of these roads, it has been rightly stated that, "one can hardly over-estimate its importance from a commercial or military point of view. Troops could easily be moved from one place to another – even from the capital to the far confines of the frontier."² It is said that even Alexander the Great in 326 BC followed an almost identical track up to the Beas.³ Rome too is supposed to have paved 55,000 miles of roads and built aqueducts across Europe. It is China's turn to play this game now.

The Belt and Road Forum for International Cooperation (BRF) held by China on 14-15 May 2017 brought its "One Belt, One Road (OBOR)" also called "Belt and Road Initiative" (BRI) and the China-Pakistan Economic Corridor (CPEC) into the limelight. What

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also caught the media glare was the fact that India chose not to participate in the event citing its strategic and sovereignty concerns, stating that “no country can accept a project that ignores its core concerns on sovereignty and territorial integrity.” Many voices were heard criticising India’s decision to stay away from OBOR/CPEC which were termed as connectivity projects. Nothing could be further from the truth, as India is all for connectivity – connectivity within the country, regionally and beyond. India also believes that connectivity projects should take the participating countries to higher levels of trust and diffuse national rivalries and not add to regional tensions, which OBOR/ CPEC seem to be doing at present. India further believes that international projects should evolve from a consultative process and not be based on unilateral decisions by any one party. It goes without saying that consultations achieve better results when done prior to launching any multilateral project. But the bottom line for any multi-national project to succeed would be that sovereignty issues cannot be ignored under any circumstances. Discussions on connectivity should address not only the physical infrastructure aspects but also the institutional, financial, commercial, legal and management issues. International collaborative projects demand statecraft and sagacity of a unique order to reconcile different points of view.⁴

As regards connectivity within the Indian sub-continent, attention needs to be drawn to the fact that before partition in 1947, the sub-continent was a single unit and its rail, road, canals, electricity/power were all connected. Partition not only broke this connectivity, but also cut off trade routes to Central and West Asia and beyond. Pakistan further went on to block rail and road connections between India and Pakistan. What needs to be taken note of is that CPEC does not address issues of connectivity in South Asia – on the contrary, it draws Pakistan further away from South Asia towards China.

Today, the China-Pakistan nexus is touted as an all-weather friendship which is deeper than the deepest ocean, so it may be instructive to step back in time and recall some statements made by leaders of Pakistan in the 1950s and 60s. It was on 16 July 1957 that Prime Minister Suhrawardy of Pakistan, declared in Los Angeles that, “We have thrown our lot with you (the you here refers to USA). We are very gravely apprehensive of communist domination, infiltration and aggression..... We have no difficulty

in cooperating with you in helping keep the world safe from communist aggression.”⁵ And on the seizure of Tibet by China in 1959, Field Marshal Ayub Khan on 23 October 1959 said, “Events and developments on the Tibet border and Afghanistan would make the sub-continent militarily vulnerable in about five years. This is to say that facilities have been created on either flank of the subcontinent whereby a major invasion could take place.”⁶ And two months later Ayub Khan referred to the possibility that “Russia could move across West Pakistan down to the Sea and China towards the Malay peninsula. Not only Pakistan but the entire Indian Ocean littoral would be exposed.”⁷ Pakistan’s reaction to Chinese incursions into Jammu and Kashmir (J&K) was also very different then. When Chinese incursions into Ladakh in J&K were discovered and India took up the matter with the Chinese Government, Field Marshal Ayub Khan in an interview with the Daily Telegraph, London, on 27 November 1959 warned India that “without our concurrence any settlement between China and India will be something we will not recognise.” So let us wait and see what the Pakistan narrative would be a decade down the line.

China-Pakistan Economic Corridor

The CPEC is a multi-billion dollar strategic project that connects the Maritime Silk Road and the Silk Road Economic Belt, also known as OBOR. It is an ambitious geo-strategic plan to carve out a combination of continental and maritime geo-strategic realm. The aim of the project is to link North West China with ports in the Arabian Sea via a road and rail corridor. It provides China the shortest and quickest access to the Arabian Sea and Persian Gulf. Through CPEC which includes the Gwadar Port, in the restive Balochistan province of Pakistan and construction in the illegally occupied Gilgit-Baltistan (GB) area of Pakistan Occupied Kashmir, China will project its power in the Indian Ocean Region (IOR). In an exhaustive report on China’s BRI, the UN’s Economic and Social Commission for Asia and the Pacific (ESCAP) has cautioned about the likely geo-political tensions that will be created by CPEC, stating that “the dispute over Kashmir is also of concern, since the crossing of the CPEC in the region might create geo-political tension with India and ignite further political instability.”⁸

Before looking at CPEC in detail, it is desirable to have a broad understanding of the genesis of OBOR. China realised that

when its Foreign Direct Investment (FDI)-Manufacture-Export driven growth model plateaus, it would have an over-capacity, especially in the infrastructure industry; an idle industrial and financial capacity available for deployment; and, an infrastructure hungry Asia waiting to build/upgrade this. This then was the genesis of OBOR.⁹ From the projects announced and/or undertaken, it can be surmised that OBOR will help China upgrade its industry by gradually moving its low-end manufacturing to other countries and take pressure off from industries that suffer from an excess capacity problem, thereby, reducing the supply glut at home. In a nutshell, OBOR is less about boosting exports and more about moving excess production capacity out of China. China is very deftly converting its domestic economic liabilities into its foreign economic and diplomatic assets.¹⁰ However, a recent article titled “Why China’s One Belt, One Road plan is doomed to fail” states that, “If Beijing attempts to pursue projects at a pace and in a number sufficient to make a dent in its excess capacity, it will end up building white elephants, wasting money, and encouraging corruption on a scale never before seen.”¹¹

Now coming down to CPEC,¹² according to President Xi’s statements, CPEC has four separate sections – energy, infrastructure, Gwadar and industrial cooperation. Surprisingly, Gwadar, which only constitutes about two percent of total investments, has found a mention in Xi’s categorisation. The projects that form part of Gwadar include the port infrastructure, an airport, an expressway, a hospital, water treatment and supply projects etc. The breakdown of the financial allocation for the Gwadar Project, which is an interest free loan is – International airport – US\$ 230 million, Hospital - US\$ 100 million, East Bay Expressway - US\$ 140 million, Water treatment and supply - US\$ 130 million, Port infrastructure - US\$ 32 million, Port dredging - US\$ 27 million and Port breakwater - US\$ 123 million.

It is to be noted that Gwadar, which was sold by Oman to Pakistan in 1958, probably at the behest of UK and/or USA, not only provides direct access to the Indian Ocean but it is also where the land and maritime network of OBOR converge. Although Gwadar’s commercial viability as a transshipment port is suspect considering its distance from the circumequatorial navigation route, low depths and lack of rail connectivity, its administrative control was handed over to China for a period of 40 years in 2013. Is it

mere coincidence that the operational control of Pakistan's Karachi Port is with China Overseas Port Holdings Company and that Sri Lanka's Colombo South Container Terminal is built, run and controlled by China Merchants Holding? Is it also a coincidence that Chinese naval submarines including a Ming-class, diesel-electric nuclear submarine are docked in Karachi and Colombo? The pointers are clear, Gwadar with its proximity to Hormuz, its suitability to accommodate naval warships and submarines, and its capability to serve as a hub for replenishment and weapon logistics make it an ideal naval base. With an airport, as part of the Gwadar Project, it becomes an ideal surveillance and interdiction hub. Recently there were reports that Pakistan has created a special force for the protection of Gwadar port and that two Chinese Warships were pressed into service to enhance Gwadar port's security. Does one use warships and naval security units to protect commercial ports in peace time? The answer is simple – Gwadar is a strategic naval port and that it may well turn out to be China's first overseas naval port, much sooner than expected.¹³

Now let us look at the other end of CPEC which is in Gilgit-Baltistan (GB), a part of the erstwhile princely state of Jammu and Kashmir (J&K) which legally joined India when its Ruler signed the instrument of accession in 1947. As per a report, the British Parliament recently passed a resolution stating that Gilgit-Baltistan is a part of J&K, which is under the illegal occupation of Pakistan.¹⁴ It is not well known that Pakistan has no land borders with China. Its land borders with China are through its illegal occupation of GB. The local population of GB not only resents the forcible changing of its demography by Pakistan but have also opposed the CPEC as they fear exploitation. This does not portend well for China which wants legal cover for its billions of dollars investment in CPEC and is, therefore, pushing Pakistan to elevate the status of GB to that of a province. India objects not only to the illegal occupation of its territories by Pakistan and China but also objects to the construction activities undertaken by China in Pakistan Occupied Kashmir including GB and stationing of PLA personnel there.¹⁵ Today, the strategic role played by GB during the Soviet occupation of Afghanistan is overlooked. It was through GB that China sent its arms and equipment to the Mujahideen, who were training in camps in GB. It is believed that not only did Chinese instructors train the Mujahideen but hundreds of Chinese muslims

also joined the fight. It was also rumoured that the US and China had listening posts set up in GB and that the Soviets had even considered military options against the training camps and establishments in GB. So CPEC will remain mired in disputes and tension at its extremities in Gwadar and in Gilgit-Baltistan.¹⁶ This has manifested itself in the form of internal security challenge for which Pakistan has already created and deployed a special force of 15,000 soldiers to protect CPEC in addition to the maritime force to protect Gwadar.¹⁷ The moot question is, who poses the threat and who is being threatened? Obviously, the threat is from within Pakistan and the likely targets will be the Chinese personnel and projects.¹⁸

Energy projects under the CPEC will eventually add over 16 GW capacity in energy production at a cost of over US \$ 34 bn, which amounts to approximately US \$ 2 bn per GW generated. When completed, the CPEC energy mix will have about 75 per cent power generated by plants using coal. The environmental damage that this will cause in addition to the fact that Pakistan will have to import high grade coal needs to be factored in. Pakistan will be contractually obliged to buy power from Chinese companies building at a pre-negotiated high rate which can lead to a circular-debt problem. The coal fired projects will be a windfall for the Chinese as Pakistan has offered up to 34.5 per cent annual profit on equity invested in these projects.¹⁹ It is often stated that once the energy projects are completed Pakistan will have approximately 11 to 12 GW surplus electricity to export to its neighbouring countries. The moot question is that if India, which was not invited to build these power plants, does not buy this surplus energy, who else will? Therein lies the rub and the invitation to India to join CPEC to make it economically profitable. There is no reason for India to do so.

The numerous Special Economic Zones (SEZ) are another contentious issue mainly because there is no transparency and that only Chinese industrialists will be allowed to set up industries in these SEZ.²⁰ There is already disquiet amongst the industrialists and trade chambers in Pakistan as the Chinese will be granted long-term leases at concessional rates along with 20-year tax holidays.²¹ As an example, Balochistan has already signed a 43 years lease agreement in November 2015, handing over 2281 acres of land that it had acquired for US \$ 62 million to the Chinese

for developing a SEZ, near Gwadar Port. The fishing community in Gwadar fears that it will lose its livelihood because of the Port. This adds to the social tension too.

Presently there are around 19,000 Chinese personnel working on CPEC within Pakistan and this number will swell by thousands more once the projects and SEZ are set up. How will the presence of Chinese in large numbers be viewed specially by the radicalised, unemployed youth in Pakistan? Mohammed Ahsan Chaudhri had observed, "The heart of the matter is that Pakistan's alliances with the West cannot be supported ideologically."²² So the question that arises is, "can Pakistan's alliances with Communist China be supported ideologically? Can ideological and religious friction be avoided?"

While strategic and other issues have been addressed above, the elephant in the room is the economic/financial implications of CPEC for Pakistan. Some estimates suggest a financial outflow ranging from US \$ 3 to 5 billion per annum.²³ Pakistan is likely to end up paying US \$ 90 billion to China over a span of 30 years against the loan and investment portfolio under CPEC.²⁴ The worrying question is, what will happen if Pakistan defaults on repayment, as we know that the Chinese are averse to rescheduling or forgiving debts owed by foreign governments?²⁵ Will Pakistan end up compromising its sovereignty at the projects in Gwadar, GB and in the SEZs by swapping its loan for equity? How will this impact the stability of Pakistan? Studying the Sri Lankan experience with the Chinese projects in Hambantota, where China used financial assistance to advance its strategic interests, may be instructive and also a pointer of things to come.

The Chinese Government is conscious of India's legitimate concerns about CPEC. They were very keen that India participates in the Belt and Road Forum in Beijing and to assuage India's concerns the Chinese Ambassador to India in a speech on 05 May 2017 even suggested that CPEC could be renamed.²⁶ This tokenism had no takers in India but Pakistan reacted to it and sought China's clarifications on it.²⁷

In strategic discussions, when CPEC is discussed, the issue of Pakistan-China nexus invariably comes up. It may be of interest to note how China viewed the "two front challenge." On 16 May

1959, the Chinese Ambassador in Delhi, in a meeting with India's Foreign Secretary had said that, "China will not be so foolish as to antagonise the US in the East and again to antagonise India in the West. We cannot have two centres of attention..... It seems to us that you cannot have two fronts. Is it not so? If it is so, here lies the meeting point of the two sides." It is ironical that despite the slogans of "*Hindi-Chini Bhai Bhai*" (Indians and Chinese are brothers), the two sides that met turned out to be China and Pakistan, thereby, trying to create a two-front scenario for India. A hypothetical question that can be tossed around could be, "Is China with its allies and partners today prepared to face the US and its allies and partners in the Western Pacific and at the same time in the Strait of Hormuz and IOR? As China's economic footprints enlarge so will its security challenges grow and the two front dilemma can well become a multi-front dilemma.

CPEC Master Plan²⁸

While the media was agog with the goings on at the BRI Forum in Beijing in mid-May 2017, the *Dawn* of Pakistan disclosed the details of the CPEC long term plan from the original documents, which highlights what the Chinese intentions and priorities are in Pakistan for the next decade and a half. The report states that the scope of CPEC "has no precedent in Pakistan's history" as it "envisages a deep and broad-based penetration of most sectors of Pakistan's economy as well as its society by Chinese enterprises and its culture.

Although President Xi had spelt out energy, infrastructure, Gwadar and industrial cooperation as the four separate sections of CPEC, the Master Plan shows that the main thrust of the plan actually lies in agriculture. The importance of the agriculture sector would be relevant as well as sensitive, because it would require millions of hectares of agricultural land to be handed over to the Chinese, across the length and breadth of the country, at subsidised rates, on which a large number of projects and plans will come up. It is worth nothing that the core areas for the agriculture projects include, "most of Islamabad's Capital territory, Punjab and Sindh, and some areas of GB, Khyber Pukhtunkhwa and Balochistan." One can well imagine how the feudal landowners and tribals would react when their land would be taken away for handing it to the

Chinese. Land acquisition could well prove to be the Achilles Heel! The other aspects which merit attention in the Master Plan are:-

(a) The industrial plan for the western and north western zone, "covering most of Balochistan and KP province is marked for mineral extraction, with potential in chrome ore." The possibility of loan defaults being offset through mineral extraction cannot be ruled out though at this stage it is only a hypothetical proposition.

(b) As far as the textile industry is concerned, "China can make the most of the Pakistani market in cheap raw materials to develop the textiles and garments industry and help soak up surplus labour forces in Kashgar." The major beneficiaries would be the Chinese.

(c) Preferences need to be extended to Chinese enterprises in areas such as, "land, tax, logistics and services, as well as land price, enterprise income tax, tariff reduction and exemption and sales tax rate." This suggests a distortion of the level playing field to the disadvantage of Pakistani entrepreneurs.

(d) The aspect of fibre optics and surveillance needs a detailed study, as "the link goes far beyond a simple fibre optic setup." The creation of electronic monitoring and control systems, as for Khunjerab, and how the full system of monitoring and surveillance in cities from Peshawar to Karachi will affect the society at large lies in the grey zone.

(e) The related issues of future cooperation between the media of China and Pakistan and how issues pertaining to dissemination of Chinese culture in Pakistan will play out, is a subject for study by itself. Will this bridge the ideological gap between the Pakistani and Chinese people or accentuate it, is any one's guess.

(f) The plans for developing coastal tourism are laid out in great detail and suggest visa-free entry to Chinese tourists into Pakistan, but are surprisingly silent on the issue of reciprocal visa-free entry for Pakistani nationals visiting China.

(g) The report is "at its most unsentimental when drawing up the risks faced by long term investments in Pakistan's

economy.” The report further goes on to suggest that “Pakistan’s economy cannot absorb FDI much above US\$ 2 billion per year without giving rise to stresses in its economy.”

It further suggests that “China’s maximum annual direct investment in Pakistan should be around US \$ 1 billion.” And as far as financial altruism suggested by many “experts” is concerned, the report unambiguously states, “The cooperation with Pakistan in the monetary and financial areas aims to serve China’s diplomatic strategy.” Does all this not suggest that the Chinese are aware of the financial risk involved in investing in Pakistan, yet are going ahead? Why? What is the hidden agenda, if any? After all CPEC is not a charity project.

The CPEC Master Plan appears to have avoided much mention of the Gwadar Port and projects, so as not to draw attention to its possibility of being a PLA Navy Base and surveillance-cum-interdiction hub. However, the *Dawn* report has flagged that Gwadar could “serve as a port of exit for minerals from Balochistan and Afghanistan”. Importantly, the report also goes on to state that “There is no mention of China’s external trade being routed through Gwadar.” The strategic importance of the Gwadar project, which includes the port and an international airport, and its proximity to the Straits of Hormuz, needs detailed examination by experts looking at the maritime domain in this region. The Gwadar Port is not there to solve the Malacca dilemma, as some naively suggest. Gwadar will be a naval and surveillance base with commercial activity primarily restricted to taking away minerals extracted from Pakistan and Afghanistan.

The strategic importance of GB, though not spelt out in the Report for obvious reasons, needs a fresh look, more so as China has signed Memorandum of Understanding (MoU) with Pakistan to build two mega dams – Bunji and Bhasha, on the Indus River. How India reacts to the Chinese presence in PoK including Gilgit and Baltistan, as also how it proceeds with the Indus Water Treaty, is something that experts in “scenario building” could work on.

CPEC – Reading between the Lines

To get a somewhat better understanding of the CPEC, we need to create a mosaic that takes into account all that has been written and said about it. By doing so, the salient points of the picture that

emerge are :-

(a) The Chinese and Pakistani establishments very cleverly kept away many details of the CPEC given out in the Master Plan from public scrutiny till the BRF commenced. Similarly, the details of the MoU regarding the five dams forming the North Indus River Cascade, for which an additional loan of US \$ 50 billion was allocated but not revealed till the signing of the MoU at the BRF. Had an Indian delegation been present at the BRF the embarrassment that would have been caused to it can well be understood.

(b) The CPEC will provide China with a strategic gateway to the Indian Ocean through the Gwadar Port. To expand and safeguard its maritime interests in the IOR, Gwadar will be built into a PLA Naval and Surveillance and Interdiction Base. The Gwadar Port will not be a major commercial port to solve the Malacca dilemma, as erroneously suggested by some researchers, but commercially it will serve as an exit point for mineral resources extracted from Pakistan and Afghanistan. The land route from Afghanistan to China is unlikely to be used for this purpose due to cost and security considerations.

(c) GB is of the greatest strategic significance for Pakistan and China, as without this there will be no border and land connectivity between these two countries. CPEC will unravel without GB being a part of it. It is thus imperative for Pakistan to hold on to GB and for China to develop it through various projects including those linked to CPEC. The five dams forming the North Indus River Cascade that China has promised to finance and build are not Run of River (RoR) projects and going ahead with them will be a Himalayas blunder and are likely to raise tensions in the region.²⁹ The construction of large dams for generation of electricity could lead to review of the Indus Water Treaty by India.

(d) The SEZ and/or industrial parks are crucial for China's plans for upgrading its industry by moving out its idle as well as low-end manufacturing and infrastructure industry. These SEZs and parks will also enable Pakistan to test the local population's reactions to sale of land to the Chinese at concessional rates with other facilities thrown in.

(e) The energy projects will be pushed through as these will not only provide the much needed electricity to Pakistan which will be welcomed by its population but will also cater for the needs of various industrial and agriculture projects which are part of CPEC. During the short to mid-term, there may not be any spare electricity to be exported out of Pakistan.

(f) Security of Chinese projects and personnel will remain a long term challenge. It could be accentuated by the religious-cum-ideological divide that exists. The political, tribal, religious and terrorist linked threats mentioned in the Master Plan need to be factored in.

(g) The agricultural projects mentioned in the Master Plan are ambitious and cover the length and breadth of Pakistan. However, the problems of land acquisition will have to be overcome for its success. One has to wait and watch.

(h) The fibre optics and surveillance projects are of strategic importance. The MoU for the fibre optic link was signed in July 2013 and precedes the ambitious plans for CPEC which have since emerged. This aspect needs further study.

(i) While cooperation between the Pakistani and Chinese media should be welcomed, as it may enhance mutual understanding between people of the two countries involved, the aspect of cultural synergy between the two different ideologies will need deft handling.

(j) The geo-strategic implications of Gwadar turning into a PLA Naval and Surveillance-cum-Interdiction Base, should it so happen, has far reaching consequences. The artificial islands created by China in the South China Sea, and ports such as Hambantota, Karachi, Gwadar and Djibouti need to be viewed as part of one continuum.

(k) So far it appears that the European Union has given the BRI/OBOR a somewhat cautious welcome and is still pondering over how to engage China strategically on this issue. The Western countries and their financial institutions appear to be concerned about commercial feasibility, transparency, sustainability, environmental issues etc. and are unlikely to finance projects in a hurry that haven't been suitably analysed and vetted.

(l) The financial risks involved both for China and Pakistan are genuine and have not been analysed critically. While China will attempt to get other countries and international institutions to partner it for various OBOR projects, what appears worrying is the capacity of Pakistan to repay the loans it is contracting under CPEC. A World Bank Report titled, "Global Economic Prospects 2016", released in January 2016, had cautioned that "Sovereign guarantees associated with CPEC could pose substantial fiscal risks over the medium term." A default is very much on the cards and how this will play out will be crucial for Pakistan's stability. Instability in Pakistan will not only accentuate its internal troubles but will also affect its relations with India, Iran and Afghanistan.

(m) The Chinese would definitely be aware that while ports, power projects, dams, railways etc. can be built in a short span of time, building the human and institutional capacity that allows these projects to operate efficiently and contribute effectively to economic and social progress, takes a much longer time. This may lead to scaling down of some of the ambitions projects.

The *Dawn* has very aptly concluded by stating that, "In fact, CPEC is only the opening of the door. What comes through once that door has been opened is difficult to forecast."³⁰ This is indeed a very mature, visionary and cautionary statement which needs to be taken note of seriously by some experts, especially in India, who have been asking India to rush headlong into joining BRI/OBOR/CPEC, the future costs notwithstanding.

Conclusion

In conclusion, what Prime Minister Narendra Modi said during his interaction with Chinese media organisations is worth examining :-

*"Successful revival of the ancient trade routes require not only physical connectivity and requisite infrastructure, but even more important, a climate of peace, support for mutual prosperity and free flow of commerce and ideas."*³¹

While CPEC may have a great effect in Pakistan and on Pakistan-China relations, it does not in any way address issues of connectivity in South Asia. On the contrary, it draws Pakistan further away from South Asia towards China. In Pakistan, there is

a “tendency to treat CPEC like the proverbial gift horse. The gift horse may prove to be a Trojan Horse! There is a need for transparency.”³² One should also consider what might be the fate of CPEC if relations between Pakistan and China turn sour in the future. This may seem a far-fetched concern at this time but the evolution of the relationship with Iran should provide a reality check.³³

The CPEC is a strategic project of China and not a silver bullet for Pakistan’s economic woes. Right now it is just the rosy perception about the CPEC, the reality may prove to be quite different. The concerns that India may have succeeded in isolating itself by staying away from the BRF are unfounded, as many nations would have appreciated not just the principled stand but also the fact that India can stand up to China in open international fora. As they say, “the jury is still out”. We have a long wait ahead!

Endnotes

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