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China's geo-economic gambit in Pakistan

*An investigation on the strategic implications of the China-
Pakistan Economic Corridor*

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Abstract

States are increasingly applying economic means of power to pursue political objectives. The Chinese geo-economic mega-project the Belt and Road Initiative is the worlds foremost example of this trend. At the heart of this strategy, both geographically and strategically, is the China-Pakistan Economic Corridor. This infrastructure project, worth approximately \$62 billion, is expected to revitalise the Pakistani economy as well as transform the regional power balance. This thesis analyses the implications of the Chinese investments on Pakistan's geo-economic significance in the region as well as the risks associated with the bilateral project. The study is conducted within a geo-economic analytical framework and applies a mixed methods methodology to investigate the ongoing constructions.

This thesis concludes that while many of the planned projects within the CPEC-framework have not yet been materialised, the investments have already increased Pakistan's strategic importance for China and its geo-economic security. Furthermore, the study finds that although the project is foremost based on strategic necessities, the land-corridor has the potential of becoming a facilitator of economic activity in the entire region and thereby decrease military tensions.

Keywords: *BRI, CCP, China, CPEC, geo-economic, Gwadar, Pakistan, security, strategic.*

List of acronyms

BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CPEC	China-Pakistan Economic Corridor
FATA	Federally Administered Tribal Areas
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
KKH	Karakoram Highway
PLAN	People's Liberation Army Navy
RQ	Research Question

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1. Introduction

In 2012, an extensive investigation of China's geo-economic strategy was conducted and concluded two things; the development of its economy will govern its foreign affairs for the next generation, and the rise of China will reinvent global capitalism (Kitchen, 2012). The Belt and Road Initiative (henceforth BRI), announced by president Xi Jinping in 2013, is an exhibition of both. The China-Pakistan Economic Corridor (hereafter referred to as CPEC) is pivotal for the interconnectedness of the entire BRI, and both its budget and the early launch signifies its flagship-status as well as the deep ties between Beijing and Islamabad. The success of this economic corridor is crucial for China as it will define the perceived viability of the BRI and consequently the willingness of other partner countries to participate (Rahman & Shurong, 2017). The CPEC budget alone, clearly indicates the value of the economic corridor for China as a rising global power. The initial budget of \$46 billion (2015) has been extended twice, in 2016 the budget was increased to \$55 billion and subsequently in 2017 additional funds were promised, making the investment package worth approximately \$62 billion (Siddiqui, 2017). These increments signal two things; first, the value which the Chinese government ascribes the bilateral infrastructure project and secondly, the difficulties associated with it.



Figure 1. The Belt & Road Initiative (Council on Foreign Relations, 2015).

1.1 Geo-economic significance

While often portrayed as a remedy for Pakistan's future and a facilitator of trade and economic activity in the land-locked Central Asian Region, its critics claim that the infrastructure development is not just an exhibition of Chinese goodwill, but also a geo-economic strategy to increase China's influence in its near abroad and beyond (Toal, 2016: 29-32).

States are increasingly using economic power to further geostrategic interests. Instead of advancing a political agenda with military means, rising powers are building alternative economic structures, capable of challenging established ones. Key to understand international relations in the 21st century is interdependence; the international economic system depends upon on a constant global flow of capital, data, goods and natural resources in order to function. Consequently, the need to secure reliant access to these vital flows have propelled economic security to the centre of attention among major powers, revealing strategic opportunities and risks alike (Wigell, et al. 2019: 4-6). Since the goods which are being transported along pre-determined trade-routes originate from specific locations, the international economic system is, by definition, geographically dependant. Territory is therefore best seen as a function of its usefulness; when a certain territory is increasingly utilised, the strategic importance of the territory surge. Conversely, when a territory's usefulness decreases, its value diminishes (Wigell, et al. 2019: 43-44). Thus, by developing a territory's transport and logistic capacity, its geo-economic significance within the international economic system increases, most notably to the countries which it foremost serves. This understanding of geographical space and the finite resources which are being transported across it constitute the foundation of geo-economics.

The CPEC envisions to greatly improve the existing infrastructure network in Pakistan and thereby increase the usefulness of the strategically located country. A land-corridor, connecting Xinjiang, China with the Indian Ocean, would allow Beijing to diversify its supply-lines and increase the economic activity in its impoverished westernmost province. A geo-economic undertaking of this magnitude is expected to transform the political economy in the region and would arguably be of interest to study on its own. However, since the CPEC is also a crucial component of the wider BRI, its value is further amplified and an investigation of its implementation could provide valuable insight to how Chinese state capitalism operates (Wigell, et al. 2019: 140-141).

1.2 Aim & contribution of the study

In accordance with the definition of geo-economic significance provided above, this study aims to investigate the effects of the infrastructure developments within the CPEC-framework on Pakistan and its relevance for the regional economic activity. Furthermore, due to the uneven power-dynamic of the bilateral cooperation, not least regarding financial matters, it is relevant to consider how China's leverage on Pakistan could possibly be exploited to gain concessions.

In order to achieve that aim, I pose the following research questions:

- *To what extent does the infrastructure developments within the CPEC-framework affect the geo-economic significance of Pakistan?*
- *How would Pakistan's potential inability to repay Chinese loans inhibit the country's capacity to independently control key domestic infrastructure assets?*

This study is largely centred around the first RQ as it directly investigates the economic corridor and its estimated impact. The second RQ is more speculative and attempts to shine light on what a potential hidden agenda would imply for Pakistan and its newly acquired infrastructure.

This thesis seeks to contribute to a greater understanding of the interdisciplinary subject of international relations by investigating how economic power is applied to pursue political aims. The interconnectedness of the global economy has increased the relevance of geo-economic strategy in relation to traditional geopolitics, a shift which is most clearly illustrated by China's ambitious infrastructure undertaking, the BRI (Wigell, et al. 2019: 28-31). While Sino-Pakistan relations traditionally have been based on military-cooperation, the CPEC signals intent to broaden the alliance to incorporate economic matters as well. This historical development offers a rare opportunity to investigate how geo-economic strategy will impact the power balance in a region otherwise permeated by geopolitical strife.

1.3 Thesis outline

This thesis proceeds as follows: first, relevant background information will be provided in order to put this study into historical context. Second, a literature review of particularly compatible sources will be discussed. Thereafter I present the analytical framework, which is being used for this study, followed by a methodology section, explaining how information

will be allocated. Subsequently, I present, analyse and discuss the findings of my research. Lastly, I close this thesis by providing some concluding remarks.

2. Background

This section intends to put the BRI and CPEC into historical context by first presenting a brief record of China's traditional role in Asian politics and its impact on current developments. Second, the origin of the Indian-Pakistan rivalry and how this antagonism have fostered close relations between Pakistan and China will be explained. Lastly, the Chinese infused debt trap in Sri Lanka, its consequences and relevance for the CPEC in Pakistan is clarified.

2.1 The historical role of China

In Chinese writing, China means the Middle Kingdom. This reflects the historical position of the country as a central power that wielded great authority and political influence in Asia. (Söderberg, 2015: 161-164). As accustomed for historical hegemons, Emperors in China attributed their dominance to ethnic, religious and cultural superiority. This Sino-centric mentality was repeatedly imprinted by great dynasties over the course of history and is deeply cemented in the Chinese cultural identity (Findlay & O'Rourke, 2009: 37-39).

Nevertheless, millennium of actual and perceived superiority in combination with a suspicion of foreigners led the Ming dynasty (1368-1644) to isolate China from the outside world. This historical mistake made the Chinese economy gradually less competitive and marked the beginning of the end to the Middle Kingdom's traditional eminence in the world. In the following centuries the world power distribution begun to shift in favour of the West and culminated in the "century of humiliation" (1839-1949), when Western powers (later also Japan) repeatedly defeated China militarily and forced the country to give major concessions. These events left a deep scar in the Chinese mindset and while it reinforced the Ming dynasty's distrust of foreigners, it also taught Beijing that isolationism generate unawareness, and leadership cannot be maintained while unaware (CaspianReport, 2017).

The hundred years of turmoil ended as the Chinese Communist party (CCP), led by Mao Zedong won the Chinese civil war against the nationalistic Kuomintang party, which under the leadership of Chiang Kai-shek was forced to retreat to Taiwan (Gunnarsson & Rojas, 2008: 148-149). With political opposition eliminated, Mao centralised power to an extent previously unmatched and begun a frenetic endeavour to secure China's survival and the CCP's control (Marshall, 2016: 41).

CCP, with its obsession for security, eventually turned its eyes to Tibet. Historically, this area functioned as a buffer zone between the world's two most populated areas, China and India, but eager to anchor themselves against strong geographical barriers, China annexed the region in 1951. This was geopolitics of fear; if China did not control Tibet, India would be able to do so. This would give New Delhi the commanding heights of the Himalayas to launch attacks into the Chinese heartland, but it would also enable them to control the sources of China's three great rivers, the Yellow, Yangtze and Mekong (Marshall, 2016: 41-45). In the mindset of the CCP, it did not matter if India sought to cut off China's water supply, only that their control of Tibet would allow them to. This event in early modern history sparked hostilities between the two Asian giants which persist to this day.

Emboldened by its geographical security and revanchist after hundred years of decline, China is today attempting to reclaim its historical position by the means of the geo-economic project known as the Belt and Road Initiative. A modern version of the ancient Silk Road which traditionally facilitated export of superior Chinese goods and in effect its political influence. As expressed by the Chinese philosopher Han Fei "If people attend to public duties and sell their produce to foreigners, then the state will become rich. If the state is rich, then the army will become strong. In consequence, hegemony will be attained" (Schneider, 2017).

2.2 The Indian subcontinent and the origin of the Indo-Pakistani rivalry

The people of India were historically preoccupied with its internal affairs therefore never claimed leadership like Imperial China did. Its strong identity, advantageous geographical features and massive population would however make a united India a serious contender to Chinese hegemony (Söderberg, 2015: 139-143).

A united and independent India emerged as the colonial troops of Great Britain withdrew in 1947. As they left, the subcontinent was partitioned into a Muslim nation (Pakistan) and a Hindu nation (India). The Muslim-majority Indus Valley region became West Pakistan while the river delta east of Kolkata became East Pakistan (today the independent nation of Bangladesh) and all territory in-between became Indian. The uneven division left India with a vast majority of the subcontinent's industry, most of the taxable income, the largest cities, and most of the pre-partition government's financial reserve (Marshall, 2016: 191-192). Most notably however, the partition cemented the religious differences which had existed on the subcontinent for centuries along a fixed border with few geographical barriers. This in combination with the disproportionate power distribution generated hatred and fear on both

sides, ultimately leading to fierce antagonism (Kadir, 2018). The region of Kashmir became an early flashpoint in this stand-off and the issue holds great national pride as well as strategic value. Full control over Kashmir would give India direct access to energy rich Central Asia and deny Pakistan a border with China, effectively reducing the usefulness of a China-Pakistani alliance (Marshall, 2016: 197).

The considerably smaller and less powerful Pakistan has since the partition largely defined itself based on how well it can oppose India's power and influence (Marshall, 2016: 188). In line with the old saying "the enemy of my enemy is my friend," China has successfully exploited this hatred and to undermine India's ability to challenge a Chinese hegemony in the 21st century, Beijing has provided crucial military support to Islamabad since the partition in 1947 (Small, 2015: 28-32). However, since India is by far outperforming Pakistan in economic terms, the Chinese strategy to contain India has recently shifted from a military-driven geopolitical focus to a geo-economic one. A strategy which is evident in the China-Pakistan Economic Corridor.



Figure 2. Indian subcontinent, political division (Picturetomorrow, 2019).

2.3 The case of Sri Lanka

Relations between Sri Lanka and China have traditionally been good as Sri Lanka early on recognized Mao's Communist China. It was, however, not until the Sri Lankan civil war (1983-2009) when Chinese support became essential. In the war effort against the Tamil separatists, the Sri Lankan government under Mr. Rajapakso was repeatedly accused of

human rights abuse and became increasingly isolated by the international community (Abi-Habib, 2018). Beijing was one of few countries which maintained relations with Colombo, and consequently Sri Lanka became dependent on China for economic and military assistance.

When the war ended, Mr. Rajapakso and his family consolidated power and initiated an ambitious plan to turn Sri Lanka into a “new Singapore”. Mr. Rajapakso’s plan was to construct a new logistics hub in Hambantota, the president’s home district on the south-eastern end of the island. Although the location provided access to critical Indian Ocean sea lanes, experts warned that the port would not be economically viable due to its proximity to the thriving harbour in Colombo (Abi-Habib, 2018). While Indian companies declined to participate in the project, China was willing to finance the construction. In exchange for the first \$307 million loan in 2007, Sri Lankan authorities agreed that the state-owned China Harbour Engineering Company would build the port. In 2012, after five years of construction, only 34 ships berthed in Hambantota, compared to 3,667 in Colombo. Despite this Mr. Rajapakso was determined to make the port a success and decided to expand it further, requesting additionally a \$757 million loan from China. Beijing agreed again, but with steeper terms: the loans was renegotiated from 1-2 percent to a 6.3 percent interest rate, while in comparison, rates for Japanese development loans runs around half a percent (Abi-Habibi, 2018).

With growing discontent over rising debt levels, Mr. Rajapaksa lost the 2015 election and the succeeding government had to find a solution to the accumulated debt which had three folded under Mr. Rajapaksa and continued to rise. Later in 2016, negotiations between Sri Lankan and Chinese authorities began. After approximately a year the two sides agreed that in exchange for a \$1,1 billion debt relief, the state-owned China Merchants would be granted 85 percent ownership of the port for the coming 99 years, as well as an additional 15,000 acres around the port for the construction of an industrial zone (Panda, 2017).

Although the signed contract explicitly forbade the People Liberation Army Navy (PLAN) from utilising the port, the Sri Lankan government is still heavily indebted to Beijing and could be pressured into allowing it in the future. This is a major concern to Indian policy makers, as such a deal would grant China a military outpost on the doorstep to India (Panda, 2017). Moreover, although the cases differ greatly, the Chinese “chequebook diplomacy” in Sri Lanka is highly relevant considering that the CPEC is intended to develop similar infrastructural assets in Pakistan with the help of massive financial resources.

3. Literature Review

Political geographer Gerard Toal in his 2016 book, *Near Abroad: Putin, The West and the Contest over Ukraine and the Caucasus* focuses on Russia's foreign affairs and its conflicts with Georgia in 2008 and Ukraine in 2014 onwards. The book provides an insightful understanding of geopolitics which can be used to analyse geopolitical events unrelated to Russia.

Toal is best known for the pioneering role he has played in advancing a critical approach to the study of geopolitics. Critical geopolitics disregard the notion of geopolitics as a "grand game," shaped by environmental characteristics and pragmatic strategies, but rather find that the motives and conception of the world of those able to impact foreign politics constitute as the most important factor (Toal, 2016: 8-9, 21). What makes this book particularly relevant for this thesis is its detailed analysis of events which is still unfolding; much like the China-Pakistani infrastructure undertaking. Furthermore, Toal challenges the widely accepted Western understanding of the events in Eastern Europe and Moscow's assumed objectives in its near abroad, by examining the conflicts and the preceding Western management of the post-Soviet republics, from a Russian point of view. As noted by Toal; "Understanding is not justification" (2016: 20).

The book starts off by analysing the dissolution of the Soviet Union and the succeeding expansion of EU and NATO into former Soviet states. This development during the 1990s did in turn create a feeling of Western encroachment in Kremlin, which has escalated into conflict where more recent efforts have been made to expand Western institutions into what Russia perceives as its heartland (particularly Ukraine) (Toal, 2016: 32-33).

While *Near Abroad* (2016) naturally has a classic geopolitical undertone (as the conflicts are geographically confined), Gerard Toal adds another dimension to the analysis by disentangling how subjective perceptions of the world and its history breed various geopolitical cultures around the globe, and how these different viewpoints in turn play a key role in international relations. Humans are seldom completely rational; we are products of our past experiences, which have shaped our worldviews and in turn govern our behaviour. This realisation is what constitutes as the *critical* aspect of critical geopolitics and helps explain how the same event can be experienced very differently.

This apprehensive analytical standpoint to geopolitics remains relevant beyond Russia's sphere of influence. With awareness that historical and political events are perceived

subjectively and therefore create competing viewpoints, critical geopolitics can contribute to the understanding of an increasingly assertive China. Toal defines geopolitical culture as a state's "prevailing sense of identity, place and mission in the world," and because of China's prestigious history and the way they were deprived from it, revanchist attitudes and aspirations to reassert itself, is to be anticipated from Beijing (Toal, 2016: 39). Accordingly, the BRI should arguably be perceived as a long-term plan to reclaim what China considers to be its rightful place in world affairs.

Power and Plenty: Trade, War and the World Economy in the Second Millennium (2009), written by Ronald Findlay and Kevin O'Rourke, seeks to provide an overview of the interplay between trade and geopolitics over the course of the last 1,000 years. The book centres around the idea that power (politics) and plenty (economics) are inevitably intertwined. An assumption that is well-grounded in historical record and was vividly expressed by Governor-General of the Dutch East India Company, Jan Pieterzoon; "We cannot make war without trade nor trade without war" (Findlay & O'Rourke, 2009: 178).

Power and Plenty is a historical summary of the evolution of the global economy and how it has expanded and contracted multiple times due to political actions and reactions by leading powers in the pursuit of safeguarding national interests. By this convincing portrayal of the global economic system as a living organism, constantly changing, Findlay and O'Rourke aim to make sense of our current political economy; "... you cannot make sense of today's world economy, or indeed of the world more generally, without understanding the history that produced it" (2009: xvi). What makes this academic work stand-out within the field of economic history is first, the scope in both time and space, and secondly, its unique focus on the close relationship between conflicts and geopolitics on the one hand, and developments within trade and economics on the other. They emphasise how the outcome in major wars create certain geopolitical frameworks in which trade is conducted and economic development sought for. The framework persists until a new authority grows strong enough to challenge the architect(s) of the current scheme that in turn generate another major conflict whose outcome define the succeeding geopolitical framework and affiliated trade epoch (Findlay & O'Rourke, 2009: xxv). This phenomenon is known as Thucydides Trap (Allison, 2017).

One geopolitical era that has had a profound impact on the world's economic system through trade is *Pax Mongolica*, in this case defined by the relative ease in which merchants could travel between East (China) and West (Europe) over the Eurasian landmass via the ancient

Silk Road. Another, more recent example is *Pax Britannica*; the first truly global trade network, enabled and safeguarded by British naval superiority (Findlay & O'Rourke, 2009: 101-109, 395-402). Each trade epoch has specific geographical features which are pivotal for the power distribution within the given geopolitical framework. *Pax Mongolica* depended on the control of the Silk Road between East and West, while *Pax Britannica* could only be sustained as long as the British Navy guaranteed freedom of navigation for merchant ships. By highlighting these facts, Findlay and O'Rourke recognise the key propositions within geo-economic theory; that economic base(s) of power has fixed geographical characteristics and that it is these territorial distinctions which generate competitive behaviour among states (Wigell, et al. 2019: 9-10).

The way in which *Power and Plenty* analyses the interplay between geopolitics and trade is useful in order to comprehend how the current *Pax Americana* is increasingly being challenged by a rapidly rising China and its flagship foreign policy tool; the Belt and Road Initiative. With what seems to be an intensifying rivalry between two superpowers with deviant worldviews, we are likely witnessing a historical showdown which will define the impending geopolitical framework and trade epoch (Findlay & O'Rourke, 2009: 540-546). What remains to be seen is if the Sino-American power struggle will lead to war or if Thucydides Trap can be avoided, and the world enter an era of multipolarity.

Andrew Small is an expert on China and its foreign policy in South Asia. In his first book, *The China-Pakistan Axis: Asia's New Geopolitics* (2015) he analyses the extent and importance of the Sino-Pakistani relationship, not only for the two countries but also for the entire geopolitical landscape of Asia. Surprisingly little has been written about this alliance and the book is first of its kind to provide a detailed investigation of the long-lasting geostrategic ties, dating back to the 1960s (Small, 2015: 5).

The relationship is founded on a shared enmity with India, and in attempts to even the odds between Islamabad and New Delhi, China has provided the Pakistani military with conventional weapons as well as the necessary materials and technological expertise needed to build a nuclear bomb (Small, 2015: 28-32). Since Pakistan depends on China more than vis versa, it is primarily Beijing who determines the extent of this strategic partnership. Accordingly, Small recognises that the alliance addresses three national security objectives, crucial to Beijing in the long-term. First, by strengthening Pakistan's ability to militarily antagonise India, the latter's attention and limited resources will be bound to its western border. A constrained India does in turn grant China greater political manoeuvrability in

South Asia (Small, 2015: 64). Second, by maintaining friendly relations with Pakistan and developing its infrastructure, the county could function as an alternative supply-route in case of a major conflict where a naval blockade would likely be attempted (Small, 2015: 102-107). Third, good relations with Pakistan, the most influential Muslim country in the region, helps Beijing to keep Islamic extremists away from Xinjiang, China's westernmost province with a substantial Uighur Muslim minority with strong separatist tendencies (Small, 2015: 68-74).

While the alliance has proven beneficial to both countries, Small argues that the relationship is somewhat hollow. This is because it is based solely on a mutual interest to contain India and lacks any cultural, religious, social or even economic cooperation, essential to maintain a robust relation over time (Small, 2015: 96-97). However, this issue is being addressed by large investments into key components of the CPEC-project, such as Gwadar port (Small, 2015: 100). By the means of infrastructure developments, Beijing seeks to add another dimension to the otherwise military-based relationship and generate stability and economic growth in Pakistan. Moreover, by investing large sums into the country's physical infrastructure, China is consolidating Pakistan as an alternative supply-route (Small, 2015: 98, 106).

In this book, Andrew Small does an excellent job of portraying the nature of the complex relationship between China and Pakistan. By incorporating quotes from interviewed officials in Islamabad and Beijing, while also following historical development patterns, Small builds a convincing narrative of how a pragmatic China is using Pakistan to safeguard its long-term interests. While the book is primarily concerned with the political and military aspect of the alliance, it concludes that lacking economic cooperation is undermining it and express how increased commercial integration would help sustain it (Small, 2015: 173, 181). Thus, Small's conclusion facilitates my own investigation of the CPEC.

3.1 This thesis contribution to the topic

Although Toal (2016) and Findlay and O'Rourke (2009) are not directly concerned with either the BRI nor the alliance between China and Pakistan, they do yield valuable insight to the contemporary understanding of geopolitics and economic history respectively. On the other hand, Small (2015) is providing an extensive investigation of the security-based Sino-Pakistani relationship and this valuable source will continue to support my own research. However, while briefly mentioning the potential significance of the CPEC for the alliance, Small's book focuses on traditional geopolitics. This is despite that China's decision to

finance Pakistan's infrastructure improvements indicate the intent to strengthen the economic aspect of an otherwise purely military alliance. This alteration suggests that China is shifting from a geopolitical to a geo-economic approach vis-à-vis its security objectives in Pakistan. My thesis intends to investigate this shift, which is rapidly being materialised through the CPEC and will be further discussed in the next section.

4. Analytical Framework

Throughout this section I will explain the main characteristics of the analytical framework which my research is based upon. I will begin by introducing the theoretical concept and discuss how the framework has improved the understanding of state behaviour as well as contributed to the interdisciplinary study of foreign affairs. Moreover, the main shortcoming of the selected analytical approach will be highlighted and subsequently explained how it will be addressed. Thereafter I put it into context of my own study on the CPEC.

4.1 Geo-economics as an analytical framework

This research is conducted within a geo-economic analytical framework. Geo-economics stems from geopolitics and is concerned with the spatial, temporal and political aspects of economies and resources. It is the study of the complementary relationship between economic, political and geographical factors and how they are utilized by states to pursue strategic goals (Wigell, et al. 2019: 1-4).

Modern geo-economics originates from an article written by political scientist and military strategist Edward Luttwak (1990) in which he argued that the waning of the Cold War would reduce the importance of military power relative to commercial logic (Thirlwell, 2010). While the field has gained increased recognition in recent years for its ability to explain and analyse the way major states use economic power to achieve key objectives, the branch remains a relatively understudied part of international political economy and foreign affairs. This is despite that it is becoming increasingly evident that the main arena for rivalries in the post-Cold War international system is economic rather than military. Although more traditional, military-driven geopolitics remain highly relevant, the application of economic means of power to pursue foreign policy objectives is often more effective and frequently the preferable approach among major powers (Wigell, et al. 2019: 2-5).

However, the predicament to clearly separate geo-economics from geopolitics has generated uncertainty about what geo-economics is and thus undermined its status as an effective tool to

analyse contemporary world affairs (Scholvin & Wigell, 2018). While there is currently no standard definition in academia, political scientists M. Aaltola, and A. Vihma in collaboration with economic geographer S. Scholvin, and economist M. Wigell have studied the topic and managed to disentangle the complex concepts, resulting in a well-founded definition of geo-economics. It is their collective definition which will be used in this study.

Geo-economics is both a strategic practice and an analytical framework. As a foreign policy tool, it refers to a nation state's application of economic means of power to pursue its strategic aims. As an analytical framework, geo-economics builds on the tradition of "international relations realism," which stresses how competition for relative power determines state behaviour (Wigell, et al. 2019: 9). Furthermore, geo-economics also recognises that geographical features regulate national power and are bound to shape international relations and foreign policy directives. This means that geo-economics in practice deals with geostrategic use of economic power (Vihma, 2017). The field builds upon the assumption that economic base(s) of power have decisive geographical characteristics, e.g. mines being located at specific places or that resources are transported along certain maritime routes and land-corridors. Hence, these fixed territorial characteristics are what generate competitive behaviour and constitute the geo-dimension of geo-economics. Moreover, strategies that seek to address geo-economic objectives are, by definition, limited in geographical scope. One classic example of this is how a regional hegemon seeks to ensure its prominent position by keeping neighbouring countries economically dependent on itself by e.g. directing financial flows or acquiring strategic segments of these countries' infrastructure networks (Wigell, et al. 2019: 9-10). This is because the primary objective for any state is to provide security, and in an increasingly interconnected, global economy, ensuring vital logistical flows of capital, goods and resources has become a critical task.

In sum, the central objective of geo-economic analysis is to comprehend the complex relationship between territory, power and security by emphasising the ability to leverage and manipulate the economic ties that bind countries together (Wigell, et al. 2019: 43).

4.2 Geo-economics in context of the China-Pakistan Economic Corridor

While the CPEC primarily concerns Pakistan in geographical terms, it is Chinese investments which enable the infrastructural development. Hence, in order to understand the logic behind the mega-project, it is pivotal to comprehend how it is benefiting Beijing. Through a geo-economic viewpoint, the BRI is interpreted as China's long-term strategy to safeguard its national interests and assure a dominant standing in the 21st century Asian politics (Vihma,

2017). Because of the geographical location of Pakistan, the CPEC is arguably the most important component of the BRI as it enables China to address the two main obstacles to its ambitious vision simultaneously.

First, while the BRI is arguably expansive in nature, the CPEC primarily addresses a vital defensive foreign policy objective as it helps China to mitigate its dependence on the global sea-lanes. All ships sailing between the Pacific and Indian Oceans moves through the South China Sea and the Strait of Malacca. As approximately one third of the world's combined maritime traffic passes through this chokepoint annually, its strategic importance cannot be underestimated (Kaplan, 2014: 45). Out of this, around 15 million barrels of crude oil transit the strait each day, with 40 percent being destined for China. This represents 80 percent of the country's combined oil imports while around 65 percent of its total maritime trade must surpass the strait (MarEx, 2018). China depends on this congested waterway to keep its export-driven economy afloat, and as it continues to grow, the energy needed will increase with it; further inflating this dependency. The reason why this is a concern to the CCP relates to the intensified rivalry with the worlds unchallenged naval power, the United States. Due to China's limited ability to prevent a potential naval blockade of the Malacca Strait, they find themselves in a vulnerable geo-economic position (Wigell, et al. 2019: 53-54; Wirth, 2016).

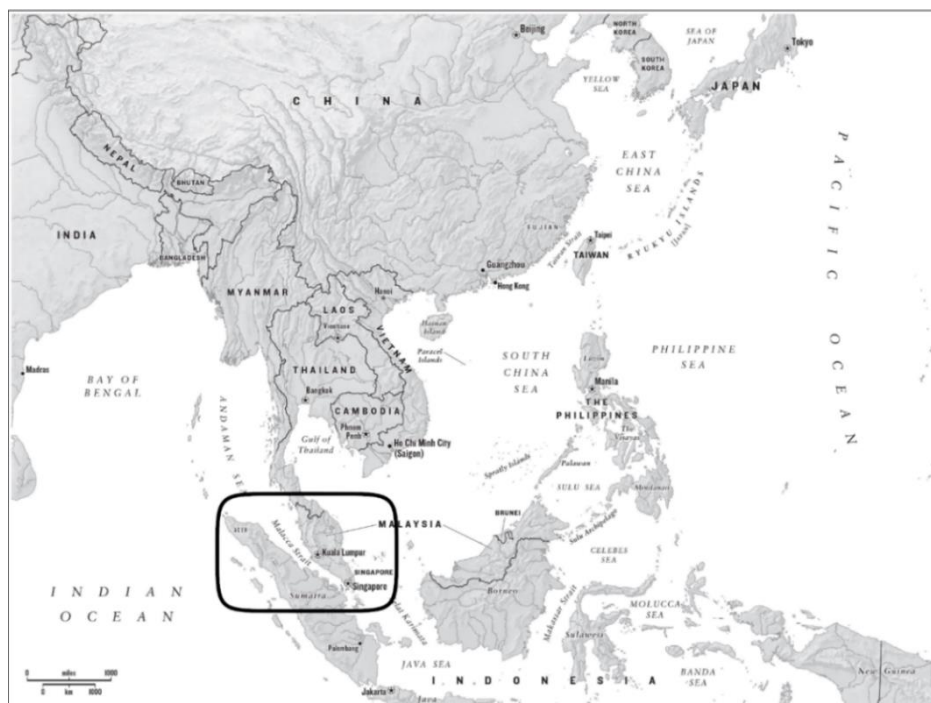


Figure 3. The Strait of Malacca & the South China Sea (Asia's Cauldron, 2014).

It is from this perspective that the CPEC is best understood; as a contingency plan in case of conflict. Upon completion, the economic corridor will allow China to circumvent the Strait of

Malacca and gain direct access to the Indian Ocean and thereby address the pressing need to diversify its supply lines (Marshall, 2016: 195). Key to this contingency plan is the deep-water port Gwadar, which will be further discussed in the analysis section of this thesis.

Economically speaking, a land-based supply route makes little sense. It would be substantially more expensive to transport e.g. a barrel of oil from the Persian Gulf, by land through Pakistan, than by sea directly to Shanghai. On the other hand, from a strategic perspective, the project makes perfect sense; the war time experience (WWII) taught the CCP that if the “backdoor” could be kept open, a regime based deep inside the country could survive, even if the coastal provinces would be occupied by an enemy force (Small, 2015: 102-103). In other worlds, the geo-economic undertaking in Pakistan will theoretically alleviate China from its “Malacca-dilemma”.

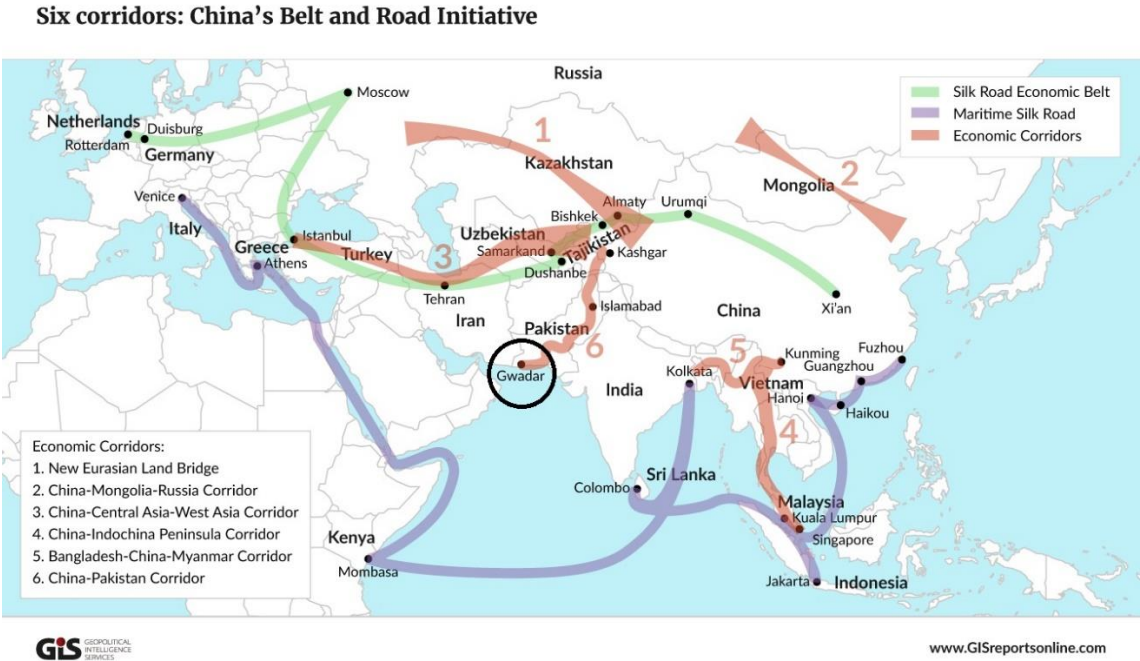


Figure 4. Gwadar’s location within the BRI (Geopolitical Intelligence Services, 2017).

Secondly, China and Pakistan have a long history of co-operation against their mutual adversary India, and the alliance, dating back to 1963, has been underpinned by military and geopolitical aspirations (Small, 2015: 197). In accord with most Sino-Pakistani bilateral projects, the CPEC would not be constructed if it were based solely on the premise of adding commercial value. Rather, the primary aim of the infrastructure undertaking is strategic, as it enhances the physical mobility and logistical capacity for both countries. This permits Islamabad to consolidate control over territory, which is also claimed by its arch enemy India, thus altering the subcontinent’s geopolitical power distribution to the advantage of Pakistan.

By providing geo-economic support for Pakistan, Beijing enables Islamabad to sustain the power-struggle with its substantially more powerful eastern neighbour (Small, 2015: 105-106). This in turn keeps India distracted and obliged to divert considerable resources towards the Pakistani border instead of countering Chinese political and military moves in its vicinity directly. This gives China time to consolidate its position in South Asia on the expense of its most likely long-term contender: India (Wigell, et al. 2019: 50-51).



Figure 5. The disputed region of Kashmir (University of Texas, 2002).

The CPEC also provides Pakistan with much needed foreign direct investments which will not only stimulate economic growth and increase the commercial activity in the country, but also bring stability and facilitate economic activity in China’s westernmost province Xinjiang (Clarke, 2017). Nevertheless, the economic undertaking is first and foremost motivated by geostrategic objectives. Therefore, by applying a geo-economic analytical framework, this study intends to investigate how infrastructure developments in Pakistan will affect the country’s geo-economic relevance in the region.

5. Methods & Data

5.1 Mixed method methodology

This study will be conducted by the means of a mixed methods methodology. This approach combines qualitative and quantitative sources of information in order to create a more

coherent understanding of the focus area than would be possible by either qualitative or quantitative sources single-handedly (Bryman, 2012: 628-629). Moreover, the idea is that by combining the two approaches, one can minimise the inherent weaknesses in both. A second advantage of using a mixed methods methodology is the possibility to triangulate, i.e. the usage of several means to investigate the same phenomenon. Triangulation enables one to identify certain aspects of a phenomenon more accurately by approaching it from several different angles using different methods (Bryman, 2012: 633-636). Therefore, by the means of triangulation, we can circumvent the existing obstacles and answer the posed research questions;

- *To what extent does the infrastructure developments within the CPEC-framework affect the geo-economic significance of Pakistan as a nation state?*
- *How would Pakistan's potential inability to repay Chinese loans inhibit the country's capacity to independently control key domestic infrastructure assets?*

5.2 Qualitative section

The qualitative part of the methodology will be conducted by the means of secondary source analysis, which entail the analysis of pre-existing data or literature, conducted by researchers who have not been involved in the process of collecting the data that is being analysed (Bryman, 2012: 312). There are two main reasons as to why I have decided to use this as my primary methodological approach. First, a secondary analysis constitutes as a time effective approach which offers the opportunity to work with a wide range of already available literature without having to conduct the research yourself (Bryman, 2012: 311-313).

The limited pre-existing academic literature on China-Pakistan relations in combination with the fact that the construction of the CPEC is ongoing, creates a potential hassle for the qualitative data collection. However, the enthusiasm and interest for the geo-economic project is massive and has received great attention from scholars, analysts and journalists, trying to anticipate the various ramifications of the infrastructure undertaking. While it is problematic to verify or falsify the conclusions drawn by these investigations because of the timeframe, several of the authors have direct insight and is thereby able to generate qualified predictions. Moreover, since geo-economics derives from geopolitics which is a well-studied subject, in general as well as regarding China, relevant secondary literature is presumably available (Wigell, et al. 2019: 1-4).

Secondly, since the CPEC plays into a broader Chinese foreign policy agenda, a substantial part of the quantitative measurements, tracing the progress of the infrastructure undertaking, is kept classified by Beijing and can therefore not be used in this study. For example, funding ratio between aid and loans provided by Beijing to Islamabad within the CPEC-framework is kept deliberately obscure (CaspianReport, 2019). If publicly available, these figures alone, could possibly answer the posed research questions and consequently make the aim of my study somewhat redundant. Considering these two factors, a secondary source analysis is arguably the necessary methodological approach to answer the research questions.

The primary aim is to analyse sources that have investigated the objective geo-economic implications of the CPEC, both established and predicted. This includes effects on GDP-growth, energy production, economic activity, logistical transit-capacity and physical mobility. When the geo-economic value of the project has been estimated, the motivational factors which are driving the project forward must be analysed in order to understand the stakes at play. Since Beijing is doubtlessly in charge, this part primarily assesses the Chinese national interests within the CPEC. By analysing the objective impact of the CPEC as well as the subjective interests of the partner nations, this qualitative data gathering will hopefully bring clarity to the projects impact on Pakistan and its long-term regional importance.

There are, however, potential liabilities to a secondary source analysis which must be taken into consideration. As the data and information provided by the utilized sources was potentially collected for different purposes, there is a risk of interpreting the material wrongfully, resulting in an issue of incorporating the information in the settings of my own study. The second major risk relates to the lack of control over the data which could entail timeslots of unavailable information, absent key variables or simply deficient material. This would in turn be crippling for a study relying solely on secondary sources (Bryman, 2012: 315-316).

5.3 Quantitative section

In order to address these potential shortcomings and strengthen the findings from this study's main methodological approach (secondary source analysis), quantitative data will be sought for as well. While official Chinese statistics are unavailable, there are alternative data sources which could likely provide accurate measurements of how the CPEC is progressing. These include e.g. the International Energy Agency (IEA), The Observatory of Economic

Complexity (OEC), Trading Economics and the World Bank database. By utilizing quantitative data and statistics from these sources, it will be possible to triangulate the findings and in turn detect potential gaps between the promised and the actual significance of the CPEC, contributing to a more accurate analysis overall (Bryman, 2012: 633-636). The quantitative section of this study will collect data (to the greatest possible extent) on the same objective geo-economic implications of the CPEC as the qualitative section. In addition, information on debt levels, foreign ownership of critical infrastructure (e.g. the port of Gwadar) and FDI flows will be sought for. Yet, because of pre-disclosed reasons, the quantitative data section will merely function as a supplement to the secondary source analysis. After all, due to the magnitude of the CPEC, unveiling financial details are not the primary concern of the quantitative section, but rather to verify the qualitative findings and thereby enable an accurate assessment of the actual geo-economic significance of the project.

6. Analytical discussion

Following former paramount leader Deng Xiaoping's market liberalising reforms in 1978, the Chinese economy grew at roughly ten percent annually until 2014. As an effect, the Chinese need for raw materials required to sustain its export sector, manifolded (Morrison, 2015). The unparalleled growth trajectory was essentially made possible by an abundance of cheap labour which enabled the production of manufactured goods which was then sold globally at record low costs. By utilising this comparative advantage, China emerged as the world's manufacturing hub, generating a trade surplus which have granted Beijing substantial purchasing power (The World Bank, 2017). Since 2002, over 50 percent of the country's GDP derive from international trade, whereof the lion's share is exported to Western consumer markets. However, the global shock following the 2008 financial crisis, manifested how volatile the contemporary international institutions were and how unsustainably dependent China was (and is) on stability in the West for its continued development. This realisation in combination with the Obama administrations "Pivot to Asia" strategy (2012) amid rising tensions over territorial dispute in the South China Sea, forced the CCP to rethink its foreign policy (Kitchen, 2012).

Present-day China has clearly parted from Deng Xiaoping's decades-long political doctrine of keeping a low international profile. In an address to the CCP in October 2017, president Xi Jinping stressed that China would no longer avoid global leadership; "It is time for us to take centre stage in the world and make a greater contribution to humankind" (Clover, 2017).

Beijing’s more assertive approach to world affairs comes against the backdrop of the U.S. election of President Trump and the domestic distraction it has brought. This power-vacuum presents a “period of strategic opportunity” which China seems eager to fill by utilising its extraordinary purchasing power to enhance its geo-economic position in Asia (Clover, 2017; The World Bank, 2018).

As the world’s second largest economy largely built on trade, maintaining access to global markets for its exports and safeguard the supply-lines for its imports constitute the primary security objective for Beijing (Kitchen, 2012). Particularly important to keep the Chinese economy afloat is its access to oil, which is required to manufacture many products and sustain the country’s expanding presence throughout Asia. Whilst this has increased the country’s import demand, the fracking revolution in the United States has simultaneously decreased American dependence on foreign assets. Consequently, China recently surpassed the United States as the world’s largest importer of crude oil, a position which current estimates suggest will be maintained for the foreseeable future (IEA, 2018).

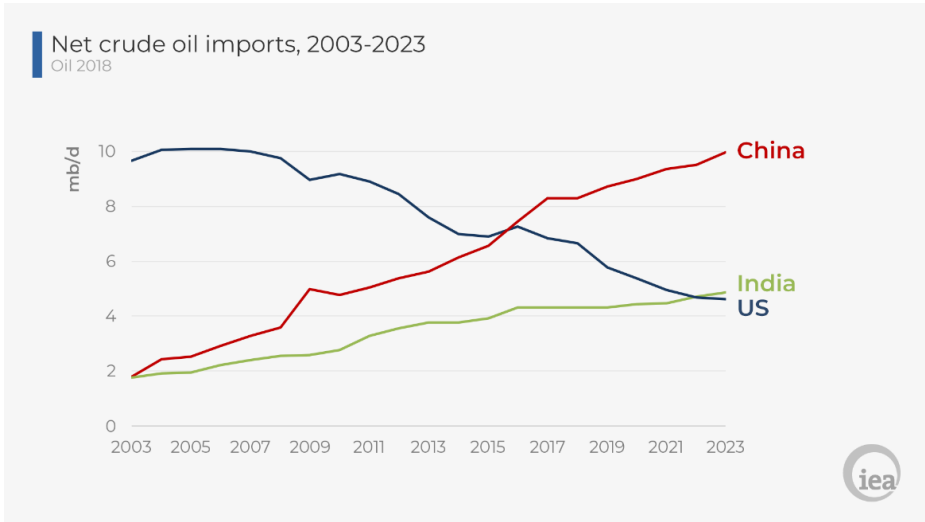


Figure 6. Oil imports, mb/d (IEA, 2018).

Roughly 80 percent of this import demand is shipped across the Indian Ocean, via the Strait of Malacca before reaching its destinations (Markey & West, 2016). Out of this, around 60 percent derives from the Persian Gulf (50 percent of total oil import) and is transported along an approximately 12,000 km long sea-route before arriving in friendly harbours on the Chinese east coast (Rahman & Shurong, 2017). Because of the PLAN’s limited power and reach, along with the intensified rivalries with India and the United States, this transportation route has become a major concern for Chinese policy makers (Garlick, 2018). In case of conflict, the superior U.S. Navy could blockade the Strait of Malacca and effectively cut off

China’s oil inflow (Markey & West, 2016). The so-called “Malacca Dilemma” is pivotal in Chinese foreign policy and the military build-up in the South China Sea is a direct consequence of it (Yoshihara & Holmes, 2016). The vulnerability which it exposes is furthermore the primary catalyst of the CPEC and its allocated budget signals how pressing the issue has become (Wigell, et al. 2019: 53-54).

Upon completion, Pakistan’s geo-economic significance will be greatly enhanced. The CPEC will drastically shorten the energy supply-lines from the Middle East from 12,000 km to around 3,000 km, before reaching Chinese territory. Moreover, it will presumably diminish Chinese maritime traffic sailing across the Indian Ocean and consequently the vulnerability which the strategic chokepoint of the Malacca Strait represents (Ali, 2015). Estimates conducted by Rahman and Shurong (2017) concluded that oil import via pipelines through Pakistan will reduce the transportation time from 32 to 6 days. In other words, the CPEC is envisioned to provide China an alternative supply-route of Middle Eastern oil which is shorter, faster and safer than the current maritime route.

6.1 Gwadar in the context of the “String of Pearl Strategy”



Figure 7. Gwadar port (New York Times, 2013).

The deep-water port of Gwadar is key to the entire geo-economic undertaking. Located in the Gulf of Oman, merely 250 km away from the Strait of Hormuz, the port is strategically based with proximity to vibrant global shipping lanes. By developing Gwadar’s capacity, China seeks to create a logistical hub, able to support its economic interests in the region but arguably also its military presence. According to a report published by the American consulting firm, Booz Allen Hamilton in 2004, the primary aim of China’s investments in the coastal region between the South China Sea and Pakistan is to build a resilient network of

China-friendly naval bases. This assumed intent has been coined the “String of Pearl Strategy” (Ahmad, et al. 2017). While Chinese officials firmly reject this notion, many experts share Booz Allen Hamilton’s assessment that increased naval leverage and power projection capabilities are the primary motives behind the development of Gwadar. This hypothesis is partly supported by Beijing’s initial attempt to bypass the Malacca chokepoint in 2007 by developing the shipyard in Kyaukpyu, Myanmar and connecting it with pipelines to Kunming in southwestern China (Garlick, 20018). The most notable example however is the previously mentioned Chinese infused debt-trap in Sri Lanka, which forced the government to hand over the port of Hambantota to the state-owned company China Merchants (Abi-Habib, 2018). An event which easily comes to mind given that the state-owned China Overseas Port Holding Company signed a contract with the Pakistani government in November 2015, granting it operational control over Gwadar port until 2059 (Markey & West, 2016). That China aspires to increase its naval presence in the Indian Ocean is expected, considering that approximately 90 percent of global trade currently goes by sea (Rahman & Shurong, 2017). A majority of the country’s energy imports will thus continue to be maritime-bound and in need of protection even after the CPEC is fully operational (Garlick, 2018). Not even the most optimistic predictions of the CPEC’s ultimate capacity envision the land-route to cater for China’s amassed oil imports of approximately 10 million bpd (Chen & Meng, 2019). Rather, the corridor primarily serves as a geopolitical contingency plan. The land-route reinforces China’s strategic depth as it theoretically enables a regime to receive continued supplies and thereby survive deep inside the country, even if an enemy force would occupy the coastal provinces (Small, 2015: 102-103).

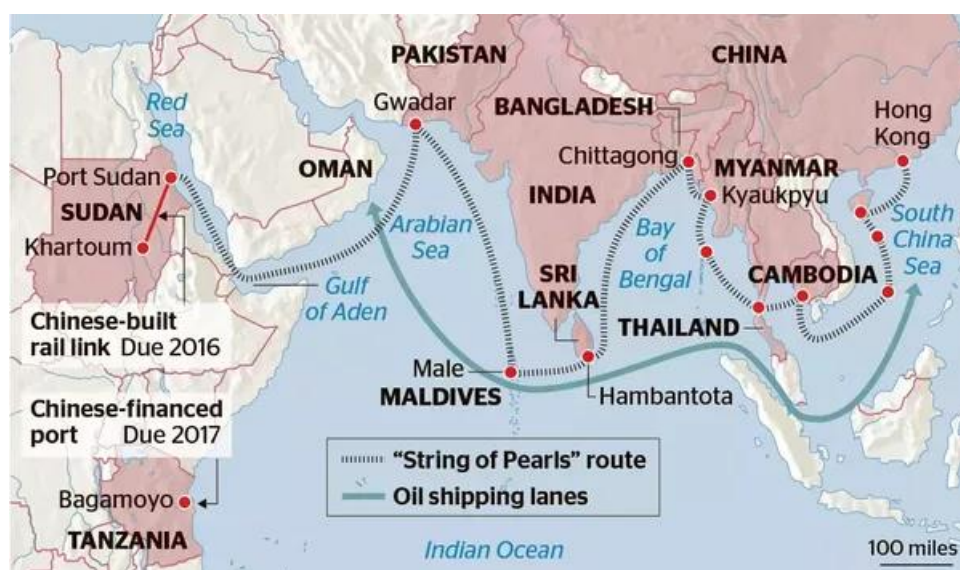


Figure 8. “The String of Pearls” (Quora, 2017).

The idea that enhanced geostrategic positioning and geo-economic security are the primary objectives behind the CPEC and that increased commercial activity is secondary only, is further strengthened by the anticipated financial viability of the land-route. In November 2016, Mei Xinyu, a representative of the Chinese Ministry of Commerce, presented a pessimistic cost analysis where he explained that due to the high-altitude of the Himalayas, the pipelines need extra heating, insulation and high-power pumping stations in order to pump the oil uphill. Consequently, the energy transportation costs via the CPEC are estimated to be around 16.6 times higher than the conventional maritime route across the Indian Ocean (Garlick, 2018). Furthermore, a comparative analysis of Chinese energy security by Erickson and Collins (2011: 92), concluded that oil transported via pipelines from Angarsk, Russia to Daqing in northern China across relatively flat terrain, cost \$2.41 per barrel while oil transported by sea from Saudi Arabia to Ningbo in eastern China have a price-tag of \$1.24 per barrel. This is despite that the sea-born route is more than twice as long (7,000 km versus 3,200 km). Thus, despite the abbreviated distance which the CPEC provide, energy transportation costs through Pakistan will be substantially higher than by sea (Garlick, 2018). With that being said, the possibility to maintain energy imports via Pakistan despite a hypothetical naval blockade of the Malacca Strait or an amphibious assault on the east coast, singlehandedly enhances Pakistan's geo-economic value for China (Wigell, et al. 2019: 43-44).

Even if the CPEC's economic value would ultimately prove to be limited, the development of Gwadar port will add to the envisioned Maritime Silk Road and greatly enhance China's presence in the region. By constructing a port facility at a strategic location in the Indian Ocean, Beijing effectively augments its long-term defensive security objectives. Although Chinese authorities deny that Gwadar will host naval forces, their operational control grant them the ability to utilise the port for military purposes if need be in the future. In other words, the development of Gwadar is a geopolitical opportunity seized (Garlick, 2018). Thus, the "String of Pearl Strategy" is arguably best perceived as an "active defence strategy" as it allows the PLAN to efficiently protect the country's maritime lines of communication, which currently face great exposure. A statement from Chinese president Xi Jinping in April 2018, further supports this assessment; "the task of building a powerful navy has never been as urgent as it is today" (ChinaPower, 2019). The ambition to acquire a blue-water navy is evident in China's continuous double-digit increase in defence spending over the last two decades, whereof a substantial part is allocated the navy (GlobalSecurity, 2019).

Geo-economic theory stresses the critical importance of geographically determined supply-routes in today’s interconnected global economy and that control over these are of utmost strategic value (Wigell, et al. 2019: 37-40). Thus, China’s anticipated ability to patrol the Indian Ocean from their outposts in Gwadar, Hambantota and Kyaukpyu, will enhance their geo-economic security and in consequence Pakistan’s geo-strategic significance. The importance of Gwadar is confirmed by the prioritised status its development has officially attained and its construction is divided into three phases which will gradually increase its capacity (CPEC, 2017a).

Gwadar port	TEU capacity (million tonnes)	Bulk cargo capacity (DWT)	Multipurpose berth(s)	Service berth(s)	Max draft (m)
2017 (est.)	1	50,000	3	1	12,5
Phase 1 (2002-2006)	?	30,000	3	1	10,5
Phase 2 (2007-2029)	200	200,000	75	?	20,5
Phase 3 (2030-2045)	400	400,000	150	?	24,5

Figure 9. Estimated and envisioned capacity, Gwadar port (Gwadar Port Authority website, 2017).

According to above provided estimates, while Gwadar is deep enough to host ships of the “Panamax” category (capacity of 3,000-5,000 TEU), the ports current cargo capacity remains restricted, mainly due to the limited number of available berths (World Shipping Council, 2019). Although Phase 2 of the development plan was initiated 12 years ago, this impediment remains. Gwadar is envisioned to obtain 75 berths by 2029, but despite this, no additional berths have been construction since Phase 1 was completed and consequently the ports commercial capacity remains largely unchanged. This has led the Pakistani Senate to express serious concern about the slow rate which the port development is progressing (APP, 2018). Since China Overseas Port Holding Company is not lacking neither resources nor authority, this reality indicates that commercial activity is not the primary short-term objective. On the other hand, a naval base does not require nearly as many berths as a commercial harbour, but the essential aspect for military usability is the ports depth. Current estimates of Gwadar suggest it already has the capacity to host Nimitz class aircraft carriers, the largest warship in the world. Although these ships are part of the U.S Navy, China’s largest warship, the home-built Type 001A, (launched 2017) is smaller and would thus be able to dock in the port as well (Buckley, 2017; Polmar, 2004: 112).

6.2 Significance for Pakistan and the Xinjiang province

For China to reap the geostrategic benefits from the CPEC, stability within Pakistan is required. Currently, Islamabad is battling terrorism, regional insurgencies and economic constraints which are undermining the country’s development. To address these impediments and advance its regional interests, Beijing has adopted an outbound investment strategy intended to ease Islamabad’s domestic turbulence (Garlick, 2018).



Figure 10. CPEC initial budget in comparison to previous FDI (Council on Foreign Relations, 2016).

As illustrated by the picture above, the financial resources earmarked the CPEC are substantially greater than the combined FDI into Pakistan since 2004. While the budget includes the development of Gwadar and pipelines to Xinjiang in China, the bulk of the money will be used to boost economic activity within Pakistan. Currently, the country suffers from an annual energy shortage of 7,000 MW and due to rapid population growth, this deficiency is forecasted to worsen by 10 percent each year, if left unaddressed. Therefore, at least \$30 billion of the total CPEC budget is allocated to energy production, with projects adding approximately 10,000 MW to Pakistan’s electricity grid, currently being under construction. Moreover, while still in the planning phase, the ambition is to add additionally 17,000 MW before 2030 (CaspianReport, 2019).

While it is too early to measure the impact from ongoing projects, the Pakistani GDP was expected to grow at a 6 percent rate between 2016-2018 as a direct consequence of the CPEC (Ramay, 2016). However, the actual growth rate averaged at 5,24 percent with the lowest rate of 4,56 in 2016 and a peak of 5,79 percent in 2017. While this substandard performance indicates an overestimated direct impact, the Pakistani economy grew 2,11 percent faster in 2017 than in 2013, when the BRI was first launched (TradingEconomics, 2019). This pattern validates that the CPEC is already having a positive effect on the country’s economic

performance although a substantial part of the geo-economic undertaking has not yet been materialised. As illustrated by the graph below, this has allowed Pakistan to catch up with the Indian growth trajectory, a pattern which, if sustained, could possibly diminish New Delhi’s economic superiority over time.

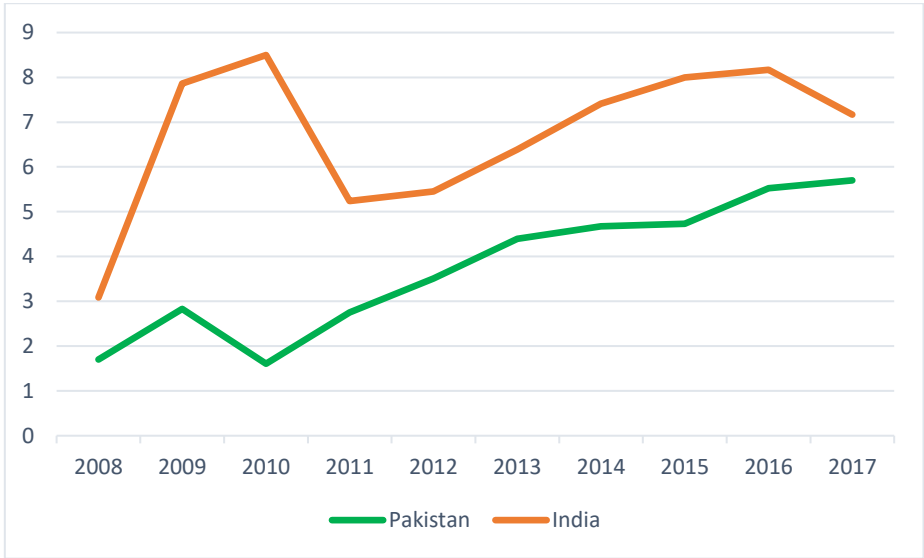


Figure 11. Annual GDP growth (%) – Pakistan & India (The World Bank, 2019).

In addition to energy projects, the CPEC is improving physical infrastructure throughout Pakistan. Both in order to increase transport capacity and thereby the usefulness of Gwadar port but also to reinforce connectivity within the country and thus undermine the separatist tendencies which have historically eroded the authority of Islamabad (Markey & West, 2016).

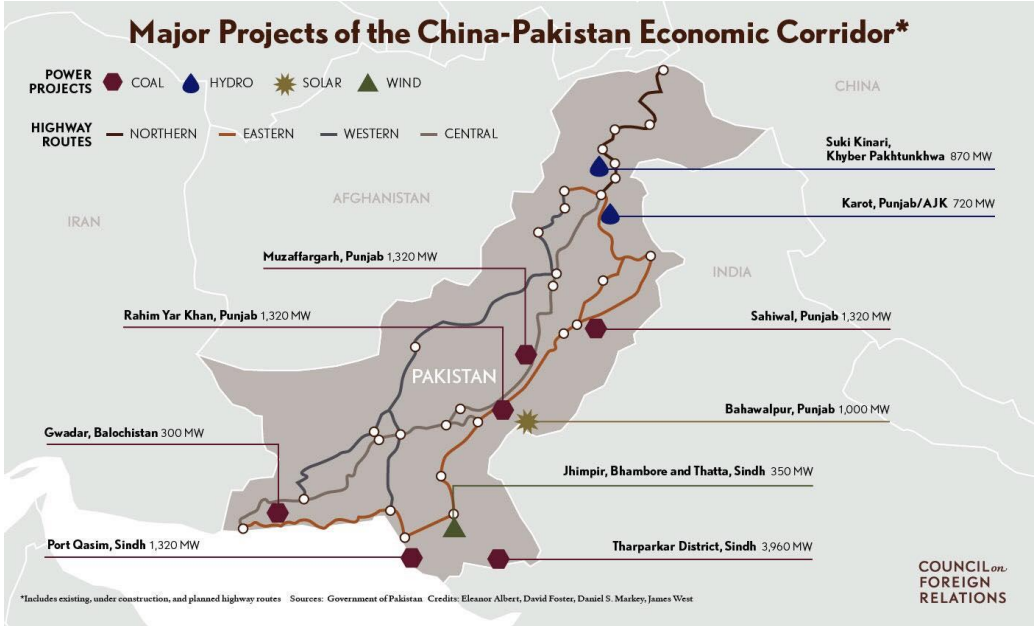


Figure 12. CPEC road network & major energy projects (Council on Foreign Relations, 2016).

As illustrated by the picture above, the transport network will consist of three main routes running from north to south. Originating in Kashgar, China, the Karakoram Highway (KKH) is the only land-based connection between the two countries. The KKH was finished in 1978 after 20 years of construction and demonstrates early Chinese intentions to interconnect the two countries infrastructure networks, as well as the long-standing strategic cooperation between Beijing and Islamabad. As expressed by Andrew Small; “Like many other joint Sino-Pakistani projects, the KKH would have been killed off quickly if its economic value had been the only thing it had going for it” (2015:106). Instead the road, which runs through the contested region of Kashmir (see figure 5), alters the geopolitics on the subcontinent as it allows Islamabad to extend its reach into previously inaccessible areas and consolidating Sino-Pakistani control over Indian claimed territory (Small, 2015: 106-107). The Northern Route, which is currently being constructed, is essentially an improvement of the already existing KKH and runs to Havelian, north of Islamabad (CPEC, 2017b). At this junction, the highway system is split into a Western, Central and Eastern route that connect all the country’s major cities into a coherent network before reaching the Indian Ocean by Gwadar and Karachi. The road network was proven partly operational in November 2016, when Chinese cargo was transported from Xinjiang to Gwadar for onward maritime shipment (Ramachandran, 2016).

According to Melecky et al. (2019), while the enormous cost and magnitude of economic corridors generally puts them at risk of becoming unprofitable, the urgent need for transportation infrastructure in Pakistan is anticipated to greatly improve economic as well as social circumstances. Particularly in the isolated western region of Baluchistan the lack of economic opportunity and systematic discriminations have nurtured an active separatist movement (Irshad, et al. 2015). Yet, Baluchistan is of crucial importance to Pakistan as a nation and for the viability of the CPEC. While merely a small portion of the country’s population resides here, the province comprises almost 45 percent of Pakistan’s total landmass and is rich in minerals as well as natural gas. Most importantly, however, the port of Gwadar is located within the region (Marshall, 2016: 194-195). Therefore, by physically incorporating Baluchistan with the Punjabi core, Islamabad and Beijing intend to increase economic activity and improve manoeuvrability which are anticipated to limit disruptive activities in the remote but strategically important region. This geo-economic “security through development” strategy has previously been successful in Kashmir and is now being implemented to achieve similar objectives in Baluchistan (Rahman & Shurong, 2017).



Figure 13: Major regional division, Pakistan (Mapsofworld, 2019).

By stabilising Pakistan and creating interconnectivity, Beijing is not just enabling the CPEC but also addressing domestic insurgency issues in Xinjiang. As previously stated, the development of its economy will govern Chinese foreign policy during the next generation (Kitchen, 2012) and while the 30 years of unprecedented growth made the coastal provinces prosper, the Chinese interior fell behind. Like in Baluchistan, this disparity has created an insurgency issue (Uighur) in Xinjiang, a province which not only connect China with Pakistan but also to energy rich Central Asia and therefore holds strategic value to Beijing (BP, 2018: 12; Small, 2015: 178-179). From a geo-economic perspective, utilising the Xinjiang province for the land-based Economic Belt to reach westward makes sense; by incorporating the province in the wider Chinese economy and increase its strategic value for imports and exports, Beijing will strengthen its grip on Xinjiang and improve the local conditions which will likely decrease separatist tendencies (Wigell, et al. 2019: 51-52).

The CCP's determination to deal with the Uighur movement and revitalise the once so important Silk Road city Kashgar, are beneficial to Pakistan as the province's economic importance depends on how well it can facilitate commercial activity in the region. In other words, for Xinjiang to prosper, China needs to connect it to its surroundings and enable access

to the sea (Maizland, 2019; Ramay, 2016). Because of the critical importance of the CPEC in this regard, Pakistan's geo-economic importance will likely increase in step with the province's development. However, while the land route will act as a facilitator of the commercial activity in the region, its true potential will remain unfulfilled as long as it exclusively caters Chinese trade. For Pakistan to emerge as a vital transit hub in the international economic system, the CPEC will need to expand and connect directly to the Central Asian Republics, Iran and especially to the large market in India as well (Khan, 2013). This would diminish Pakistan's dependency on China and create interdependency between Islamabad and New Delhi. However, due to the Indian-Pakistani rivalry and India's deep scepticism towards the BRI, this extension will remain a pipe dream for the foreseeable future (Rahman & Shurong, 2017).

According to Andrew Small, the Sino-Pakistani alliance has never been about maximising revenue, but first and foremost a strategic partnership (2015: 94-98). Thus, while the CPEC clearly signals a shift from military-driven geopolitics to a geo-economic strategy, the economic corridor is not based on commercial logic, but the financial resources are simply an economic tool to achieve a strategic end (Garlick, 2018).

6.3 Risks and regional implications

Pakistan's domestic instability and ongoing regional insurgencies is the single greatest threat to the CPEC and officials in Beijing now label security concerns as their top priority (Small, 2015: 112). Particularly Baluchistan constitutes a major problem as the local opposition exist both as armed militias as well as organised politicians (Adnan & Fatima, 2016). However, the energy rich and geographically important western province is key to the entire infrastructure endeavour, and authorities in Islamabad and Beijing will continue the development despite heavy opposition. In attempts to create consensus, a political compromise to construct the Western route first has already been made (Ahmar, 2015). Despite this, attacks targeting Pakistani workers and Chinese engineers have become increasingly common and consequently the security costs have skyrocketed.

In addition to Baluchistan, the Federally Administered Tribal Areas (FATA), on the Pakistani-Afghan border, constitute an incredible source of instability for Pakistan. Since the 11th of September 2001, the area has largely been controlled by the Taliban which have used the mountainous terrain to plan and launch attacks into Pakistan as well as Afghanistan (Zahra-Malik, 2018). This multifaceted domestic turbulence in Baluchistan and FATA is

arguably the main reason why the budget has already been increased twice and more than half of the CPEC projects are still awaiting the green light (Garlick, 2018).

Beijing's tolerance for violence in Baluchistan and the rest of Pakistan is presumed to be relatively high, due to the strategic importance of Gwadar and the links which connect it to Xinjiang (Markey & West, 2016). The insurgency issues do, however, amplify the Pakistani military's authority as the armed forces have a strong say in security related issues. Thus, as the CPEC becomes increasingly bloody, their decision-making power expands (Wolf, 2016). For Pakistan to seize the opportunity and become a regional hub for economic activity, normalised relations with India is a precondition. The military, however, is benefitting from hostile relations with New Delhi as it enhances their domestic position and increased military control over the CPEC will therefore hinder Pakistan from fully reaching its geo-economic potential (Wolf, 2016).

India has realised that the CPEC could in fact lead to a stronger and more militarised Pakistan with an increased Chinese presence and has in response began investing in an alternative to Gwadar port, just west of Pakistan, in Chabahar, Iran. Furthermore, the Indian defence forces have increased their cooperation with the United States and its foreign intelligence agency, RAW, has created a task force with a single objective: to disrupt the implementation of the CPEC (Adnan & Fatima, 2016). These countermoves manifest the presumed impact of the geo-economic project on the Asian power dynamic and its rapid implementation is set to intensify the regional rivalries.

Moreover, according to a financial scrutiny of the CPEC projects, conducted by Markey and West (2016), concluded that since most Chinese loans have a zero-interest rate, there is little that suggests that China is attempting to put Pakistan in a similar debt trap as they did with Sri Lanka. It would be highly counterproductive given the importance of Pakistan in China's geo-economic grand strategy, but also since the two countries have a long history of military cooperation against India. Pakistan is essentially China's only genuine ally and therefore indispensable in the grand scheme of things (Small, 2015:179-181). Moreover, as previously stated, the ratio between investments, loans and aid, under the CPEC umbrella is in most cases kept classified and it is therefore difficult to calculate Pakistan's exact debt to China (CaspianReport, 2019). With that being said, the massive CPEC budget and the scale and pace in which the mega-project is being implemented, have unquestionably made Pakistan dependant on Chinese financial resources (Jorgic, 2018). Thus, hypothetically, China could pressure Pakistan to relinquish e.g. Gwadar port altogether, and thereby allow Beijing to

maximise its military use. Again, this would be short-sighted and counterproductive in the long-term as it would be detrimental for the Sino-Pakistani alliance, a crucial component of the BRI viability (Rahman & Shurong, 2017).

However, the CPEC will make Pakistan even more dependent on China, both in terms of debt repayment, but more importantly because the two countries will be physically intertwined and since China's economy is substantially stronger and more dynamic, the Chinese industry will likely come to dominate the Pakistani market (Garlick, 2018). Trade between Islamabad and Beijing is already one-sided, with Pakistani exports to China amounting to \$1,85 billion while imports from China account for \$15,2 billion, or 27 percent of total imports (OEC, 2017). It is therefore likely that the Sino-Pakistani relationship will look increasingly like a patron-client relation, where China maintains its prominent position by keeping Pakistan economically dependent on it (Wigell, et al. 2019: 9-10).

7. Conclusion

While still at an early phase of its implementation, with its envisioned potential largely unfulfilled, the CPEC has already enhanced the geo-economic importance of Pakistan. The economic corridor is pivotal for the interconnectedness of the entire BRI, and its early launch will serve as a benchmark for the viability of China's grand strategy. That Beijing cannot afford the CPEC to fail is manifested in the budget which the bilateral undertaking has been allocated.

More concretely, in the short-term, Gwadar port is the primary gain from the infrastructure undertaking as it will grant China a friendly outpost in the Gulf of Oman. From here, the PLAN will be able to better protect the country's maritime lines of communication, particularly its crucial imports of crude oil. Paradoxically, the direct result of the land based CPEC therefore seem to primarily enhance the development of the Maritime Silk Road. Gwadar will thus singlehandedly increase China's geo-economic security and thereby the geostrategic significance of Pakistan.

The geo-economic importance of Pakistan will further increase in steps with the development of transportation infrastructure (roads, railways and pipelines) through Pakistan, which will enable the country to serve as an alternative import route to China. While the economic viability of this passage as a serious contender to the contemporary maritime route is highly questionable, the land-bridge serves as a contingency plan, ensuring Chinese access to strategic resources in case of conflict. The CPEC is thus mainly about security and e.g. the

energy projects under the framework are best understood as stabilisers rather than facilitators of commercial activity.

However, in the long run, the CPEC could help facilitate economic activity in the Chinese province of Xinjiang, as well as exports of energy resources in Central Asia and thereby emerge as a regional commercial hub. While this currently remains a distant possibility, the CCP's determination to diminish its domestic economic disparity and deal with the Uighur insurgency suggests this could become a reality in the future. Until then, Pakistan's geo-economic significance is increasing mainly due to the value it holds for China's geo-economic security.

Lastly, although the CPEC will certainly increase Pakistan's economic dependency on China, the strong and longstanding mutually beneficial relationship between Beijing and Islamabad do not suggest China is attempting to lure Pakistan into a debt-trap.

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