FRIEDRICH EBERT STIFTUNG

Building Regional Connectivity for Pakistan

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List of Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Development Bank
AJ&K	Azad Jammu and Kashmir
APTTA	Afghan-Pakistan Transit Trade Agreement
ASEAN	Association of Southeast Asian Nations
BCIM	Bangladesh-China-India-Myanmar Forum for Regional Cooperation
BIMSTEC	The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOA	Board of Approvals
BOI	Board of Investment
BRI	Belt and Road Initiative
CAREC	Central Asia Regional Economic Cooperation
CARs	Central Asian Republics
CASA	The Central-South Asia Power Project
CPEC	China-Pakistan Economic Corridor
CRBC	China Roads and Bridges Corporation
DHS	Demographic and Health Survey
ECO	Economic Cooperation Organisation
ECOTA	Economic Cooperation Organization Trade Agreement
ETIM	East Turkistan Islamic Movement
EZDMC	Economic Zones Development and Management Company
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
HIES	Household Integrated Economic Survey

HVDC	High-Voltage, Direct Current
IEC	Independent Election Commission
IMU	Islamic Movement of Uzbekistan
INSTC	International North-South Transport Corridor
IS	Islamic State
JCPOA	Joint Comprehensive Plan of Action
LoC	Line of Control
MICS	Multiple Indicators Cluster Survey
OBOR	One Belt One Road
OIC	Organization of Islamic Cooperation
PLAN	People's Liberation Army Navy
PSLM	Pakistan Social and Living Standards Measurements
PTA	Preferential Trade Agreement
SAARC	South Asian for Regional Cooperation
SCO	Shanghai Cooperation Organisation
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SLOC	Sea Lines of Communication
TAPI	Turkmenistan-Afghanistan-Pakistan-India
TTFA	Transit Transport Framework Agreement
TUTAP	Turkmenistan and Tajikistan to Afghanistan and Pakistan

Foreword

"Regional Connectivity" is one of the key catchwords in current political discussions in Pakistan. While it is often used to primarily refer to the Pakistan-China Economic Corridor (CPEC), a big cooperative effort of both countries to develop and strengthen infrastructure in Pakistan, its potential is much broader. The "region" of which Pakistan is a part, is quite divers and complex, since the country is located at the interface of South Asia, Central Asia, and the Middle East, while also being a neighbor of China. "Regional connectivity", we feel, therefore should also be discussed in this broader regional framework. In this sense, the region confronts Pakistan with difficult challenges, especially in regard to its two direct neighbors to the West and the East, as well it providing many great opportunities.

The Friedrich-Ebert-Foundation (FES) is the oldest political foundation in Germany, and it has a country office in Pakistan since 1990. Since then it has been striving, jointly with its Pakistani partners, to contribute to different aspects of political and cultural development in the country. This paper is one of our modest contributions.

We are grateful for the common work with Dr. Rabia Akhtar on such a complex topic. She has been a thoughtful and reliable partner, and we enjoyed the cooperation very much.

This paper is not meant as the final word on Regional Connectivity, but as a well-researched starting point to open a wide and open-minded discussion. We would like to invite comments, criticism, and suggestions. FES is planning to continue this discussion, and also to invite different or even opposing viewpoints on this important topic. Open space for respectful, diverse arguments is the way to progress in our societies.

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Introduction

Dr. Jochen Hippler

Politicians, journalists, and analysts in Pakistan are discussing Pakistan's "regional connectivity" quite often and intensively. This is not surprising, since the country's regional context offers so many problems and opportunities. The four decades' long war in Afghanistan has massively contributed to regional instability, and has also had serious impact on Pakistan's society and politics. The eastern neighbor, India, has been a long-standing antagonist. Again, because of the tragic events during and after the birth of both countries in 1947, this is not surprising at all. But the "region" of which Pakistan is a part, is much broader than this two-country-neighborhood. Currently, China and the Pakistani-Chinese relationship are broadly discussed, mostly in the context of economic and infrastructural cooperation and development. China became the main hope of Pakistan to overcome many of its problems, e.g. freeing itself from its energy crisis, providing for better transport via road and rail, creating additional jobs, and generally triggering economic growth. Since Pakistan and China share a common border, though of limited length and far from major population centers, China is considered part of "the region", though most of China clearly belongs to East Asia. At the same time, regionalism for Pakistan is even broader. The relative proximity to Central Asia with its rich energy resources invites a desire to develop closer economic and infrastructural relationships. And, in a sense, the Middle East is in the direct neighborhood of Pakistan as well. Not just its border with Iran and its close relationship on Saudi Arabia and the United Arab Emirates are witness to this, but also Pakistan's ideological emphasis of its Muslim character would connect it closer to the Middle East, than, for instance, to China or to Western countries. Given the complexity of Pakistan's neighborhoods, in South Asia, Central Asia, the Middle East, and to China, it is quite important to decide, what "Pakistan's regional context" really means. At the same time, the foreign policy challenges are even more pronounced, because this broad and complex "region" combines both dangers, instability, and economic and political opportunity. How to successfully maneuver in such a difficult environment would be challenging for any country, and it surely challenges Pakistan's foreign policy. On the one hand, the opportunities of Central Asian and Middle Eastern energy resources, and the job opportunities in the countries of the Gulf Cooperation Council (mostly in Saudi Arabia and the Emirates), and on the other the instability and violence resulting from the Afghan war, plus the potential and real on-and-off military confrontation with India, constitute the framework for developing Pakistan's regional policy. At the same time, it should not be forgotten that extra-regional powers are playing an important role in the region as well – currently mainly the United States, formerly Great Britain and the Soviet Union as well. To summarize this point: Pakistan geographically is located at the intersection of different regions, South Asia, Central Asia, and the Middle East and is a neighbor to a rising China, which brings many challenges and opportunities. From a foreign policy perspective it seems that Pakistan during the last two generations did not very successfully manage to navigate this difficult terrain to maximize its opportunities and minimize its dangers. It still remains my honest wish that it will do much better on both counts in the future.

Currently, discussions on "regional connectivity" are very much focusing on the China Pakistan Economic Corridor (CPEC). This is quite understandable, given its magnitude and Pakistan's need for more, better, and modern infrastructure. The advantages and progress in the field of construction of infrastructure in the CPEC framework are quite impressive, in some fields. At the same time, the public discussion seems to ignore several important points, that will be highly relevant in the future.

Firstly, the discussion very much focusses on infrastructure. But while Pakistan is in dire need to improve its infrastructure, its successful and sustainable development requires much more. Other countries have learned that functioning, reliable, and rule-based systems of economic (and political) governance are an important precondition, to translate available resources and infrastructure into economic growth and stability. Selective regional "connectivity" can open up economic opportunities, but if a country does not have professional, competent, merit-based, fair, and reliable governance, based on the rule of law, such opportunities might be wasted. Pakistan definitely cannot afford this, therefore complementing the focus on infrastructure with a broad discussion on the necessary reform of governance seems to be crucial for economic success.

Secondly, the new infrastructure and the current macro-economic reforms to be successful require a high degree of stability in the country. Foreign investors will only be willing to invest if such stability is available. If CPEC and other elements of "regional connectivity" will hopefully produce the potential for growth after a few years, instability might undermine this chance of development. And stability in a society requires a consensus and cooperation, not polarization and confrontation. Other countries' experiences have demonstrated quite often that quick and drastic macro-economic reforms and fast development can undermine such stability if they undercut a common consensus in society. This means that the majority of people, including the poor and the working classes, need to see the fruits of development quickly. Countries often cannot afford to wait for ever for wealth "trickling down" to the poorer people, if living conditions, prices of basic commodities, and job opportunities are not favorable for the majority of the population. Economic reforms, CPEC, and "regional connectivity" should take the interest of poorer people into account, so they do not create instability in a country, which would threaten prosperity and growth.

Thirdly, the current discussion often focuses on creating a model of "export-led growth" for Pakistan. While such a path of economic development is possible in principle – Germany being one key example – many Third World countries attempting this have failed badly. The IMF might always push for such a policy, but the discussion in Pakistan should also reflect on the cases and reasons for the failure of such strategies elsewhere. Export led growth, though possible, depends on several preconditions. A discussion seems useful which of these preconditions exist in Pakistan, and which can be created, and how. Which commodities produced in Pakistan might be attractive for the global market? Exporting textiles, for instance, might not be very easy strategy for major success, when so many competitors in Asia and elsewhere are already flooding the international market with textiles and clothing. Pakistan is neither Germany nor China, and an export-led economic strategy needs attractive, competitive products to export. "Regional connectivity" sadly cannot be a substitute for them, but only an arena to sell them, if they exist.

Finally, the potential advantages of "regional connectivity" might be undercut if they are used as an excuse to avoid other pressing problems. With or without CPEC, for instance, Afghanistan and India will remain neighbors which cannot be ignored. Linking with Central Asian countries will be very difficult without a more or less stable Afghanistan. And the tense relationship with India tends not just to paralyze SAARC, but also to deny Pakistan a key chance for economic cooperation and development, of "regional connectivity". With or without CPEC, strengthening cooperation with Iran and Saudi Arabia, as well as with other Middle Eastern countries, might create both economic as well as political opportunities for Pakistan. However, the key element of Pakistan's future economic success will remain in Pakistan itself. With or without CPEC and "regional connectivity", only a stable, harmonious Pakistan with a modern, progressive structure of governance can become an economically successful country. "Regional connectivity" should not distract from this simple truth.

Taken together, the strengthening of regional links and the current strengthening of Pakistani infrastructure in the framework of CPEC are creating important opportunities for Pakistan's future, and for the whole region. It is fully in the hand of Pakistan itself whether it will really utilize these new opportunities. Any friend of Pakistan can only wish that it will understand the challenges involved and deal with them energetically, creatively, and successfully.

Chapter One

Regional Connectivity and Pakistan

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The Region

Asia has had a complex history, best known as a region of constant competition caught between empires and kingdoms. Henry Kissinger, in his book *World Order,* writes that "the term "Asia" ascribes a deceptive coherence to a disparate region. Until the arrival of modern

Western powers, no Asian language had a word for "Asia"; none of the peoples of what are now Asia's nearly fifty sovereign states conceived of themselves as inhabiting a single "continent" or region requiring solidarity with all the others."[1] Asia, as Kissinger rightly asserts, fell victim to the international order ruled by colonialism and therefore never was an independent actor. Decolonisation after the Second World War allowed newly independent countries to realise their place in the post-war international order guided by their geographical location in the region and newly found freedom to choose their destiny. Pakistan's post-independence vision, 1947 onwards, of its geostrategic importance in Asia was slow to arrive but defined the contours of Pakistan's progressive foreign policy of which regional connectivity was the key.

According to one definition recorded by UNESCO, Pakistan falls under the region of Central Asia along with other modern states of Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan, Tajikistan, Afghanistan, North-Eastern Iran, Northern India (Kashmir), Western China and Mongolia. The region was viewed through the lens of great-power rivalry throughout centuries. British perception about Central Asia developed on behest of the East India Company and British Crown's Defence of India. This view of Central Asia traces its genesis from the 1830s and since the British Empire's 'Great Game' against Tzarist Russia, Persia and Qing China. The geographical area in question now constitutes today's Pakistan, Afghanistan and Turkestan.[2] At the end of the infamous 'Great Game' Britain had gained physical control of large swathes of territory to include Punjab, Sindh, Kashmir and the Western Indus region. These areas today are part of modern-day Pakistan. On the other hand, Imperial Russia had gained control of Turkestan. Afghanistan became the 'buffer state' and the linchpin in the rivalry between the two imperial powers.

For Pakistan however, South Asia, Central Asia and the Middle East are the regions that are important spheres of its influence, and together they constitute 'the region' which Pakistan looks at for regional connectivity. For this study, the word 'region' will include countries and corridors of South Central Asia and the Middle East.

Pakistan's Perspective on Regional Connectivity and Integration

Pakistan's vision about regional connectivity rests on political connectivity enabling economic diplomacy with countries in their regions. However, Pakistan's idea of integration and

1 Henry Kissinger, World Order (New York: Penguin Press, 2014), pp. 172–173

2 Saeed Afridi, "China's Perception of Central Asia," Pakistan Politico, February 2019 http://pakistanpolitico.com/chinas-perception-of-central-asia/

connectivity is distinct from what brought Europe together. In the early 1950s Europe, the economic community (primarily coal and steel sectors, the hallmark of power in postwar Europe) came together to ensure free movement of goods, free access to sources of production, free movement of people, capital and services. Once the economic community created the sense of de facto solidarity, it paved the way for a common European defence and political community.[3] Today, the European Union countries have common economic, social, political and security policies making it a truly integrated region. South Asia as a region is far from achieving such form of integration where event the definition and models of integration are different from those of Europe.

For this study, Pakistan's idea of connectivity is based on the context of it simply being a *transit state*, situated at the crossroads of regional corridors through which economic activity can take place. The idea of economic integration, however, is a complex one not only for Pakistan but for the region as a whole. Despite having a common historical and cultural heritage, South Asia is the least integrated region in the world averaging six per cent intra-regional trade[4] in the past decade mainly due to geopolitics of the region negatively affecting and limiting integration efforts. Along with geopolitical challenges, economic integration in the region is hampered by "tariff and non-tariff barriers, weak infrastructure, poor awareness among stakeholders, a lack of political will, and low levels of investment."[5]

For Pakistan, economic integration at the regional level cannot happen unless its political relationships in the neighbourhood are not conducive for economic connectivity. Pakistan's relationship with two of its immediate neighbours is difficult and a major hindrance in achieving economic integration that it so desires.

With India, Pakistan's relations have remained hostile since independence given the protracted conflict of Kashmir. After witnessing four wars and some periods of relative peace and several tangible confidence-building actions between the two countries, bilateral Indo-Pak relations are presently at a halt. The Indian strikes in Balakot in February 2019, and its subsequent annexation of Jammu and Kashmir and Ladakh region on August 5, 2019, altering the disputed status of Kashmir, is at the heart of this current lull. The only South Asian organisation where India and Pakistan are members is the South Asian Association of Regional Cooperation (SAARC). However, given their troubled relationship, SAARC does not offer India and Pakistan the platform for bilateral political or economic engagement. SAARC countries (Bangladesh, Bhutan, Maldives, Nepal, Sri Lanka, India and Pakistan) signed an agreement on South Asian Free Trade Area (SAFTA) in 2006. The agreement was aimed at enhancing intra-SAARC economic cooperation realising "region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States".[6] It seemed like a perfect opportunity and platform for SAARC countries to achieve connectivity through economic cooperation based on the free movement of goods and removing barriers to cross-border flow of goods.

3 "The Historical Development of European Integration," Fact Sheets on the European Union, the European Parliament, 2018 http://www.europarl.europa.eu/RegData/etudes/PERI/2018/618969/IPOL_PERI(2018)618969_EN.pdf

4 Ishrat Hussain, "Pakistan's Economy and Regional Challenges," International Studies, 55(3): 253-270, 2018 https://ishrathusain.iba.edu.pk/speeches/New/PakistaniEconomy-and-Regionalchallenges.pdf

5 "Intra-Regional Trade in South Asia," The Asia Foundation, 2016 https://asiafoundation.org/resources/pdfs/IndiaRegionalTrade.pdf

6 Text of the Agreement on South Asian Free Trade Area (SAFTA) http://www.commerce.gov.pk/wp-content/uploads/pdf/SAFTA_AGREEMENT.pdf

However, research on SAFTA failing to achieve its promised potential between India and Pakistan and other SAARC countries reveals problems with liberalisation in tariff regime selectively applied and high costs of connectivity marred by trust deficit among SAARC countries.[7]

Pakistan's relations with India are just one part of the problem. Pakistan has had a troubled history with Afghanistan as well. With its on-again, off-again relationship with the Taliban and the ruling elite in Afghanistan, overshadowed by Pakistan joining the U.S. camp in its post-2001 invasion of Afghanistan, has deepened the distrust between various stakeholders on both sides of the divide. Under present circumstances, when the U.S. and the Taliban are trying to resurrect a deal for U.S. troops withdrawal from Afghanistan, Pakistan's role as a facilitator for the deal to finalise and push for intra-Afghan dialogue and reconciliation is critical. However, any prospect of economic connectivity with Afghanistan through which Pakistan can benefit remains an elusive dream until the security situation in Afghanistan stabilises and the warring factions - the U.S. and the Taliban – implement a ceasefire.

At the regional level, Pakistan desires enhanced economic connectivity through liberalised regional trade regime, enhancing business activities and human mobility through stable financial relations between regional hubs. While Pakistan has the potential to enhance economic connectivity in the region leading to economic integration which will ultimately translate into the free movement of people, capital, goods, services and free trade in the region, the geopolitical realities in the region remain problematic. These geopolitical realities require an extended discussion.

Geo-Strategic & Geo-Political Challenges for Pakistan in the Region

In the past 72 years since its independence, Pakistan has been unable to capitalise on its geostrategic location due to weak democratic institutions and periods marred by military rule hampering institution building. For the first time in its history, Pakistan experienced the third consecutive democratic transition in August 2018. With the strengthening of Pakistan's democratic institutions and above all, democratic values, Pakistan is prepared to be the hub of vibrant trade and economic activity connecting countries in its immediate and larger neighbourhood. Pakistan shares borders with two growing economies, China and India. It sits at the intersection of energy-rich Central Asia and has access to the world's most critical sea-lanes and corridors through the Arabian Sea and the Indian Ocean. It has the potential to capitalise on its geostrategic location by connecting the China Pakistan Economic Corridor (CPEC) to the South Asian states, the Central Asian states and countries in the Middle East.

While Pakistan's geo-strategic location allows it to play a positively critical role in connecting the region, the geopolitical dynamics in the region constrain Pakistan's ability to achieve its maximum potential.

Afghanistan

In its immediate neighbourhood, Afghanistan was embroiled in the war for the past 40 years. With the presence of U.S. forces on the ground in Afghanistan, the struggle for power between the Taliban and the Afghan government and the continuing spate of terrorist activities killing Afghan civilian population and the U.S.

7 "South Asia should Remove Trade Barriers for Mutual Economic Gains," World Bank Report, 2018 https://www.worldbank.org/en/news/press-release/2018/09/24/south-asia-remove-trade-barriers-mutual-economic-gains-report

and Afghan security forces does not leave much room for any discussion on economic connectivity amid chaos. Pakistan's border with Afghanistan is hostile though a degree cooler than its disputed eastern border with India especially the Line of Control (LoC). There is considerable interest in the role Afghanistan can play as a transit hub for energy trade between Central Asian and South Asian states. Since 2005, there have been talks between Turkmenistan, Pakistan and Afghanistan for a trans-Afghan pipeline for gas supply to Pakistan from Turkmenistan via Afghanistan. But for any such project to allow Afghanistan centre space, peace must be restored in the region along with the development of critical infrastructure. The stable government in Kabul, a future pluralistic Afghan government, is key for peace and security in the region. With an uncertain future of the U.S.-Afghan deal, Pakistan's stakes in ensuring peace in Afghanistan through continued involvement of key stakeholders which now include the Taliban, the Afghan government and the U.S. are extremely high. There will remain areas of cooperation in Afghanistan for other regional stakeholders like Russia, China and Iran for which Pakistan's role as peace broker remains critical.

India

Pakistan and India have fought four wars (1948, 1965, 1971, 1999) over the disputed region of Kashmir. In 19998 after their nuclearisation, both India and Pakistan kept embroiled in several crises with escalation patterns that worry the world about a future nuclear war between the two neighbours. Their recent most crisis in February 2019 brought the two countries even closer to the brink of war. The continuing distrustful and hostile relationship hit an all-time low this year when Narendra Modi-led BJP government on August 5th de-operationalized Articles 370 and 35A and announced the merger of Jammu & Kashmir and Ladakh as Union Territories (UT) of India. Pakistan has refused to accept the Indian decision of the new status of J&K and Ladakh, terming it as illegal. It has requested the international community and the UN to push India to restore status quo ante pre-August 5th, 2019 and work towards finding a peaceful settlement of the Kashmir dispute according to the UNSC Resolutions. The geopolitical dynamics post-Indian August 5th decision do not instil optimism for the Indo-Pak relations in the near future. There is no room for dialogue between the two countries until and unless India re-assigns J&K and Ladakh the disputed status and work towards a solution as per the UN Resolutions. India's unilateral withdrawal from the Shimla Agreement thereby 'internalising' the Kashmir dispute does not bode well for other bilateral agreements and the overall dispute resolution mechanism between the two countries. The Indus Water Treaty is the next test for the two countries, breakdown of which, should India abrogate that and close the tap on Pakistan, will be an act of war. It does not seem likely that India will reverse its decision of August 5th. Therefore, the overall bilateral relations are likely to suffer between the two countries in near to medium term.

China

Pakistan and China are strategic partners in the region. Through a framework of regional connectivity, Pakistan has become a central player in helping China realise its dream of reviving the ancient Silk Route through the colossal, One Belt One Road (OBOR) project. The exclusive corridor via which OBOR passes through Pakistan is the China-Pakistan Economic Corridor (CPEC). China and Pakistan are the only two countries in the region who have realised their geo-strategic and geo-political importance through OBOR and CPEC respectively. Pakistan is critical for China's integration with the rest of Asia, Europe and Africa. Pakistan's economic development promises to get a boost through CPEC in terms of a complete overhaul of its domestic infrastructure including roads, railway networks, communication lines, restructuring and building ports. The idea is that of a prosperous Pakistan which will be in a better position to become the regional trade and development hub it has potential for. To expand CPEC to include Afghanistan, China needs Pakistan's assistance in brokering peace between warring factions in Afghanistan and broader peace and security to enable economic activity. Pakistan, therefore, has a critical role to play for regional security and stability, which will benefit its economic development along with ensuring that China achieves its strategic objectives thereby contributing to the overall regional economic prosperity.

Iran

The turn taken by Pakistan-Iran ties under the present government has surprised the critics of this historically estranged duo. Even though Pakistan has a definitive bend towards Saudi Arabia and Gulf countries, the visit by Prime Minister Imran Khan earlier this year has opened doors for economic and political engagement with Iran. The geopolitical dynamics in the region, however, do not favour Iran due to its hostile relationship with the U.S., which is an extra-regional force in the region. After its withdrawal from the Joint Comprehensive Plan of Action (JCPOA) with Iran, the U.S. has placed more sanctions on Iran and has pressured the world at large. Its neighbouring countries, in particular, to not trade with Iran or foster economic ties. Washington has been influencing the geopolitics in the region which has seriously hampered Iran's economic potential primarily its gas exports. After the U.S. imposed renewed sanctions, Iran has been seeking regional alliances. With the recent Chinese announcement of investment in Iran's oil, gas and petroleum sectors worth $290 billion with an additional $120 billion in Iran's transport and manufacturing infrastructure, and it seemed that some economic relief was on its way.[8] However, since the announcement, several reports evaluating the downward trend in China-Iran bilateral trade since late 2018, have looked at this news with some scepticism.

Moreover, no official confirmation from either the Iranian or the Chinese side has come out in support of this news.[9] With China still reluctant, Iran's economic isolation is not quite over yet. Pakistan's present weak economic condition also does not allow it to complete the Iran-Pakistan Gas Pipeline project. However, as Pakistan's economic conditions improve, there is hope that the Iran-Pakistan Gas Pipeline project might find a new life.

Regional Politics and Economic Influences on Pakistan

The politics of South Asia, Central Asia and the Middle East, converge at depicting the region as an arena of great power politics. There are several competing influences on the countries in this region, which are notable.

First, the politics and economics of the region are not influenced by regional players alone but by outside powers, especially the United States. For the past 18 years, U.S. troops' presence in Afghanistan has created physical space for the United States to influence the political and strategic dynamics in the region

8 Ariel Cohen, "China's Giant $400 Billion Iran Investment Complicates U.S. Options," Forbes, September 19, 2019 https://www.forbes.com/sites/arielcohen/2019/09/19/chinas-giant-400-billion-iran-investment-snubs-trump/

9 Jacopo Scita, "No, China isn't Giving Iran $400 Billion," Bourse and Bazaar, September 20, 2019 https://www.bourseandbazaar.com/articles/2019/9/20/no-china-isnt-giving-iran-400-billion

directly. Even with a smaller military footprint in Afghanistan and Syria in coming years, South and Central Asia and the Middle East will remain important in America's strategic calculus. However, one shift is imminent. As Central Asia bends towards China under the new geopolitical and geo-economic shift, it is moving away from the Euro-Atlantic community and broadly American influence. Central Asia's new security and economic partners in the region will mainly be Russia and China. Similarly for South Asia in general and Pakistan in particular, CPEC is a project which will shape Pakistan's future economic and political outlook in the region pushing Pakistan to seek regional partners for social and economic integration.

The American attempts in the initial decades since the independence of the Central Asian states centred around transforming them into free-market economies focusing on the transition to democracy and breaking Russia's monopoly in the Central Asian oil and gas sector. However, Russia and China have reclaimed their space in the oil and gas sector in Central Asia due to a shift in American priorities in the region. America is distracted by several other crises in the region: withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and sanctions on Iran, the Ukrainian crisis, Syrian and Yemen wars, OBOR, and expansive Chinese presence in the Indo-Pacific. These distractions come bearing a cost for the U.S. in shape of loss in the political influence which amid the assertive Russian and Chinese ambitions in the region, is hard to regain.[10] Pakistan too is at the cusp of this alliance transition in the region.

Second, China's rising political and economic influence[11] in the region is winning it more regional partners who are breaking away from the traditional alliance politics to consider forging ties with China and benefit from its economic affluence. China's engagement with regional associations like the Shanghai Cooperation Organization (SCO) and the Association of Southeast Asian Nations (ASEAN) reveals China's seriousness about regional multilateralism and its leading role in bringing the region together under its political and economic clout. China's regional integration approach through these multilateral organisations is strategic, which aims at generating a positive influence on partner countries in the region. Both China and Russia view these regional organisations important in their efforts to alter the U.S. based international order, especially when it comes to the Asian region.[12] While it is an ambitious goal, the countries in the region are both reluctant and not yet completely ready to transition from a Western, U.S.-led rules-based world order to Eastern, Russian-Chinese led Asian order. However, this might change in the next two decades.

Previously an observer, Pakistan was admitted as a full member in SCO in 2017 along with India. SCO is the first multilateral organisation created by China in 2001, and inclusion of the two hostile neighbours in SCO provides China with the space to assert its political influence on both countries given its independent bilateral relations with India and Pakistan. Post-Pulwama crisis, in February 2019, India conducted aerial strikes inside Pakistan in the Balakot region, Khyber Pakhtunkhwa (KP) province. China and Russia

10 Gemma Stewart and Sumaya Quillian, "Sitting on the Sidelines? U.S. Decline in Central Asia," Pacific Council on International Policy https://www.pacificcouncil.org/newsroom/sitting-sidelines-us-decline-central-asia

11 Scott Blakemore, "Chinese Regionalism: China's Engagement with ASEAN and SCO," Culture Mandala: Bulletin of the Centre for East-West Cultural and Economic Studies, Vol. 11, No. 1, Sep-Dec 2014, pp 22-28 https://pdfs.semanticscholar.org/a646/e3888d6b52dd80ff235f2d7d169d4ab85da6.pdf

12 Mark N. Katz, "The Shanghai Cooperation Organization: A View from the U.S.," in Akihiro Iwashita, ed., Toward a New Dialogue on Eurasia: The Shanghai Cooperation Organization and Its Partners (Hokkaido University Slavic Research Center, 2007) http://src-h.slav.hokudai.ac.jp/kaken/iwashita2007/02katz-eng.pdf

through SCO offered both India and Pakistan to use SCO Regional Anti-Terrorist Structure (RATS) to defuse tensions.[13] Historically, China has not intervened in Indo-Pak crises and has always offered quiet back-channel diplomacy to ease tensions between the two. However, as SCO evolves into a larger body under China's leadership, it is experimenting with asserting political influence to manage regional crises.

China's evolving political influence in the region can also be ascertained through its open stance against the Indian decision to strip Jammu & Kashmir and Ladakh of their disputed status post-August 5th. China controls Aksai Chin which borders Ladakh. Chinese official statement post-Indian decision to make Ladakh a Union Territory, stated: "China always opposes India's inclusion of Chinese territory in the western section of the China-India boundary under its administrative jurisdiction… This position is firm and consistent and has never changed. The recent unilateral revision of domestic laws by the Indian side continues to undermine China's territorial sovereignty, which is unacceptable and will not have any effect."[14]

Several CPEC projects are also planned to pass through the disputed territory of Gilgit-Baltistan and Azad Jammu & Kashmir, administered by Pakistan. The new and changing geopolitics of Kashmir has given China fresh space to exert its political influence in the region and has emerged as a third actor in this protracted Indo-Pak dispute.

Pakistan welcomes China's political influence in the region, especially on the Kashmir crisis with India. Pakistan has also approached the U.S. to pressure India to lift the curfew from the Indian Occupied J&K. It has dismissed India's decision of changing the disputed status of the Kashmir region across LoC as illegal. While the U.S. economic influence in the region is decreasing, U.S. political influence for countries like Pakistan and others in its immediate neighbourhood in South Asia is far from being replaced by either China or Russia in the near future. Historically, the U.S. has played a critical role in crisis management between India and Pakistan and in the foreseeable future, will continue to broker peace between the two antagonists without eroding its security portfolio. This is the one domain the U.S. refuses to give up to China or any other strategic competitor in the region.

The Asian Century is on the horizon, and there is no denying it. Cooperation and competition underline Chinese and Russian economic and political influences in the region, a newly- found space that both countries refuse to cede to the U.S. However, the transition might not come as early as some expect. With U.S. boots still on the ground in Afghanistan, it keeps a keen eye on China's OBOR and CPEC's progress.

Pakistan is carefully balancing both Chinese and American priorities in the region, a tough act but one for which Pakistan is strategically poised.

Regional Connectivity: Challenges and Opportunities for Pakistan

The present regional landscape is ripe for Pakistan to benefit from given political and economic connectivity opportunities. However, there is a need for Pakistan to address some significant challenges to get integrated into the evolving regional order. These challenges for Pakistan are both political and economic.

13 Eva Seiwert, "India-Pakistan Tensions Test the Shanghai Cooperation Organization's Mettle," The Diplomat, March 23, 2019 https://thediplomat.com/2019/03/india-pakistan-tensions-test-the-shanghai-cooperation-organizations-mettle/

14 Aneela Shahzad, "Geopolitics of Kashmir," The Express Tribune, November 7, 2019 https://tribune.com.pk/story/2094874/6-geopolitics-of-kashmir/

Political Challenges: Regional Outlook

The two foremost political challenges for Pakistan that are impediments for regional connectivity are its unsettled relationships with India and Afghanistan.

South Asia houses two nuclear-armed countries, India and Pakistan, that share a disputed border, the Line of Control (LoC). India has tried to change the disputed status of Kashmir in contravention of international law and has merged J&K and Ladakh as its Union Territories. Pakistan has not accepted India's decision. It has sought the support of the international community to pressure India to accept the disputed territorial status of Kashmir and lift the brutal curfew imposed on eight million Kashmiris since the announcement of its illegal action on August 5th, 2019. Earlier this year, India and Pakistan fought a limited war under the nuclear umbrella when in February 2019, India attacked Pakistan's Balakot region, inside KP province post-Pulwama crisis in which a Kashmiri suicide bomber attacked and killed 40 Indian paramilitary soldiers. In retaliation to Indian Balakot strikes, Pakistan shot down two Indian jets, captured an Indian pilot (released within a day of his capture) and bombed India across the LoC. This limited war coupled with Indian annexation of J&K and Ladakh does not bode well for the future of the two nuclear-armed neighbours and their regional cohesiveness in general.

The political atmosphere in South Asia has been extremely tense this year, and the situation does not seem to get better in the foreseeable future. For the past couple of years, the South Asian Association for Regional Cooperation (SAARC) has also been held hostage to this duo's rivalry and not been functioning to its optimal potential. One of the contentious issues for SAARC is the consideration of full membership for China, which currently is an observer along with the United States, Australia and the European Union. Three SAARC countries, Pakistan, Nepal and Sri Lanka are supporting China's full membership whereas India is against giving China more room for influencing smaller SAARC countries. China can play an effective role in enhancing South Asian regional stability and in bringing together India and Pakistan to resolve their differences. However, it cannot happen without Indian cooperation. Thus, the future of Pakistan's connectivity with other countries in South Asia is hostage to its relationship with India, which is bigger in size and influence, dictates the politics of the smaller countries in South Asia.

The second most important political challenge in regional connectivity for Pakistan comes from Afghanistan. Pakistan-Afghanistan relations have been challenging since 2001 when Pakistan decided to support the U.S. in its Global War on Terrorism post 9/11. Under Trump administration, towards the end of its first term, the U.S. has expressed its desire to minimise its troops' presence in Afghanistan through a gradual withdrawal of 14,000 American soldiers, bringing the number down to 5,000 in Afghanistan. At the exclusion of the Afghan government, the U.S. wanted a deal with the Taliban with solid counterterrorism assurances. Amid continuous attacks on U.S. forces and Afghan citizens claimed by the Taliban, the deal is now temporarily off the table, cancelled by President Trump. However, Pakistan needs to safeguard its interests in the future of Afghanistan. The post-settlement political and security conditions that would suit Pakistan and provide stability to Afghanistan will be the ones in which any future Afghan government will be a pluralistic government with representation from the Taliban and other Afghan political groups. While there is a huge trust deficit between the Taliban and the ruling political elite in Afghanistan, Pakistan can help bridge that gap and bring all parties to the table to discuss the future of a coalition government in Afghanistan. To include Afghanistan into CPEC and connect it with China, Pakistan needs to ensure safety and security in the region but most importantly needs stability in its immediate neighbourhood. Therefore, Pakistan's role is critical in ensuring that the U.S.-Taliban deal is back on the table and that the U.S. troops withdraw from the region peacefully.

Currently, the politics of the U.S. troops' withdrawal and lack of intra-Afghan dialogue between the Taliban and the Afghan government overshadow the opportunity for regional connectivity between China, Afghanistan and Pakistan. It is in Pakistan's national interest to effectively deal with this challenge to benefit from political and economic integration opportunities that await all three countries in the region.

Economic Challenges and Regional Opportunities for Connectivity

South and Central Asian states are benefitting from the two rapidly growing Indian and Chinese economies. Central Asia's position affords it access to the Asian and European markets which collectively account for more than two-thirds of global trade, and two-thirds of world GDP.[15] China wants to connect with Central Asia by exploring the western land route, which is much cheaper for China as opposed to the eastern sea route. Therefore, there is much emphasis on reopening ancient trade routes which will connect Central to South Asia. In this politics of economic corridors, Pakistan can survive if it surmounts the incredible challenge of fixing its economic backbone. According to the World Bank, Pakistan's financial flow boosted in FY19 due to bilateral inflows from China, UAE and Saudi Arabia. Pakistan's macroeconomic conditions are set to improve by FY21 when the fiscal management and human development-related structural reforms take effect. Recently, Pakistan was added to the list of top10 business climate improvers due to the enactment of six regulatory reforms undertaken by the government. From 136 last year, Pakistan came to the rank of 108, improving 28 places in the global Ease of Doing Business rankings. In December 2019, Moody's Investors Service revised Pakistan's sovereign credit rating outlook from negative to stable. This outlook builds on the ongoing fiscal reforms being undertaken by the present government, which help reduce the risks related to debt sustainability. While Pakistan's overall fiscal health remains weak due to currency depreciation and higher debt levels, a stable outlook for Pakistan reflects on Pakistan's growth potential.[16] This is great news for Pakistan. However, it is a long road until Pakistan is economically strong to connect regionally with other South and Central Asian countries and chip in its share to regional prosperity.

There are plenty of opportunities for regional connectivity. South Asia as a region has a low growth rate averaging at 7 per cent and regional connectivity among South Asian countries remains the lowest in the world due to collective slowness of regional growth rate despite the two top rising economies of India and China. India and Pakistan have proposed the overland transport corridors under the "SAARC Regional Multimodal Transport Study, The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation(BIMSTEC) Transport, Infrastructure and Logistics Study (BTILS), the Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM), the International North-South Transport Corridor (INSTC) connecting India with Iran and Central Asia countries and the ECO regional transport

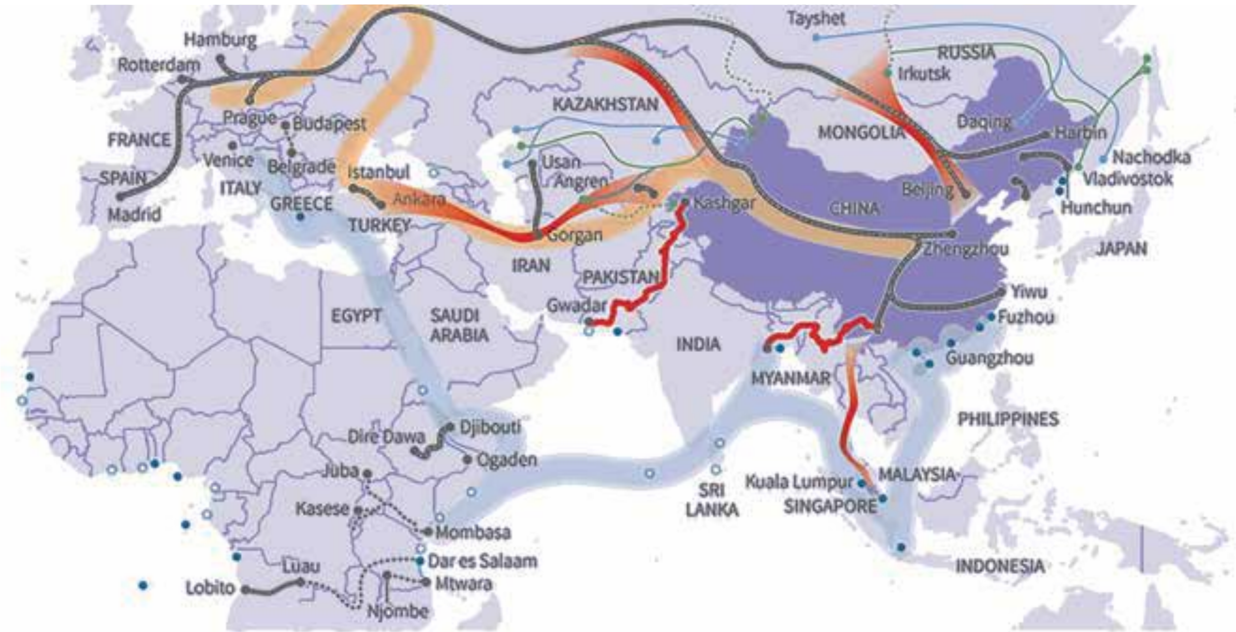
15 "Wolfgang Fengler and Paul Vallely, "Connecting Central Asia to the World," Brookings Institute, 2019 https://www.brookings.edu/blog/future-development/2019/09/09/connecting-central-asia-to-the-world/

16 "Moody's Raises Pakistan's Outlook to Stable," Newsweek Pakistan, December 02, 2019 https://www.newsweekpakistan.com/moodys-raises-pakistans-outlook-to-stable/

framework."[17] These corridors are an excellent example of regional connectivity initiated by SAARC countries. In addition to these multilateral economic connectivity initiatives, countries in the region are trying to connect bilaterally and trilaterally to achieve economic integration. An excellent example of such multi-regional connectivity is the CPEC project through Gwadar, deep-sea port in Pakistan which has the potential to connect trading routes in South Asia, Central Asia, Middle East and Africa. Gwadar is much closer to Dubai and shipping lines in the Persian Gulf which will provide China with an alternative to the politically hostile Strait of Malacca.

One challenge that is both political and economic for Pakistan is the U.S. objection to CPEC and OBOR given the latter being the architect of the prevalent world economic order and Pakistan's need for IMF bailout. The often projected narrative about OBOR is that it is China's new game, on the lines of the Marshall Plan of economic recovery in Europe in 1948, which was a U.S. initiative.[18] OBOR will connect 70 countries, almost 65 per cent of the world's population. Once operational, it aims at contributing around 40 per cent of global GDP, facilitating 30 per cent of global trade through OBOR routes. Given this ambitious projection, some fear that Sinocentric economic order is attempting to replace the U.S.-led economic order.[19] The most controversial statement on OBOR came from Gen. James Mattis in his appearance before the U.S. Senate Committee on Armed Services which held a session on 'Political and Security Situation in Afghanistan' in 2017. The Committee asked Gen. Mattis, "what role do you see China playing in Afghanistan, and particularly related to their "One Belt,

Fig. 1.1. China's Belt and Road Initiative



Source: Reuters

17 Muhammad Faisal, "CPEC and Regional Connectivity: Navigating the South Asian Politics," Strategic Studies, Vo. 39, No.2, Summer 2019 http://issi.org.pk/wp-content/uploads/2019/07/1-SS_Muhammad_Faisal_No-2_2019.pdf

18 Andrew Small, "The Backlash to Belt and Road: A South Asian Battle over Chinese Economic Power," Foreign Affairs, February 16, 2018 https://www.foreignaffairs.com/articles/china/2018-02-16/backlash-belt-and-road

19 Gal Luft, "China's Infrastructure Play: Why Washington Should Accept the New Silk Road," Foreign Affairs, September/October 2016 https://www.foreignaffairs.com/articles/asia/china-s-infrastructure-play

One Road" strategy, things that we [U.S.] should be looking at in terms of our dealings in Afghanistan?" It is instructive how Gen. Mattis replied to this question. He contextualised it in terms of OBOR passing through 'disputed territory' (reference Kashmir, which the U.S. has historically maintained, is a bilateral issue between India and Pakistan). He replied, " I think in a globalised world, there are many belts and many roads, and no one nation should put itself into a position of dictating "One Belt, One Road." That said, the "One Belt, One Road" also goes through disputed territory, and I think that in itself shows the vulnerability of trying to establish that sort of a dictate."[20] China and Pakistan firmly rejected Mattis' statement on OBOR dismissing U.S. concerns about the UN-backed OBOR initiatives and agreements. The Chinese foreign office maintained, "We have repeatedly reiterated that CPEC … is not directed against third parties and has nothing to do with territorial sovereignty disputes and does not affect China's principled stance on the Kashmir issue."[21]

As Pakistan progresses with CPEC projects, together with China, it must address U.S. concerns which are more strategic than economic. There are political and economic challenges for countries in South and Central Asia as a region that has slowed down the progress of regional economic integration. However, the opportunities are greater than the challenges, something which makes this region critical for playing an important role in the global economy.

20 Transcript, United States Senate Committee on Armed Services, October 3, 2017, pp 61-62 https://www.armed-services.senate.gov/imo/media/doc/17-82_10-03-17.pdf

21 "Pakistan, China snub US Objection over CPEC Project," The Express Tribune, October 7, 2017 https://tribune.com.pk/story/1525336/china-rejects-us-objections-cpec/

Chapter Two

Current Status of China Pakistan Economic Corridor (CPEC)

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Current Status of China Pakistan Economic Corridor (CPEC)

China's Belt and Road Initiative (BRI) formerly known as One Belt One Road (OBOR), is a strategic initiative and China Pakistan Economic Corridor (CPEC) is a flagship project of the BRI in Pakistan launched in 2013. Through projects under BRI, China aims at overcoming its *Malacca Dilemma* by gaining access to new ports for political, commercial and military purposes. Malacca is a narrow waterway between Indonesia and Malaysia with Singapore at its southern tip. China, Japan, Taiwan, and South Korea, all rely on Malacca Strait for their trade by sea since Malacca connects the South China Sea, the Pacific Ocean and the Indian Ocean. China's 60 per cent of trade travels by sea; therefore, the Strait of Malacca plays a critical role in ensuring Chinese economic security, making the South China Sea a critical crossroad of trade.[22] Since the Strait is the shortest route between the Pacific and Indian Oceans, it receives heavy traffic and is generally considered a strategic chokepoint.

China wants to minimise its overreliance on Malacca Strait by diversifying its access to alternative sea routes. In case of a conflict between the U.S. and China and Indo-U.S. collusion against China, China's access to Malacca Strait can be blocked since Singapore located at the mouth of the Strait's eastern opening, is a staunch U.S. ally. The Sunda Strait is an alternative, but it is even narrower than the Malacca Strait and thus not suitable as a passageway. The Lombok Strait passage provides a longer route for China adding shipping costs which are not suitable for medium-to-long-term trade if Malacca is closed.[23]

BRI projects provide China alternative land and sea routes it needs to connect to more than 70 countries of the world. Through CPEC, Pakistan offers China an alternate route for energy security. Pakistan's Gwadar Port and other under-construction ones enable China to protect its Sea Lines of Communications (SLOCs), which in time, will allow China to dominate the Indo-Pacific region. It will also allow the People's Liberation Army Navy (PLAN) to secure China's strategic interests.

CPEC and Pakistan's Economy

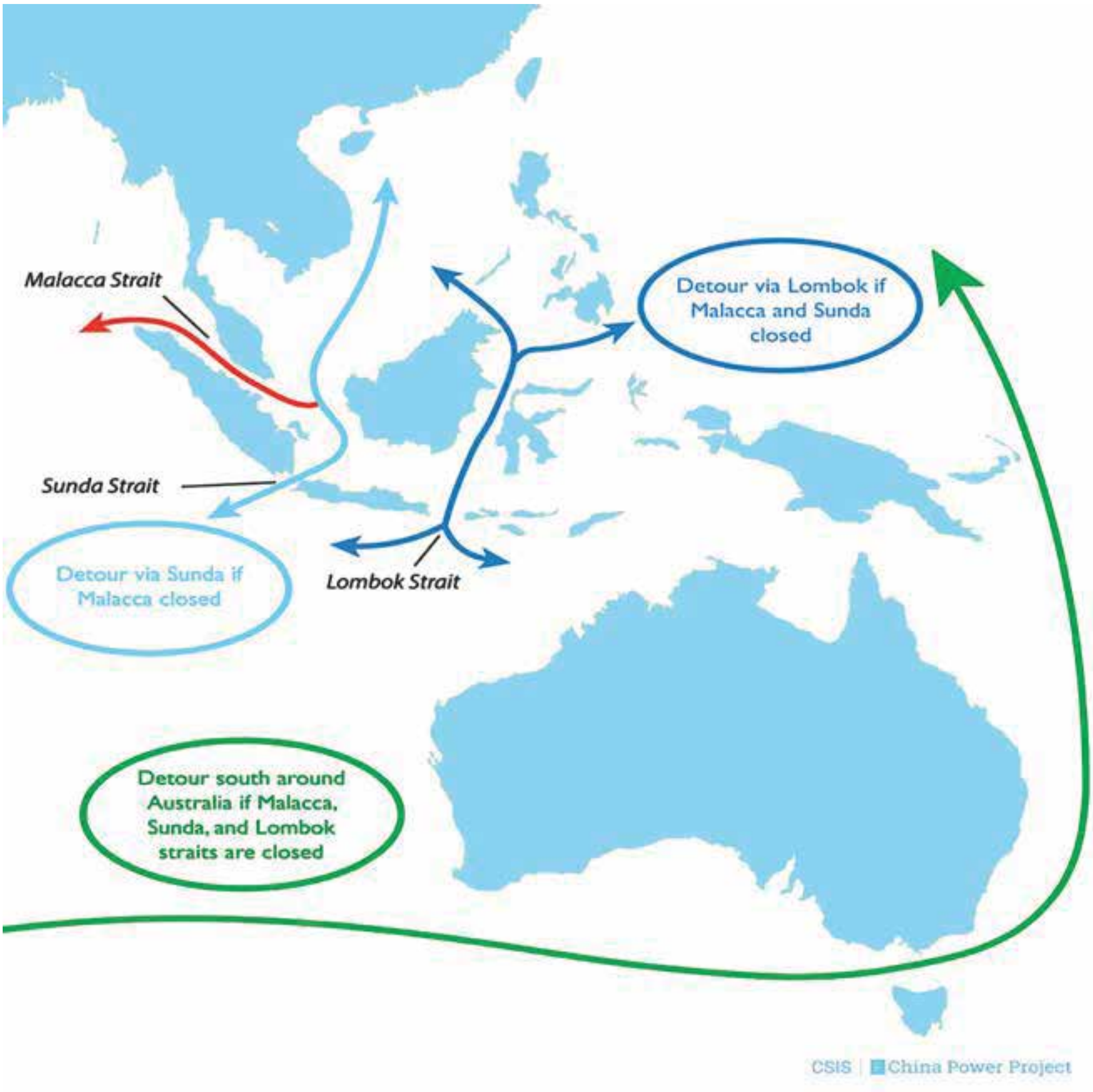
With an investment of more than US$62 billion in Pakistan's power, industrial, infrastructure and agriculture sectors, CPEC aims at developing Pakistan's economy by targeting to increase Pakistan's GDP growth rate to 7.5% by 2030. According to research conducted by the CPEC Center of Excellence, Ministry of Planning, Development and Reform, CPEC projects aim to create 575,000 direct jobs and over one million indirect jobs once Special Economic Zones (SEZs) will be developed in Pakistan's four provinces.[24] Some other studies estimate much larger numbers approximating creation of

22 "How much trade transits the South China Sea?," Center for Strategic and International Studies, 2016 https://chinapower.csis.org/much-trade-transits-south-china-sea/

23 Abdullah Khan, " The Malacca Dilemma: A Hindrance to Chinese Ambitions in the 21st Century," https://bpr.berkeley.edu/2019/08/26/the-malacca-dilemma-a-hindrance-to-chinese-ambitions-in-the-21st-century/

24 Misbah Saba Malik, "CPEC Special Economic Zones to create 575,000 direct jobs in Pakistan," Xinhua, November 30, 2019 http://www.china.org.cn/world/2019-11/30/content_75463827.htm

Fig. 2.1. Malacca Strait: The Shortest Route for China's Trade by Sea



Source: CSIS

more than two million jobs in Pakistan through various CPEC projects by 2030.[25] However, as of January 2019, nine early harvest projects were completed, and with 13 projects under construction. These projects created 70,000 jobs with a total investment of US$19 billion. The Ministry of Planning, Development & Reform aims at launching the 'Job Creation Estimates and Workforce Profiling' document. This document is expected to provide more details about employment generation through CPEC projects, Pakistani to Chinese labour ratio

25 Faisal Mehmood Mirza et al., "Impact of China-Pakistan economic corridor on Pakistan's future energy consumption and energy saving potential: Evidence from sectoral time series analysis", Energy Strategy Reviews 25 (2019): 34-46

and vocational training opportunities required for skilled labour to undertake projects planned in CPEC. There are some desirable benefits of CPEC compared to some actual benefits. According to Senator Sherry Rehman, "the scale of the [CPEC] promise is so large that it invites anxiety as well as awe in its sweep." She rightly emphasises that the government should focus on "separating myth from reality and setting clear goals for inclusive planning at the federal, provincial and grassroots level."[26]

So far one can only base a roundup of CPEC on the official figures provided by the government of Pakistan. According to official statistics, "the Chinese government provided US$5.874 billion in concessional loans to Pakistan, with a consolidated interest rate of only 2%, far lower than the average interest rate. The Chinese government also provided US$143 million in interest-free loans for the Gwadar East-Bay Expressway project and free assistance for some livelihood projects in Pakistan." For meeting Pakistan's energy shortage, "currently, 12 projects with a total installed capacity of 7,240 MW have been commenced or put into operation. Through five years of construction, energy projects under the CPEC framework added 3,340 MW of electricity to Pakistan by early April 2019, accounting for 11% of the country's total installed electricity capacity, thus greatly alleviating the power shortage in Pakistan. In addition to power generation projects, China built the Matiari–Lahore ±660kV HVDC Transmission Line Project in Pakistan- the second HVDC transmission line in the world- to address the ageing of Pakistan's power grid."[27] Pakistan needs to be better equipped, resourced and skilled across all provinces to benefit from CPEC with an urgent need for a capacity reform on a priority basis.

Special Economic Zones (SEZs) Under CPEC

Under Special Economic Zones (SEZs), nine industrial zones under CPEC are being constructed aimed at promoting Pakistan's industrial growth. These projects include Rashakai Economic Zone, M-1, Nowshera, Khyber Pakhtunkhwa, China Special Economic Zone Dhabeji, Thatta, Bostan Industrial Zone, Allama Iqbal Industrial City (M3), Faisalabad, ICT Model Industrial Zone, Islamabad, Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi, Special Economic Zone, Mirpur AJ&K, Mohmand Marble City and, Moqpondass SEZ Gilgit-Baltistan.[28]

The main objective of these SEZs is to enhance Pakistan's socio-economic activity by attracting foreign direct investment (FDI), implement economic reforms through exclusive trade policies for the zones, and to generate employment opportunities. The two main advantages from SEZs for any country include a boost in its exports and FDI given fiscal and non-fiscal incentives. To benefit from SEZs under CPEC, 'Pakistan Special Economic Zones Act, 2012' was passed by the Parliament to create SEZs across Pakistan. SEZs are governed by Board of Approvals (BOA), which is chaired by the Prime Minister of Pakistan with the Minister of Finance as its vice-chairperson, members from several other relevant ministries and members of the board of investment (BOI). The SEZ Act 2012 was amended in 2016.

SEZs in Pakistan provide certain fiscal benefits and incentives[29]:

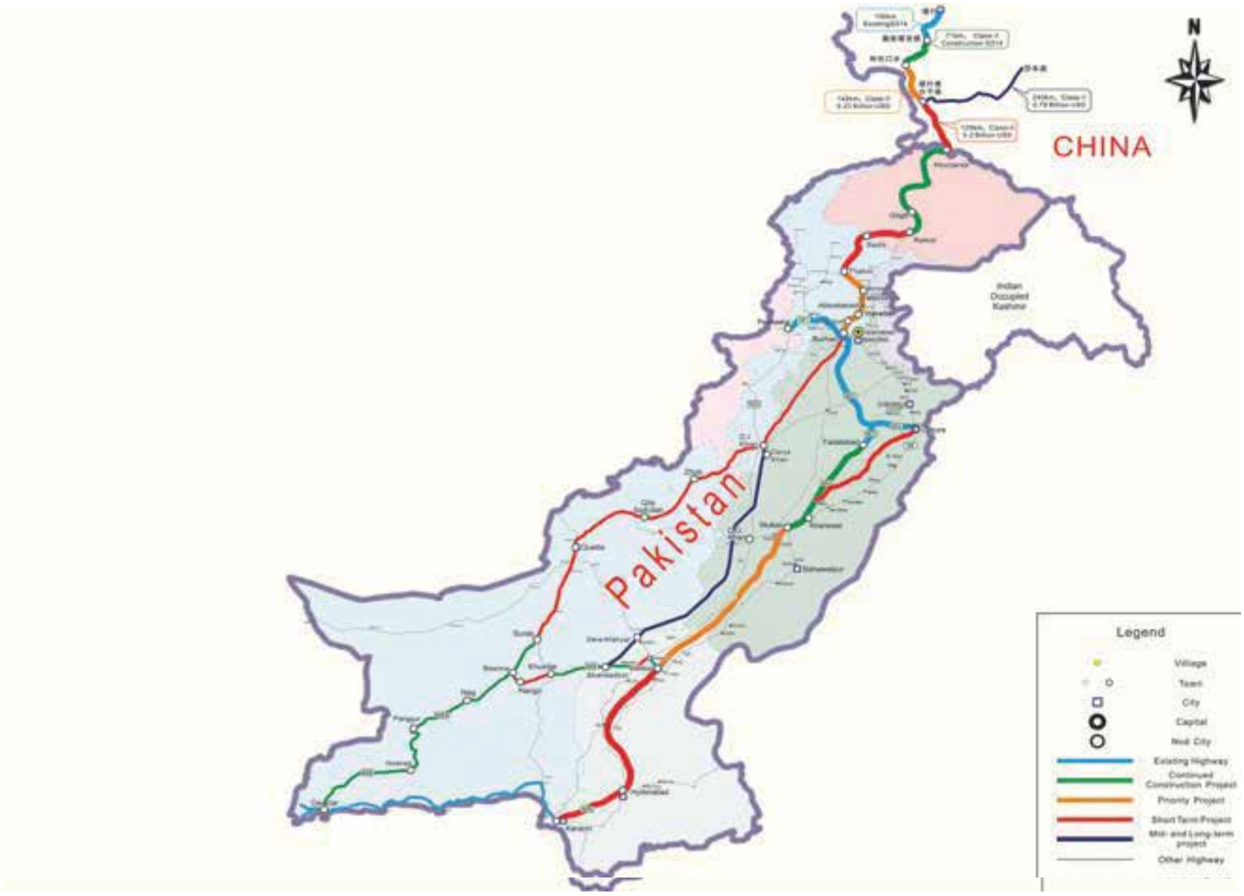
26 Sherry Rehman, "CPEC 2.0: The Promise and the Peril," DAWN, September 01, 2019 https://www.dawn.com/news/1502790

27 "CPEC: Progress and Prospects," The CPEC Portal, April 26, 2019 http://www.cpecinfo.com/news/cpec-progress-and-prospects/NzAwMA==

28 CPEC Special Economic Zones http://cpec.gov.pk/special-economic-zones-projects

29 Special Economic Zones Act, 2012 https://invest.gov.pk/sites/default/files/2019-01/SEZAct2016e.pdf

Fig. 2.2. Highways Network of CPEC



Source: CPEC Maps http://cpec.gov.pk/maps

1) For Developers:

"(a) one-time exemption from all customs duties and taxes on plant and machinery imported into Pakistan except the items listed under Chapter 87 of the Pakistan Customs Tariff, for the setting up of an SEZ subject toverification by the BOI; and

(b) exemption from all taxes on income accruable concerning the development and operation of the SEZ for five years, startingfrom the date of signing of the development agreement."

2) For Zone Enterprises:

"(a) one-time exemption from custom duties and taxes on import of plant and machinery into SEZ except items listed under Chapter 87 of the Pakistan Customs Tariff, for installation in that zone enterprise subject to verification by the BOI; and3(b)exemption from all taxes on income for enterprises commencing commercial production by the thirtieth June 2020, in the SEZs for the next ten years; "provided that exemption from all taxes on income for those zone enterprises or firms which commence commercial production after the aforesaid date shall be for the next five years"

Under CPEC Industrial Cooperation, Pakistan and China through mutual agreement have agreed on the following high priority sectors: Iron & Steel, Agriculture, Textile, Mines & Minerals and, Petrochemicals. Recent research on SEZs in

Pakistan shows that to lift Pakistan's economy, it requires developing and expanding its industrial base. And in that realm, industrial zones under CPEC will help Pakistan achieve that level of industrialisation.[30] However, Pakistan should learn lessons from other SEZs in developing countries to avoid certain pitfalls. Research on African SEZs shows that legislations, rules and legal framework were not updated over the years to function properly. The cost of doing business in African countries with SEZs highly lacked fiscal incentives which though existed on paper, never did translate to benefit developers or zone enterprises. The non-fiscal incentives, including customs clearance, foreign exchange, registration and licensing, did not compliment fiscal incentives like tax holidays. Overall lack of desire for prosperity and ownership of SEZs made SEZs politically redundant.[31]

Challenges for SEZs Under CPEC

To benefit from the SEZs under CPEC, Pakistan must strengthen the infrastructure which includes roads, railway network, provision of electricity and water in SEZs. This infrastructure development itself invites foreign investors, which accomplishes the goal of foreign investment through CPEC. Pakistan also must rank high in ease of doing a business category, and even though its recent rankings improved, complacency must not set in.[32] Pakistan's SEZ law is problematic on various levels that, "instead of ceding bureaucratic control to create breathing room for private enterprises, it adds layers of bureaucratic approvals, creates areas of overlapping jurisdiction and poorly allocates regulatory authority." Unless and until Pakistan changes its laws to allow SEZs to resolve their regulatory matters becoming 'one-stop-solution' instead of being centrally controlled by the Board of Investment based in Islamabad, it will suffer from "incentive misalignment typical of countries where SEZs have not worked." [33]

Irrespective of which government is in power in Pakistan, processes and institutions must be in place with a clear mandate to facilitate foreign investors to ensure continuity in policies concerning SEZs. Pakistan, being the host country, must have fully trained outfits to undertake zone management to connect the zone developers and zone enterprises for effective management of foreign industries. Overall, Pakistan's economic indicators at the macroeconomic level need to stabilise to encourage foreign investors. Countries such as Pakistan where political cycles are shorter, need to wait five to ten years for SEZs to increase FDI flows or provide a significant expansion of exports. Therefore, the biggest challenge for Pakistan, perhaps in boosting its economy through exports via SEZs under CPEC is a political commitment which should go beyond party lines to become a national commitment. Upon transition, if the incoming government will change the policies enacted by its predecessor, then SEZs will not be able to have a dynamic effect on Pakistan's economic prosperity.

One challenge for Pakistan in developing SEZs under CPEC relates to certain assumptions and expectations at two ends, one with the provincial authorities managing SEZs and the other with their Chinese counterparts. For example, the total project cost for the Rashkai

30 Lianh Tong, "CPEC Industrial Zones and China-Pakistan Capacity Cooperation," Strategic Studies, Vol. 34-35, Winter 2014 and Spring 2015, No. 4 and 1 http://issi.org.pk/wp-content/uploads/2015/12/Liang-Tong_3435_SS_41_20142015.pdf

31 Muhammad Muzammil Zia et al., "Special Economic Zones (SEZs): A Comparative Analysis for CPEC SEZs in Pakistan," The Pakistan Journal of Social Issues, Special Issue (June 2018), pp 37-60 https://uog.edu.pk/downloads/journal/5_Special_Economic_Zones_SEZs.pdf

32 "Pakistan jumps 28 spots on World Bank's ease of doing business ranking," DAWN, Sep 21, 2019 https://www.dawn.com/news/1512680

33 Morial Shah, "No Magic," The Express Tribune, December 20, 2018 https://tribune.com.pk/story/1870547/6-no-magic/

SEZ, which is one of the nine SEZs under CPEC, did not include the land cost. For this project, the Khyber Pakhtunkhwa Economic Zones Development and Management Company (EZDMC) had signed a joint venture agreement with the China Roads and Bridges Corporation (CRBC). Moreover, those landowners through which the government had purchased the land, demanded enhanced compensation amount.[34] In China, SEZs are developed on state-owned land. But in Pakistan, to develop SEZs, the idea cannot be directly imported through China and implemented on the ground due to different reality: private property and ownership rights and politics of real-estate developers. Unless these issues are reconciled between the state and private citizen, it will be difficult to benefit from SEZs with stalled progress and pitfalls not conceived ahead.

In the energy sector portfolio during CEPC's first phase, nine projects were completed providing 5,320 MW costing $7,899 million. Eight projects are under construction to provide an additional 4,470 MW to cost $ 9,549.927 million. Four projects are planned to provide 2,544 MW at the cost of $4,470.2 million. During the first phase in Gwadar, the total number of projects that are ready to take off is 10, with an estimated cost of $1377.32 million. The first phase is almost over, in which significant work has been completed in both sectors.[35]

Pakistan-China Business Forum under CPEC is being set up, which aims at promoting trade between the two countries. With free access to the export of 313 Pakistani items, CPEC has the potential to boost Pakistani exports in the future. However, for Pakistan to benefit from this economic corridor, it must strengthen political and economic stability in the country to complete the planned CPEC projects on infrastructure development, energy, industrial and agriculture sectors.

The Second Phase: CPEC and Pakistan's Socio-Economic Development

The socio-economic indicators focus on the sustainable well-being of the individual, the family or society as a whole. Social and economic policies are designed to uplift a population's standard of living through economic opportunities and investment by its government in improving the overall human capital. Pakistan, in its seventh decade of independence, is still trying to discard its historical baggage of colonialism, especially where institutional influences and class structures are concerned. It has had a slow start in accumulating capital and building productive capacity to alleviate poverty in its society. For Pakistan to improve its socio-economic indicators, it must become an export-led economy, increasing its exports to attract FDI leading to less unemployment and equal income distribution. CPEC provides Pakistan such an opportunity to become an export-led economy, thereby in the long-term contributing to Pakistan's socio-economic development.

While Pakistan is set to benefit from the energy and industrial sector developments under CPEC, Beijing has provided Pakistan with a grant of US$1 billion to undertake projects focusing on uplifting Pakistan's socio-economic development. The Joint Working Group on Socio-Economic Development of CPEC has identified six sectors in which 27 projects will be launched. These sectors are agriculture, health, education, drinking water supply, poverty alleviation and vocational and technical education.[36] Some socio-economic projects to be undertaken during CPEC's second phase include Solar Power

34 Manzoor Ali, "Rashkai SEZ Pitfalls," DAWN, Nov 22, 2019 https://www.dawn.com/news/1504230

35 CPEC Portal http://cpec.gov.pk/news/197

36 CPEC Portal http://cpec.gov.pk/news/195

Lighting Project, Pakistan Vocational Schools Upgradation and Renovation, Smart Classroom Project, Drinking Water Supply, Medical Equipment for Hospitals, Provision of Agricultural Tools and Equipment and, China-Pakistan Joint Agriculture Laboratories & Provision of Tools and Equipment.[37] Projects such as "Balochistan Solar Power Lighting Equipment, Drinking water equipment supply (Solar-powered pumps in KP and Water filtration plants in AJK), and Smart Classroom project for higher education" are in the fast-track category.[38]

Projects under CPEC aim to complement the Sustainable Development Goals (SDGs), and the outlook for Pakistan's socio-economic development is positive overall. The three main components of CPEC, "self-sufficiency in energy, expansion and up-gradation of communication infrastructure, and the process of industrialisation – will enable the country [Pakistan] to make huge strides towards goals seven, eight and nine of the SDGs. These three SDGs involve ensuring access to affordable, reliable, sustainable and modern energy for all (SDG goal seven); promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all (SDG goal eight); and building resilient infrastructure, promoting inclusive and sustainable industrialisation; and fostering innovation (SDG goal nine).[39]

In Pakistan, energy deficiency resulting in power outages has led to the closure of industrial units and factories leading firstly to loss of employment and secondly to decline in exports. It is expected that through CPEC, Pakistan's energy deficiencies will be met and the dilemma of power outages will no longer be a problem. Creation of jobs through various infrastructure development projects, expansion in transport and communication networks and opening of more industries in the SEZs, will help improve the poverty alleviation situation in Pakistan, which is a key SDG as well as one of the main objectives of CPEC. According to some official sources, "CPEC is expected to create about two million direct and indirect employment opportunities across the country. It means about two million families will have better means of livelihood and will subsequently achieve food security (SDG goal two), access to better health services (SDG goal 3), access to quality education (SDG goal four), and access to clean water and sanitation (SDG goal 6)."[40] According to the SDG Index and Dashboard Report 2019, Pakistan's SDG Global rank is 130, considerably lower than Bangladesh, which ranks at 116, India at 115 and China at 39. Under CPEC phase 2 with the socio-economic projects planned, Pakistan has every chance to improve its ranking in the SDG Index.

Various surveys are collecting socio-economic indicators in Pakistan, e.g., "Demographic and Health Survey (DHS), Pakistan Social & Living Standards Measurements (PSLM), Household Integrated Economic Survey(HIES), Multiple Indicators Cluster Survey (MICS), Census of Manufacturing Industries (CMI), and Labour Force Survey". However, it is hard to measure the socio-economic impact of CPEC projects due to "inadequacy of data for bottom layers" as depicted in Fig. 2.2.[41]

37 CPEC Portal: Social Sector Development Projects http://cpec.gov.pk/social-sector-development-projects

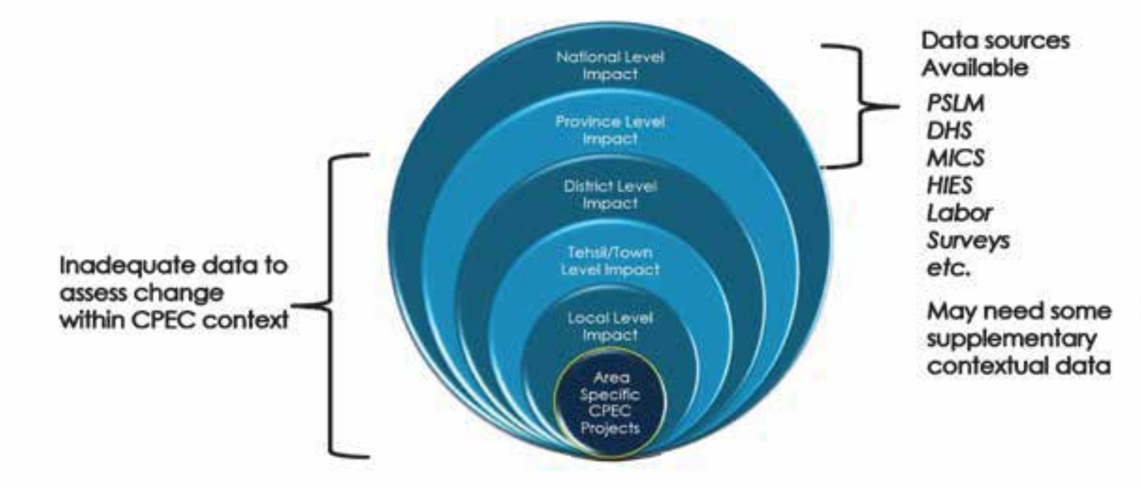
38 Tanveer Ahmed, "CPEC's Social, Economic Projects to begin before 2020," Business Recorder, Nov 14, 2019 https://www.brecorder.com/2019/11/14/544139/cpecs-social-economic-projects-to-begin-before-2020/

39 CPEC Portal, SDGs & BRI http://www.cpecinfo.com/news/sdg-and-the-bri/NTgxMA==

40 CPEC Portal, http://www.cpecinfo.com/news/sdg-and-the-bri/NTgxMA==

41 Amir Khan et al., "Measuring Socio-Economic Impacts of CPEC: A framework for Info-Structure," CPEC Working Paper No. 013/2017 https://cpec-centre.pk/wp-content/uploads/2018/03/Working-Paper-No.-013.pdf

Fig. 2.3. Diagrammatic Representation of Impact Spill for a CPEC Project



Source: Amir Khan et al., "Measuring Socio-Economic Impacts of CPEC: A framework for Info-Structure," CPEC Working Paper No. 013/2017

Pakistan after CPEC: Regional Connectivity Beyond 2030

Pakistan's primary interest in CPEC is economic. After the completion of all CPEC projects by 2030, Pakistan aims to have an improved infrastructure and energy sector, which would reflect positively on the overall enhanced economic indicators of the country. At the end of CPEC, Pakistan's socio-economic dividends are also set to be huge. As discussed in the previous section, Pakistan is likely to achieve major SDGs through CPEC, which centre around education, health, human security, food security, clean water and sanitation, among others. It should help Pakistan improve its SDG Global ranking. The new economic self-confidence by 2030 is likely to place Pakistan in a stronger position in the region to enjoy political and economic relations with other regional countries in its neighbourhood. Afghanistan, Iran, Central Asian States and Russia in its immediate neighbourhood can benefit from CPEC once all projects have completed and Pakistan truly transforms into a hub of regional connectivity. Improved living conditions of its population given new and varied employment opportunities will bring prosperity in Pakistan, leading to peaceful communities and shrinking space for disgruntled groups and organisations.

Pakistan and CAREC in 2030

Pakistan has had the desire to connect with the Central Asian states via Afghanistan to fulfil its energy needs and trade. After CPEC, Pakistan will be in a state to reorient its trade policy to have export-led economy exploring new markets in its neighbourhood which will give a boost to its economy. In this regard, Pakistan's partnership with the Central Asia Regional Economic Cooperation (CAREC) will be critical in advancing Pakistan's economic interests in the region. CAREC is a "partnership of 11 countries and development partners working together to promote development through cooperation, leading to accelerated economic growth and poverty reduction. It is guided by the overarching vision of "Good Neighbors, Good Partners, and Good Prospects."[42] Pakistan

42 CAREC Program https://www.carecprogram.org/?page_id=31

joined CAREC in 2010, and to date, CAREC has invested more than $1.47 billion in transport and trade projects with Pakistan. At the 16th Ministerial Conference on CAREC held in 2017, its new strategic framework titled 'CAREC 2030: Connecting the Region for Shared and Sustainable Development' (CAREC 2030) was endorsed by the ministers to guide CAREC for the next thirteen years.[43]

The Asian Development Bank (ADB) finances the CAREC Corridor Development Investment Program in Pakistan to help strengthen regional connectivity in transport and energy. ADB's strategic aims include "(i) the extension of Central Asia Regional Economic Cooperation (CAREC) corridors to the ports of Gwadar and Karachi, (ii) the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline project, and (iii) transport and trade facilitation with the emphasis on development of economic corridors to expand economic opportunities for communities in surrounding areas."[44]

For Pakistan, CAREC's 2030 Vision will gain traction when CPEC matures in the same year, 2030. By that time, there will be great scope for harnessing the connectivity advantage further as a transit country.

43 CAREC: Pakistan https://www.carecprogram.org/?page_id=9

44 ADB Framework Financing Agreement for CAREC Pakistan https://www.adb.org/sites/default/files/linked-documents/48404-002-ffa.pdf

Chapter Three

Afghanistan at the Crossroads

Chapter Three

Afghanistan at the Crossroads

Afghan Presidential Elections

Current geo-strategic realignments of great powers will have serious ramifications for our region. Afghanistan is at the crossroads of such realignment where the U.S., after eighteen years of military presence, wants to withdraw its 14,000 troops from the country and negotiate with the Taliban for their safe exit.

The fourth Afghan presidential elections took place in Afghanistan on September 28, 2019, the results of which are still pending. Both presidential candidates, Ashraf Ghani and Abdullah Abdullah, have already reported fraud and given the delay in declaration of official results, might not now accept the result if it does not favour one candidate or the other. Irrespective of who wins or the low voter turnout, the elections represent the commitment of Afghan people who came out to vote for a peaceful and progressive Afghanistan. The challenge for the Independent Electoral Commission (IEC) in Afghanistan is timely counting and announcement of the election results to restore its credibility. The elections, however, were not peaceful. UN Assistance Mission in Afghanistan (UNAMA) reported 85 people killed and 373 injured during attacks related to the presidential elections. On the polling day, across Afghanistan in more than 100 reported attacks, 277 casualties were reported out of which according to UNAMA, 263 were attributed to the Taliban.[45] Taliban see low voter turnout in recent elections as their victory depicting their stronghold on large parts of Afghanistan. This misplaced confidence does not bode well for the future of Afghanistan. Afghanistan will be pushed into a fresh cycle of violence from all stakeholders when the IEC will announce the results of the presidential elections.

Future of the Afghan-U.S. Peace Deal

Taliban are controlling more territory in Afghanistan today than at any point since 2001. For the past eighteen years, combat operations against the Taliban and affiliates of Al-Qaeda in Afghanistan have been carried out mainly by the U.S. forces along with NATO-led missions in Afghanistan. Even though Afghan security forces have been trained, advised and assisted by the coalition forces, they have been unsuccessful in defeating or restricting the Taliban in gaining territorial control on several provinces within Afghanistan.

Talks between the U.S. and the Taliban for withdrawal of the U.S. forces from Afghanistan came to a breaking point in September 2019 after intense year-long negotiations for a peace deal. The draft of the peace deal was ready for signatures when President Donald Trump unilaterally announced U.S. withdrawal from the deal.[46] Zalmay Khalilzad, U.S. Special Representative for Afghanistan Reconciliation, was negotiating directly with the Taliban at the exclusion of representatives from the Afghan government, a strategy which did not bode well for the prospects of intra-Afghan peace.

45 "Election related violence claims 85 lives in Afghanistan," UN News https://news.un.org/en/story/2019/10/1049291

46 Peter Baker, Mujib Mashal and Michael Crowley, "How Trump's Plan to Secretly Meet with the Taliban Came Together, and Fell Apart," The New York Times, Sep 8, 2019 https://www.nytimes.com/2019/09/08/world/asia/afghanistan-trump-camp-david-taliban.html

Fig. 3.1. Districts Controlled by Taliban

Source: "Why Afghanistan's government is losing the war with the Taliban" The Economist https://www.economist.com/asia/2019/05/18/why-afghanistans-government-is-losing-the-war-with-the-taliban

The U.S. now has two options in Afghanistan.

First, in the absence of a deal with the Taliban, U.S. could unilaterally withdraw its forces from Afghanistan and send the country back to the pre-2001 state where intra-Afghan factions, militias, Taliban and anti-Taliban forces will fight for power in the country. Regional proxies will resurrect in Afghanistan and chaos will ensue.

Second, if the U.S. gets back on the table with the Taliban, it should make space for the incoming Afghan government also to have representation. The peace deal should be drafted again, announcing lesser U.S. troops presence in Afghanistan. Other previous conditions should remain the same to include, "a timeline and conditions for the drawdown of U.S. forces in return for Taliban pledges to cut ties with al-Qaeda, stop transnational terrorist groups operating from Afghanistan and, importantly, enter intra-Afghan talks."[47]

China is also facilitating an intra-Afghan dialogue for peace and reconciliation to be hosted in Beijing, which shows its commitment to enhancing regional security and stability. In a four-party consultation, the U.S., Russia, China and Pakistan "committed to work with the Islamic Republic of Afghanistan, both government leaders and others, and the Taliban to reach a comprehensive and sustainable peace agreement that ends the war for the benefit of all Afghans and that contributes to regional stability and global security" and "welcomed the Chinese proposal to host the next intra-Afghan meeting in Beijing with the participation of a wide range of political figures of the Islamic Republic of Afghanistan, including representatives of the Government of the Islamic Republic of Afghanistan, other Afghan leaders and the Taliban."[48]

The future of Afghan-U.S. peace deal does not look promising in short to medium term. However, as the U.S. approaches its election cycle, the pressure might generate on the Trump administration to bring U.S. troops home from Afghanistan and live up to its promise. Results of China-hosted intra-Afghan dialogue will also determine if there is space to resurrect the deal.

Pakistan's Security and Economic Interests in the Afghan Peace Process

Pakistan's relations with Afghanistan suffer from historical distrust. The narrow security prism through which Pakistan has viewed this relationship over the years has not won it much support or influence. Geography, however, does not leave much choice for both countries but to find ways to improve their bilateral relations since they share strong ethnic, religious, cultural, linguistic and economic ties.

Pakistan finds itself in a precarious situation where the U.S.-Afghan deal is concerned. On the one side, it has to deal with the political elite in Afghanistan that distrusts Pakistan and has been excluded from the peace process. On the other side are the Taliban and the U.S., with their reliability issues with Pakistan. But from a realist analysis framework, Pakistan has vital stakes in assisting the U.S. in reaching a deal with the Taliban. Pakistan has been calling for Afghan reconciliation for long now. It wants both the Kabul government and the Taliban to settle their differences for the reconciliation and peace to have a chance in the country. Pakistan has diplomatic relations with Afghanistan and will fully support the new incoming government in Kabul once the election results are declared. However, in the long term after U.S. troops withdrawal from Afghanistan, Pakistan wants to see a pluralistic Afghan government where all major factions claiming the power to the throne, are represented.

Pakistan had played the role of an interlocutor in bringing the Taliban to the table to negotiate with the U.S. and had facilitated the talks for more than a year through backchannel diplomacy. In June 2019, President Ashraf Ghani visited Pakistan

47 "Getting the Afghanistan Peace Process Back on Track," The International Crisis Group Oct 2, 2019 https://www.crisisgroup.org/asia/south-asia/afghanistan/b159-getting-afghanistan-peace-process-back-track

48 "U.S., Russia, China and Pakistan Joint Statement on Peace in Afghanistan," Media Note, U.S. Department of State https://www.state.gov/u-s-russia-china-and-pakistan-joint-statement-on-peace-in-afghanistan/

and had a cordial meeting with Prime Minister Imran Khan. Both leaders "agreed to open a new chapter of friendship and cooperation between Pakistan and Afghanistan, based on mutual trust and harmony for the benefit of the two peoples and countries and for advancing the cause of peace, stability and prosperity in the region." Prime Minister Khan stressed that Afghan reconciliation and peace process was a 'shared responsibility' and that " an Afghan-led and Afghan-owned peace process was the only viable option to end the decades-long conflict in Afghanistan."[49] Pakistan in October 2018, released Mullah Abdul Ghani Baradar, Taliban's co-founder captured in Pakistan in 2010, to join U.S. envoy Khalilzad in Doha peace talks with the Taliban. The U.S. reluctantly thanked Pakistan for facilitating and supporting the Afghan reconciliation process.[50]

Pakistan's role and stakes in U.S.-Taliban peace talks and intra-Afghan reconciliation process are misunderstood for its motives. The historical distrust between all stakeholders, the U.S., the Taliban, the ruling political elite in Afghanistan and Pakistan has only strengthened with time instead of disappearing. The most critical misunderstanding of Pakistan's security interests in Afghanistan stems from a) Pakistan perceived to be favouring Taliban to form the government due to their historical ties with the group pre-2001; and b) the Indian presence in Afghanistan. Pakistan has historically been sceptical of Indian influence in Afghanistan and due to its deep-seated hostility with India, considers Indian presence in Afghanistan as a direct threat to its national security. The U.S. has been dismissive of Pakistan's security threat emanating from the Indian presence in Afghanistan which only exacerbates Pakistan's fears and anxiety. Given this situation, it is in Pakistan's national interest to safeguard and protect its territorial boundary and thwart any Indian attempt to make use of Afghanistan's space to damage Pakistan. In addition to the Indian presence in Afghanistan, Pakistan also fears Indian designs on dismembering Pakistan once again by aiding Baloch separatist movement in Balochistan and sees Indian presence in Afghanistan close to the Pakistan border as threatening given their nefarious designs.[51] Pakistan, therefore, wants to push for the Afghan reconciliation process, an intra-Afghan dialogue leading to the formation of a pluralistic government to remain relevant in Afghanistan's strategic calculus post-U.S. troops withdrawal from the country. But it also does not want to be misunderstood as favouring one group over the other. It wants the Afghan peace process to be Afghan-led, and for that, it is willing to lend whatever support the peace process requires.

In addition to political and security stakes, Pakistan has enormous economic stakes in the stability of Afghanistan. Pakistan's declining trade with Afghanistan remains a foremost challenge. One important reason for this decline is the Indian-Afghan trade through the Iranian port of Chabahar which the U.S. exempted from sanctions in 2018 as part of its South Asia strategy "in support of Afghanistan's economic growth and development" and U.S.-India partnership.[52] Indian investment in Chabahar is significant amounting to, "$500 million to build new terminals, cargo berths and connecting road and rail lines...to improve linkages not

49 "PM Imran, Afghan President Ghani look to opening new chapter of friendship," DAWN, June 27, 2019 https://www.dawn.com/news/1490714

50 "Afghanistan: Background and U.S. Policy in Brief," CRS Report, Nov 1, 2019 https://fas.org/sgp/crs/row/R45122.pdf

51 Umair Jamal and Yaqoob K Bangash, " Understanding Pakistan's Strategic Interests in Afghanistan," The News International, January 17, 2016 https://www.thenews.com.pk/tns/detail/560190-understanding-pakistans-strategic-interests-afghanistan

52 "U.S. exempts Iran's Chabahar Port from sanctions in nod to Afghanistan," Radio Free Europe-Radio Liberty, November 7, 2018 https://www.rferl.org/a/us-exempts-iran-chabahar-port-project-from-sanction-in-nod-to-afghanistan-india/29586874.html

just with Afghanistan, but also to resource-rich Central Asian republics."[53] It is pushing Pakistan to lose its market share in Afghanistan, which until 2016 was around 90%. Pakistan has had several bilateral trade issues with Afghanistan, the Afghan-Pakistan Transit Trade Agreement (APTTA) being the most problematic with both countries blaming each other for not honouring the terms of the agreement. Closure of Pak-Afghan borders due to security reasons (for example firing from Afghan side on Pakistani security check posts at the border), the time-consuming thorough checking of trucks at the border, border fencing issues, and trade controls at the border are also some of the added challenges for Pakistan. Afghan business people are also not allowed to import products of Indian origin through the Pakistani route, which is seen as undesirable by the other side.[54] These challenges can be settled through negotiations for which peace and political stability in Afghanistan is a prerequisite.

Pakistan has called for the resumption of peace talks between the Taliban and the U.S. and is all set to welcome the incoming government in Afghanistan. With Pakistan's commitment to bringing all parties to the table for an Afghan-led process, prospects for peace in Afghanistan are not too hopeless. The U.S. wants and welcomes Pakistan's continued engagement with the Afghan peace process and in any future settlement and would require Pakistan's support for its troops' withdrawal. While Pakistan is fully committed to the process, the deeply ingrained influences in Afghan strategic perception of Pakistan using their territory for 'strategic depth' or Pakistan favouring Taliban to form an exclusive government is a fear that must be dissuaded and remains a challenge.

Afghanistan-China-Pakistan: CPEC, Central Asia and Beyond

Afghanistan is geographically very important for Pakistan for its access to Central Asian Republics (CARs). Pakistan does not share a direct border with any of the CARs. The only access point is to Tajikistan and that through the Wakhan Corridor located in northeastern Afghanistan, which connects Afghanistan to China. This wedge which connects Afghanistan, China, Tajikistan and Pakistan has historically been part of the ancient Silk Route, the Great Game and the Cold War and holds strategic importance. If the Wakhan Corridor is developed, it will provide Pakistan with the shortest trade route to CARs and for China to access Afghanistan.

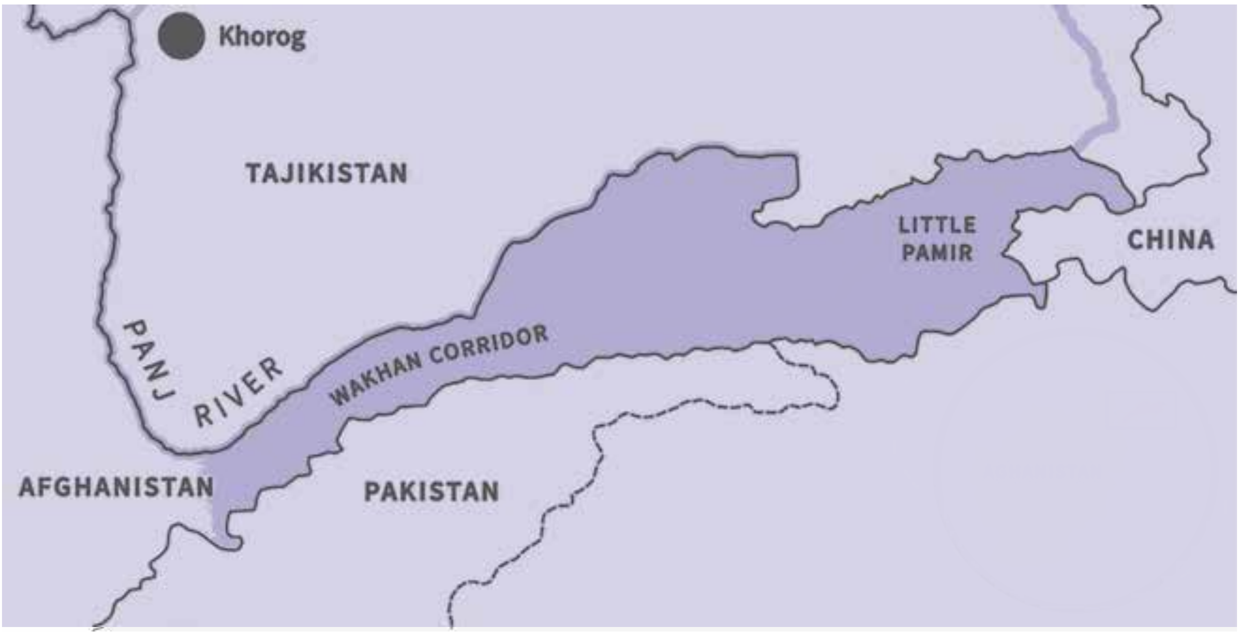
Historically, Badakshan province which hosts Wakhan has been controlled by anti-Taliban forces and has generally remained peaceful. However, lately, there have been disturbing reports about the new generation of Taliban threatening to control parts of Badakshan province.[55] If this province converts into another battleground between the Taliban and anti-Taliban forces, then Chinese connectivity dreams with Afghanistan through an extension of CPEC will have difficulty being realised through Wakhan. China, therefore, has a strategic interest in Afghan reconciliation and peace process. In 2016, Tajikistan, China, Afghanistan and Pakistan met in Urumqi, Xinjiang, to form a Quadrilateral Cooperation and Coordination Mechanism to combat terrorism jointly. In a joint statement, "the four parties agreed to establish the "quadrilateral mechanism" to coordinate with and support each other in a range of areas, including study

53 Anjana Pasricha, "India's New Afghan Trade Route via Iran, Bypasses Pakistan," Voice of America, October 30, 2017 https://www.voanews.com/east-asia-pacific/indias-new-afghan-trade-route-iran-bypasses-pakistan

54 Mohsan Mazhar, "Country Report on Afghanistan," Trade Development Authority of Pakistan, 2014 https://www.tdap.gov.pk/word/AFGHANISTAN.pdf

55 J.P. Lawrence, "New generation of Taliban fuels battles in northern Afghanistan," Stars and Stripes, September 10, 2019 https://www.stripes.com/news/middle-east/new-generation-of-taliban-fuels-battles-in-northern-afghanistan-1.598168

Fig. 3.2. Wakhan Corridor



Source: The Corridor of Power, The Interpreter, Lowy Institute https://www.lowyinstitute.org/the-interpreter/corridor-power

and judgment of counter-terrorism situation, confirmation of clues, intelligence sharing, anti-terrorist capability building, joint anti-terrorist training and personnel training, and that the coordination and cooperation will be exclusive to the four countries."[56] This regional alliance is of immense significance since threats to regional security and stability are challenges that are shared by these four countries. This military cooperation will also secure the Chinese BRI involving Pakistan with expansion planned for Afghanistan and CARs. In addition to this quadrilateral alliance, Pakistan, China and Afghanistan are also cooperating on counter-terrorism to deal with the increasing threat of Islamic State (IS), the anti-China East Turkistan Islamic Movement (ETIM) and Islamic Movement of Uzbekistan (IMU) in the region.[57]

China has emerged as one of the biggest export partners for Afghanistan. In one of the world's biggest copper deals, China's Aynak Copper mining venture is worth US$ 3.4 billion, in the south of Kabul. Chinese investment of US $ 4 billion under a 30-year agreement with Afghanistan aims at extracting minerals in Afghanistan.[58] Pakistan is helping China expand CPEC to include Afghanistan. Under CPEC, China is helping Pakistan "build the motorway linking the northwestern border city of Peshawar to the southern port of Karachi, which Kabul uses for its international trade…[to] provide a much shorter route for Afghanistan to the Chinese-operated port of Gwadar, known as the gateway to CPEC."

56 "Afghanistan, China, Pakistan, Tajikistan issue joint statement on anti-terrorism," Ministry of National Defence, The People's Republic of China, August 4, 2016 http://eng.mod.gov.cn/DefenseNews/2016-08/04/content_4707451.htm

57 Naveed Siddiqui, "Trilateral Dialogue: Pakistan, China, Afghanistan agree on enhancing counterterrorism cooperation," DAWN, September 07, 2019 https://www.dawn.com/news/1504054

58 Muhammad Munir and Muhammad Shafiq, "Geostrategic Significance of Wakhan Corridor for Afghanistan, China and Pakistan," Margalla Papers, 2018 https://ndu.edu.pk/issra/issra_pub/articles/margalla-paper/Margalla-Papers-2018/17-Geostrategic-Significance.pdf

To enhance cooperation under the BRI, China and Afghanistan have signed agreements for the movement of goods, energy and data. Under the movement of goods, the Five Nations Railway is an important project for connectivity in Afghanistan. Under the movement of energy, connectivity projects include the TAPI natural gas pipeline, the CASA-1000, the TAP 500-kV and the Kabul-Kunar River Basin. Under the movement of data, connectivity projects include the Digital Silk Road and the fibre optic link with China through the Wakhan Corridor.[59]

CPEC's true potential is in the realisation of regional connectivity through Pakistan, Afghanistan and CARs. Pakistan has allowed Turkmenistan to use Gwadar port to access the Indian Ocean. By allowing Tajikistan and Uzbekistan, who have expressed similar interest, Pakistan will be providing these landlocked CARs access to the rest of the world. With Kazakhstan too, Pakistan has signed several agreements to include it in CPEC and provide it access to the land and sea routes via Pakistan. By inviting CARs to join CPEC, Pakistan has the potential to become the hub of integration and economic activity through which regional power centre could shift from Europe to Eurasia.

59 "Integrating Afghanistan into the Belt and Road Initiative," Review, Analysis and Prospects, FES, August 2018

Chapter Four

Pakistan and the New Great Game in Central Asia

Chapter Four

Pakistan and the New Great Game in Central Asia

Pakistan needs to carve out its space in the New Great Game in Central Asia signified by the grand strategic competition between China, Russia and the U.S. amplified by the politics of pipelines and economic corridors. Pakistan's entry to CARs is through CPEC, expansion of which aims at integrating CARs into China's BRI. Pakistan's membership of the biggest regional bloc in Asia, Economic Cooperation Organization (ECO) and Shanghai Cooperation Organization (SCO) helps it achieve its foreign policy objectives towards the six former Soviet Republics, namely, Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Turkmenistan and Republic of Uzbekistan. Both organisations provide the Central Asian States platforms for regional integration and connectivity.

In 2017, Pakistan hosted the Council of Foreign Ministers of the Economic Cooperation Organisation (ECO) where ECO Vision 2025 and Islamabad Declaration 2017 were approved in the run-up to the 13th ECO Summit. ECO Vision 2025 is an important document which identifies areas of cooperation for economic growth between member states to include trade, transport and connectivity, energy, tourism, economic growth and productivity, social welfare and environment.[60] While ECO Vision 2025 was an important political achievement at the Islamabad Summit, member states have yet to explore the full potential for economic cooperation and integration that ECO provides them. The Economic Cooperation Organization Trade Agreement (ECOTA) entered into force in 2008 and even after 11 years is yet to be implemented. Similar is the fate of the Transit Transport Framework Agreement (TTFA) which has been ratified by only nine ECO members. China, a non-member, invited by Pakistan as an observer at the 13th ECO Summit, talked about connecting Kashgar to Kazakhstan via Kyrgyzstan. While ECO member states call for economic cooperation through "development of transport and communication infrastructure, facilitation of trade and investment, promotion of connectivity with other regions, effective use of energy resources and undertaking measures for making the ECO effective and efficient", lack of political will among member states to undertake tangible steps to realise these goals are lacking.[61] At present, ECO requires strong leadership which can bring member countries together and connect them to benefit economically; otherwise ECO will fade into the shadows like its predecessor Organization for Regional Cooperation for Development (RCD). Pakistan has the potential for such leadership. In coming years, as its economy strengthens and CPEC moves towards completion, it should assume a more proactive role and use the platform of ECO to launch itself as the regional hub of economic integration between member states.

SCO is led by China which provides it with the opportunity to meet its energy security objectives in Central Asia through commercial networks and development of energy corridors. Central Asia, through SCO, is an area of competition and cooperation for both Russia and China. However, they have more convergences of

60 Economic Cooperation Organization -Vision 2025 http://www.eco.int/parameters/eco/modules/cdk/upload/content/general_content/3624/1506486491201cflnbtm0acra83f5arho4dgc65.pdf

61 Abid Qaiyum Suleri, "ECO Summit Heralds a Win-Win Situation for all Members," SDPI Policy Review/Analysis, 2017 https://sdpi.org/publications/files/eco-summit-heralds-a-win-win-situation-for-all-members.pdf

priorities in the region which has allowed CARs to benefit politically and have their security concerns addressed by the two leading regional powers.

Creation of the SCO Energy Club, "provides an effective model for collaborative nuclear energy development, offering members the opportunity to cooperatively develop domestic nuclear programs and reduce carbon emissions, while simultaneously driving the development of nuclear energy worldwide and stabilising Central Asia."[62] The SCO Energy Club aims at addressing the following issues[63]:

- coordination of energy strategies and long-term programs for the development of the SCO member states and observers and their partners;
- drafting and implementation of measures of collective energy security;
- development of a system of transport energy communications;
- development of a joint economic mechanism for implementation of the member states' energy policies;
- coordination of the member states' investment plans;
- information coordination;
- mutual information about activities on the global energy market

Pakistan supports the idea of this Energy Club and is set to benefit from it, particularly through Chinese cooperation and agreements for nuclear reactors.

Pakistan's Prime Minister Imran Khan made a debut appearance in SCO meeting in Bishkek, Kyrgyzstan in June 2019. In his statement at the meeting of SCO Council Heads of States, PM Imran Khan proposed the following eight pronged course of action through the platform of SCO:

"1) Reinforce our [Pakistan's] vision of cooperation, that rejects confrontation, and advance the imperatives of peaceful co-existence at the regional and international levels.

2) Galvanise the "Shanghai Spirit" to strengthen SCO's core mandate of mitigating the risks of conflict, fostering confidence, and promoting stability.

3) Finalise arrangements for trade in local currencies, and set up SCO Fund and SCO Development Bank to catalyse the trans-regional development agenda.

4) Synergise various region-wide connectivity initiatives, and work on complementing infrastructure connectivity with soft connectivity, including digital, cultural, touristic, and academic.

5) Making SCO more relevant to the daily lives of citizens by promoting food security and enhancing cooperation in health and humanitarian sectors.

6) Take the lead role in establishing a comprehensive framework for combating corruption and white-collar crime to prevent billions of dollars annually money laundered from the developing world on to offshore accounts.

7) Prioritise women and youth empowerment by focusing inter-alia on strengthening the Women Forum and the Youth Council and mandating them to promote gender mainstreaming, skills acquisition and jobs mobility.

62 "The Shanghai Cooperation Organization Energy Club: A Collaborative Future for Nuclear Energy," China Hands, May 30, 2018 https://chinahandsmagazine.org/2018/05/30/the-shanghai-cooperation-organization-energy-club-a-collaborative-future-for-nuclear-energy/

63 "SCO Energy Club," SCO http://infoshos.ru/en/?idn=13913

8) Bridge the gap between region-specific research and policy by launching feasibilities for creating SCO Centres of Excellence on Poverty Alleviation, something which the whole world can learn from the Chinese experience, De-Radicalization, Connectivity, and New Technologies."[64]

Keeping in line with SCO's mandate, the course of action proposed above is reflective of Pakistan's vision and commitment of integrating the region and the leadership potential it has to support the proposed activities.

CARs and Regional Energy Security: TUTAP-500, CASA1000 and TAPI Projects

Pakistan faces acute energy deficits to meet its domestic demands, especially during the summer season. CARs with abundant energy resources can benefit both Pakistan and Afghanistan through the export of electricity. However, for electricity trade to take place, the infrastructure needs to be developed in both countries to benefit from such cooperation.

The Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan project (TUTAP-500), Central Asia South Asia-1000 project (CASA-1000), and the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI) are projects through which Pakistan is looking at to secure its energy supplies. These projects aim at increasing energy security and improving energy efficiency in the region.

Turkmenistan and Tajikistan to Afghanistan and Pakistan (TUTAP-500)

Funded by the Asian Development Bank (ADB), TUTAP-500 will help build transmission lines which will supply power at lower costs to the region. TUTAP-500 framework diversifies Central Asian energy exports providing it trade-driven economic growth. In Afghanistan, TUTAP has faced some issues. Since Afghanistan lacks a national grid, converters of different voltages, current and velocities need to be built in the country reaching Afghanistan from Turkmenistan, Uzbekistan and Tajikistan. Once these power plants are built, more than 10 million Afghanis will receive electricity. One problematic province through which importing lines are passing through is Bamyan, which is dominated by the Shia Hazara community. The problem started when a potential rerouting of the electricity transmission line away from Bamyan province was prevented by Hazara members of the Ashraf Ghani government in 2016. A leak to the media led to public protests in 2016 demanding the route not to be changed.[65] Hazaras accounting for 12-15 per cent of Afghan ethnic mix already feel marginalised politically, economically and socially.[66] The sequence of power transmission lines looping across the northern half of Afghanistan is of huge importance for Afghanistan but fraught with ethnopolitical challenges.

64 Statement by Prime Minister Imran Khan at SCO Council Of Heads Of State Meeting, June 14, 2019, PMO https://pmo.gov.pk/pm_speech_details.php?speech_id=100

65 Thomas Ruttig, "Power to the People (2): TUTAP Protests," Afghanistan Analysts Network, May 2016 https://www.afghanistan-analysts.org/power-to-the-people-2-the-tutap-protests/

66 "Turkmenistan's Plan B: Electricity Exports," Eurasianet, February 28, 2018 https://eurasianet.org/turkmenistans-plan-b-electricity-exports

CASA-1000

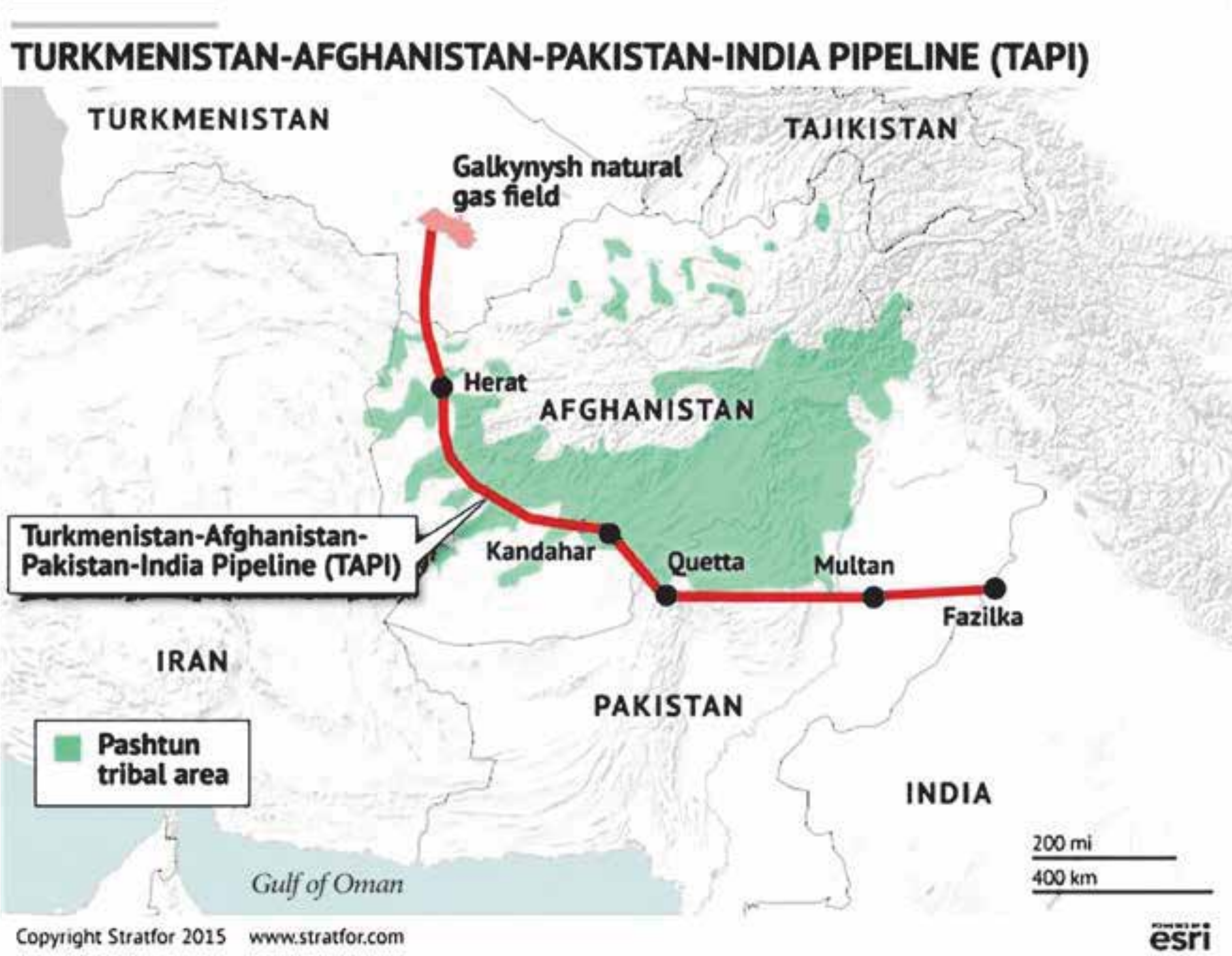
Funded by the World Bank, CASA-1000 will provide electricity transmission system from Kyrgyzstan to Tajikistan bringing surplus hydroelectricity to Pakistan and Afghanistan. Pakistan has requested Tajikistan to "invoke the open access clause in the agreement under CASA- 1000 project paving the way for two way trade of electricity, as, under the existing deal, Pakistan is bound to import 1,000MW electricity per day at 9.50 cents per unit in summer season from May to October once this project comes into stream." Furthermore, Pakistan has also stated that it will "not bear the electricity transit loss in Afghanistan in case of any subversive activity in Afghan territory." Pakistan, with its surplus in electricity "wants to export it to the Kyrgyz Republic, Tajikistan and Afghanistan in the winter season by using the same structure of CASA project."[67]

Fig. 4.1. CASA-1000 Lines

Source:CASA-1000 https://www.casa-1000.org/

67 Khalid Mustafa, "Pakistan seeks changes in CASA-1000 deal," The News International, September 22, 2019 https://www.thenews.com.pk/print/530090-pakistan-seeks-changes-in-casa-1000-deal

Fig. 4.2. TAPI Route (Stratfor)

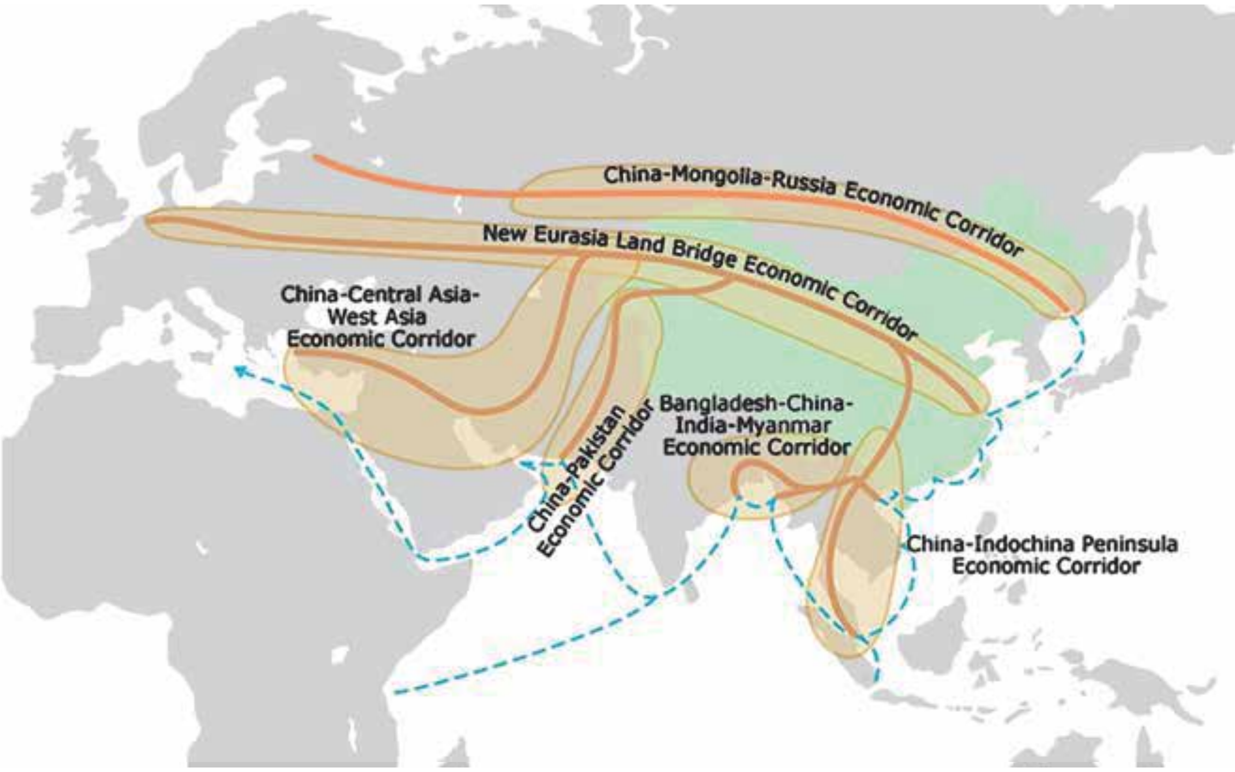


Source: Stratfor https://worldview.stratfor.com/article/security-priority-tapi-pipeline

Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI)

The most problematic of all the energy projects from Central to South Asia is TAPI funded by ADB worth US$8 billion. Turkmenistan has the world's sixth-largest reserves of natural gas. Through TAPI pipeline, it is envisaged that natural gas from Turkmenistan will be transported through Afghanistan to Pakistan to terminate in northern India, allowing the collection of revenue from transit fees. In Afghanistan, the pipeline will cross Herat and Kandahar provinces passing through Quetta and Multan in Pakistan, ending in Fazilka, Punjab border town in India. The most challenging aspect of TAPI is securing the pipeline since it passes through areas in Afghanistan and Pakistan, where it could be sabotaged by non-state actors or could be targeted through a terrorist attack. In addition to the challenge of securing the pipeline against subversive activities in Afghanistan and Pakistan, TAPI will also face delays due to breakdown in relations between India and Pakistan. The Indian aggression against Pakistan on February 26, 2019, and the Indian annexation of the already occupied Jammu & Kashmir on August 5, 2019, broke down the relations between the two countries. In this current atmosphere,

Fig. 4.3. China's Economic Corridors in Asia



Source: CPECinfo.com

implementation of TAPI cannot process smoothly. Pakistan and Turkmenistan signed Host Government Agreement (HGA) in March 2019 for the implementation of TAPI. The two countries also agreed to set up a working group to finalise an agreement on the transmission line for 1000 MW electricity. While Pakistan has assured its commitment for implementation of the project, the geopolitical dynamics in the region, given the current status of the Indo-Pak relations and the pending U.S. withdrawal from Afghanistan amid political uncertainty, might not allow the four countries to benefit from TAPI soon. India also might reconsider its participation in TAPI given what power structure emerges in Afghanistan after the U.S. withdrawal from the region once a peace deal is reached. India had joined TAPI in 2012 when the internationally recognised Afghan government was in power. In future, a Taliban-led government might not suit India to conduct business with thus pushing TAPI to TAP minus India. Even if the TAP is the future, Pakistan must remain committed to completing the project to secure its energy needs.

Russian Interests in Pakistan: Political and Economic Opportunities

For Russia, Pakistan's importance is primarily due to its centrality in regional politics and its geostrategic location. Pakistan's membership in SCO has allowed Russia and Pakistan to interact bilaterally in joint counterterrorism efforts. Pakistan-Russian relations have the potential to grow. Still, they are marred by several issues, which at a very basic level include: "low level of direct business ties and insufficient knowledge of Russia's and Pakistan's business communities about each other's capabilities". It leads to great expectations from "the Russian-Pakistani Intergovernmental Commission on Trade and Economic, Scientific and Technical Cooperation which has identified priority avenues of our business and investment cooperation."[68] A Russian company, Inter RAO Engineer, has expressed interest in power projects in Pakistan with a possible commitment of $2 billion worth of investments.[69] According to some analysts, "Russia has been looking for opportunities to cultivate Pakistan and has supplied four military helicopters to its military and may also construct a gas pipeline between Lahore and Karachi at an estimated cost of $ 10 billion." While Russia's attempts to engage Pakistan can be dismissed "as part of its anti-US policy...Moscow would not want Islamabad to be over-dependent on Beijing as well. A Pakistan, which is not too dependent on either the US or China would be a beneficial partner for Russia."[70]

Pakistan and Russia have the potential to forge economic ties on the model of CPEC for a mutually beneficial relationship. However, for now, Pakistan-Russian relations are political slowly probing military partnership which will not come at the expense of Indo-Russian relationship.

China's Vision of Regional Integration: Opportunities for Pakistan via CPEC

The ancient trade and cultural routes through which China was connected to South and Central Asia, Europe and the Middle East starting from the Han dynasty, is what China envisions for the future of Central Asia and regional connectivity. With the newly independent CARs in the 1990s, China found the opportunity to revive the concept of economic and energy corridors. For China, the complexity in the region stems from the territorial insecurity in Western China intertwined with regional security issues in South and Central Asia. In a region where China is facing the U.S. as an extra-regional force, it needs to maintain its geopolitical relevance through horizontal regional connectivity with countries that are seeking energy security, infrastructural development and economic prosperity. China is in an economically strong position to provide such opportunities to the countries in South and Central Asia plus the Middle East and some parts of Europe.[71] A regional economic order that is led by China has established a network of economic corridors that serves China's geo-strategic and geo-political interests without challenging the U.S. directly. Chinese political and economic influence in Pakistan and Central Asia is much stronger than in Afghanistan where the U.S. is still a predominant player. China, through a multilateral (21 nation) Asian Infrastructure Development Bank (AIIB), finances the infrastructure projects in the region. For political influence, through SCO directly, and ECO indirectly, China engages with member countries of South and Central Asia to remain relevant in political, economic and social discussions amongst the member states. With the opening of SCO's financial institution, China will be in a better position to challenge the U.S.-led financial world order.

The China Pakistan Economic Corridor (CPEC) is the flagship project of China's Belt and Road

68 "CPEC Should be taken as an example to strengthen Pakistan-Russia Relations," CPEC Portal, May 03, 2019 http://www.cpecinfo.com/news/cpec-should-be-taken-as-an-example-to-strengthen-pakistan-russia-relations/NzA0Mg==

69 Andrew Korybko, "Russia's Interest in Pakistani Power Projects could Portend CPEC Investments," CPEC News, OBORTUNITY, January 17, 2019 https://obortunity.org/2019/01/21/russias-interest-in-pakistani-power-projects-could-portend-cpec-investments/

70 Raj Kumar Sharma, "Russia Silently Returns to South Asia to Balance US and China," Raisana Debates, Observer Research Foundation, October 25, 2019 https://www.orfonline.org/expert-speak/russias-silently-returns-to-south-asia-to-balance-the-us-china-57014/

71 David A. Parker, "Building China's 'One Belt, One Road'," Center for Strategic and International Studies, April 3, 2015

Initiative (BRI). It not only connects China to Gwadar seaport but also provides a key link to other countries in the region to connect to the Indian Ocean via Gwadar. With an approximate value of $62 billion, CPEC sets to provide Pakistan with the expansion of its deep-sea Gwadar port, construction of power plants and energy pipelines, high-speed railways network, special economic zones (SEZs) and network of fibre-optic cables throughout the CPEC route. The first and foremost potential of CPEC for Pakistan is that it provides China access to the Indian Ocean and shorter trading routes via land and sea through Gwadar, which secures Chinese strategic maritime objectives. CPEC also promises to financially uplift the underdeveloped Xingjian province in China through economic development. China hopes that this would arrest the restiveness in the region by reducing separatist sentiments. In this respect, CPEC is, perhaps, strategically, the most important corridor for China. Pakistan through CPEC also provides China to overcome its Malacca Dilemma by connecting Gwadar Port to Gwadar-Kashgar gas pipeline linking the Bay of Bengal to Yunnan through Myanmar.[72] Saudi Arabia has expressed its interest in joining CPEC and investing in Gwadar. UAE has also positively encouraged CPEC by starting Karachi-Gulf Express which connects Gwadar to Abu Dhabi and Sharjah. A future project of the oil pipeline from the Middle East to Gwadar to Xinjiang will help China import oil through the CPEC route. China also eyes Gwadar to connect to the African continent since it has become the largest investor and trading partner of many African countries.[73]

An economically strong and politically stable Pakistan, therefore, has enormous potential to become a regional transit hub connecting China to the rest of the world through CPEC while ensuring a future of sustainable energy security for Pakistan.

72 Sudha Ramachandran, "China-Pakistan Economic Corridor: Road to Riches?," China Brief, The Jamestown Foundation 15, no. 15 (31 July 2015), https://jamestown.org/program/china-pakistan-economic-corridor-road-to-riches/

73 Daniel Hyatt, "How Gwadar connects Middle East, Africa and Central Asia," CPEC Portal, August 30, 2018 http://www.cpecinfo.com/news/how-gwadar-connects-middle-east-africa-and-central-asia/NTc5MQ==

Chapter Five

Pakistan and the Middle East - Navigating Strategic and Economic Ties

Chapter Five

Pakistan and the Middle East - Navigating Strategic and Economic Ties

Pakistan's Relations with Gulf Cooperation Council (GCC) Countries

The Gulf Cooperation Council was established in 1981 and is a political, strategic and economic alliance of six oil-exporting Arab countries: Saudi Arabia, Kuwait, Qatar, Oman, United Arab Emirates and Bahrain. GCC countries are oil-rich economies and dominate the global oil markets. These six Arab countries also have a military mechanism, the Peninsula Shield Force, although it does not wield much influence. Pakistan has bilateral trade relations with GCC countries but does not have a Free Trade Agreement with the GCC bloc.

Pakistan's relations with Saudi Arabia, the core GCC state, define its relations with GCC as a group. Besides strong political ties, Pakistan also enjoys traditionally close military cooperation with Saudi Arabia. With Saudi Arabia, Pakistan's bilateral trade stands at $3.4 billion. The recent US$6 billion loans given to Pakistan by Saudi Arabia at an interest rate of 3 per cent helped Pakistan at a critical time when it was dealing with a balance of payments crisis. In one of the largest ever investments from Saudi Arabia in Pakistan, a US$10 billion oil refinery in Gwadar will provide Pakistan with the much- needed boost in the energy sector, complementing CPEC energy projects. The remittances received by Pakistani diaspora in Saudi Arabia annually are around US$5.6 billion.[74]

Pakistan's largest trading partner in the Middle East is the UAE with which its trade is over US$8 billion. UAE has more than two million Pakistani diasporas which contribute through remittances approx. US$4.5 billion annually to Pakistan's GDP.

Pakistan's 13th largest trading partner is Qatar, whose economy is supported by large hydrocarbon reserves of which Pakistan's share of exports is only 1.2 per cent. With 13 per cent of the world's gas reserves, Qatar is a resource-rich country ranking third after Russia and Iran. With only 0.3 per cent share in Qatar's import, Pakistan ranks its 40th import partner. Pakistan and Qatar signed the LNG agreement in 2016 of US$16 billion with Pakistan importing 3.75 million metric tons of LNG annually over 15 years from Qatar.[75] Qatar hosts 160, 381 Pakistani migrants, a small workforce compared to Saudi Arabia (5 million) and the UAE (3.6 million).

Kuwait is the 51st largest export economy in the world. Pakistani diaspora in Kuwait remits annually $750 million to Pakistan. Bilateral trade volume between Pakistan and Kuwait is $2.5 billion annually with Pakistani importing crude oil from Kuwait and exporting fruits, vegetables, rice and cotton products to Kuwait.[76] Pakistan has recently signed an MoU for importing skilled, semi-skilled and unskilled workforce from

74 Khalil Ahmed, "FTA with GCC a must plan for making Pakistan's Economy into effect," Pakistan & Gulf Economist, April 1, 2019 http://www.pakistaneconomist.com/2019/04/01/fta-with-gcc-a-must-plan-for-making-pakistans-economy-into-effect/

75 Amina Qureshi, "Country Report Qatar," Trade Development Authority of Pakistan, 2017 https://www.tdap.gov.pk/word/QATAR.pdf

76 Suhail Kamran, "Pakistan-Kuwait Bilateral Trade Analysis," Trade Development Authority of Pakistan, 2018 https://www.tdap.gov.pk/word/Bilateral-Trade-Analysis-Pak-Kuwait.pdf

Fig. 5.1. Gulf Cooperation Council

Source: Britannica

Pakistan in varying fields of health, education, agriculture and construction.[77]

Bahrain is the 50th freest economy in the world and is an active trading partner among the GCC countries. Pakistan and Bahrain have a trading volume of $140.1 million with a negative trade balance of $55.2 million, which is not encouraging. Despite their geographical proximity, both countries have not been able to exploit economic potential in bilateral markets. Pakistan's major exports to Bahrain are cotton, rice, meat, polyesters and carcasses, among others.[78]

77 "Kuwait to sign MoU for Pakistani manpower's import," MG Link, October 18, 2019 https://mettisglobal.news/kuwait-to-sign-mou-for-pakistani-manpowers-import

78 "Bilateral Trade Analysis of Bahrain and Pakistan," Country Report on Kingdom of Bahrain, Trade Development Authority of Pakistan, 2018 https://www.tdap.gov.pk/word/Country-Report-Bahrain.pdf

The Sultanate of Oman is the 6th GCC country with which Pakistan shares cordial relations and is the closest Arab neighbour. Around 250,000 Pakistani diasporas reside in Oman. There is a desire to boost economic ties between the two countries in the petroleum sector, and the two countries have signed agreements for LNG, LPG and petroleum products. Pakistan's exports to Oman in 2018 were worth $142.3 million, while the imports were at $234.1 million. Trade balance stood at $91.8 million. Pakistan and Oman also have defence cooperation with several exchange programs and joint exercises that aim to explore opportunities for defence production and procurement.

Pakistan, the Middle East and GCC: Overview of Political and Economic Challenges

Political Challenges

There are two key foreign policy challenges Pakistan faces in the Middle East, which have the potential to upset its relations with the GCC countries.

The first and foremost challenge is breaking free of the Riyadh-Tehran binary. While India has exploited Israel's and Arab world's tensions with Iran to its benefit, Pakistan has not been able to break free from this binary. Pakistan is in a very strong position to undertake multilateral security conversations in the region due to its vision to develop Gwadar as a strategic port under CPEC. Since it shares waters with Gulf countries, it could serve as a maritime gateway to the GCC region.[79] Pakistan, therefore, needs to be seen by GCC countries and others in the Middle East as a country having the vision to project Gwadar as a game-changer, bearing potential to improve the connectivity of GCC and the Middle Eastern countries with China.[80] Pakistan, therefore, needs to strategise to obtain maximum benefits from CPEC by inviting GCC countries to invest in Pakistan's SEZs under CPEC.

The second key challenge for Pakistan is gaining support from GCC on the Kashmir issue. Saudi Arabia, with whom Pakistan shares military and strategic partnership, is comfortable with India's security choices in the region[81]. It also has no particular objection to India's decision of August 5th, whereby it de-operationalised Articles 370 and 35A, annexed the previously occupied Jammu & Kashmir and Ladakh to make them union territories. Even though the foreign ministers of Saudi Arabia and the UAE travelled to Pakistan after the Indian annexation, it was just a symbolic show of solidarity with no words of condemnation for India's brutal crackdown of 8 million Kashmiris post-August 5th. The UAE even referred to the Indian decision as to its internal matter. While it did not come as a surprise, a simple explanation for lack of support for Pakistan's narrative on Kashmir from GCC is India's economic relations and clout with major GCC countries. With bilateral trade at US$28 billion and 2.7 million-strong Indian diaspora in Saudi Arabia, Kashmir does not figure on the horizon. UAE and Saudi Arabia are also jointly building a mega refinery in India with an investment of US$60 billion as compared to Saudi Arabia's investment of US$10 billion for

79 Fahd Humayun, "Pakistan's Middle East Problem," Foreign Policy, November 19, 2015 https://foreignpolicy.com/2015/11/19/pakistans-middle-east-problem/

80 "Gwadar Port being major player in New Silk Road Initiative offers core connectivity to GCC and Middle East," CPEC Portal, November 09, 2019 http://www.cpecinfo.com/news/gwadar-port-being-major-player-in-new-silk-road-initiative-offers-core-connectivity-to-gcc-and-middle-east/ODIwMw==

81 Syed Ali Zia Jaffrey, "Pakistan's Diplomatic Challenges in the Middle East," Pakistan Politico, October 18, 2019 http://pakistanpolitico.com/pakistans-diplomatic-challenges-in-the-middle-east/

an oil refinery in Gwadar. Indians are also the largest real estate foreign investors in UAE, and their bilateral trade rests at an annual US$55 billion. Given strong economic and security commitments between India and GCC countries, Pakistan's foreign policy challenge in gaining support for Kashmir from GCC is huge.[82]

Economic Challenges

The most important and perhaps the only critical economic challenge Pakistan faces in the Middle East and with GCC is the absence of Free Trade Agreement with the countries in the region.[83] This challenge is more inward-looking than outward. Pakistan's economic stability is a prerequisite for progressive and mutually-beneficial economic relations with the GCC bloc. Pakistan's economic growth and political stability will remain at the forefront of any argument for FTA or trade liberalisation quest with the GCC in particular and the Middle East in general. As Pakistan is moving towards economic and political stability, there is hope that this challenge would be surpassed in the coming years.

Another important economic challenge relates to the volatility in oil prices and global financial conditions.[84] Though these risks are global, they have regional implications, especially for developing countries like Pakistan who have weak and recovering economies. With the volatility in oil prices in today's uncertain global market, oil importers like GCC bloc suffer. Fluctuations in global financial markets have a direct bearing on economies like Pakistan, which are already at the risk of higher interest burdens and financial sector stress. Add to the mix, geopolitical risks, like the India-Pakistan Balakot crisis and limited war in February 2019, U.S. sanctions on Iran and Turkey, which increase foreign investor's perception of risk in the region feeding back to the volatility of oil prices and lack of investor confidence for future investments. While some of the geopolitical dynamics might be out of a particular country's control, they do become a medium to long term economic challenge if the political and security conditions in the region do not stabilise in the short term.

Pak-Iran Relations and Economic Cooperation – A Diplomatic Tightrope

Pakistan-Iran relations hoped to find a new direction with Prime Minister Imran Khan's inaugural visit to Iran in April 2019 which came at the heels of cross-border tension. The talks focused on strengthening bilateral ties, jointly countering terrorism, creation of border force for safeguarding the borders, and to capture anti-Pakistan and anti-Iran terrorists.

Many foreign policy challenges between Iran and Pakistan have historically had unsettled bilateral relations given their varying geo-strategic and geo-political outlook. However, a convergence of their national security priorities has the potential to overcome those challenges. Iran believes that Pakistan is not playing a zero-sum game vis Riyadh and Tehran. This confidence alone in Pakistan's current leadership is the reason a reset

82 Bilal Kuchay, "Why have Saudi Arabia, UAE failed to condemn India over Kashmir," Aljazeera, September 12, 2019 https://www.aljazeera.com/news/2019/09/saudi-arabia-uae-failed-condemn-india-kashmir-190911112648176.html

83 Arhama Siddiqa, "Beyond Strategic Ties and Economic Assistance: A Call to Rethink Pakistan's Middle East Policy," South Asian Voices, October 4, 2019 https://southasianvoices.org/beyond-strategic-ties-and-economic-assistance-a-call-to-rethink-pakistans-middle-east-policy/

84 "Middle East, North America, Afghanistan, and Pakistan," Regional Economic Outlook, IMF, April 2019 http://arabdevelopmentportal.com/sites/default/files/publication/menap0419.pdf

is apparent in Iran-Pakistan relations.[85] PM Imran Khan's second visit to Tehran came in October 2019 upon his return from the UNGA meeting in a bid to defuse tensions between Riyadh and Tehran which ensued after a series of attacks on oil infrastructure and oil tankers in both Iran and Saudi Arabia. PM Khan was received warmly by both countries, who appreciated his efforts and concerns for regional peace and stability. Pakistan's neutrality in Saudi-Iran tensions was also appreciated by both countries.

There is space for both countries to benefit from this newly-generated goodwill to focus on bilateral relations. There are several areas of collaboration which both countries are keen to pursue but are challenged by geopolitical constraints.

First big constraint being the completion of the Iran-Pakistan gas pipeline. Successive U.S. administrations have used coercive sanctions against Iran to change its behaviour. While these sanctions have directly affected Iran's economy, they have not had much effect on Iran's regional activities. One such project that was subject to sanctions where Pakistan's compliance was required was the gas pipeline project between Iran and Pakistan. Despite U.S. sanctions on Iran, Pakistan and Iran finalised the US$7 billion project in 2010 and formally inaugurated the pipeline project in 2013. After Iran's signature on the Joint Comprehensive Plan of Action (JCPOA), sanctions on Iran were removed to undertake the project.[86] In 2015, China also provided Pakistan and Iran, $3 billion to complete the project. India initially was also part of the Iran-Pakistan-India pipeline project but opted out of it in 2009 due to security concerns. Pakistan is reluctant to complete the pipeline project citing new U.S. sanctions on Iran imposed by the Trump administration. If Pakistan fails to complete the pipeline project or delays it, Iran might take the matter to the arbitration court. And, "under a penalty clause of Gas Sales Purchase Agreement, Pakistan is bound to pay US$1 million per day to Iran from January 1, 2015, for failing to build its part of the pipeline."[87] Even though Iran has reversed its initial threat of arbitration, Pakistan's predicament concerning defiance of U.S.' sanctions regime viz Iran needs to be resolved soon. With the amended agreement between the two countries, Pakistan has received an extension to complete the project until 2024. Pakistan must convey its energy insecurity concerns to the U.S. in a bid to convince the U.S. about the importance of this project for Pakistan. A precedent in the shape of U.S. exempting the Iranian Chabahar port from sanctions regime exists whereby India and Afghanistan are benefitting from trilateral trade with Iran. Pakistan's case for access to gas from Iran to meet its energy needs stands on merit, which it must fight.

Second, connecting Gwadar and Chabahar ports. Both ports have geostrategic importance for they are "at the crossroads of energy trading route through which 70 per cent of the world's oil shipment passes… outposts to rich mineral resources in Balochistan and Iran."[88] Both Iran and Pakistan realise that they cannot continue to let geopolitics hold their economic interests hostage. If Iran and Pakistan cooperate, then both Gwadar and Chabahar can benefit from inviting the Central Asian states to export energy through these ports. Iran has expressed its desire to "connect Chabahar and Gwadar, and

85 Syed Ali Zia Jaffery, "Resetting Pakistan-Iran Relations," Pakistan Politico, May 18, 2019 http://pakistanpolitico.com/resetting-pakistan-iran-relations/

86 "Iran Sanctions," Congressional Research Service," November 15, 2019 https://fas.org/sgp/crs/mideast/RS20871.pdf

87 "US Sanctions: Pakistan refuses to work on gas pipeline project with Iran," The News International, May 12, 2019 https://www.thenews.com.pk/print/470290-us-sanctions-pakistan-refuses-to-work-on-gas-pipeline-project-with-iran

88 Mir Sherbaz Khetran, "Gwadar and Chabahar: Competition or Cooperation," Strategic Studies, Vol. 38, No. 2, Summer 2018 http://issi.org.pk/wp-content/uploads/2018/08/3-SS_Mir_Sherbaz_Khetran_No-2_2018.pdf

then through that connect Gwadar to our entire railroad system, from Iran to the North Corridor, through Turkmenistan and Kazakhstan, and also through Azerbaijan, Russia, and through Turkey."[89] Pakistan should take up this Iranian offer and proceed with connecting the two ports which are only 72 kilometres apart.

Pakistan's Economic Diplomacy and the Middle Eastern Landscape in 2030

One of the most important planks of Pakistan's foreign policy is its approach towards countries in the Middle East. Pakistan has long maintained a balance in its ties with the two bastions of the Muslim world, Saudi Arabia and Iran. Recently, despite the simmering Saudi-Iranian rivalry and its growing strategic and economic cooperation with Saudi Arabia, Pakistan has not only mended fences with Iran but has also started its shuttle diplomacy to reduce tensions between the two countries. However, Pakistan's weak economic profile hampers its ability to effectively mediate in the Middle East given its dependence on at least one bloc. By 2030, however, it is expected that Pakistan's growing economic clout will reduce its economic dependence on Saudi Arabia, giving it more room to steer clear of the Tehran-Riyadh divide. With Iran for instance, Pakistan could be well-positioned to connect its Gwadar port with Iran's Chabahar port[90] given that China's investments and influence in Iran would likely swell by then. The Chabahar-Gwadar complementarity will more than likely be a win-win for both countries. One of the hitches in ties between Islamabad and Tehran has been the inertia on the Iran-Pakistan gas pipeline, primarily due to fear of Washington's sanctions. By 2030, Pakistan, with China's support, can kickstart work on the pipeline. Similar steps could be taken for the Turkmenistan-Afghanistan-Pakistan gas pipeline.

By the time CPEC matures, Pakistan would be in an ideal position to act as a transit country for trade and commerce. The operationalisation of CPEC will improve Pakistan's credentials as a transit country.[91] The Gwadar port, with heavy investments from Middle Eastern countries like Saudi Arabia and the United Arab Emirates, could become a 'port of peace' in the region, provided the stakeholders come together under a cooperative framework.

One of the initiatives that augur well for regional connectivity in the future is Saudi Arabia's Vision 2030. Under the leadership of Crown Prince Muhammad Bin Salman, Riyadh wants to lessen its dependence on oil exports and build a sustainable economic future. Economic diversification is one element of Vision 2030 that makes CPEC a lucrative project for Riyadh. It not only provides a conduit for trade to and from the Middle East and China.[92] CPEC could also fit into Saudi Arabia's ambitious vision, for it opens up the transfer of knowledge and ideas. Riyadh could do with this openness because it resonates with one of the aims of its Vision 2030.[93]

89 "Iran ready to connect Gwadar to Chabahar Port," The Express Tribune, May 24, 2019 https://tribune.com.pk/story/1979802/3-iran-ready-connect-gwadar-chabahar-port/

90 "Iran ready to connect Gwadar port with Chabahar," Pakistan Today, May 25, 2019 https://www.pakistantoday.com.pk/2019/05/24/iranian-fm-zarif-calls-on-pm-qureshi-amid-rising-tensions-with-us/

91 "Interview with Ambassador of Azerbiajan, H.E. Ali Alizada," Pakistan Politico, March 16, 2019 http://pakistanpolitico.com/interview-with-h-e-ali-alizada-ambassador-extraordinary-and-plenipotentiary-of-the-republic-of-azerbaijan-to-pakistan/

92 Muhammad Arshad Munir, "Saudi Vision 2030 and CPEC: Heralding Regional Prosperity," Arab News, March 23, 2019 https://www.arabnews.com/node/1470916/saudi-arabia

93 Saudi Vision 2030-Road Map https://vision2030.gov.sa/en/vision/roadmap

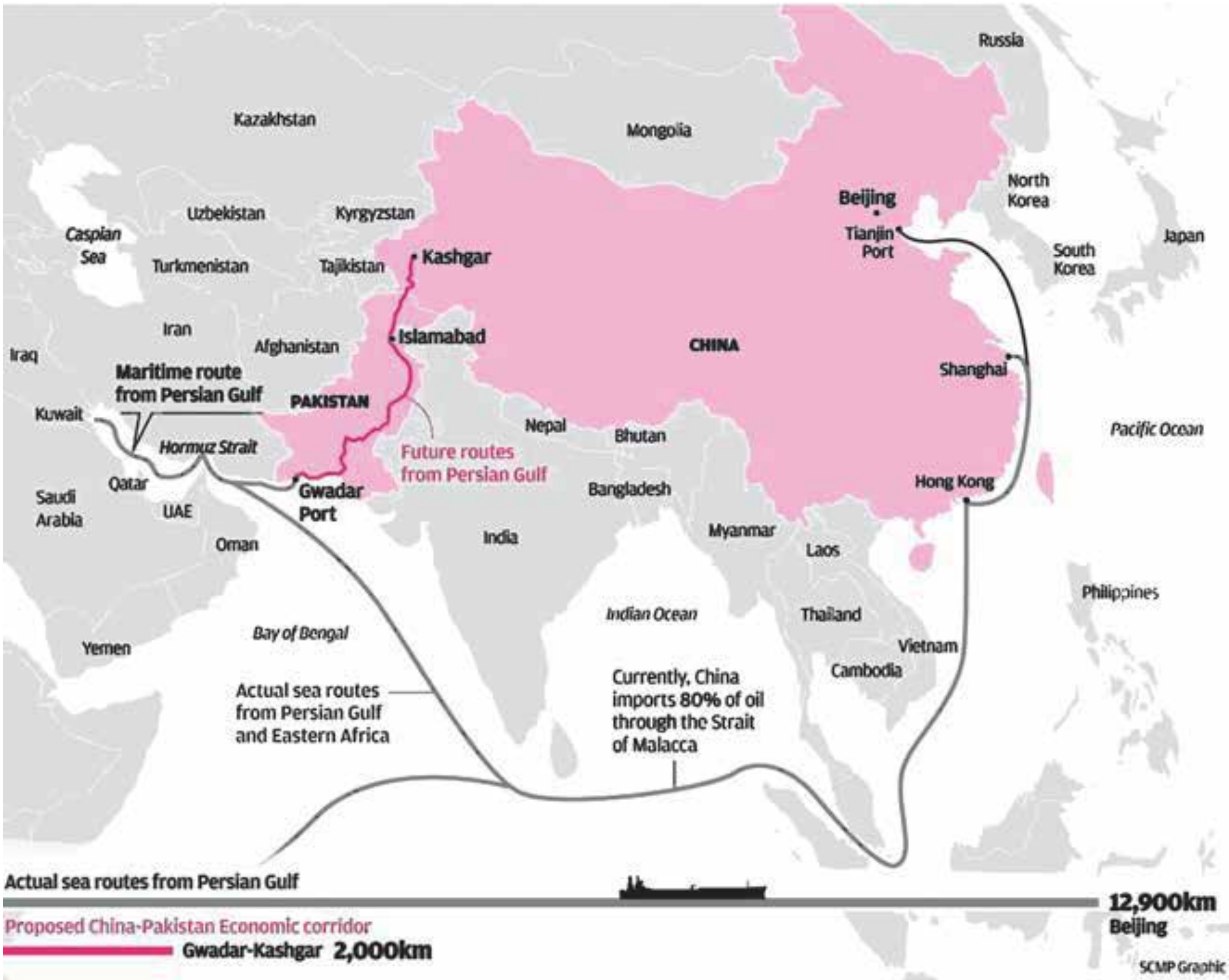
If the security profile in Afghanistan and the Middle East can greatly improve, the participants in the CPEC initiative by 2030 could come together under the aegis of a consultative group aimed at enhancing strategic, trade and security relations.

BRI and CPEC – A Window of Opportunity for the GCC

President Xi Jinping's vision of China's foreign policy and resetting the new regional order in South Asia, Central Asia and the Middle East are through the all-encompassing Belt and Road Initiative (BRI) launched in 2013. China has enjoyed strong economic relations with the GCC bloc well before 2013.

With BRI, China is reasserting economic interdependence of the region in addition to already strong bilateral economic relations with countries in GCC and the Middle East. BRI finds a mention in Saudi Arabia's Vision 2030, whereby China and Saudi Arabia aim to become the biggest economic partners in the region. Similarly, Kuwait's 2035 Vision for Development also rests on BRI, helping Kuwait achieve its development goals. In Oman, China is the main foreign investor in Oman's Duqm Free Zone project with a current investment of $3.6 billion totalling $10 billion once completed. Together with Gwadar, Chabahar, and a base in Oman,

Fig. 5.2. Proposed China-Pakistan Economic Corridor



China will have access to the entire Arabian Peninsula, East Africa and South Asia.

Pakistan and China have jointly invited third parties to become part of CPEC. Arab countries of the GCC bloc and others in the Middle East have been invited to invest in the industrial and energy sector projects under CPEC. For Pakistan, investment from GCC in the export-led industry is critical to overcoming its current account deficit.

The Gulf Crisis of 2017 has shaken countries like Qatar, which have suffered isolation and blockade by a bloc of fellow GCC countries led by Saudi Arabia. During the Gulf Crisis, Pakistan helped Qatar use Gwadar to ship perishables from Pakistan to Qatar since the latter could not bring fruits and vegetable overland from Jordan or use Jebel Ali container port in UAE for the same. From Gwadar to Hamad Port outside Doha, the ship carrying perishables took only four days to reach Doha cutting down the earlier weeklong journey. Pakistan has proposed 32 investment projects to Qatar in March 2019 during Pakistan-Qatar Trade and Investment Conference. Some proposed projects worth US$10 billion are part of CPEC. Pakistan has also proposed a food storage facility at Gwadar in addition to import of LNG from Qatar. Saudi Arabia has become a third partner in CPEC and has provided Pakistan US$20 billion investment program out of which $10 billion will be used to build an oil refinery at Gwadar. It is said that "the Saudi petroleum refined at Gwadar would fuel not only Pakistani transportation but, given the plans for trans-Himalayan pipelines, also that of China, and would generate profits for Saudi Arabia."[94]

CPEC energy projects are completing at such a time in Pakistan when it is poised to benefit from third-party investments to expand the Corridor. Qatar's blockade and Saudi Arabia's outreach for investments in CPEC's SEZs have benefited Pakistan immensely. Inviting GCC states (countries in the Gulf and the Middle East) to join CPEC, will strengthen their relationship with Pakistan. Additionally, they will also indirectly benefit from strengthening their economic ties with China and increasing the volume of their bilateral economic activity. Furthermore, it allows GCC countries to reduce their dependence on the U.S. (with its added political manoeuvring) when they look at China as their regional security and economic partner. Pakistan with CPEC provides them with that direct link.

94 Juan Cole, "The China-Pakistan Economic Corridor and the Gulf Crisis," Monographic Series, Gulf Studies Center, No. 4, June 2019 http://www.qu.edu.qa/static_file/qu/research/Gulf%20Studies/documents/Gulf%20Studies%20monographic%20series%20No%204%20Juan%20Cole.pdf

Chapter Six

Conclusion and Recommendations

Chapter Six

Conclusion and Recommendations

Pakistan at the Turn of the Decade

Will Pakistan's future be parallel to its recent past? Will Pakistan's past be its prologue? Will Pakistan surprise its critics who have given up hope for Pakistan's stable economic future? While Pakistan has the resilience to bounce back, it is ending this decade on a high note. The data for October 2019 reveals that Pakistan's current account was positive $99 million against a net deficit of $1.28 billion in October previous fiscal year. Last time Pakistan recorded surplus was in 2015. The Pakistan Bureau of Statistics records that Pakistan's "trade deficit fell 33.5 per cent in July-October FY20, while imports of goods dropped 22.9 per cent to $14.656 billion in the first four months of the current fiscal year. Exports grew slightly by 3.4 per cent to $8.220 billion, the SBP data showed. Foreign direct investment into Pakistan rose 238.7 per cent in the first four months of the current fiscal year to $650 million."[95] With Pakistan focusing on an export-led economic growth model, signing of Free Trade Agreement (FTA-II) with China, Preferential Trade Agreement (PTA) with Indonesia, revision and renegotiation of Afghanistan Pakistan Transit Trade Agreement (APTTA), will help it boost exports and invite FDI. Currently, Pakistan has FTAs with Sri Lanka, China and Malaysia.

According to the Third Quarterly Report 2018-2019 published by the State Bank of Pakistan, Pakistan's export performance has remained weak in the past two decades. In comparison to Pakistan's competitors from the region,

Table 6.1. Pakistan's GDP and its Components

growth in percent; contribution in percentage points

	Growth			Contribution
	FY18^{R}	FY19^{P}	FY19^{T}	
Agriculture	**3.9**	**0.8**	**3.8**	**0.2**
of which				
Important crops	3.6	-6.6	3.0	-0.3
Livestock	3.6	4.0	3.8	0.4
Industry	**4.9**	**1.4**	**7.6**	**0.3**
of which				
Mining and quarrying	7.7	-2.0	3.6	-0.1
LSM	5.1	-2.1	8.1	-0.2
Electricity gen. & dist. and gas dist.	-9.1	40.5	7.5	0.6
Construction	8.2	-7.6	10	-0.2
Services	**6.2**	**4.7**	**6.5**	**2.8**
of which				
Wholesale & retail trade	6.6	3.1	7.8	0.6
Transport, stor. & com.	2.1	3.3	4.9	0.4
Finance & insurance	7.0	5.1	7.5	0.2
General gov. services	11.8	8.0	7.2	0.6
GDP	**5.5**	**3.3**	**6.2**	**3.3**

R: Revised; P: Provisional; T: Target (from Annual Plan 2018-19)
Data source: Pakistan Bureau of Statistics

Source: Third Quarterly Report 2018-2019, State Bank of Pakistan

Pakistan's export share in global exports declined from 0.18 per cent to 0.13 per cent. Although Pakistan has risen the ranks in ease of doing business category, the cost of doing business in Pakistan and setting up a new business has risen in the past ten years. The unstable security situation, higher inflation and interest rates are major contributing factors that have not allowed businesses any relief in Pakistan in the past two decades. In addition to these structural factors, electricity outages, less FDI flows, less public spending on education (this lack of skilled labour), research and development and higher tariff rates are some of the reasons

95 "Current account balance posts $99 million surplus in October," The News International, November 19, 2019 https://www.thenews.com.pk/print/570788-current-account-balance-posts-99-million-surplus-in-october

for low export performance by Pakistan.[96] If Pakistan wants to institutionalise the export-led growth model and increase FDI in the country, then these structural issues would need to be addressed.

Pakistan's CPEC Advantage

Prime Minister Imran Khan refers to emulating China's growth and developmental model which has lifted more than 700 million people out of poverty in a short span of only twenty-five years making China the second-largest economy in the world with per capita income of $300. China's development model rests on an equilibrium in which "the asset holders favoured by the market create wealth and jobs, while the government, by providing infrastructure and social services, helps in redistributing the gains of growth among those who are unable to derive any benefits from the market mechanism."[97]

China's BRI provides China with new markets for Chinese products. While it helps secure China trade and energy routes through the planned economic corridors from the South and Central Asia, the Middle East and Europe, it helps partner countries to benefit from this opportunity of regional connectivity and economic integration. Pakistan stands to gain immensely through CPEC project which has the potential to connect China to the Indian Ocean and the oil-rich Middle Eastern countries, South Asian states, Central Asian countries and East Africa. While China gets to benefit from CPEC, it is also a win-win situation for Pakistan. CPEC has the potential to expand to include other countries. Saudi Arabia's $10 billion investment in an oil refinery in Gwadar, linking Gwadar with Iran's Chabahar port onwards to Iran's railroad network and CPEC's east-west expansion with Afghanistan and Central Asia are some of the immediate advantages CPEC brings for Pakistan. On the domestic front, CPEC energy projects will generate a capacity of 1100 MW by 2020 to help Pakistan deal with power shortages. Seventy per cent feeders in Pakistan's national grid system are free from power cuts or load shedding. CPEC also helps Pakistan diversify its fuel sources to include reliance on LNG, wind, solar, coal and hydropower through various energy projects planned.

With Pakistan's energy crisis managed soon, focus on an export-led model of economic growth will boost Pakistan's exports through regional connectivity opportunity that CPEC affords. Businesses and industry will be able to complete and ship their orders on time, which they were not able to do for the past five years due to energy constraint environment. Coupled with improved ranking in ease of doing business in the region, Pakistan's SEZs under CPEC will invite foreign investors. Next decade for Pakistan is projected to achieve high economic growth indicators given the geopolitical dynamics in the region stabilise in medium to long-term for Pakistan to benefit from the dividends of CPEC.

Geo-Political Impediments for Pakistan's Regional Connectivity Dream

South Asia

Pakistan's two key immediate geopolitical challenges stem from its uncertain relations with India and Afghanistan. Pakistan's foreign policy has been driven by its security concerns towards India and Afghanistan. With the

96 Asif Mahmood and Waqas Ahmed, "Export Performance of Pakistan: Role of Structural Factors," State Bank of Pakistan, May 2017 http://www.sbp.org.pk/publications/staff-notes/SN-2-17-Export-Prefor-Pak.pdf

97 Ishrat Hussain, "CPEC and Pakistan's Economy: A Way Forward," Working Paper #020, Center for Excellence for CPEC, March 5, 2018 https://cpec-centre.pk/wp-content/uploads/2018/05/CPEC-Pakistans-economy-a-way-forward_Website.pdf

Indian annexation of J&K and Ladakh, stripping Kashmir off its disputed status in August 2019, India-Pakistan relations cannot return to business as usual soon. While Pakistan inaugurated the Kartarpur corridor in November 2019 to facilitate the Sikh community from India to access Gurdwara Darbar Sahib at Kartarpur in Punjab, it came amid heightened tensions between the two countries. As India and the U.S. work closely together in the region to check China's rise, there are speculations that possible sabotage of CPEC projects is likely, given Pakistan's embrace of China's BRI.[98] Indian opposition to the BRI and CPEC remains that some projects pass through the 'disputed' region in Pakistan administered Azad Jammu & Kashmir (AJ&K) and Gilgit-Baltistan (GB). Calls for gaining jurisdiction over AJ&K and GB by the Indian defence minister, foreign minister and the army chief on several occasions are not to be taken lightly by Pakistan's politico-security establishment.[99] Gwadar in Balochistan is also vulnerable to destabilisation and subversive activities, confirmed through the capture of a serving Indian naval officer and RAW agent, Kulbushan Yadev. It is proposed to set up a Joint CPEC Security Initiative to protect CPEC investments in AJ&K and GB. Through which, Pakistan and China jointly secure projects in the vulnerable areas of AJ&K, GB and Balochistan.[100]

With Afghanistan, Pakistan's challenges are multiple, the foremost being stability in Afghanistan and possible peaceful U.S. withdrawal from the region. For the past one year, Pakistan was at the forefront facilitating an Afghan Deal between the U.S. and the Taliban which was near completion when in September 2019, President Trump pulled the U.S. out and cancelled the negotiations. The future of the deal is uncertain, and so are the prospects of peace in Afghanistan in the absence of such a deal. However, securing peace is one aspect of Pakistan's challenge in Afghanistan. The problem of the power struggle between the ruling political elite in Afghanistan and the Taliban is the second challenge since it creates ambiguity about the future stakeholders in Afghanistan who will be making decisions on Afghanistan's inclusion in CPEC and BRI. Lack of clarity on a future pluralistic government in Afghanistan challenges Pakistan to plan a future with the former where its pending energy projects and broader regional connectivity is concerned.

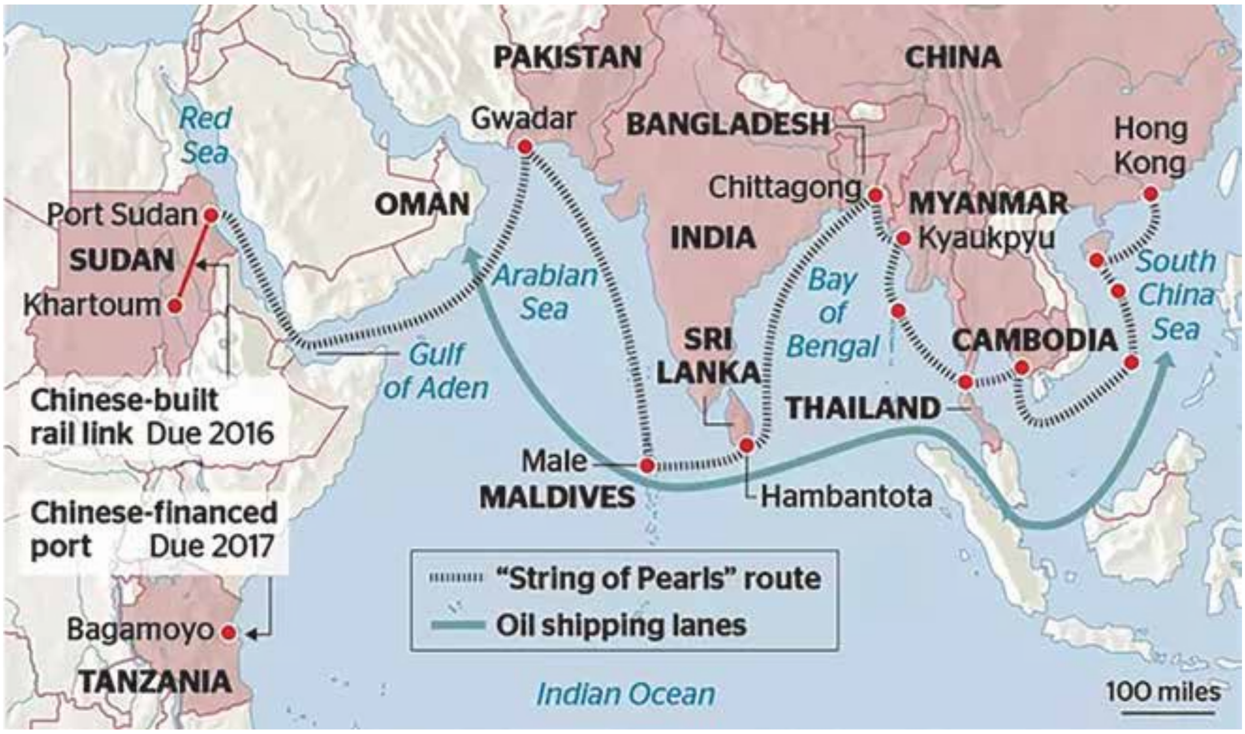
With other countries in South Asia, Pakistan needs to chart an independent foreign policy and be proactive in its outreach. Countries like Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives are closer to India in their foreign policy alignment than with Pakistan. However, the newly elected Sri Lankan President, Gotabaya Rajapaksa is positive news for Pakistan since as wartime defence secretary, he had worked closely with Pakistan to defeat the Indian backed Tamil insurgency in Sri Lanka. President Rajapaksa is also a graduate of Rawalpindi College of Signals, Pakistan. During his presidency, Pakistan should proactively engage with Sri Lanka to benefit from their FTA and explore possibilities under CPEC to help China link Gwadar with Hambantota port (see Fig. 6.1)

98 Sarmad Ishfaq, "India and America collude to disrupt the China-Pakistan Economic Corridor," Open Democracy, June 3, 2019 https://www.opendemocracy.net/en/india-and-america-colludes-disrupt-china-pakistan-economic-corridor/

99 "POK belongs to India," https://economictimes.indiatimes.com/news/politics-and-nation/pok-belongs-to-india-will-have-jurisdiction-over-that-area-one-day-foreign-minister-s-jaishankar/articleshow/71169028.cms

100 Rabia Akhtar, "Militarized Hindu Nationalism," Pakistan Politico, October 2019 http://pakistanpolitico.com/militarized-hindu-nationalism-sino-pakistan-options/

Fig. 6.1. "String of Pearls"



Source: U.S. Naval Institute Blog https://blog.usni.org/wp-content/uploads/2018/02/main-qimg-7347ab225a55861fa10bbe752f4e71ab.png

Central Asia

Pakistan's access point to CARs passes through the Wakhan Corridor. From Gilgit-Baltistan via China using the Karakoram Highway Pakistan can have an entry in Tajikistan, the first and closest Central Asian state to Pakistan. Political stability in Afghanistan, therefore, does not have to be a prerequisite for CPEC's expansion and Tajikistan can be Pakistan's gateway to Central Asia. Pakistan and Tajikistan share various politico-economic multilateral platforms through which they can engage on benefitting from CPEC. They are both member states of the Shanghai Cooperation Organization, the Organization of Islamic States (OIC), the Economic Cooperation Organization (ECO) and the Heart of Asia-Istanbul Process. These regional forums could enhance bilateral trade between Pakistan and CARs. With projects like CASA-1000 that would allow excess Kyrgyz and Tajik electricity to be routed to Pakistani and Afghan markets; TAPI for CARs hydrocarbons to be transported to South Asian markets; or TUTAP-500 linking the power grids of Turkmenistan, Uzbekistan and Tajikistan with those of Pakistan and Afghanistan, regional security challenges remain alive. However, Pakistan should involve CARs as a stakeholder in the Afghan peace and security process and stress the Central Asian states to play a role in encouraging intra-Afghan dialogue on reconciliation. Another challenge which confronts these projects emanates from those CARs that are not directly involved in these energy projects. In CASA-1000 project, for example, Uzbekistan objected that this project threatened its water security and in 2009, "Uzbekistan disconnected Tajikistan from the Central Asia Unified Power System in part because of political tensions over this issue."[101] Bilateral irritants between CARs over these projects remain a challenge. However, all stakeholders need to look at the bigger picture whereby, once these projects are completed, Central Asia, along with Afghanistan and Pakistan, has the potential to become regional energy hubs. Another challenge for Pakistan in Central Asia is balancing between China and Russia's geopolitical and geo-strategic competition. Russia wants to create a Eurasian Economic Union to rival China's BRI in the region which has provided CARs with alternative regional connectivity models. China's security and economic profile in the region is, however, greater than Russia's, which Pakistan can use to balance this relationship and push for more cooperation among all partners instead of competition.

Middle East

The Middle East has been the hub of great power politics for the past several decades at the exclusion of China. With OBOR, China plans to integrate more than 70 countries economically and the Middle East holds strategic importance for the implementation of OBOR. Through its inclusion, the Middle East also provides China with the opportunity to break the western-influenced and induced international economic order and rebrand itself as the new economic giant on the bloc. For China's outreach to the Middle East, Pakistan plays a critical role, given the latter's strong religious and cultural ties with the strongest players in the Middle East, especially Saudi Arabia and the UAE. Pakistan's recent proactive diplomacy towards Riyadh and Tehran to appease bilateral hostilities; Pakistan's role in helping Qatar during its isolation in the Gulf Crisis in 2015; Pakistan's offer to Iran on linking Chabahar and Gwadar ports; and Pakistan's invitation to Riyadh to participate in CPEC via $10 billion investment in setting up an oil refinery in Gwadar are some examples of Pakistan's potential to progress China's economic interests in the region while navigating geopolitical challenges by carving out a leadership role for itself. In the Middle East, therefore and with the GCC bloc, Pakistan has a strong grip on the geopolitical realities and has the potential to convert any challenges to opportunities.

Recommendations

Pakistan's Foreign Policy Challenges for Regional Connectivity - Vision 2030

Pakistan's foreign policy challenges for regional connectivity include its transformational relationship with the United States and India and their long term concerns and objections to CPEC.

The United States and CPEC

As Pakistan's collaboration with China progresses to implement CPEC projects in the second phase, it must not do so at the expense of neglecting its relationship with the United States which has serious reservations on China's BRI projects including CPEC. The U.S. remains an integral player in the region with its presence in Afghanistan. Even if a deal is finalised between the U.S. and the Taliban making way for U.S. troops to withdraw from the region, the U.S. will maintain some troops and personnel presence in Afghanistan for the foreseeable future. With Pakistan at the heart of

101 Nate Bills, "Powering a New Silk Road: Helping Connect Supply with Demands in South and Central Asia," Frontlines, Nvember/ December 2014 https://2012-2017.usaid.gov/news-information/frontlines/afghanistan/powering-new-silk-road-helping-connect-supply-demand-south

CPEC expansion to include Afghanistan, CARs and the Middle East, it must not threaten U.S. interests in the region given its incredible clout over current and prospective CPEC partners in the region and its influence over regional economic organisations. The U.S has never been ambiguous about its concerns concerning CPEC and Pakistan's challenges, however, in a first, Ambassador Alice Wells, Principal Deputy Assistant Secretary of State for South and Central Asia, publicly examined CPEC and its implications for Pakistan's development. Wells criticised Chinese OBOR initiative and the Chinese brand of development comparing it with that of the U.S. model for sustainable economic growth based on the principals of "good governance, long-term capacity building, and market policies," factors missing from the Chinese model.[102] The Chinese foreign ministry dismissed Wells remarks on CPEC as "repetition of old slander against China, CPEC and BRI," followed by Pakistan stating that the burden of CPEC will not increase Pakistan's debt burden.[103] With Trump administration's confrontational strategy with China, Pakistan needs to play its card cautiously to balance the strategic concerns of both the U.S. and China in the region.

India and CPEC

Closer to home, Pakistan needs a bilateral relations management mechanism whereby its relations with India do not deteriorate to the point of threatening Pakistan's prosperity dividends from CPEC. India's interest in sabotaging CPEC in Pakistan administered AJ&K, GB and Balochistan is a threat against which Pakistan must strategise. It must involve China to develop stakes in guarding their joint investments, especially in those vulnerable areas where egregious Indian designs have both history and precedence. Moreover, Indian economic relations with the Arab world, the GCC bloc and Iran are much stronger today than ever before. Pakistan must harness the economic potential to remain relevant in the strategic calculus of its partners in the Middle East.

Harnessing Strengths: Tourism and Education Corridors

The preceding analyses have amplified space regional connectivity initiatives will create for Pakistan to expand its power clout in the region and beyond. The momentum generated from economic integration can help Pakistan actualise its potential. Prospects of boosting the country's economic and strategic profile can increase if it plays to its strengths. In the medium-to-long term, Pakistan should focus on three fields: tourism, education and defence exports.

Tourism

Pakistan is one of the most diverse countries when it comes to tourism. Home to some of the most revered places of worship of religions like Buddhism and Sikhism, Pakistan has the potential to become a centre for religious tourism in the region. With its Northern Areas dominated by the imperious Himalayas, Hindu Kush and the Karakoram, Pakistan has what it takes to be a mountaineers' delight. Pakistan's sizeable coastline, lying at the heart of CPEC, gives it yet another opportunity to tap into its tourism potential. Also, modern-day Pakistan comprises areas that were the breeding grounds of some of the most ancient civilisations in history, something that gives the country a great edge regarding its tourism profile.

102 "A Conversation with Ambassador Alice Wells on the China Pakistan Economic Corridor," Wilson Center, November 21, 2019 https://www.wilsoncenter.org/event/conversation-ambassador-alice-wells-the-china-pakistan-economic-corridor

103 "Alice Wells remarks about CPEC are repetition of old slander," DAWN, November 26, 2019 https://www.dawn.com/news/1518969

The advantage of having a tourism corridor has not been lost on the government of Pakistan. Prime Minister Imran Khan has taken upon himself to ensure the growth of the tourism industry in the country. Pakistan has recently liberalised its visa regime, giving visa-free entry to 50 countries and e-visa to 175 countries. The opening of the historic Kartarpur Corridor and decisions to restore some 400 Hindu temples and improve Buddhists' places of worship are some of the grand initiatives undertaken by the government of Pakistan to facilitate religious tourism.

Education

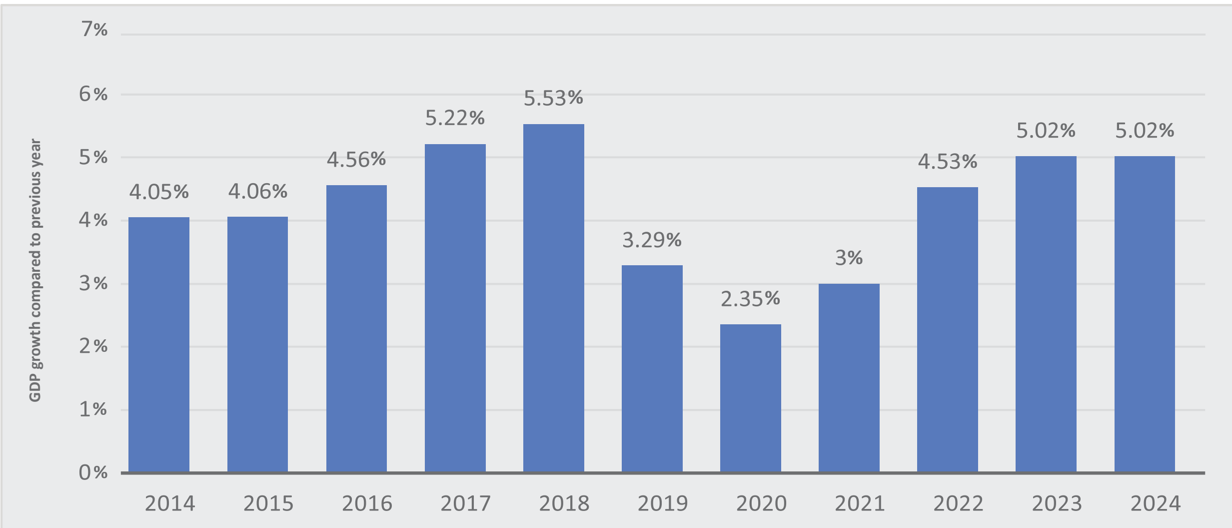
Pakistan is in the process of undertaking progressive reforms in the country's education system to improve the quality of knowledge and research and increase literacy. Based on learning from the successes of its regional partners like China, Pakistan can create an education corridor wherein best-practices are shared among universities in the two countries. Pakistan can facilitate more exchange programs with regional countries for education and R&D. Creation of knowledge cities on the lines of the NAMAL College could become a part of CPEC and other frameworks like SCO in future. Pakistan could focus on bolstering educational ties with GCC countries as well, especially in the fields of health and social sciences.

Pakistan's Roadmap for Economic Prosperity 2020-2030

Pakistan's foreign policy orientation post-2030, when CPEC projects will be completed, must rest on the transformation of Pakistan into a regional power able to assert political and economic influence in the region. Pakistan is the seventh nuclear weapon state in the world. It must steadily rise the ranks to be respected as a responsible NWS with strong economic, political and strategic ties with all countries in its neighbourhood.

There will be several critical measures of Pakistan's prosperity in the coming decade (2020-2030), as it moves towards completion of CPEC. Pakistan's economic portfolio must improve the following two critical indicators for investors to see that economic growth is taking place:

Fig. 6.2. Pakistan: GDP 2014-2024[104]



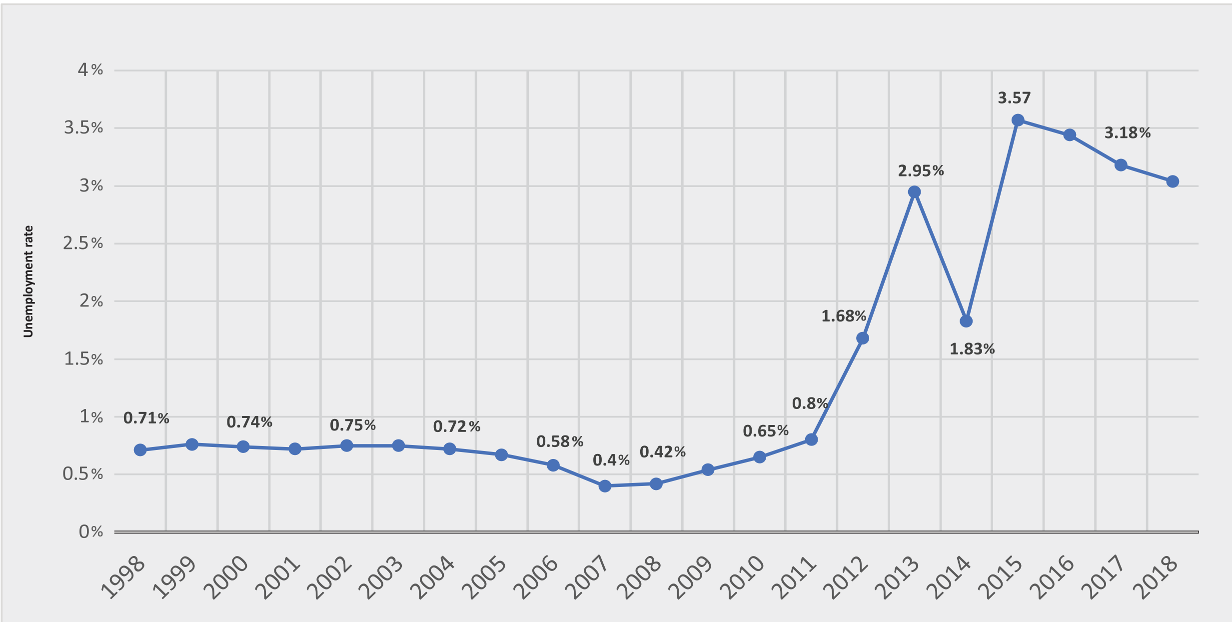
104 H. Plecher, "Pakistan: Growth Rate of the Real GDP from 2014-2024," *Statista* https://www.statista.com/statistics/383729/gross-domestic-product-gdp-growth-rate-in-pakistan/

- **Pakistan Must Improve its GDP:** According to the World Bank, "Pakistan's growth slowed to 3.3 per cent in FY19 – a 2.2 percentage points decline compared to the previous year." For FY20, "real GDP growth is projected to decelerate to 2.4 per cent as the government tightens fiscal and monetary policies." Growth is expected to recover to 3.0 per cent in FY21 "as external demands pick up, macroeconomic conditions improve. and the package of structural reforms in fiscal management and competitiveness take effect" however, "this recovery is conditional on relatively stable oil prices and reduced risks."[105]

  In the next five years, Pakistan's GDP is projected to grow at 5 per cent. This projected GDP is based on Pakistan completing CPEC projects in the medium term allowing Pakistan to increase trade through the economic corridor, providing it with the much needed economic stability. While the projection is positive, fiscal reforms are the key to achieving these indicators.

- **Pakistan Must Improve its Employment Indicators:** Pakistan's unemployment indicators decreased from 3.14 per cent in 2017 to 3.04 per cent in 2018. Pakistan's GDP growth rate must be sustainable at 7 per cent or above to generate employment for 64 per cent of its youth under the age of 30, a trend that will continue until 2050.[106] While CPEC promises employment generation for the Pakistani population, so far only 70,000 jobs have been created and more than 1.2 million promised in the next five to ten years. Pakistan must ensure completion of SEZs on time for private enterprises to create employment opportunities.

Fig. 6.3. Pakistan Unemployment 1998- 2018[107]



105 "Pakistan," The World Bank Report https://www.worldbank.org/en/country/pakistan/overview

106 "Shakeel Ahmad, "Unleashing the Potential of a Young Pakistan," UNDP Human Development Report, July 2018 http://hdr.undp.org/en/content/unleashing-potential-young-pakistan

107 H. Plecher, "Pakistan: Unemployment Rate from 1998-2018," *Statista* https://www.statista.com/statistics/383735/unemployment-rate-in-pakistan/

Pakistan has the potential to move from low regional economic connectivity to high regional economic connectivity. For that, it needs to accelerate bilateral trade with countries in its immediate neighbourhood. Its membership of regional political and economic organisations like SCO, ECO, SAARC and OIC among other regional frameworks is important. Pakistan's vision of long-term economic growth directly translates into stability for Pakistan. And for that, Pakistan must adopt an all-inclusive approach of regional integration post-2030.

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