

CHINA'S PAKISTAN OPTION

Economic and Social Implications
of an 'All Weather Relationship'¹

WOLFGANG-
PETER ZINGEL

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relationship have to withstand? Feeling threatened by neighbours India and Afghanistan, Pakistan has, since independence, been looking for allies beyond the former colonial powers and the few and weak Muslim states. Pakistan was the third country, and the first Muslim state, to recognise the People's Republic of China (PRC). It turned to the USA in the early 1950s, but kept up relations with China despite the 'complete embargo' by the USA on the new communist country. In the UN, Pakistan voted mainly with the USA, with no consequences for its relations with China.

Pakistan refused to support India in 1962 and concluded a border agreement with China in 1963, giving away territory that India regards as its own. China supported Pakistan's stand vis-à-vis India, but did not intervene militarily in 1965 and 1971. It did threaten India, however, and thus, bound considerable Indian forces along the Chinese border. Pakistan in turn did not send any troops to Vietnam, despite being a member of SEATO.

In 1971, Pakistan was instrumental in the US establishing diplomatic relations with the People's Republic of China. As a result, the PRC became a member of the United Nations and the Security Council. It also helped to end the Vietnam war. After the Soviet invasion of Afghanistan in 1979, Pakistan became a 'frontline' state, supported by the USA as well as China. Similarly, China supported the USA in their 'War against Terror' in Afghanistan.

HARD CHOICES AHEAD?

China obviously helped Pakistan to develop nuclear capability from the 1970s. This would explain why and how Pakistan withstood the US sanctions of 1979 (Symington and Glenn Amendments) and 1990 (Pressler Amendment). The Soviet invasion of Afghanistan had brought back US assistance, but once the 'Russian' Afghanistan war (1979–1989) was over and the Soviets had withdrawn their troops, the USA was no longer willing to tolerate Pakistan's nuclear programme and cut their assistance. Without aid, Pakistan fell back behind India in the 1990s, socially and economically. After the nuclear tests of 1998, Pakistan became more isolated and feared being officially declared a terrorist state.

During the Kargil Crisis (1999), China (like the USA) refused to come to the help of Pakistan. The USA resumed its massive economic and military assistance after 11 September 2001.

INTRODUCTION

The relationship with China is celebrated in Pakistan as an 'all weather' friendship. China is by far more popular in Pakistan than is the United States, although the latter has been its most important donor since independence. China is Pakistan's major ally and trading partner. There is no doubt of China's importance for Pakistan, but the question is whether Pakistan is equally important for China.

In this paper, I look at the bilateral relationship in comparison with Pakistan's and China's neighbours on the basis of information provided by national and international agencies/organisations and the media, mostly available on the internet. Such information, however, suffers from the fact that international organisations usually report national statistics and reflect national perceptions of territory.² Time series and other historical data from various sources are subject to retroactive changes made by the issuing agencies for reasons of methodology or otherwise, and therefore may not always be consistent. A short survey of bilateral political relations over the last 65 years is followed by a look at bilateral economic relations in comparison with relations with other neighbours, in particular China's options of a New Silk Road and the prospects of the promised Economic Corridor.

PAKISTAN-CHINA RELATIONS: FRIENDS IN NEED AND EARLY TESTS OF FRIENDSHIP

The Pakistan-China relationship has been labelled an 'all weather friendship' (Guruswamy, 2010). Therefore, what weather did the

Presently, they are pulling out of Afghanistan and the US Congress has become more critical of Pakistan. Thus, Pakistan needs China more than ever, especially as it can no longer count on unconditional support from other old friends: good relations with Iran suffered after the revolution of 1979, and those with Saudi Arabia appear to be strained as never before.

ECONOMIC RELATIONS

Bilateral economic relations are usually measured by the exchange of goods, services, capital, ideas and people. Neighbours may also share flow resources (water) and emit pollutants across the border. Neighbouring countries often control access to seas and overland travel, transport by road and rail, and pipelines. Removing or reducing such obstacles is a subject of bargaining processes between governments, mainly aimed at reducing international transaction costs. Generosity, however, comes at a price, to be paid in the form of trade concessions, technical, financial, diplomatic and military assistance/support, and other legal and illegal tolls, fees and customs duties.

The volume and composition of trade give some indication of the intensity and quality of bilateral relations. But contrary to common belief, bilateral trade does not have to be balanced (globally, of course, all exports equal all imports). For obvious reasons, smaller economies depend more on trade than do larger economies. Trade not only means commercial trade in (tangible) commodities, but also in (intangible) services. Imports are funded by foreign exchange earned from the export of goods and services, home remittances, capital inflow (credit, foreign assistance) and foreign exchange reserves.

Pakistan's commercial trade with China was insignificant in the beginning, picked up from the late 1970s, and especially after the late 1990s (Kumar, 2006). China is Pakistan's most important trading partner, having overtaken the USA in 2010. It is an asymmetric relationship: Pakistan imports much more from China than it exports. According to UN (Pakistan reporting) figures, Pakistan's exports (USD 2.3 billion) were only a fraction of imports (USD 9.6 billion) in 2014; the trade balance has been negative and growing over the past years.

In 2014, Pakistan ranked only 64th as a source of Chinese imports and 32nd as a destination for exports (India: 28th and 32th, respectively). Pakistan has a share of less than 0.2 per cent of all Chinese imports. Pakistan's and China's official figures differ substantially in detail, with Chinese figures for imports (USD 2.8 billion) and exports (USD 13.2 billion) being much higher; however, there is no doubt of China's predominance.

Pakistan and China are both net-importers of services (tourism, travel, transport, finance). In 2013–2014, Pakistan's trade in services (exports USD 5.4 billion; imports USD 8.0 billion) amounted to only one-fifth the size of commercial trade. Payments from the Coalition Support Fund (CSF), i.e., war relief, alone amounted to USD 1.5 billion. Trade in services with China was obviously not significant.

As for capital export and import, Pakistan is the much smaller economy and the volume of the Pakistani capital market is comparatively tiny. Large-scale investment in Pakistan by the Chinese in the form of direct foreign investment (FDI—with the aim to exert some control) or portfolio investment has still to happen. According to Shahid Yusuf (2013), there have been substantial investments, but also withdrawals. Until 2010, total net FDI from China amounted to USD 1.4 billion. The bulk was invested in power, but also in transport, telecommunication and mining. Over the years, FDIs have been volatile and in recent years have shrunk. China has moved to being the top investor in Pakistan. Total FDI, however, only amounted to USD 1.7 billion in 2014–2015 (June–April). Pakistan traditionally funds its budget to quite an extent with credits and loans at market and at preferential conditions. Pakistan's foreign debt of USD 63 billion is partly owed to China, for instance, USD 1.0 billion SAFE China Deposits.

Pakistan and China have been known in the past for violation of intellectual property rights on a large scale. China now lays more emphasis on research. By number of patents granted, China ranks third after the USA and Japan (WIPO, 2014). In 2013, Pakistan granted just 19 patents to residents and 263 to non-residents; in China, the numbers were 143,535 and 64,153, respectively. It is assumed that China provided Pakistan know-how in military and nuclear technology.

Both countries are separated by high and inaccessible mountains. In the past, mountain valleys and passes saw some pilgrims, herdsmen and traders, but no major exchange of population in the border areas. Both countries are sources of out-migration. The World Economic Forum counts Pakistan and China among the least welcoming countries (Blanke and Chiesa, 2013: 455). There are no official figures, but it is known that the traditionally small population of Chinese has been growing, especially in the major cities. In 2007, the Chinese government urged Pakistan to free Chinese nationals kidnapped by Islamists and held in Islamabad's Red Mosque.

Thanks to geography, Pakistan and China share no flow resources. The major exceptions are the waters of the Indus and Sutlej with their sources in China. They run first through areas controlled by India. The border area is sparsely populated. Transborder emission of pollutants into water and air is not an issue.

PAKISTAN'S DIFFICULT NEIGHBOURHOOD

Pakistan has land borders with four countries. According to the CIA World Fact Book, of a total of 7,257 km, the borders with Afghanistan (2,670 km) and India (3,190 km) are much longer than those with Iran (959 km) and China (438 km). Oman lies across the sea, Tajikistan behind the narrow Afghan Wakhan 'panhandle'. Overland travel and transport suffer from strained political relations (India), war (Afghanistan), trade restrictions (Iran embargo) and topography (China and Tajikistan). The exchange of people and goods between Afghanistan and Pakistan is intense, but much is illegal and most goes unaccounted for, mainly via the Federally Administered Tribal Areas (FATA), a virtual free-trade zone. There is no effective control on its borders with the 'settled' districts of Pakistan on the one side and Afghanistan on the other.

CHINA AND ITS MANY NEIGHBOURS

China has land borders with 14 countries. Of a total length of 22,457 km, China's borders are much longer than Pakistan's: Afghanistan, 91 km; Bhutan, 477 km; India, 2,659 km; Kazakhstan, 1,765 km; North Korea, 1,352 km; Kyrgyzstan, 1,063 km; Lao PR, 475 km; Mongolia, 4,630 km; Myanmar, 2,129 km; Nepal, 1,389

km; Pakistan, 438 km; Russian Federation (northeast), 4,139 km; Russia (northwest), 40 km; Tajikistan, 477 km; Vietnam, 1,297 km; plus Hong Kong, 33 km; and Macau, 3 km. Across the sea lie South Korea, Japan and the Republic of China (Taiwan). Bangladesh and Thailand are near-neighbours, separated by some small strips of territory in India and Lao PR/Myanmar, respectively.

Relations have been strained with many, especially with Japan (until 1945), Taiwan (ongoing), South Korea (1950–1953), India (1962), the Soviet Union (1969) and Vietnam (1979). North Korea is naturally difficult to control. Relations with Myanmar deteriorated from 2011. Insurgents in Xinjiang obviously get support from non-state actors in Afghanistan and Pakistan (Small, 2015: 81).

China is the largest trader and leading trade partner of 120 states. Most of its trade is with industrialised countries in the region, especially with South Korea and Japan. Pakistan plays no role in trade, but lies on the route between western China and the Arabian Sea. Western China, i.e., Xinjiang, Tibet, Qinghai and Gansu, covers a territory of 4.1 million sq km, as much as India and Pakistan together, but has only 56 million inhabitants, as compared to Pakistan's almost 200 million. They produce a GDP of USD 413 billion (2013), twice as much as Pakistan.

THE NEW SILK ROAD

The Silk Road is an ancient network of routes across Asia connecting China with Europe. In modern times, it lost importance after sea transport became cheaper, faster and safer. Once China became a net-importer of energy and raw materials, it tried to reduce dependency on sea transport through the Strait of Malacca, shorten the transport time to Europe and lower translocation costs. Therefore, goods trains run regularly between China and Germany via Kazakhstan. Other routes of the New Silk Road are being explored, also referred to as the Eurasian Economic Corridor.

The major trade route to Europe is the Northern Corridor. The Trans-Siberian Railway is the main connection to Europe. China has access via Manchuria, Mongolia or Xinjiang/Kazakhstan and onwards through Russia. A Central Corridor extends from Xinjiang via Kazakhstan/Kyrgyzstan/Tajikistan/Afghanistan, Uzbekistan, Turkmenistan, across the Caspian Sea, Azerbaijan, Georgia and the

Black Sea to Ukraine/Romania/Bulgaria. A Southern Corridor runs from Xinjiang via Pakistan/Afghanistan to Iran and Turkey. A rail connection exists from Pakistan to Iran, Turkey and Europe. The corridors are interlinked. The Central Asian and Caucasus republics share the railway network of the erstwhile Soviet Union. In 1996 it was connected to Iran; in 2014 a second connection was opened. There have been trial runs of trains from Tashkent to Istanbul.

Apart from rail and road transport there are pipelines, but they are not needed to export Chinese products. They are for importing raw material like natural gas and mineral oil from Central Asia. China hopes to extend them to the Gulf countries. After the Soviets left Afghanistan, the strategic interest in the country was not so much the (probably overestimated) natural resources of the country, but location, i.e., straddling the route of the TAPI (Turkmenistan–Afghanistan–Pakistan–India) pipeline between Central Asia and the sea. Pipelines across Iran would have been an easy solution were it not for the Iran embargo. This embargo also stands in the way of the proposed IPI (Iran–Pakistan–India) pipeline (with possible extensions to Qatar and China). The future of these projects is still uncertain, very much to the benefit of China, that sees less competition as a buyer of Central Asian primary energy. The present glut of energy and the low prices make China even less dependent on these pipelines.

Besides rail, road, pipelines and electric power transmission lines (e.g., from/to Iran), there are the sea routes: three of China's neighbours, Pakistan, India and Myanmar, are on the Indian Ocean. Iran's long coast can be reached from China via third countries. China is building a corridor across Myanmar and has built the Karakoram Highway and a port in Gwadar, Pakistan. Other options would be India (via Sikkim) and Bangladesh (via India or Myanmar); also Thailand (via Lao PR or Myanmar) and a canal to be built across the Isthmus of Kra. China is situated on the Pacific Ocean; the traditional eastern route to Europe is around South America via the Panama Canal, or via any of America's Pacific harbours, overland across the continent and onwards by ship across the Atlantic Ocean. There are Chinese plans for a canal across Nicaragua, a rail/road link across Colombia, and another across Peru and Brazil. Finally, thanks to global warming, more ships use the direct and much shorter route to northern Europe via the Bering Strait and the Arctic Ocean.

Therefore, China has a number of options, indeed. The planned Pakistan Economic Corridor is only one of them, but with so many uncertainties globally, the Chinese government is determined to make it a showpiece of China's political will, economic power and technical capabilities.

THE PAKISTAN ECONOMIC CORRIDOR

The Pakistan Economic Corridor has been planned as a rail/road link from Kaxgar (also Kasi) in Xinjiang via the Khunjerab Pass and the Karakoram Highway to the plains of the Indus Valley and onwards to Gwadar on the Arabian Sea (PES, 2015: 218–19). An agreement was signed in April 2015. Different routes have been discussed: western routes would be via Dera Ismail Khan and Fort Sandeman or Dera Ghazi Khan and Zhob to Quetta and onward to the Makran coast. The eastern routes would follow the highway from Islamabad via Lahore to Karachi and on the Coastal Highway to Gwadar. There are more routes in between. None is without serious security concerns. The western routes run through tribal areas, the eastern ones are close to the Indian border. In the early 1960s, the US Army Corps of Engineers had worked out a plan for a direct road from Peshawar to Karachi on the right bank of the Indus as a lifeline in the event of an Indian aggression. Under the name of Indus Super Highway, the project had the full support of Zulfikar Ali Bhutto but was dropped by his successor, General Zia ul Haq, amidst fears that the Soviets after Afghanistan would also invade Pakistan and gain a shortcut to the Arabian Sea.

The China–Pakistan Economic Corridor is a very demanding project. China is certainly in a position to realise even the grandest of projects. But it is not so much the technical difficulties and high costs, but the political and security risks that are alarming. China may not want to be drawn into war or insurgency. It may also want to avoid being placed in a bidding war against a major international stakeholder like the USA on political grounds.

But there are also important domestic factors that speak for an engagement in Pakistan. The New Silk Road benefits especially central and western China that is (almost) closer to Europe than to the China Sea. The Pakistan Economic Corridor should especially uplift the Uighurs in southern Xinjiang. However, if such a

development attracts too many Han Chinese, it would add to rather than solve problems.

UNCERTAINTIES

As a project, the New Silk Road with its Eurasian and Pakistan Economic Corridor reflects optimism and the expectation of further economic growth and political stability. But if the present fall of oil prices is a prelude to a new recession, less transport capacities will be needed. Technically, transport requirements might also decrease if technologies become more resource-efficient and/or production is relocated and in-sourced. An improvement in China-India or US-Iran relations and/or an end to the war in Afghanistan would not necessarily make Pakistan less attractive; it would make Pakistan a safer place for investment and would free capacities presently absorbed for 'security' reasons for economic and social development.

Not to forget the uncertainties presented by nature: the Attabad landslide has shown the risks of a road across one of the highest mountain ranges, when the Karakoram Highway was submerged under a 22-km long and over 100-metre deep lake. A Chinese company and Pakistani workers are presently building a bypass road and tunnel. The Karakoram Highway is expected to reopen in late 2015. So far, the new harbour at Gwadar, now under Chinese management, is still awaiting more traffic.

IMPORTANCE FOR INDIA

Pakistan and China are India's major enemies and the only two neighbours India has been at war with. Politically and strategically their friendship is seen as a threat to India, all the more so as China has aligned with other countries along the shores of the Indian Ocean, creating a 'Ring of Pearls' (ports).

Economically, the Pakistan-China axis is much less threatening for India. Trade among neighbours leaves much to be desired all over Africa and Asia, so a low level of bilateral trade would not be surprising. Like Pakistan, China is India's major trading partner, but other than Pakistan, India ranks among China's most important partners. That the IPI has not been built yet is less due to hostility on the part of Pakistan than to the Iran embargo, quarrels over transit fees, and the question of Iran being in a

position to deliver. That the TAPI cannot be built is mainly a result of the war in Afghanistan. Despite all odds, however, in 2014 the gas companies of Turkmenistan, Afghanistan, Pakistan and India set up a private company to build, own, operate and transfer the pipeline.³

Overland transport from Europe which was growing until stopped by the Iranian revolution and the wars in Afghanistan has still not picked up, although the route in principle is open after Iran closed the gap in its railway network and goods trains again ply between Quetta and Zahidan. It would be open for India too.

CONCLUSION

Politically and economically China, the new South Asian power (Cohen, 2011), can be considered more important for Pakistan, than Pakistan would be for China. When it comes to China's options for the New Silk Road, the Pakistan Corridor should be considered as a viable and attractive one, especially with regard to central and western China. In choosing the best route, there is a trade-off between security and regional development. The western routes are safely away from the Indian border, but keeping the Corridor away from the unruly underdeveloped tribal areas will increase the frustration of their population by political high-handedness and economic neglect. At the moment there is an intense discussion to find the best route serving local interests in all provinces.

For India, which usually looks with concern at the close collaboration of its two major and most difficult neighbours, the Economic Corridor might turn out to be a blessing. The project has already been criticised in Pakistan because it would also ease transport from (western) China to India and, therefore, might eventually benefit India more than Pakistan.

NOTES

1. This paper is part of a series of studies on economy and ecology as factors in South Asian Cooperation (Zingel, 2013, 2014). A talk by the same title was held during my tenure as a visiting fellow at the Centre of Pakistan Studies of the Academy of International Studies, Jamia Millia Islamia, on 2 March 2015. The author is grateful for questions and comments by the Chief Guest, Dr. Mohan Guruswamy, and from the floor.

2. In practice this means that there are no separate trade figures for Kashmir. Data provided by the governments of India and Pakistan include territory under their control. China reports trade with Hong Kong and Macao, but not with the Republic of China (Taiwan).
3. The Asian Development Bank writes: "The four state gas companies of these countries have established a company that will build, own and operate the planned 1,800-km TAPI natural gas pipeline. State Concern "Turkmenogas", Afghan Gas Enterprise, Inter State Gas Systems (Private) Limited, and GAIL (India) Limited own equal shares of the company" (ADB, 2014).

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