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# **PAK-CHINA ECONOMIC CORRIDOR: THE HOPES AND REALITY**

**AARISH U. KHAN**

## **Introduction**

Regional connectivity is an important element of the recently unveiled Vision 2025 of the Government of Pakistan.<sup>(1)</sup> The Pak-China Economic Corridor (PCEC) is mentioned as an integral element in realizing the potential of regional connectivity and trade with the South Asian Association for Regional Cooperation (Saarc), the Association of South East Asian Nations (Asean), the Central Asia Regional Economic Cooperation (CAREC), and the Economic Cooperation Organization (Eco).<sup>(2)</sup>

On his part, Chinese President Xi Jinping also proposed forging “China-Pakistan Community of Shared Destiny” during his meeting with President of Pakistan Mamnoon Hussain on February 19, 2014.<sup>(3)</sup> According to Chinese analysts, the Pak-China Economic Corridor (PCEC) serves as the backbone of President Xi’s proposal.<sup>(4)</sup> President Xi’s foreign policy concept of “Community of Shared Destiny” is predicated on cooperation for mutual benefit with certain key characteristics; the most important one being the pursuit of common of

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Aarish U. Khan is a Research Analyst at the Institute of Regional Studies.

interests through mutually beneficial partnerships. Another important aspect of the concept is that it embraces incongruence of interests but calls for strengthening of trust among nations through mutual understanding.<sup>(5)</sup> China's peripheral or neighbourhood diplomacy, as explained by President Xi Jinping at the Conference on 'Diplomatic Work with Neighbouring Countries' in Beijing in October 2013, is based on four principles: amity, sincerity, benefit, and inclusiveness.<sup>(6)</sup>

A major milestone for establishing the "China-Pakistan Community of Shared Destiny" was achieved in May 2013 when an agreement was signed to establish the Pakistan China Economic Corridor (PCEC) to connect Pakistan's Gwadar Port with Kashgar in the western part of China close to Pakistan's border.<sup>(7)</sup> China is developing a Special Economic Zone (SEZ) in Kashgar, which would mean rapid development of the area requiring substantial external resources from or through Pakistan — utilizing the developing port city of Gwadar. Pakistan's Gwadar Port provides this less-developed western part of China an easy access to the warm waters of the Arabian Sea and considerably reduces the time and resources required for transporting trade goods to and from western China and West Asia.<sup>(8)</sup> It is argued that the development of the PCEC would bring unprecedented economic rewards for Pakistan as well.

Questions regarding the on-ground pace of development and the contours of the PCEC after its completion are essential. Answers to these questions would determine how effective the PCEC could be in furthering the economic objectives that it aspires to achieve and in supporting the economies of Pakistan and China in the long run through Pak-China and regional connectivity as envisioned in the Vision 2025 document. This paper attempts to answer these important questions, especially whether the short-term or early harvest projects are on schedule or not, because progress on the short-term project would serve as a decent barometer for

the timeline for the long-term ones. Additionally, the paper also critically analyzes the dividends that the PCEC is expected to bring to the country.

### **Community of shared destiny: High hopes**

In his speech at the Opening Ceremony of the Think Tank seminar on “Building ‘China-Pakistan Community of Shared Destiny’ in the New Era” on August 5-6, 2014, Chinese Ambassador to Pakistan Sun Weidong made his government’s commitments with respect to Pak-China relations amply clear. He said:

China hopes that Pakistan plays a greater constructive role in regional and international affairs. We would like to work with Pakistan to safeguard peace, stability, development and prosperity in the world... We need to transform deep friendly emotions into tangible fruits of cooperation to consolidate the foundation of bilateral relations, raise up the level of cooperation and bring more benefits to the two peoples.<sup>(9)</sup>

Another Chinese scholar who has also served as the Chinese Ambassador to Pakistan, Zhou Gang, went a step further by calling for Pak-China cooperation as a means of guarding against international hegemony and unilateralism. He said:

China and Pakistan must guard against hegemony and unilateralism, and safeguard their own sovereignty and security interests. They must learn the lesson of turbulences from West Asia and North Africa, firmly safeguard their domestic security and stability, steadily promote their reform, and oppose the interference of foreign forces in their internal affairs.<sup>(10)</sup>

Chinese scholars have used terms and phrases like “common interest”, “shared responsibility”, “common affection”, and “shared intellect” for the community of shared destiny between Pakistan and China.<sup>(11)</sup>

The importance of the PCEC is amplified by the fact that it is also going to link up with the greater Chinese plan of the Silk Road Economic Belt (SREB) that would connect China with Europe through Central Asia. The “five connections” proposed by the Chinese leadership for the Silk Road Economic Belt are: policy exchange, road network, currency circulation, and people’s friendship.<sup>(12)</sup> Connecting with the SREB, the PCEC is of immense significance to China as well. Therefore, we can say that with serious long-term focus on the project by both Pakistani and Chinese leaderships, the PCEC has the potential to further cement the close bonds between the two countries in the days to come.

Linking Gwadar with Kashgar and onward with Central Asia is aimed at improving Pakistan’s trade and investment relations with China as well as Central Asia.<sup>(13)</sup> It is hoped that at some point in time the Iran-Pakistan gas pipeline project could be extended to include China in it as well.<sup>(14)</sup> The importance of Gwadar seaport for trade between the Persian Gulf and the western part of China — which includes the Middle Eastern oil—is also underscored by the fact that it could reduce the time taken for goods transportation to that part of China by around two weeks.<sup>(15)</sup> In terms of distance, the PCEC would reduce the trade route distance of 16,000km between the Arabian Sea and the South China Sea to 2,500 km.<sup>(16)</sup> Construction of an oil pipeline from Gwadar to Kashgar through a distance of around 2,500km to carry Middle Eastern oil is also envisioned.<sup>(17)</sup> The PCEC is also considered important for China’s trade with Afghanistan as well as its strategic projection into West Asia and Africa.<sup>(18)</sup>

Kashgar is destined to grow exponentially after the operationalization of the SEZ in the city. If the development of Shenzhen, the city that pioneered the concept of SEZs, could provide us with an insight into the growth patterns of SEZs, we could expect Kashgar to grow at the rate of over 20 percent per annum, because Shenzhen grew at the astounding rate of 25.8 percent from 1979 to 2009, and a 4,176 times increase in 30 years.<sup>(19)</sup> Pakistan could, thus, enormously

benefit from it during its development as well as operational phase. The development of communication infrastructure would also help the tourism industry of the picturesque Northern Areas of Pakistan bordering China.<sup>(20)</sup>

There is a perception that Pakistan's potential to export to China is rather limited. It is argued that China already exports a variety of products that Pakistan could export to it. There are however, avenues for Pakistani businesses for export business in China. For instance, China is the largest consumer market for gemstones, which is an opportunity for Pakistan. Pakistan has a potential yield of 800,000 carats of Ruby, 875,000 carats of Emerald, and 5 million carats of Peridot, which remains under-utilized. According to Shah Faisal Afridi, President of Pak-China Joint Chamber of Commerce and Industry (PCJCCI), China being the world's largest consumer market for gems and jewellery, could help in utilizing Pakistan's full potential through investment in the sector and promoting exports of gems to China.<sup>(21)</sup> Pakistani and Chinese business communities also hope that the PCEC will enhance cooperation in the agriculture sector as well through greater transfer of technology in the field.<sup>(22)</sup> The establishment of the PCEC is expected to not only enhance existing trade relations between the two countries but also boost transit trade opportunities for the western part of China through Pakistan.

### **Foundations of cooperation framework for PCEC**

There are strong bilateral trade relations between the Pakistan and China. Currently around \$12 billion per year, trade between Pakistan and China is estimated to reach \$15 billion in the next couple of years. The volume of bilateral trade between Pakistan from January to May 2014 was \$6 billion, exhibiting a 12.66 percent growth rate.<sup>(23)</sup> China also has substantial investments in Pakistan with more than 120 Chinese companies operating in the country.<sup>(24)</sup> The importance of Chinese investment in Pakistan is well acknowledged by the

leadership of Pakistan. For instance, during his July 2013 China visit, besides the government-to-government interactions, Prime Minister Nawaz Sharif held meetings with the Chinese business community to encourage them to invest in Pakistan.<sup>(25)</sup>

The high-level state visits of the leaders of the two countries have assumed great significance lately for their role in carrying the shared perceptions of development forward and also for signifying the importance the two countries attach to their relations with one another. In keeping with the spirit of the relationship between the two countries, several high-level official visits have taken place between Pakistan and China since the assumption of office by the current government. In May 2013, Chinese Prime Minister Li Keqiang visited Pakistan to sign the landmark PCEC agreement. Prime Minister of Pakistan Mian Muhammad Nawaz Sharif visited China in July 2013, his first official visit abroad since assumption of the office. In February 2014, President of Pakistan Mamnoon Hussain, visited China wherein Chinese President Xi Jinping put forward the proposal of forging “China-Pakistan Community of Shared Destiny”. President Hussain visited China once again in May 2014 to attend the 4<sup>th</sup> summit of the “Conference on Interaction and Confidence-Building Measures” in Asia. Prime Minister Sharif visited China again in April 2014 to attend the Asia Forum in Boao in April 2014. President Xi Jinping was scheduled to visit Islamabad in September 2014, but the visit was postponed due to political crisis and protest demonstrations in Islamabad. The postponement was compensated for when Prime Minister Sharif visited China again in November 2014. Several important agreements have been signed between the two countries in these high-level state visits. According to one estimate, the total number of agreements signed between the two countries exceeds 250 with the “Treaty of Friendship, Cooperation and Good Neighbourly Relations” signed in 2005 providing the foundation for recent developments.<sup>(26)</sup>

Quite a few important agreements of this long list were signed during the recent visits of high-level state leaders mentioned above. Eight cooperation agreements were signed during PM Sharif's July visit to China. A broad agreement for the Pak-China economic corridor was among them. Another of the agreements was for laying a fibre-optic cable from the Chinese border to Rawalpindi for improving Pakistan's access to international communications networks with 85 percent financing coming from China over the three-year period of the \$44 million project.<sup>(27)</sup> Pakistan and China signed five agreements in the fields of economy and trade, regional connectivity, energy and people-to-people contacts during President Mamnoon Hussain's China visit in February 2014.<sup>(28)</sup> The agreement on "early harvest projects" in the economic corridor included the upgrading and realignment of the Karakoram Highway up to Islamabad, the construction of the Karachi-Lahore Motorway, the construction of new Gwadar Airport, and finally the establishment of economic zones along the PCEC.<sup>(29)</sup> Nineteen different agreements related to the implementation of the PCEC were signed during Prime Minister Sharif's China visit of November 2014.

The PCEC is a multidimensional project encompassing Pak-China connectivity through road and railway networks, laying down of fibre-optic cables, the operationalization of the Gwadar Port, and several energy projects. Under the PCEC, China has committed to helping Pakistan with: the construction of a fibre-optic cable from the Chinese border to the capital of Pakistan; the upgrading and realignment of the Karakoram Highway linking Kashgar with Abbottabad; the construction of the new Lahore-Karachi Motorway, and an early completion of pending work in nine power projects. Chinese cooperation for the construction of the Diamer-Bhasha Dam and the completion of the Nandipur power project are also part of the PCEC.<sup>(30)</sup> Implementation of the projects under the PCEC has been divided into three phases. Short-term projects are estimated to be completed by 2017; medium-term by 2025, and long-term by 2030.<sup>(31)</sup>

Oversight of the implementation of the projects under the PCEC was given to a high-level Joint Coordination Committee (JCC) on implementation of the agreement on July 20, 2013.<sup>(32)</sup> The JCC met for the first time on August 27, 2013.<sup>(33)</sup> On the very same day, Pakistan's Federal Minister for Planning and Development, Ahsan Iqbal and the visiting Chinese Vice Chairman of National Development and Reforms Commission (NDRC), Zhang Xiaoqiang, inaugurated a new division in Pakistan's Foreign Office exclusively dedicated to China and taking into account the increasing cooperation between the two countries.<sup>(34)</sup>

The second meeting of the JCC on the PCEC was held a year later in Beijing on August 20-21, 2014. The focus of the second meeting was on early harvest projects, particularly: the rehabilitation and realignment of the KKH, the construction of the Karachi-Lahore Motorway, Orange Line Metro Train in Lahore, and projects related to the Gwadar Port, and capacity building and training.<sup>(35)</sup> The third meeting of the JCC followed the second one the very next week, on August 27, 2014 wherein the focus, once again, was on short-term projects.<sup>(36)</sup>

### **The plan and progress**

Early harvest projects related to transport and communication infrastructure under the PCEC include: the rehabilitation and realignment of the Raikot-Islamabad section of the KKH; the construction of Karachi-Lahore Motorway; the construction of Orange Line Metro Train in Lahore; the upgrading of the existing railway track from Karachi to Peshawar; the development of dry port and cargo holding facilities in Havelian; the construction of Eastbay Expressway in Gwadar; the construction of Gwadar International Airport; the construction of breakwaters at the port; the designing of berthing areas and channels at the port, the infrastructure for Export Processing Zones and port-

related industries in Gwadar; the construction of necessary facilities for fresh water treatment and supply in Gwadar; and the construction of a hospital and a vocational training institute in Gwadar.<sup>(37)</sup>

The overall scope of the PCEC is much broader than the early harvest projects. For instance, as mentioned above, the construction of the Diamer-Bhasha dam is part of the PCEC in the field of energy cooperation. There are also two other coal-based power projects under the PCEC in Gaddani and Sahiwal. In the field of transport infrastructure, the construction of a new rail link from Gwadar to Jacobabad via Besima and Khuzdar is also part of the PCEC.<sup>(38)</sup> Establishing Special Economic Zones along the route of the PCEC is another important element of the corridor. In his speech, at the Opening Ceremony of the Think Tank seminar on “Building ‘China-Pakistan Community of Shared Destiny’ in the New Era” on August 5-6, 2014, Ambassador Sun Weidong mentioned the RuYi-Masood Textile Industrial Park in Faisalabad, and power projects like thermal power plant in Port Qasim and solar power plant in Quaid-e-Azam Solar Park in Bahawalpur as part of the PCEC.<sup>(39)</sup> While an MoU has already been signed for the RuYi-Masood Textile Industrial Park, several other special economic zones are planned on the PCEC, especially in Gwadar, South Punjab, and Sindh.<sup>(40)</sup>

Following is an overview of the recent developments in the fields of road construction, railway lines, and Gwadar seaport related projects under the PCEC (energy projects are not under the purview of this study):

### **Roads**

Improving the road link between Pakistan and China is an important element of the Pak-China Economic Corridor. Improvement of the existing road link all the way from Gwadar on the southern seacoast of Pakistan to Khunjerab

Pass in the north on the border of China involves several road construction projects.

The Karakoram Highway (KKH), that connects Pakistan with China across the over 15,000 feet high Khunjerab Pass on the Pak-China border, was completed in 1979. Rehabilitation and realignment of the highway is an important component of road construction projects under the PCEC. Starting from the town of Hasanabdal in Attock district of Punjab adjacent to Rawalpindi, the 806 km-long KKH goes all the way to the Chinese border.

The rehabilitation of the Hunza-Raikot section of the KKH had already been completed before the signing of the PCEC agreement. The PCEC envisages the rehabilitation and realignment of the Raikot-Islamabad section of the KKH. The focus of the PCEC is on the rehabilitation of the existing route of KKH with only minor realignments to avoid certain landslide-prone areas or some sharp turns at least up to Mansehra from where the Burhan-Mansehra Motorway would connect it with Islamabad as an alternative route.<sup>(41)</sup> On November 29, 2014, Prime Minister Sharif performed the groundbreaking ceremony for the construction of the first part of this 110km four-lane motorway. It would start from the town of Burhan on the Islamabad-Peshawar Motorway (M-2) and would end at Mansehra via the town of Havelian where a dry port is planned under the PCEC on November 29, 2014. The project is scheduled to be completed by the end of 2017.<sup>(42)</sup> The Raikot-Thakot Section is also scheduled to be completed by the same time.<sup>(43)</sup> Since the sections from Raikot onward to Sost and Mansehra to Thakot are already rehabilitated, and there is a motorway from Burhan to Islamabad,<sup>(44)</sup> the completion of the other two projects, that is the Raikot-Thakot Section of the KKH as well as the Burhan-Mansehra Motorway, would complete the rehabilitation of the KKH upto Islamabad by 2017.

At one place called Attabad in Hunza, a realignment of the KKH is required because a lake was formed in January 2010 after a massive landslide,

which submerged 19km of the highway. A tunnel is being dug with Chinese assistance at the site of the Attabad Lake for the KKH to bypass it. In his meeting with Prime Minister Sharif, China Overseas Port Holding Company Limited (COPHCL) President Sun Ziyun said that work on Attabad Lake would be completed by 2016 with assistance from China Development Bank.<sup>(45)</sup> Bypassing the Attabad Lake is not part of the PCEC per se though, since work on it started before the inking of the PCEC agreement.<sup>(46)</sup>

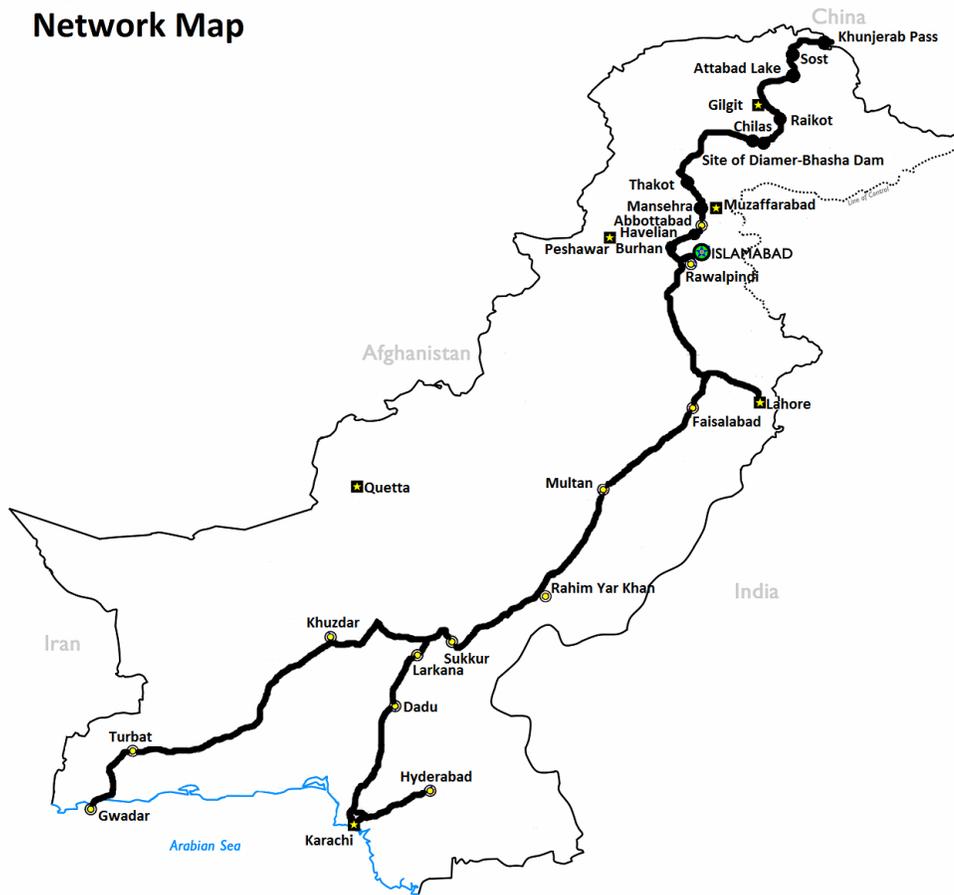
One strange anomaly of the PCEC is that while the construction of the Diamer-Bhasha Dam is part of it, the required large-scale realignment of the KKH due to the presence of the reservoir is not being considered at the moment. The 7.5 million acre feet water reservoir of the Diamer-Bhasha Dam could submerge 100km of the highway.<sup>(47)</sup> The Ministry of Planning, Development, and Reform, which is taking the lead on the PCEC, insists that the cost of any realignment of the KKH caused by the reservoir will have to be borne by the Ministry of Water and Power that would in turn take the lead in constructing the dam, as and when required.<sup>(48)</sup> Therefore, the current plan of the PCEC does not factor in that aspect.

It was reported that in a meeting presided over by Prime Minister Nawaz Sharif in August 2013, the realignment of KKH along the Chilas-Naran-Mansehra route was discussed to provide a shorter route and to bypass the section of the road affected by the future construction of the Diamer-Bhasha Dam.<sup>(49)</sup> It is pertinent to note here that as per the current (Mansehra-Thakot-Besham-Dassu-Chilas) alignment of the KKH, it hardly ever shuts down completely for traffic during winters all the way to Gilgit because of its unique low-altitude trajectory (except for the last part of it near the Chinese border while crossing Khunjerab Pass at the altitude of 4,693 meters (15,397 feet). A realignment of the KKH along the Chilas-Naran-Mansehra route would make it more susceptible to closure during winters because the 4,173 meters (13,691 feet) high Babusar Pass that divides Mansehra district from Gilgit-Baltistan region is closed for traffic

throughout the winter due to heavy snowfall in the area.<sup>(50)</sup> The Chilas-Naran-Mansehra route could result in a halted flow of trade goods in the summer as well because of heavy tourist traffic on that route during the season.

The KKH would be connected with the road network of Pakistan through the existing Islamabad-Peshawar Motorway (called M-1) at Burhan. M-1 connects with the Islamabad-Lahore Motorway (called M-2) while another network of highways and motorways will connect it with Gwadar and Karachi. Another important element of the road network of the PCEC is, thus: the Lahore-Karachi Motorway that would connect Lahore with Karachi via Khanewal, Multan, Sukkur, Khairpur and Dadu.<sup>(51)</sup> Work is already near completion on the Lahore-Multan section of the motorway, while land has been acquired for the Multan-Sukkur and Sukkur-Dadu sections.<sup>(52)</sup> There is an existing motorway (called M-7) between Dadu and Karachi that would be connected with the new Multan-Dadu Motorway. During a meeting in August 2013, the prime minister also asked for the provision of interconnectivity between various road networks of the country, i.e. between the Motorways, the Indus Highway, and the GT Road for instance.<sup>(53)</sup> Interconnectivity projects are not part of the PCEC though. See **Figure 1** below for the planned alignment of the PCEC road network.

**Figure 1: Pak-China Economic Corridor Road Network Map**



## Railways

Supplementing the road link between China and Pakistan with a rail link is another essential ingredient of the PCEC. There is no doubt that this added connection will greatly benefit the connectivity project. On June 21 last year, Prime Minister of Pakistan Mian Muhammad Nawaz Sharif called for ‘out-of-the-box’ ways for building a rail-link between Pakistan and China at a meeting in his office.<sup>(54)</sup> He proposed starting work early on the upgrading of existing railway tracks up to Havelian in Abbottabad district.<sup>(55)</sup> The keen personal interest of the prime minister is, perhaps, one of the reasons that the upgrading of the existing

railway track from Karachi to Peshawar, and the development of a dry port and cargo handling facility in Havelian are two early harvest projects of the PCEC.<sup>(56)</sup>

A 23-member delegation of Chinese railways experts visited Pakistan in October 2014 to assess the feasibility of \$3.5 billion investment and complete the rehabilitation and replacement of tracks from Karachi to Peshawar. The feasibility assessment was aimed at the prospective investment of about \$3.5 billion for “replacement of rail tracks over 375km, deep screening of ballast over 1,260 km, conversion of un-manned level-crossing into underpasses at 50 places, conversion of manned level-crossing into flyovers at 250 places, realignment of 40 big curves, strengthening of 500 bridges and doubling a 438km track at various places between Shahdara and Peshawar.”<sup>(57)</sup> The feasibility assessment is scheduled to be completed by the end of February 2015.<sup>(58)</sup> A medium-term project for a new rail link from Gwadar to Jacobabad via Besima and Khuzdar connection is also on the cards but its implementation has not been started yet.<sup>(59)</sup>

While a lot of excitement has been generated in the media about establishing a bullet-train link between Karachi and Peshawar, it is not planned under the PCEC. Perhaps, the upgrade of the Karachi-Peshawar rail link (called ML-1) would help in slightly improving the speeds of trains plying on that route. As the Director/General Manager of Sinotec Song Shuangping, a Chinese company operating in Pakistan for about a decade, envisioned electric passenger trains running up to speeds of 180 km/hr and goods trains with speeds of 120 km/h in an interview.<sup>(60)</sup>

## **Gwadar**

Development of the Gwadar seaport is the foundation on which smooth functioning of the PCEC would depend. Therefore, all the projects under the PCEC related to Gwadar are priority projects. According to the PCEC plan, the construction of the Eastbay Expressway, completion of the Gwadar International

Airport, construction of breakwaters, and dredging of berthing areas and channels, are to be completed by 2017. Similarly, the integrated development of Gwadar, that includes: infrastructure for the export processing zone and port related industries, necessary facilities for fresh water treatment and supply, and construction of a coal-based power plant, a hospital, and a vocational training institute are to be completed within the same time frame.<sup>(61)</sup> In March 2014, Gwadar Port Authority (GPA) Chairman Dostain Khan Jamaldini shared with the media after a three-day visit of CEO of COPHCL, Zeng Qing Song, that the company was planning on investing \$775 million in the city. He added that China would invest \$1.8 billion in nine development projects in Gwadar, including expansion of Gwadar Port and construction of an airport.<sup>(62)</sup> On the occasion, he also claimed that construction work on the Ratodero-Gwadar Highway would be completed by 2015.<sup>(63)</sup>

It was reported that at a meeting with senior Pakistani authorities in August 2013, “a delegation of the China National Reforms and Development Commission offered assistance for the development of Mirani dam command area in Kech district and execution of a solar energy project in Gwadar, besides bringing investment in other sectors in Baluchistan.”<sup>(64)</sup> The Planning Commission denies any of these projects being under consideration within the framework of the PCEC though.<sup>(65)</sup>

### **The real and present challenges**

According to Dr. Luan Jianzhang, Vice Director General of Policy Research Office at the International Department of the Central Committee Communist Party of China, some of the greatest challenges in the way of successful completion of the PCEC are: the security situation in Pakistan, political unrest, administrative issues, and the skill-level of the Pakistani workforce working on the project.<sup>(66)</sup>

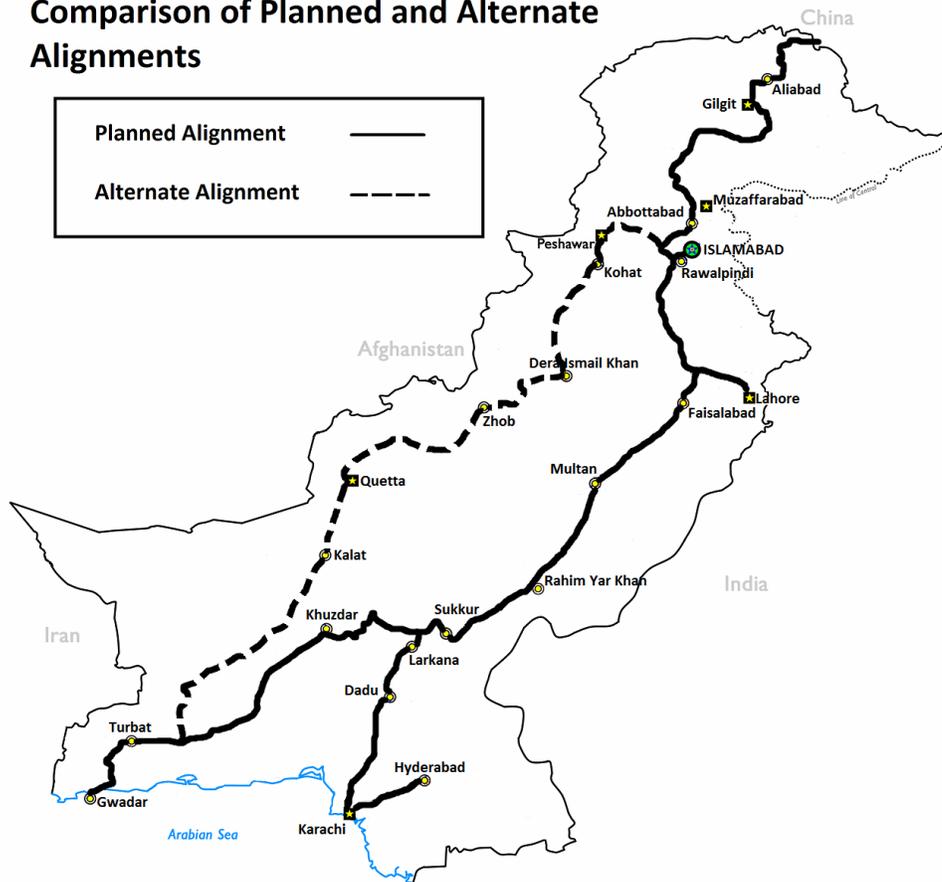
The security situation in Pakistan would remain a major issue in the way of realizing the full potential of the PCEC. Since I have extensively covered the question of security in some of my previous works,<sup>(67)</sup> I would only point out here that such is the level of anxiety in China vis-à-vis Pakistan's security that the Chinese authorities closed the Pak-China border for trade and traffic owing to security concerns during China's Independence Day celebrations in the first week of October 2013.<sup>(68)</sup> Therefore, if any trade will take place between Pakistan and China or between China and the rest of the world through Pakistan, security of the PCEC will have to be a priority.

As far as the security of the PCEC's connectivity infrastructure is concerned, the motorway from Gwadar to Ratodero (the M-8) is particularly tricky. Work on the project has halted a few times in the past because of the bad security situation in the restive areas of Baluchistan that it passes through.<sup>(69)</sup> The trickiest leg of the PCEC road network with respect to security is the link between Gwadar and Ratodero that passes through a large sparsely populated territory of Baluchistan experiencing an active insurgency. From 2007 to July 2014, 1,040 terrorist attacks—that is 23 percent of the total reported from Baluchistan—occurred in Awaran, Gwadar, Kech, Khuzdar, Lasbela, and Panjgur districts, which are on the route of the PCEC.<sup>(70)</sup> Taking cognizance of the additional security measures required for the PCEC in Baluchistan, Pakistan's top project sanctioning authority, the Executive Committee of the National Economic Council (ECNEC) approved Rs.5.2 billion for recruiting 6,000 new personnel, who will be joined by 4,000 reserve police personnel to make a 10,000 strong constabulary force for protection of the PCEC in Baluchistan.<sup>(71)</sup>

Violent incidents reported from other districts of Pakistan in KPK, Punjab, and Sindh, which will be home to the PCEC are not very high in number.<sup>(72)</sup> The planners of the PCEC have actually opted for a longer alignment of the road network, avoiding the relatively shorter trajectory of linking Gwadar with the

KKH via the Indus Highway that goes through Khyber Pakhtunkhwa (KPK), because of security concerns. Some analysts have voiced their opinions against bypassing the shorter route. They argue that it would deprive these marginalized areas of Khyber Pakhtunkhwa and Baluchistan from much needed economic development.<sup>(73)</sup> There was also a debate in the Senate in June 2014 about the PCEC route in which certain senators criticized the bypassing of the “Pakhtun and Baloch areas” in connection with the PCEC.<sup>(74)</sup> A leader of a regional political party from KPK recently announced in a public rally that his party would take to the streets if the under-developed areas of Baluchistan and KPK were ignored for the PCEC.<sup>(75)</sup> Whether avoiding the marginalized areas of the country because of security concerns is the right choice or not, there is a serious need for improving the law and order situation in the country in general. Besides, sooner or later the shorter and more economical trajectory will have to be incorporated into the PCEC. **Figure 2** below shows the planned alignment of the PCEC in comparison with the shorter but insecure route that could have been adopted if security in the areas was not a big concern.

**Figure 2: Pak-China Economic Corridor  
Comparison of Planned and Alternate  
Alignments**



Although there is a political consensus in Pakistan when it comes to Pak-China relations, political instability in Pakistan can and has affected the smooth-sailing of the PCEC. Very few would have guessed at the inception of the current parliament and government — having taken charge from another democratically elected government through a smooth and peaceful transition of power — that there would be a serious political turmoil in the country in about a year's time. Yet, there was a political crisis in the country with serious consequences for some of the projects under the PCEC. A very glaring example of how it impacted the Pak-China relations was when the Chinese president had to cancel his scheduled visit to Islamabad for signing several agreements amid the political chaos in the

capital. With long-term plans like the Vision 2025 in place, there is a serious need for political stability, and a continuity of policy and planning, especially in connection with foreign relations.

Making use of the existing physical and institutional infrastructure is different from building it. Pakistan has not been making very good use of the land-based route between Pakistan and China or between Pakistan and any other regional country for that matter. Despite an international road transport agreement between Pakistan and China in 1993 that became operational in 2006, the land-based trade between Pakistan and China is only a fraction of the total trade between the two countries.<sup>(76)</sup> Similarly, while Pakistan has transit, transport, and communication with a host of regional countries, its trade with them still remains miniscule.<sup>(77)</sup> While a variety of reasons are given by Pakistani officials for the under-utilization of the existing institutional mechanism for intra-regional trade, they fail to alter the disappointing reality.<sup>(78)</sup>

With respect to China as well, Pakistani officials point toward certain administrative procedures employed by the Chinese authorities, such as: the requirement for Pakistani truckers to offload at Tashkurgan instead of Kashgar as per the agreement, delays in the issuance of visas to drivers as well as clearance of passengers at Tashkurgan, and heavy quarantine charges etc.<sup>(79)</sup> Chinese officials contend, however, that Pakistan is not singled out for such quarantine checks. They maintain that trucks moving within China from some parts of the country to the others are also subjected to such measures. They agree, however, that these procedures need to be reviewed and that the situation could improve for transporters in the future.<sup>(80)</sup>

As far as railways are concerned, although hundreds of millions of dollars are planned to be spent on rehabilitation of the Karachi-Peshawar rail link, there is a big question mark on the capacity of Pakistan Railways for utilizing the infrastructure it already has. With 94 percent of passenger traffic and 97 percent

of goods transported by road within Pakistan,<sup>(81)</sup> improvement of a railway line does not seem to be the only requirement of Pakistan Railways. There are serious capacity issues that would need to be addressed as well. For instance, the ongoing feasibility study would only assess the infrastructure requirements for the upgrading of the track. It would be worthwhile to know how much value would be added to the goods transport in the country after the upgrade is complete, keeping in view the abysmal state of performance of the institution.

Although the projects related to the Gwadar Port have been given priority by the government, the Chairman of the Gwadar Port Authority, Dostain Khan Jamaldini, recently told the Senate Standing Committee on Ports and Shipping that delay in various projects related to Gwadar had increased their costs from Rs8 billion (around \$79 million) to Rs100 billion (around \$992 million) in six years. He specifically mentioned lack of progress on the construction of a power grid, the failure of Pakistan Railways to acquire land for the railway lines, and the failure of the Civil Aviation Authority (CAA) to acquire land for connecting roads for the airport.<sup>(82)</sup>

The difficult geography of northern Pakistan that connects it with China is another major challenge. Some of the geographical obstacles are being overcome; for instance, the bypassing of the Attabad Lake with the help of a tunnel being dug through an adjacent mountain and the widening and rehabilitation of the KKH all the way from Chinese border. There are several other issues that remain unaddressed; for instance, as discussed above, there is no clarity on the contours of the KKH in case of the construction of the Diamer-Bhasha Dam that would end up submerging a good 100km of the newly rehabilitated road. Moreover, the Khunjerab Pass remains closed from November to May each year because of heavy snow. The enormous 4,693 meter (15,397 feet) altitude of the Khunjerab Pass presents truckers with another challenge: they have to offload 30 percent of their cargo for the crossing because the diesel engines of their vehicles cannot

operate at the optimal levels due to low levels of oxygen at that height and low air pressure. In addition, the KKH is susceptible to natural calamities like quakes and slides, as was the case when a massive landslide led to the creation of Attabad Lake in January 2010 and the subsequent submergence of a portion of the Karakoram Highway (KKH).<sup>(83)</sup> Will an upgrade of the highway resolve all of these problems related to the rugged nature of the geography that the KKH has to traverse? Nobody is really sure. There is no denying the fact, however, that improvement of the highway and motorway network all the way from Gwadar and Karachi to Gilgit would substantially reduce the time taken by trucks from the coast to the Chinese border.

There is also a need for greater clarity on how the PCEC would affect trade patterns between Pakistan and China; would it mean even more imports from the latter or the other way round. Some observers are already pointing out that free trade with China has affected certain sectors Pakistan's economy because of competitive imports from China, such as: paper, paperboard, and ceramics.<sup>(84)</sup> Being mindful of the concerns that greater connectivity with China could potentially result in greater imports from it, Khalid Mehmood suggests that China should relocate its intermediate level industry to Pakistan while focusing itself on the high-tech side, which would provide Pakistan with industrial investment from China in the form of joint ventures with guaranteed buy-back arrangements.<sup>(85)</sup> Except for the RuYi-Masood Textile Industrial Park—the contours of which are not very clear yet either—nothing of the sort is on the table in the PCEC at the moment. Hasan Askari Rizvi calls for linking South Asia, Central Asia, and West Asia. For that, however, he rightly points out that Pakistan will not only have to take care of its domestic economic and security situation, but it will also have to normalize economic and diplomatic relations with India.<sup>(86)</sup> This is a very realistic way of looking at the potential of the PCEC for regional connectivity, and regional connectivity in general as enunciated in the Vision 2025. Direct trade

with India and Afghanistan will have to be improved for realizing the goal of regional connectivity under the framework of Vision 2025.

## **Conclusion**

The Vision 2025 document rightly calls for regional connectivity, not only through the PCEC, but also through other such arrangements with regional countries. President Xi's idea of a "China-Pakistan Community of Shared Destiny" for the pursuit of common interests through mutually beneficial partnerships has the potential of taking Pak-China relations to an even higher level. While the PCEC actually preceded "China-Pakistan Community of Shared Destiny," the spirit of the two, however, have been the same.

For China, the PCEC links up with its more ambitious Silk Road Economic Belt (SREB) project, thereby adding to its significance, especially in the backdrop of the development of a Special Economic Zone (SEZ) in Kashgar. Moreover, Gwadar is important for China to connect its less developed western part with Persian Gulf and beyond for trade. The PCEC could also be instrumental in western China's trade with Afghanistan, and even India, transiting through Pakistan. Pakistan would also benefit from the transit of Chinese trade goods via Pakistan. The PCEC also increases the market potential for Pakistan's exports to China in the field of textile, agricultural products, and minerals, besides adding a boost to tourism in the northern reaches of the country.

Developing on a strong foundation of friendly relations between the two countries, the multidimensional PCEC is receiving the highest level of government interest in both the countries. With agreements already inked on road, rail, and fibre-optic links, the development of Gwadar port, and a host of energy cooperation projects, the PCEC is very much on its way in realizing the goal of bringing mutual prosperity to the two countries.

When one looks at the progress on various infrastructure projects under the PCEC, road projects appear to have taken the most promising start. The KKH is already rehabilitated up to Raikot and would be completed all the way up to Thakot by 2017. The first leg of the Burhan-Mansehra Motorway up to Havelian would also be completed around the same time. Bypassing the Attabad Lake is likely to be completed before that. Work on the Lahore-Karachi Motorway link is also on schedule. The only question that remains unanswered is the substantial realignment of KKH that would be required after the construction of the Diamer-Bhasha Dam; and also the fact that a substantial amount of money would be spent on a road that is likely to be submerged under water by another project also incorporated into the PCEC. At some later point — most probably after the security situation would have improved in Baluchistan and KPK — the relatively shorter route of the Indus Highway connecting with KKH on the one end and Gwadar on the other, would need to be made part of the Pak-China connection. This would be crucial in dispelling the grievances of the people of those areas for being neglected with respect to this project. At this point, however, the security situation is dictating the route options, which is quite understandable.

Railway is one aspect of the PCEC where a lot of optimism is rather misplaced. From the dreams of bullet trains between Karachi and Peshawar to that of railways overtaking road network options for trade, the expectations seem quite inflated. Given the prevalent inefficiency in Pakistan Railways, it is difficult to assume that even the pumping of millions of dollars into the upgrading of the Karachi-Peshawar connection would bring any substantial benefit for the PCEC unless some tough managerial decisions are taken in the institution regarding the improvement of its working. While the government has given priority to the projects related to Gwadar, slow progress on the projects has already increased their costs by a dozen times.

Although the security situation in Pakistan has improved considerably, it could still put a question mark on the development potential of the country in a variety of ways. For Pak-China cooperation on the PCEC to develop smoothly, a consistent improvement in the security situation in the country and the safety and security of Chinese nationals working in Pakistan would be a must. The recent political unrest in the country has also had a direct bearing on the PCEC — the cancellation of Chinese President’s visit in September for the signing of several agreements being one glaring example. The host of administrative issues pointed out in the previous section would need to be addressed as well in order to reap the full benefits of the project.

While the establishment of Special Economic Zones in certain areas along the PCEC alongside the relocation of some intermediate level industry from China will help boost Pakistan’s export potential vis-à-vis China, the PCEC will not be fully utilized unless it will be connected regionally as envisioned in the Vision 2025 document of the Government of Pakistan. Pakistan’s location at the cusp of Central Asia, South Asia, and West Asia makes it ideally suited for inter-regional trade. The infrastructure developed under the PCEC would help Pakistan realize the dream of becoming a regional trading hub, but for which Pakistan, Afghanistan, and India would need to improve their diplomatic relations as well.

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