

Contemporary South Asian Studies

Siegfried O. Wolf

The China- Pakistan Economic Corridor of the Belt and Road Initiative

Concept, Context and Assessment

 Springer

Contemporary South Asian Studies

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Brussels, Belgium

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Preface and Acknowledgement

The establishment of Economic Corridors (EC/ECs) as an instrument to promote economic growth and sustainable development gained global prominence in recent years. The main reason for this was the launch of the so-called Belt and Road Initiative (BRI), earlier known as the ‘One Belt, One Road’ project or ‘New Silk Road’, a large-scale campaign launched by the Chinese President Xi Jinping’s Government so as to promote multidimensional connectivity between Asia and Europe as well as other world regions, particularly the Middle East and Africa. Being an initiative of intra- as well as inter-continental size, the BRI covers numerous measures—from individual infrastructure projects to transnational, regional ECs comprised of vast, multi-sectoral development schemes. The most prominent of these endeavours is the China-Pakistan Economic Corridor (CPEC). Considering the multi-billion investments attached to the CPEC and their deep impacts on all spheres of state and society, it does not come as a surprise that this corridor is not only catching the attention of both national and international media but also involving complex societal as well as academic debates.

Much has been written about the CPEC. However, there seemed to lack a comprehensive and in-depth study focusing not on any particular aspect of the endeavour but on an overall vision of the CPEC project as a whole. One of the major obstacles involved in achieving this goal concerns the apparent lack of conceptual works regarding ECs. This book thus suggests and develops a new conceptual framework for an analysis of ECs. The analytical approach taken here regarding the development of ECs goes far beyond the usual quantitative methods usually applied by scholars. Most existing works were conducted by experts from both regional and spatial sciences guided by specific, compartmentalized research goals and interests. This study aims to bridge the gap between the valuable ground-work undertaken by those scholars and the conceptual requirements of a social science perspective. Based on acquired notions regarding how to plan and implement an EC, I emphasize in my concept of Economic Corridors the need to address the social and political dimensions of large-scale development initiatives, especially in countries featured by instability and flawed democratic processes. Furthermore,

concepts regarding ECs used in these pages are strongly related to the notions of maximum local ownership and incorporation of regional stakeholders. In this context, it is pointed out that any kind of social and economic development must be in line with liberal democratic norms and values, particularly with regard to human rights. As such, the development of an EC needs to consider the strengthening of the existing ruled-based international order instead of contributing to the dilution of its application.

The above-mentioned aspects are perceived as essential conditions for each EC project and should be reflected in any conceptual framework regarding ECs. Otherwise, it will be argued here: no EC initiative will be sustainable. Instead, it could even lead to the deterioration of social and economic conditions among the participating countries' citizenry. It goes without saying that this would also be accompanied by severe political implications in the region. The fact that we witness increasing (in number and intensity) social and political protests against EC projects, especially in those states which are part of the BRI, is obviously rising awareness and concerns among observers. Critical reports multiply. Nevertheless, most of these reports lack 'overarching substance'—their explanatory power is limited by a focus on a single aspect of a given EC project (such as infrastructure, energy and environment). Sometimes, on the contrary, they are too broad and ultimately vague in their use of underlying studies and provision of data and analysis. In consequence, such reports often fail to offer a coherent perspective on the different causalities involved in the implementation of EC projects and the vast range of subsequent effects on state and society.

Moreover, these very specific (mostly single-issue/case) studies do not consider the mutually reinforcing dynamics and correlations at work between individual causes and consequences. As such, these analyses often ignore, in some cases even downplay, the entire scope and complexity of both existing and potential challenges. Furthermore, they often fail to capture the reinforcing effects between different causalities related to EC initiatives and the subsequent downward spiral involving social, economic and political dynamics.

This work not only offers a new concept of ECs but also attempts to analyse the CPEC initiative in its full complexity—as far as is possible at this stage of implementation.

This book originated from several visits made to Pakistan, one of which coincided with the launch of the CPEC project—which was since then dominating my research interests. The first humble results of these initial works found their way into numerous comments and other opinion pieces, journal articles, and book chapters. Some of them serve here as further references.

However, this work would not be possible without the support from many institutions and individuals who helped me make this work possible.

First of all, I am indebted to the South Asia Democratic Forum (SADF) for financial and administrative support. Bearing this in mind, I want to express my deepest gratitude to Paulo Casaca, founder and director of SADF, who encouraged me to carry out this project and provided me with the opportunity to do the in-depth studies which were to become this book.

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I am fortunate to have found a home for this manuscript with Springer Germany (Heidelberg). Here, I want to thank in particular my editor Johannes Glaeser and his team. Without their most valuable advice, and persistent support during the whole publishing process, this book would not have been completed.

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I hope that this book will be an important reference for policy-makers, academics and other stakeholders committed to sustainable economic growth through regional cooperation and respect for democracy, peace and stability in South Asia and beyond.

Brussels
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Siegfried O. Wolf

Contents

1	Introduction	1
2	The Conceptual Framework Regarding Economic Corridors	21
3	Chinese Motivations	47
4	Pakistani Motivations	73
5	Challenges Towards the Implementation and Functioning of the CPEC	93
6	Assessment	125
7	The GSP+ Conundrum and the CPEC's Impact on EU-Pakistan Economic and Trade Relations	243
8	Afghanistan Within the BRI Vision and the Feasibility of Enlarging the CPEC	261
9	Development Versus Democracy? The CPEC and Civil-Military Relations in Pakistan	281
10	Final Thoughts	307
	Bibliography	329
	Index	381

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List of Acronyms

AAGC	Asia-Africa Growth Corridor
ACs	Apex Committees
ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
AfPak	Afghanistan-Pakistan region
AIIB	Asian Infrastructure Investment Bank
AML	Anti-money laundering
APC	All-Party Conference
AWT	Army Welfare Trust
BARF	Belt and Road Forum for International Cooperation
BCIM-EC	Bangladesh-China-India-Myanmar Economic Corridor
BDS	Global Navigation Satellite System
BFA	Boao Forum for Asia
BISP	Benazir Income Support Programme
BoI	Board of Investment
BOT	Build, Operate, Transfer
BRI	Belt and Road Initiative
BTI	Bertelsmann Transformation Index
CAJAC	China Africa Joint Arbitration Centre
CAREC	Central Asia Regional Economic Cooperation
CAS	Currency Swap Agreement
CASA-1000	Central Asia South Asia Electricity Transmission and Trade Project
CCB	China Construction Bank Corporation
CDP	China Development Bank
CDWP	Central Development Working Party
CEECF	China-Eurasia Economic Cooperation Fund
CENTCOM	US Central Command
CFT	Combating the financing of terrorism
CIICA	Center for International Investment and Commercial Arbitration
CMR	Civil-Military relations
CMSR	21st Century Maritime Silk Road

CNY	Chinese Yuan
COAS	Chief of Army Staff
COSG	China Overseas Security Group
CPC	Communist Party of China
CPEC	China-Pakistan Economic Corridor
CPFTA	China-Pakistan Free Trade Agreement
CPI	Corruption Perceptions Index
DHAs	Defence Housing Authorities
DRG	Domestic Revenue Generation
DRM	Domestic Resource Mobilisation
DTMB	Digital Terrestrial Multimedia Broadcast
EC	European Commission
EC/ECs	Economic Corridor/s
ECB	European Central Bank
ECC	Economic Coordination Committee/ECC
ECHO	Humanitarian Aid and Civil Protection department of the European Commission
ECNEC	Executive Committee of the National Economic Council
EDE	Electronic Data Exchange
EEAS	European External Action Service
EES	European Security Strategy
EHP	Early Harvest Projects
EIA	Environmental Impact Analysis
EPZ/EPZs	Export Processing Zone/s
ESDP	European Spatial Development Perspective
ESDP	European Security and Defence Policy
ETIM	East Turkestan Islamic Movement
EU	European Union
EUROPOL	European Union Agency for Law Enforcement Cooperation
EWEC	East-West Economic Corridor
EWS	Early Warning System
EXIM	Export-Import Bank of China
FAGIA	Foreign Aid and Government-Sponsored Investment Activities
FATA	Federally Administered Tribal Areas
FATF	Financial Action Task Force
FDI	Foreign direct investment/s
FH	Freedom House
FIF	Falah-e-Insaniat Foundation
FTA/FTAs	Free trade agreement/s
FTZ/FTZs	Free trade zones
FWO	Frontier Works Organisation
FX	Foreign exchange
GAIE	Gadoon Amazai Industrial Estate
GBC	Gilgit-Baltistan Council

GBESGO	Gilgit-Baltistan Empowerment and Self-Governance Order
GBLA	Gilgit-Baltistan Legislative Assembly
GCB	Global Corruption Barometer
GCMP	Gwadar City Master Plan
GDP	Gross domestic product
GoC	Government of China
GoP	Government of Pakistan
GPS	Global Positioning System
GSI	Global Slavery Index
GSP+	Generalised Scheme of Preferences Plus
GVC	Global value chain
GWDS	Great Western Development Strategy
HBL	Habib Bank Limited
HRCP	Human Rights Commission of Pakistan
HRD	Human Resource Development
ICG	International Crisis Group
ICRG	International Co-operation Review Group
ICT	Information and Communications Technology
IDCA	International Development Cooperation Agency
IDFI/IDFIs	International development financing institution/s
ILO	International Labour Organization
IMF	International Monetary Fund
IS	Islamic State
ISAF	NATO's International Security Assistance Force
IsDB	Islamic Development Bank
ISI	Inter-Services Intelligence
JCC	Joint Cooperation Committee
JCPOA	Joint Comprehensive Plan of Action
JeM	Jaish-e-Mohammed
JuD	Jamaat-ud-Dawa
JWG	Joint Working Group
KKH	Karakoram Highway
KPK	Khyber Pakhtunkhwa
LeT	Lashkar-e-Taiba
LHC	Lahore High Court
LTP	Long Term Plan for the China-Pakistan Economic Corridor
MDBs	Multilateral Development Banks
MILBUS	Military in Business
MIP	Multi-Annual Indicative Programme
MOAB	Massive Ordnance Air Blast
MoD	Ministry of Defence
MOFA	Ministry of Foreign Affairs
MOFCOM	Ministry of Commerce
MoPDR	Ministry of Planning, Development and Reforms

MOU/MOUs	Memorandum of Understanding/s
MRD	Movement for the Restoration of Democracy
NAB	National Accountability Bureau
NACTA	National Counter Terrorism Authority
NAP	National Action Plan
NATO	North Atlantic Treaty Organization
NBP	National Bank of Pakistan
NCCTs	Non-cooperative Countries or Territories
NCM	National Commission for Minorities
NDB	BRICS New Development Bank
NDRC	National Development and Reform Commission
NEPRA	National Electric Power Regulatory Authority
NFC	National Finance Commission
NHA	National Highway Authority
NLC	National Logistics Cell
NPC	National People's Congress
NTBs	Non-tariff barriers to trade
OBOR	One Belt, One Road
OEF	Operation Enduring Freedom
ORF	Observer Research Foundation
PAP	People's Armed Police
PAT	Pakistan Awami Tehreek
PBoC	People's Bank of China
PIDC	Pakistan Industrial Development Corporation
PLA	People's Liberation Army
PML-N	Pakistan Muslim League-Nawaz
POF	Pakistan Ordnance Factories
PPP	Pakistan Peoples Party
PPPs	Public-Private Partnerships
PSCs	Private Security Companies
PSDP	Public Sector Development Programme
PTA	Pakistan Telecommunication Authority
PTEC	Peshawar-Torkham Economic Corridor
PTI	Pakistan Tehreek-e-Insaf
PuSC/PuSCs	Public Sector Companies
QTTA	Quadrilateral Traffic in Transit Agreement
R&D	Research and Development
RAW	Research and Analysis Wing
RMD	Renminbi
RTA/RTAs	Regional Trade Agreement/s
SADF	South Asia Democratic Forum
SBP	State Bank of Pakistan
SCFI	China Containerized Freight Index
SCO	Shanghai Cooperation Organisation

SEZ/SEZs	Special Economic Zone/s
SGDs	Sustainable Development Goals
SME/SMEs	Small and Medium-sized Enterprise/s
SOE/SOEs	State-Owned Enterprise/s
SOM/SOMs	Senior Official Meeting/s
SREB	Silk Road Economic Belt
SRF	Silk Road Fund
SSCAF	China South-South Cooperation Assistance Fund
SSD	Special Security Division
SSE	Shanghai Shipping Exchange
TAPI	Turkmenistan-Afghanistan-Pakistan-India pipeline
TBTs	Technical barriers to trade
TEC	Trade and Energy Corridor
TENs	Trans-European Networks
THEC	Trans-Himalayan Economic Corridor
TI	Transparency International
TLYRA	Tehreek-i-Labbaik Ya Rasool Allah
TPP	Trans-Pacific Partnership
TTP	Tehrik-i-Taliban Pakistan
UAE	United Arab Emirates
UBL	United Bank Limited
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US/U.S.	United States of America
USAID	US Agency for International Development
USCRIF	US Commission on International Religious Freedom
USD	US Dollar
USDOL	Bureau of International Labor Affairs of the United States Department of Labor
WEFR	World Economic Forum Report
WWF	Walk Free Foundation
XUAR	Xinjiang Uyghur Autonomous Region
ZTBL	Zarai Taraqati Bank Limited

Chapter 1

Introduction



1.1 ‘Hot Politics, Cold Economics’, the Need to Bridge South Asia’s Connectivity Gap

For a long time, regional cooperation in Asia was impeded by several factors such as inadequate infrastructure; mostly weak, congeneric economies, and high levels of regulations and various barriers to trade and investment. Political fragmentation, socio-religious cleavages, and deep-rooted tensions among the various member states and societies have always been relevant (Brunner, 2013, p. 7; Karim, 2017, p. 8). In South Asia, despite a shared colonial past (the time of the so-called *British Raj*¹) the newly founded independent states have progressed along widely diverse paths regarding statehood, nation-building, and developmental strategies (Wolf, Wang, & Warner, 2013, p. v). This finds its most visible expression not only in the tremendous variety of types of governance—ranging from democracies to authoritarian regimes and including both monarchical systems and military dictatorships—but also in the subcontinent’s emergence as a hub for international terrorism, religious fundamentalism, Jihadism, and large socio-political movements with either separatist, anti-systemic and/or pro-democratic dispositions. On top of this, all South Asian countries face the challenge of developing their economies in order to address manifold socio-economic difficulties. Furthermore, unfortunate geopolitical and geo-economical dynamics led to a number of deeply entrenched national disharmonies and bilateral crises. These later phenomena turned the extended South Asian region into the site of some of the world’s most intractable intra- as well as inter-state conflicts²—which so far largely prevailed over the logic and rationale of effective and cohesive regional co-operation. That numerous developmental strategies failed

¹The term *British Raj* refers to the British colonial rule. *Raj* is derived from Hindi signifying rule, government, realm or sovereignty (Mitra, Wolf, & Schöttli, 2006, p. 336).

²This has led critical analysts -already some decades ago- to identify the region as a part of the global ‘Arc of Crisis’ (Lenczowski, 1979; Rehman, 2013, March 7).

is an additional hindrance on the road towards sustainable growth and collaboration among the young economies in the region. The region is in fact home to persistent encounters between Eastern and Western concepts and notions of institution- and nation-building, as well as different normative foundational approaches on development-related tasks.

Asia in general and South Asia in particular are affected by a tremendous lack of connectivity (Brunner, 2013, p. 7). However past trajectories are changing and voices from within the region are increasingly demanding more engagement so as to achieve economic performance, public welfare, and security (Wolf & Casaca, 2014, p. 1). The growing civil societies are starting to question the harmful logic of fragmented national interests and conflicts. The argument that most current problems are rooted in unfavourable colonial legacies is losing its ability to justify underdevelopment and political instability. This of course will not force individual national governments to immediately increase trust in and transparency within state behaviour, but it might help to overcome the endemic unwillingness to initiate any cohesive, purposeful action towards ending the traditional political and economic disunities in the region. Today one can state that there is a greater perception of the necessity for interstate rapprochement and cooperation so as to unleash new dynamics directed at a more integrated South Asia. Yet the task is still constrained by complex internal politics. Needless to say, whichever the outcome of this process may be, it will define the international perception of South Asia—as an area of persistent crisis or as a region which still has the potential to develop fruitful cooperation.

But what would the driving forces and appropriate instruments for improved regional cooperation be? It becomes clear that, apart from some individual success stories, South Asian states have to face endemic poverty, tremendous inequalities, mega-urbanisation, and extra-ordinary challenges when it comes to infrastructure, environmental issues, food and energy security. Most of these issues can be linked with the lack of connectivity both within South Asia and as regards interconnections with other regions such as South East Asia or Central Asia.

In order to address these growing demands and overcome the many challenges, the idea of Economic Corridors found its way into development programs and foreign policy strategies. Subsequently, Economic Corridor/s (EC/ECs) became a buzzword in plans for stimulating growth and deepening integration through improved physical connectivity within Asia's sub-regions. This idea has taken root early on in South East Asia, spearheaded by the Asian Development Bank's (ADB) Greater Mekong Subregion initiative of 1992 promoting the establishment of the East–West, North–South, and Southern Economic Corridors (De & Iyengar, 2014, p. 1).

In South Asia the prominence of ECs is rather a recent phenomenon; yet it is set to gain momentum among political decision-makers, entrepreneurs, academics, and media. The establishment of a South Asian-wide EC network would improve trade and transport facilities, which in turn would undoubtedly make trading between the countries easier, more stable and less costly. Additionally, it would improve infrastructure—which is still 'abysmally inadequate and of poor quality' compared to that found in other regions (Karim, 2017, p. 15). If this challenge is adequately addressed, ECs are able to create more opportunities for a successful establishment

of cross-regional linkages. Additionally, it will help to link South Asia with global transport and logistic networks as well as production chains.

In this context, ECs are not only able to play a key role in integrating economies (Vickerman, 2002) across a given region and function as essential building blocks for regional economic integration (Kuroda, Kawai, & Nangia, 2007); they can also be seen as an important confidence-building measure in a political non-congenial environment. However, in order to be able to benefit from these potentially positive impacts, the planner of an EC needs to move beyond the economic prism and consider the larger political and social contexts of the implementation process. If this is not adequately done, the development of an EC can also lead to further entrenchment of existing conflicts and cleavages, turning a peaceful regional cooperation into an even more distant dream. This is especially true regarding South Asia.

1.2 Economic Corridors and Sustainable Development: Outlining the Puzzle

Currently, numerous both national and transnational ECs projects involving South Asian states are either being discussed or already in the process of implementation—examples include the Delhi-Mumbai Industrial Corridor (India), the Bengaluru-Mumbai Economic Corridor (India), the Amritsar Delhi Kolkata Industrial Corridor (India), the Bangladesh-China-India-Myanmar Economic Corridor, East Coast Economic Corridor (India-Bangladesh-South East Asia), and the Trans-Himalayan Economic Corridor (India, Myanmar, Nepal, Tibet, China), among others.

Today the most advanced project is that of the China-Pakistan Economic Corridor (CPEC)—a development endeavour initiated by Beijing as part of its Belt and Road Initiative (BRI). Yet despite the enthusiasm in Islamabad about the expected economic benefits and achieved progress in several CPEC-related projects, scepticism remains regarding the overall success, sustained economic growth, and especially long-term social and political implications of the CPEC. Increasing domestic criticisms but also international concerns are voiced regarding Chinese-initiated transnational development projects. Much discussed are the regional impacts of the CPEC within Pakistan's neighbourhood.

Having this in mind, it does not come as a surprise that other major international actors, foremost the US, Japan and the European Union (EU) are coming up with their own concepts and—more or less—concrete initiatives so as to increase connectivity both with and within Asia. The most recent attempt to approach this challenge is the new 'EU Strategy on Connecting Europe and Asia' in which Brussels outlines its vision and principles regarding a sustainable, comprehensive and international rules-based connectivity (EC, 2018a, September 19). The emphasis of these principles must be seen as in essence a great measure of European unease regarding the Chinese way of realizing connectivity. As such, it becomes clear that the initial, hasty enthusiasm about both the Chinese BRI in general and the CPEC in

particular now makes way for critical analysis. In such context, this book will offer a new concept for what constitutes an EC. Such concept should be understood as a heuristic tool meant to monitor and assess corridor initiatives in general and, in particular, to address the following questions regarding the CPEC:

1. What are the interests, challenges, perceptions, and expectations regarding the CPEC in both Pakistan and China as well as within the wider neighbourhood? In this context, who are the driving forces of the CPEC? And who are the main beneficiaries? More specifically, what will be the general implications for both the nationally-based domestic Pakistani economy and for the various local communities involved?
2. What kind of social, political and economic impacts will the CPEC have on regional dynamics, especially as regards underdeveloped areas such as Balochistan, Gilgit-Baltistan (GB), Khyber Pakhtunkhwa (KPK), the Federally Administered Tribal Areas (FATA), and rural Sindh? Will the CPEC help to reduce existing inter-regional inequalities within Pakistan or rather reinforce them?
3. Will the CPEC be able to fulfil its functions as an Economic Corridor or will it not succeed beyond the stage of a transportation route for goods and people? Will the CPEC lead only to the build-up of infrastructure or will it also contribute to an overall improvement of social and economic development, especially through the build-up of new manufacture and service capabilities as well as the modernization of industries?
4. Can the CPEC serve as an engine for further regional economic cooperation and integration—beyond the Pakistan-China nexus? In other words, how far can the CPEC improve both bilateral and multi-lateral relations in the region, and will this endeavour constitute an impetus or rather another hindrance for trans-national cooperation within South Asia? In this context, should the CPEC only be understood as a regionally-limited, multi-sectoral economic development initiative or should one go further and also consider larger geostrategic and geopolitical ramifications?
5. How will the CPEC shape the future development of Pakistani-Chinese bilateral relations? Taking into account the obvious and tremendous asymmetries in economic performance and financial capabilities, will the economic corridor make recipient Pakistan even more heavily dependent on China as provider of capital, technology as well as other resources? More concretely, are any political and/or economic strings attached with the various Chinese development initiatives?
6. What can we learn from CPEC implementation regarding the feasibility and efficiency of mega-infrastructure projects in a country such as Pakistan—featured by such great instabilities in all spheres of both state and society? How far can an analysis of the CPEC's implementation serve as a point of reference for comparative studies regarding ECs projects in other world regions?
7. Which impact will the CPEC have on the quality of democracy and the country's civil-military relations, especially by considering the dominant role of the armed forces in the political and economic spheres? More generally speaking, how do

EC projects impact the tense relationship between democracy and development? Do they strengthen or on the contrary undermine the processes of democratic transition and consolidation in their drive to push economic development?

By approaching the above-mentioned issues, the book will bring forward the following major arguments:

Firstly, it will be pointed out that to date South Asia lacks connectivity at the both national and cross-national level. In fact South Asia is one of the least economically integrated regions in the world. In order to address this issue, it will be argued that ECs can serve as a means to achieve the following goals: (a) overcome both national and regional connectivity gaps, (b) improve economic performance of the participating countries, and (c) increase regional cooperation and integration.

Secondly, there is a lack of comprehensive, conceptional work regarding ECs, especially from a social science perspective. Most of the work on corridors is coming from either regional or geographic/spatial sciences. There was not yet conducted any cohesive conceptualization of ECs. There is also no concept of ECs offering noteworthy explanatory value beyond strictly quantitative approaches. Apart from a minimum common ground regarding the basic notion of what constitutes an EC, there is a disconnected multitude of definitions. Most importantly, all these definitions fall short in explaining the variety of factors to be considered so as to assess the success of an EC development project. It becomes obvious that a comprehensive approach to the very concept of EC is needed, not only so as to guide the formulation and implementation of such mega development initiatives but also so as to measure effectivity, efficiency and sustainability. In this context it is argued here that an 'EC initiative' must consider a variety of dynamics, namely economic, organisational, institutional, behavioural, political, and planning characteristics. These characteristics determine the set of indicators constituting the conceptualization of ECs articulated in this book. Only when an EC initiative addresses these indicators does the corridor obtain the necessary characteristics for success. More concretely, only when an EC initiative adequately addresses these characteristics will an 'EC initiative' lead to the establishment not only of an EC but also of a sustainable EC—as well as a sustainable EC which is able to realise its full potential, that is to offer maximum benefits for all participating actors.

1.3 The Larger Picture of the CPEC: China's 'Belt and Road' Initiative

The CPEC is closely affiliated with the implementation of the Belt and Road Initiative (BRI), also known as the 'One Belt, One Road' project or the 'New Silk Road'. As a multi-billion dollar 'connectivity initiative' led by China, the BRI is an

ambitious effort—with trans-continental dimensions—aimed at improving infrastructure and industrialization (World Bank, 2018c, March 29). The BRI is heralded by its proponents as a catalyst for economic growth, social development and regional cooperation. The BRI aims to increase connectivity between Asia with Europe, the Middle East and Africa—via land (the belt) and sea (the road). As a vision it was first announced in 2013 by the Chinese President Xi Jinping. Regarding the Chinese white paper ‘Vision and Actions on Jointly Building Silk Road Economic Belt and twenty-first Century Maritime Silk Road’, published in March 2015 and which determines the most comprehensive official publication, five overall goals of BRI are identified (NDRC, 2015, March 28): (1) policy coordination; (2) facilities connectivity; (3) unimpeded trade; (4) financial integration; (5) people-to-people bonds.

Although it’s still taking shape, the initiative roughly revives and expands the ancient land-based Silk Road, complemented by a maritime front. The BRI initiative thus refers to two large-scale development proposals: the land-based ‘Silk Road Economic Belt’ (SREB) and the sea-based ‘twenty-first Century Maritime Silk Route Economic Belt’ (CMSR). The SREB focuses on the Eurasian region and aims at infrastructural development, economic cooperation and other connectivity projects aimed at linking Asia with Europe. In other words, Beijing is attempting to create a connected and cohesive Eurasian entity with China as focal point of the underlying connectivity.

In order to implement this goal the SREB consists of several separate economic corridors. Firstly, the Northern Corridor connects China with Europe by land via Russia. Secondly, the Central Corridor focuses on infrastructure build-up between China and Europe via Iran and Turkey by both land and sea. Thirdly, the Southern Corridor, which is actually the CPEC, aims to connect Kashgar in China’s Xinjiang province with Pakistan’s sea ports in the South (particularly Gwadar). Being located at the intersection between Central, South and East Asia, Xinjiang turns into a geographic lynchpin for the BRI’s connectivity not only as concerns the Eurasian landmass but also for the BRI’s maritime linkages. The latter is provided via Pakistan’s part of the CPEC, which determines the essential link between land and the sea connectivity.

Besides these three major corridor initiatives, the implementation of three other corridors is currently envisaged by Beijing: the China-Mongolia-Russia corridor, the China-Myanmar-Bangladesh-India corridor, and the the China-South East Asia mainland corridor.

The planned economic corridors consist of a combination of cross-sectional components aimed at interlinking Eurasian states and economies through a range of projects—focused first and foremost on infrastructural development and connectivity, as well as coordination of national and regional development. In essence, the BRI intends to: expand and connect various transportation networks and markets; disperse and improve Eurasia’s production capacity; and facilitate the transit of goods, capital, energy, raw materials and—to some extent—information, people and cultures. It plans to do this through substantial investments in a vast variety of projects, including roads, railways, energy pipelines for crude oil and natural gas,

solar, wind and coal-fuelled power stations, ports, airports, dams, economic zones, industrial parks, communication through high-speed fibre optic cables, research centres, education and healthcare facilities, and specialized services for trade and finance.

It is currently estimated that China's own financial engagement in BRI comprises an investment volume of roughly 1000 billion USD, seven times what the US spent under the Marshall Plan (Economic Co-operation Act) 70 years ago. The initiative includes more than 1000 individual projects across about 80 participating states—representing around two-thirds of the world's population (estimated 4.4 billion people). The combined GDP of all countries involved is approximately 23 trillion USD. However, it is crucial to point out that there is 'no official definition for what qualifies as a BRI project' (Hillmann, 2018a September 4)—many projects which started years before the BRI's official launch are now assumed under the New Silk Road. This includes also projects which are not directly related to this initiative and/or funded by non-Chinese resources. As a consequence, many observers tend to exaggerate the BRI's size (Hillmann, 2018b, April 3), a tendency further enforced by the massive public diplomacy efforts conducted by Beijing so as to promote its development initiatives.

Nevertheless, despite the tremendous lack of transparency and the obvious processes of window dressing, the BRI is still of impressive dimensions—which brings the question of why Beijing is launching it to start with. According to analysts, China has plenty of incentives to unleash these vast investments, despite facing a multitude of threats challenging the establishment and smooth functioning of at least of some parts of the BRI such as the CPEC. However, one can state that the BRI is driven by a wide range of Chinese interests in economic, financial, diplomatic, geopolitical, and security areas. Here the book will argue that the CPEC as a BRI pilot project serves as a laboratory meant to accumulate experiences and provide useful expertise as well as lessons for future corridor projects.

1.4 Initial Conditions: The Genesis of Pakistani-Chinese Relations

Pakistan and China have maintained cordial relations ever since Pakistan (as the first majorly Muslim country) recognized the People's Republic of China (PRC) in 1950 (Allen-Ebrahimian, 2015, April 22; Blood, 1995; Zingel, 2015). This was soon followed by the establishment of trade ties between both countries.³ Since then, Pakistan continues to provide China with diplomatic assistance on important issues. This includes support for China's seat in the UN in 1961, the backing of Beijing's 'One-China Policy',⁴ and support in the aftermath of the bloody government

³China and Pakistan signed their first formal bilateral trade agreement in 1963.

⁴This is touching the question of China's sovereignty regarding (at the expense of the autonomy and/or sovereignty of) Taiwan, Xinjiang, and Tibet. (PRC, 2000, February 21).

crackdown during the Tiananmen protests in 1989 (June Fourth incident) in which thousands of the ‘pro-democracy’, ‘pro-reform movement’⁵ lost their lives or were injured. Another example of Islamabad’s support for Beijing included its role facilitating the Sino-American rapprochement in the early 1970s.⁶

China in turn also started to offer increasing diplomatic assistance to Islamabad. Most remarkable examples include the Chinese support on the international arena regarding the pre-emptive wars launched by the Pakistani armed forces against India in 1965 (Rann of Kutch affair and Operation Gibraltar⁷) and 1999 (Kargil offensive⁸) and its support during the large-scale genocide during the Bangladeshi Liberation War (former East Pakistan) in 1971 (Blood, 1995, p. 248; Mascarenhas, 1986). In this context, the Indian-Chinese border clash of 1962 widened the options for collaboration between China and Pakistan (Cheema, 1986, p. 42), a country which identifies India as its arch enemy. Additionally, following increasing international criticism regarding Pakistan’s involvement in state-sponsored terrorism (Wolf, 2017a, pp. 109–110), Beijing started to grant diplomatic protection for Pakistani-based Jihadists involved in cross-border terrorism such as Masood Azhar (Shams, 2017c, February 8; Wolf, 2017f, January 6). An additional milestone in Sino-Pakistani relations materialized in the solution of their territorial disputes, which led to the signing of a border agreement in 1963. However, the fact that the handing over of disputed territory, foremost the Shaksgam Valley of Gilgit-Baltistan, from Pakistan to China was part of the arrangement makes the whole border agreement highly controversial (Lamb, 1964, pp. 299–312). However,

⁵Also known as the ‘89 Democracy Movement’, see McCormick, et al. (1992).

⁶More concretely, Pakistan helped to facilitate the 1971 visit by United States secretary of state Henry Kissinger to China. This led to US President Nixon’s subsequent visit to China in 1972, which helped to ‘normalise’ the relations between both countries, and to end both China’s isolation and the Vietnam war (Ladley, 2002; Zingel, 2015).

⁷The Rann of Kutch, a coastal boarder region between Mumbai and Karachi, located in the Indian state of Gujarat, experienced a military aggression by Pakistani armed forces in early 1965. Through the start of patrol activities by Pakistani border troops, Pakistan’s goal was to provoke India so as to get it involved in a geographically limited armed confrontation and check their combat capacities and abilities. Being temporarily successful, Pakistan’s security establishment got a false sense of superiority over Indian forces and launched Operation Gibraltar, a large-scale infiltration of both regular and irregular Pakistani troops into the Indian-administered state of Jammu and Kashmir so as to launch a rebellion against New Delhi. This led to the full-fledged war of 1965, in which Pakistan was defeated (Cloughley, 2006, pp. 54–71).

⁸The Kargil conflict, which took place in 1999 between India and Pakistan—shortly after a summit between the countries’ then Prime Ministers based on an Indian ‘peace initiative’—resulted in more than 1000 casualties on the Indian side. This was the first conventional war since both India and Pakistan became nuclear powers. The effort to seize territory on the Indian side of the Line of Control (LoC) around Kargil in the state of Jammu and Kashmir was the brainchild of Pakistan’s Chief of Army Staff, Gen. Pervez Musharraf. It is speculated that the then Prime Minister Nawaz Sharif was not informed. However, taking into account the author’s own interviews with Pakistani military (retired) and some experts, Mr. Sharif seems to have been briefed about the operation and involved in the decision-making process regarding the Kargil operation (Mazari, 2003, pp. 57–58; Mitra et al., 2006, p. 201; Wolf, 2013g, April 1, p. 20).

despite the illegal nature of this border agreement, it helped foster political and diplomatic relations between China and Pakistan. As a result of this strong, mutual support, Pakistan is remarkably self-confident when it comes to its ties with China and points out that it ‘played a pioneering role in introducing the reality of China to the contemporary world’.⁹

Islamabad and Beijing emphasise their close ties on all possible official occasions and refer to the relationship as that of ‘all-weather friends’—a relation which is ‘is higher than mountains, deeper than oceans, sweeter than honey, and stronger than steel’ (Tharoor, 2015, April 21). But despite this flowery rhetoric, China and Pakistan do not have much in common beyond a shared border of 520 km (Tharoor, 2015, April 21; Vandewalle, 2015). International experts like Andrew Small point out that Pakistan and China ‘have never been treaty allies, do not share any cultural reference points or values, and their militaries come from radically different traditions’ (Small, 2015, p. 3). In this context it is interesting to mention that while Pakistanis view China in an extremely positive light (Husain, 2017b, June, p. 3), it seems that many Chinese people—besides state officials—, share a far less enthusiastic attitude towards Pakistan.¹⁰ The fact seems to be that some Chinese believe Pakistan is a violent, lawless, chaotic, poorly governed, and run-down place (Allen-Ebrahimian, 2015, April 22; Tharoor, 2015, April 21). Nevertheless, most Chinese acknowledge the close ties between both countries; despite any ideological differences and differing perceptions among its respective populations, cooperation between China and Pakistan has continued to grow during the past decades. A crucial step in this direction was the establishment of the Pakistan-China Joint Committee in 1982,¹¹ which was aimed at facilitating trade and technology transfer as well as pave the way for further deepening of bilateral relations. However, of course, in many ways Sino-Pakistani ties do not reflect a relationship between equal partners (Wolf, 2016e, June 28). In other words, the main feature of Sino-Pakistani relations may be the obvious asymmetries present, especially regarding political power and economic capacities as well as trade dynamics (Jain, 2017, pp. 59–61). For example, in 2012 the average Chinese earned five times as much as the average Pakistani, and China’s economy was 35 times the size that of Pakistan’s (Small, 2015, p. 95).

Since the 1990s Beijing has been Pakistan’s top supplier of both military hardware and nuclear technology.¹² Furthermore, the two neighbours are more deeply engaged in non-security-related fields such as economic development, general academic collaboration, cultural exchange or providing aid to each other in the

⁹Javed Jabbar quoted in Muzaffar (2015, June 18).

¹⁰A July 2014 Pew Research Center survey found that 78% of respondents view China favourably but only 30% of Chinese view Pakistan favourably (Allen-Ebrahimian, 2015, April 22; Tharoor, 2015, April 21).

¹¹Concretely, the Pakistan-China *Joint Committee* for economic, trade and scientific and technological co-operation.

¹²For example, apart from Pakistan’s nuclear weapon programme, China has helped Pakistan build six nuclear reactors (Economist, 2015b, April 20).

wake of natural disasters.¹³ Nevertheless, China has adopted a more critical stance towards Pakistan in recent years, stressing the need for more security in South Asia (Vandewalle, 2015)—especially as regards both domestic and cross border terrorism—and urging the Pakistani government to make peace in Afghanistan a top foreign policy priority (Iqbal, 2015b, April 27). It is clear that China is not satisfied with Pakistan's current counterterrorism strategies and capabilities. For example, the way Pakistan handled Uyghur militants operating on its national soil so as to conduct terrorist activities within China created dissatisfaction among Chinese security circles (Joscelyn, 2008, October 9; Wolf, 2015a, July 21). Beijing also expresses indignation regarding Islamabad's failure to prioritise stability in Afghanistan over its focus and obsession regarding keeping India out of Afghanistan and establishing a pro-Pakistani government in Kabul (Wolf, 2012b, April 27; 2012c, April 20). Nevertheless, despite these asymmetries and fault-lines, China-Pakistan relations have remained stable over time.

In order to boost economic cooperation, both countries signed the 'China Pakistan Free Trade Agreement' (CPFTA) on 24th November 2006, which came into effect in July 2007 (Kamal & Malik, 2017, October, p. 2). The major aim of this FTA was to 'promote bilateral trade and provide enhanced market access to products on a reciprocal basis' for goods¹⁴ (Kamal & Malik, 2017, October, p. 2). Since then China has become Pakistan's largest trading partner (Ashraf, 2015b, April 9); the Chinese market became Pakistan's second largest export destination—with a share of 7.7% in the nation's total exports.¹⁵ Yet it became soon clear that this is an unbalanced relationship working to the advantage of China. As stated by an international observer, the volume of China's trade with Pakistan 'is a drop in the bucket for Beijing' (Tharoor, 2015, April 21). It turned out that Pakistani entrepreneurs were until now not able to gain much benefit either from the CFTA¹⁶ (Muhammad, 2016, June 26) or from the deepening political relations with China. In contrast, Pakistani businesses, especially in the textile and fruit sector, had to face tough competition from Chinese counterparts to such a high level that they lost crucial leverage both in China and in other Asian markets too. Furthermore, regarding a survey by the State Bank of Pakistan (SBP) titled 'Dynamics of Pakistan's Trade Balance with China', the production of several Pakistani industries declined since the signing of the FTA with Beijing (Business Recorder, 2017c, October 11; Kamal & Malik, 2017, October).

¹³For example, after the Great Sichuan Earthquake (the deadly 2008 earthquake in China's southwest) Pakistan donated \$2 million worth of emergency aid, including 30,000 tents (Allen-Ebrahimian, 2015, April 22).

¹⁴Another FTA on trade in services was signed on 21st February 2009 and is operational from tenth October 2009 (Kamal & Malik, 2017, October, p. 4)

¹⁵After the United States with 16.7% (Kamal & Malik, 2017, October, p. 3).

¹⁶Pakistani companies could only export in 253 tariff lines out of the total 7550, where average export value was around \$500 (Muhammad, 2016, June 26).

In this context, it is interesting to note that not only China's trade volume with India is much higher than with that undertaken with its 'quasi-ally Pakistan'¹⁷ but also that Beijing maintains stronger economic relations with other, much smaller Asian states. For example, the Philippines, which had during the last decade roughly the same economic size as Pakistan, have a three times higher trade volume with China. Or Vietnam, an economy half the size of Pakistan's, has four times the amount of bilateral trade with the Chinese (Small, 2015, p. 96).

Some of the main reasons for Pakistan's inability to keep up with Chinese competition as well as to benefit from its close relations with Beijing include the lingering energy crisis as well as a series of infrastructural and logistic problems. Another major issue is corruption, which is severely undermining the country's economic performance and overall development (BTI Pakistan, 2016, pp. 2, 14, 26). The 2016 Corruption Perception Index (CPI) by Transparency International ranks Pakistan at number 116 out of 176 states—identifying this state as one of the more corrupt¹⁸ in the world (TI, 2016; 2018). Furthermore, there is no long-term, comprehensive and stringent economic policy in place so as to support local businesses, for example through investments in export-orientated facilities, offering entrepreneurs access to cheaper financing,¹⁹ broadening the export base,²⁰ or smart infrastructure solutions so as to reduce losses in the food chain, produce goods at lower costs and establish (or improve) linkages within global value chains (Pasha, 2017, July 24).²¹ In contrast, it is claimed that decision-makers have largely ignored the need to promote the country's manufacturing industries (Business Recorder, 2017c, October 11). This is important since Islamabad's opportunities to create an enabling environment for economic growth are further limited by additional structural problems such as the lack in management capacities²² and subsequent inefficient use of resources as well as

¹⁷China-India trade rose from \$5 billion in 2002 to more than \$60 billion in 2010. In the recent couple of years, it has gone up to \$100 billion annually, which is about eight to ten times the volume of Sino-Pakistan trade (Hussain, 2017, June, p. 13).

¹⁸The CPI, rated Pakistan with 32 points in 2016. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) and 100 (very clean).

¹⁹Instead small- and medium-sized enterprises (SMEs) are suffering from restricted credit availability from commercial banks (Pasha, 2017, July 24).

²⁰Here, Pakistani expert Dr. Hafiz Pasha states that the export base has remained over-reliant on textiles as the principal export good. Subsequently, "exports of cotton yarn, cloth and value-added textiles constitute almost 60% of our total exports" (Pasha, 2017, July 24). The second dominating product in exports is rice.

²¹For example, the massive road infrastructure is only partly helping the agriculture sector. The most suitable solution demanded by local entrepreneurs would include substantial investments in modern air cargo facilities. The air lift of products would not only ensure a timely delivery but also reduce the negative, environmental impacts of road construction. However, the central government in Islamabad has not considered these demands yet (Dawn, 2017e, March 27).

²²For example, regarding the CPFTA it is argued by experts that this agreement between Islamabad and Beijing was poorly prepared (and subsequently negotiated) on the Pakistani side, and only insofar as to seek the right concessions from China. In brief, Pakistan does not know how to export. Furthermore the tremendous lack in strategic planning skills, combined with a poor use of available resources, is seriously hampering Pakistani companies in adding value to their existing goods in order to make them competitive (Business Recorder, 2017c, October 11).

the distortion of free economic competition due to the omnipresent MILBUS phenomenon—the involvement of the military in the business sector (Siddiq, 2009). The fact that the large business-conglomerates ran by the military in Pakistan are not only forming monopolies in numerous economic sectors but also enjoying an unfair advantage regarding state contracts (public tenders) as well as the opportunity to forcefully conduct land acquisition—by referring to reasons of national security—is seriously harming civilian entrepreneurs (BTI Pakistan, 2016, p. 14; Siddiq, 2009, pp. 13–14).

However ‘indigenous’, structural factors and wrong policies are not the only factors leading to a stagnancy or even a lowering of local production and the trade capacities in Pakistan. The Chinese also append significant hurdles for foreign traders, especially Pakistani, thus hampering exchanges with and business within China (Mustafa et al., 2017, pp. 1–3). Beijing imposes several obstacles to Pakistani companies, making it difficult to export to China. Foremost among these we find technical barriers to trade (TBTs), including non-tariff barriers (NTBs) such as import quotas, prohibitions, import licensing/product certification requirements, customs procedures, duplicate health certificates, quarantine regulations, administration fees, and distribution restrictions (Mustafa et al., 2017, pp. 1–3; Staiger, 2012, p. 2). These TBTs/NTBs create delays and processing hurdles. Furthermore, Pakistani exporting attempts towards China’s are severely hampered by domestically-imposed non-tariff measures (NTMs). Such ‘behind the border measures’ include for example “technical, health, product, labour, environmental standards, internal taxes or charges, and domestic subsidies” (Staiger, 2012, p. 2). As such, while Pakistani enterprises are not necessarily kept out of the Chinese market, the simple cost involved in exporting their products raises so tremendously that it hampers their competitiveness vis-à-vis Chinese agents (Kayani & Shah, 2014, p. 1).

Pakistan therefore wishes to review the conditions of the current CPFTA.²³ However, it seems that the Chinese are not willing to offer Islamabad the same favourable trade concessions which they offer to some of their other trading partners, at least for the moment. In consequence Pakistan’s trade deficit with China is worrisome, and steadily growing (Haider & Dilawar, 2017, June 28). It is interesting to note that, in the first years after the CPFTA was signed, Pakistan was able to increase its exports to China from \$575 million in 2006–07 to \$2.1 billion in 2014–15. Yet at the same time, Chinese imports (into Pakistan) increased from \$3.5 billion in 2006–07 to \$10.1 billion in 2014–15 (Muhammad, 2016, June 26), which by itself indicates an enormous trade imbalance. However, since the CPEC initiative gathered steam, this imbalance in trade achieved an alarmingly high level. According to Hafiz Pasha, ‘Pakistan’s trade deficit has hit a record level of US\$30 billion in the first 11 months of 2016–17, showing a jump of 42% as compared to the same period in the previous financial year. Exports have declined by 3% (to US\$18.5 billion), while imports have gone up by 21% (to US\$48.5 billion’; Pasha, 2017, July 24).

²³Since 2011, Pakistan and China are already negotiating for the second phase of CPFTA but due to different views on their bilateral trade relations the talks were either delayed or come temporarily to a hold (Muhammad, 2016, June 26).

In sum, diplomatic, political and developmental collaboration between Beijing and Islamabad—as well as major Chinese investments in Pakistan—are not new. However, it has taken some time to find a comprehensive scheme to enhance deeper economic ties and ensure lasting cooperation (Rahman, 2007). In this context, China’s move to open-up its western Xinjiang province to trade and regional integration by supporting the construction of the Karakorum Highway (KKH)²⁴ was a significant step towards closer ties. In other words, the construction of the KKH not only helped to overcome one of the greatest physical barriers²⁵ in bilateral economic and trade relations; it also created useful collaborative experiences that can serve as catalysts for both ongoing and future joint enterprises (Khan, 2015b, May 28). As such, the current CPEC initiative is not starting from scratch.

1.5 CPEC: A Introductory Rapprochement

The CPEC is the first large-scale, cross-sectoral attempt to bolster economic ties between China and Pakistan. Both countries conceived the CPEC in mid-2013 and formally launched it on 20th April 2015—as a multi-billion USD economic and development package. This initiative included loans, investments and grants so as to carry out a series of energy and infrastructure measures²⁶—for a period of at least over 15 years.

1.5.1 *CPEC: An Envisaged Critical Juncture in Aid, Investment and Development Relations*

By connecting the city of Kashgar in western China with the Gwadar port in south-west Pakistan, the CPEC is not only one of the six land-based economic corridors of the BRI, it is also recognized as its ‘flagship’ and ‘frontrunner’ project (Ahmad, 2018a, p. 50). Regarding its scale and nature, Andrew Small states that CPEC is ‘one of the only so-called corridors that genuinely seems to match the purported ambitions of Xi Jinping’s scheme’ (Small, 2017, p. 80). The importance of the CPEC for the BRI overall plan is partly reflected by its inclusion in the 13th five-year development plan of China (Toor, 2017, p. 17). It is interesting to note that many observers found it surprising that Pakistan ‘should occupy such a prominent role’ in the BRI (Small, 2017, p. 80). Despite the deeply entrenched political relations

²⁴The KKH is also known as N-35 (in Pakistan) or China National Highway 314 (G314). Furthermore, the KKH is a part of the Asian Highway AH4.

²⁵The highly glaciated mountainous range of the Karakoram.

²⁶During that occasion, Beijing and Islamabad formalized the CPEC by signing 51 agreements and memoranda of understanding on Chinese investments.

and persistently growing cooperation in security and aid, investment and developmental aspects were traditionally secondary elements in Sino-Pakistani ties. Furthermore, besides some successful projects such as the building and upgrading of the Karakorum Highway or the construction of civil nuclear power plants, Beijing has an unfortunate record regarding its Foreign Aid and Government-Sponsored Investment Activities (FAGIA)²⁷ in Pakistan (as compared to other South Asian countries). For example, between 2001 and 2011, Beijing promised \$66 billion FAGIA to Islamabad, but only 6% of that amount (\$3.96 billion) was actually delivered (Wolf et al., 2013, pp. 37–38). By contrast, Sri Lanka received 65% (\$3.25 out of 5 billion) of the investments announced by Beijing (Wolf et al., 2013, pp. 37–38). Thus despite the fact that Islamabad was the biggest recipient of Chinese aid and investments in South Asia, Beijing had a ‘mixed credibility’ in the country as investor and donor. There was therefore much scepticism after the Chinese and Pakistani leaderships announced the start of the CPEC—it was wondered if the corridor would be realized or merely remain as wishful thinking written on paper.

Today it seems that China’s leadership is willing to break with the past pattern of granting but not delivering financial resources, and the CPEC is supposed to serve as the critical juncture. There are numerous factors in this initial phase contributing for such a fast (and surprising) success. Besides the new Chinese determination to invest in Pakistan, Pakistan itself was desperate to solve its energy crisis, improve its miserable infrastructure and increase overall connectivity. Islamabad presented a whole list of potential projects to include into the CPEC scheme, suggestions which largely matched Chinese interests. That a ‘transport corridor’²⁸ was already proposed in 2006 by the then Pakistani President General Pervez Musharraf (Esteban, 2016) and respective administration, which also immediately started to work on the operationalization of these ideas, gave an additional impetus to the CPEC. Furthermore, Islamabad’s concrete needs for large-scale projects was reflected in the quest by Beijing’s decision-makers regarding how to turn Xi’s grand connectivity vision into reality. It was, in sum, ‘a good fit for China’s embryonic BRI’ (Small, 2017, p. 82).

1.5.2 Envisioning Development: Multi-Sectoral Initiatives

Basically, the CPEC is a persistently evolving package of various, competitive developmental and economic initiatives (Ahmad, 2018a, p. 51). According to the ‘Long Term Plan for China-Pakistan Economic Corridor’/LTP, the CPEC is defined as ‘a growth axis and a development belt featuring complementary advantages,

²⁷Official sources in China distinguish three categories of FAGIA: grants, interest-free loans, and concessional loans (Wolf et al., 2013, p. xii).

²⁸Also described by some experts as ‘Trade and Energy Corridor’/TEC (Subramanian, 2017, March 23).

collaboration, mutual benefits and common prosperity. Including a comprehensive transportation corridor and industrial cooperation between China and Pakistan as the main axis—and comprising crucial, concrete economic and trade cooperation mechanisms as well and people-to-people exchanges and cultural communications—the CPEC is based on major collaborative projects regarding infrastructure construction, industrial development and improvement of livelihoods, all aimed at socio economic development, prosperity and security in the regions along it’ (LTP, 2017, p. 4). The CPEC is based on a ‘1+4 cooperation structure’: the Economic Corridor as an overall, multi-sectoral developmental vision at the centre, and (1) the Gwadar Port, (2) energy, (3) infrastructure and (4) industrial cooperation as further assets (LTP, 2017). Hasan-Askari Rizvi points out that with this kind of collaboration, the CPEC attempts to cultivate ‘a more systematic, up-graded and need-based interaction for socio-economic, industrial, energy and trade development’ (Rizvi, 2015a, May 28, p. 4). In order to do so, within the above-mentioned priority sectors of the CPEC’s developmental vision, the following key areas for concrete cooperation between Pakistan and China are identified: I. Connectivity—including the construction of an integrated transport system and Information network infrastructure; II. Energy-Related Fields; III. Trade and Industrial Parks; IV. Agricultural Development and Poverty Alleviation; V. Tourism; VI. Cooperation in Areas concerning People’s Livelihood and Non-governmental Exchanges; VII. Financial Cooperation (LTP, 2017, pp. 14–21). In order to operationalise cooperation in these areas, the corridor envisaged the implementation of a vast range of different cross-sectional components. These components included individual projects such as roads, railways (mass transit & cargo), airports, ports, local/public transportations (for example metro), special economic zones (including industrial zones/parks and free trade zones), pipelines for crude oil and natural gas, communication networks (fibre optic cable enabling 3G/4G internet access, Digital Terrestrial Multimedia Broadcast (DTMB), Early Warning System (EWS)/, institutions and mechanisms so as to improve trade in services (Banking & Finances), and complexes for resources extraction (mining & processing). A series of measures for social sector development (‘goodwill projects’) were also incorporated, including hospitals, centres for research and education (from primary & secondary schools, technical & vocational institutes to think tanks & universities), facilities for fresh water treatment, water supply and distribution, and other specific engagements to protect and promote livelihoods of local population (for example upgradation and development of fishing, boat making and maintenance services). Additionally, all these projects are or will be flanked by substantial security measures so as to guarantee a safe environment for the CPEC’s development.²⁹

²⁹BBC, Is China-Pakistan’s ‘silk road’ a game-changer?, April 22, 2015, <http://www.bbc.com/news/world-asia-32400091>; Mateen Haider, Operations to continue till Pakistan is terror free, says General Raheel, *Dawn*, <http://www.dawn.com/news/1192103>

1.5.3 *Multi-Phase-Approach and Categorization of Projects*

The Planning Commission of Pakistan, which is primarily responsible for the phasing of the CPEC, outlined three major phases for the project implementation beyond the years of the initial planning process (especially 2013 and 2014). The first phase (2015-2020) of the CPEC is specifically focused on the China-Pakistan nexus, with the generation and distribution of energy³⁰ and infrastructure development as priorities ('Early Harvest Projects/EHP'). The later phases II and III (2021-2025 & 2026-2030) are to consider the inclusion of both regional and extra-regional countries as participating partners in the CPEC (Ghiyasi & Zhou, 2017, p. 31). The Planning Commission did not yet formally allocate the projects by phase (Rafiq, 2018, p. 9). However, experts state one to expect that the 'bulk of the projects in each proposed phase are largely intra-Pakistan in nature' (Ahmad, 2018a, p. 51).

Regarding the Long-Term-Plan for the CPEC (2017-2030) and according to tweets by the Chinese embassy in Pakistan, the goals of the different phases are defined as such (LTP, 2017):

Phase I: Covering the years from 2015 to 2020, the first phase of the CPEC focuses on the challenge to implement the selected priority projects (infrastructure and road network), and as such to start operationalizing the corridor project. The aim of this phase is to address the major bottlenecks of Pakistan's economic and social development and boost Pakistan's as well China's economies.³¹

Phase II: The main goals for the second phase of the CPEC implementation (between 2020 and 2025) include the realization of all major building projects; the envisaged industrialisation is to be nearly completed. Furthermore during this period all major, individual developmental initiatives have to be put 'into play in a holistic way, the people's livelihood along the CPEC significantly improved and regional economic development more balanced'.³²

Phase III: At the end of the third phase (2025-30), the 'CPEC building phase will be entirely accomplished, endogenous mechanisms for sustainable economic growth will be in place, the CPEC's role in stimulating economic growth in Central and South Asia will be brought into holistic play, and South Asia is to grow into an international economic zone with global influence'.³³

³⁰Here, the CPEC planers differentiate between three types of energy projects (aiming at a capacity achievement of 17,045 MW in total): (i) prioritized energy projects (15 with the capacity of 11,110 MW); (ii) actively promoted projects (4 with the capacity of 2544 MW); and (iii) balance capacity projects (3415 MW). (Ghumman, 2018, July 14).

³¹Tweet by the Chinese embassy in Pakistan: <https://twitter.com/CathayPak/status/942764070947704832>

³²Tweet by the Chinese embassy in Pakistan: <https://twitter.com/CathayPak/status/942764288166514688>

³³Tweet by the Chinese embassy in Pakistan: <https://twitter.com/CathayPak/status/942765573116760064>

However, this schedule with the respective announced goals for the CPEC implementation seems to be only a basic guideline—open for perennial modification, not only regarding the size (amount, nature and scope of projects) but also the duration of the initiative. Ghiasy and Zhou are pointing out that ‘depending on progress and mutual satisfaction, the plan may be extended to 2046’ (Ghiasy & Zhou, 2017, p. 31). In this context it is important to note that the initial proposed financial support by China ‘is neither a fixed number nor a lump sum payment’ to Pakistan, and that the Chinese leadership is willing to go far beyond the already agreed amount to finance more CPEC-related projects (Rafiq, 2017, p. 9). However, Beijing has four major conditions for Pakistan to fill regarding CPEC implementation: First and foremost, Pakistan needs to establish a stable security environment; it must ensure national harmony and consensus; and it must achieve timely implementation of the CPEC projects. In other words, ‘the faster, the better’; and thus the ‘mantra’ will be, ‘the Easiest First’. However, recent reports state that Beijing is adopting a ‘go-slow policy’ on CPEC-related projects. Concretely, the ‘Chinese side is expecting slow movement on CPEC projects this year because China has concerns with regard to uncertainty of policies in Pakistan’ (Ghumman, 2018, July 14).

1.5.4 From Plan to Action

It all started with a financial volume of \$46 billion in Chinese investments, which grew up to around \$62 billion in 2018 (Rafiq, 2018). It is reported that the current CPEC portfolio consists of 43 projects, of which 22 are under implementation (Husain, 2018, June 6). However, additions, deletions, and various kinds of modifications regarding the priorities, financing types, and/or sequencing of projects have taken place since then, and will most likely continue. Many of the envisaged projects vary in their financial nature and stage of maturation. Some projects are still in their feasibility stage, some are formalized via basic framework agreements, several are started through actual commercial contracts, and a few are already completed (Rafiq, 2018, p. 9; Jing, 2018, May 28). Some observers even state that the CPEC became already (partly) operational on 13 November 2016—when a Chinese cargo was transported overland from China to Pakistan’s Gwadar port for onward maritime shipment towards the Middle East, West Asia and Africa (Ramachandran, 2016a, November 16). This was the first time that trade activity has officially taken place through the CPEC. On 7 March, China’s state-owned shipping and logistics services supplier company (COSCO) dispatched its first commercial shipment from Pakistan’s port city of Gwadar to the UAE, establishing a new shipping service from Gwadar to Dubai Jebel Ali port. However, the transport of cargo affects just one of numerous preconditions regarding what constitutes a functional economic corridor.

To sum up, much is fluid and as Ahsan Iqbal, then Federal Minister for Interior and Planning & Development, regarding the Long-Term-Plan for CPEC (2017–2030), it is a ‘live-document’ (LTP, 2017, p. 12)—meaning that the CPEC initiative will be

never based on static models, schedules and guidelines. However such an approach, combined with an opaque documentation, publication, and communication regarding both planning and implementation as well as size and nature of CPEC-related projects, presents a serious challenge to those wishing to encompass the whole complexity and state of the art of this corridor development.

Nevertheless, being close to the end of its first phase, one can state that the CPEC program has two main pillars:

Firstly, a 'new' route network for trade and transport from Kashgar in western China to Pakistani ports, with a main focus on Gwadar in Baluchistan. Here, in addition to the build-up of completely new infrastructure, several major upgrades of existing outdated infrastructure systems will be conducted (for example the Karakorum Highway, Line ML-1). Essentially, the CPEC encompasses three routes (the LTP talks actually about axes) through Pakistan, plus a Northern extension.

Secondly, the program comprises special economic zones along the route, including power projects and other auxiliary facilities. Besides infrastructure, the major focus (around two-thirds of the investments, roughly \$35 billion) will be placed on the increase of energy capacities—both renewable and non-renewable—such as solar, wind, hydro-power energy (dams), and coal.

1.6 Structure and Methodology

The book is structured into the following main parts. The introductory chapter is followed by a chapter dedicated to the conceptual framework developed here; it outlines the author's suggestion for a new conceptualization of ECs. This chapter is followed by three other chapters depicting the involved interests of the main driving forces behind the CPEC and the challenges attached to the implementation process of such a large-scale development project. Based on the outlining of the major initial conditions of the CPEC, the core of the book is determined by the application of the EC concept in general and its indicators in particular. Indicator by indicator, the available information will be structured and analysed in a case-oriented fashion, for example regarding security, environment, socio-economic ramifications among others, in order to measure the corridor's potential success, sustainability and efficiency. This assessment, which fills the most substantial part of the present book, will be flanked by three 'stand-alone' chapters, namely 'The GSP+ conundrum and CPEC's impact on EU-Pakistan economic and trade relations', 'Afghanistan within the BRI vision and the feasibility of enlarging the CPEC' and 'Development versus Democracy? The CPEC and Civil-Military Relations in Pakistan'. These three chapters aim to complement the assessment chapter as well as shed light on additional areas of significance, not only as regards the overall CPEC impacts on economic growth and social development but especially as regards the political dimension of the corridor implementation. The conclusion will summarize the key findings of the assessment and 'stand-alone' chapters as well as offer Additional final thoughts regarding suggested consecutive research.

Finally, one should point out that this book is based on several years of substantial research, interviews with officials, subject-matter experts, a diverse spectrum of civil society representatives, politicians, and business community leaders in Europe, China and Pakistan during a period from 2015 to 2018. Furthermore, the book benefitted from several research projects helping to understand the larger context of the CPEC.

Chapter 2

The Conceptual Framework Regarding Economic Corridors



2.1 Genesis of the Economic Corridor Concept

Economic corridors (ECs) have become the main focus of development projects in various countries and regions (Safitri, 2012, p. 1). Nevertheless, the definition of EC in the related literature is still unclear (De, 2014, p. 15). One of the challenges considering the conceptualisation of ECs is the multitude of factors determining their genesis and nature, due to which no corridor ‘matches exactly the characteristics of another’ (Brunner, 2013, p. 1). An increasing prominence among both political and economic decision-makers and the media placed ECs into the focus of academic research. Most of the conceptual work regarding ECs was conducted in the context of spatial planning and geography. This was centred mainly around issues relating to urban development, many of which linked to projects initiated by the Asian Development Bank (ADB) in Southeast Asia.¹ Numerous research projects regarding the genesis of corridor development were also conducted by the World Bank.² For instance, substantial studies regarding policy frameworks in the field of spatial development were carried out by the European Spatial Development Perspective (ESDP).³ In order to boost the growth of alternative dynamics, ‘global economic integration zones’ in ‘peripheral areas’ are receiving a lot of attention these days; notions such as ‘Euro-Corridors’, ‘transnational cross border development corridors’, ‘infrastructure networks’, or ‘Trans-European Networks’ (TENs) belong to this category (Pain, 2007, p. 8). Yet it remains to be seen how far will the studies on ECs contribute to a proper conceptualisation and theoretical understanding of ECs.

¹For example: Brunner (2013), Srivastava (2011), De and Iyengar (2014), Sen (2014), ADB (2010b), Regarding South Asia, some noteworthy studies appeared like the SAARC (2006), ADB (2010a).

²For example: Kunaka and Carruthers (2014), Arvis et al. (2011), and Arvis, Raballand, and Marteau (2010).

³EC (1999). See also: EC (2001).

As outlined in the introduction, this book discusses ECs mainly in the context of the Chinese Belt and Road (BRI) initiative.

The idea of ‘corridor’ was initially developed in order to address trade and accessibility problems affecting landlocked countries (Arvis, Carruthers, Smith, & Willoughby, 2011, p. viii). It is thus expected that, besides linking urban nodes, corridors should emerge as physical links between previously unconnected regions (Banomyong, 2014, p. 88). According to a more recent consensus, the purpose and function of ‘transport corridors’ is not just a matter of building infrastructure: these corridors should be efficient in reducing trade costs and improving connectivity (Arvis et al., 2011, p. xv).

Furthermore, it is becoming obvious that although ‘transport corridors’ are reinforcing the importance of the urban nodes concerned (Srivastava, 2011, p. 2), they do not create much spill-over effects for the development of peripheries. In other words, ‘transport corridors’ were not designed to foster sustainable development and comprehensive modernisation of the larger territorial entities involved. Thus the reductionist view on the ‘corridor concept’ just from a transportation perspective must be extended gradually by considering issues related to trade, logistics,⁴ urban development, and supply chains.⁵ As stated by Srivastava (2011), five stages are considered in the evolution of a transport corridor into an EC: transport corridor; transport and trade facilitation corridor; logistic corridor; urban development corridor; and economic corridor. Other analysts such as De (2014, p. 16) present a narrower model of the different phases involved in the development of an EC by pointing to three stages: transport corridor; logistic corridor; and economic corridor. But like Srivastava (2011), De (2014, p. 16) emphasises the significance of trade facilitation, logistics, and services as catalysts in EC development.

However, and in spite of the different notions regarding the development stages of an economic corridor, one can state that an economic corridor can be seen as the most advanced, developed, and complex type of corridors yet designed. Apart from and beyond the initial transport corridors, new models appeared such as trade, logistics,⁶ or supply chain corridors (Arvis et al., 2010; Banomyong, 2013) which coexist and represent the broad spectrum of different types of possible development strategies and their respective corridors.

⁴Ruth Banomyong (2014, p. 89) states: “A logistics corridor focuses not only on the physical connection but also on how the flow and storage of freight, people and vehicles is optimised in the corridor with the support of capable service providers and a facilitating institutional environment provided by relevant agencies”.

⁵The purpose of such corridors is to reduce costs and time, to reduce the reliability performance, flexibility, and transparency of supply chain networks. As such, supply chain corridors enhance the services associated with the production and movement of goods and other activities that (directly) affect the value of goods (Kunaka & Carruthers, 2014, p. 45).

⁶Regarding Ruth Banomyong (2014, p. 89): “A logistics corridor focuses not only on the physical connection but also on how the flow and storage of freight, people and vehicles is optimised in the corridor with the support of capable service providers and a facilitating institutional environment provided by relevant agencies”.

The concept of economic corridor was first mentioned and presented as a major goal in the Greater Mekong Subregion (GMS) Development Plan (ADB, 2014, p. 2; Wiemer, 2009, pp. 2–3). More concretely, the concept of ECs got ‘introduced at the GMS Eighth Ministerial Meeting in 1998 at a time when the GMS-ECP [Economic Cooperation Program] implementation was stalled by the Asian Currency Crisis.’ (Ishida, 2009, p. 4). Against this backdrop, the introduction of ECs in regional development strategies was supposed to deal with the difficulties and impacts of the financial crisis by stimulating economic endeavours along existing transportation infrastructure (Ishida, 2009, p. 4).

It is significant to mention that these innovative types of corridors have exceeded their primary functions by attracting investments and generating new economic impulses and actions (Banomyong, 2013, p. 2). Through the integration of local economies into international value and supply chains, the newly-appeared concept of economic corridors became ‘indispensable in promoting global and regional economic development’ (ADB, 2014, p. 1).

2.2 Conceptualisation of Economic Corridors

Today, it is widely recognised that the EC is a development instrument aiming at increasing the economic growth in a specific area and over a certain period of time (AGIL, 2000, p. 2; Safitri, 2012, p. 1). Therefore, ECs are linking economic agents along a defined geographical entity and usually provide important connections among major economic nodes centred in urban landscapes (Brunner, 2013). ECs are often seen as ‘drivers for inclusive growth’ that link production, trade and infrastructure within the identified geographic framework of the centre of economic activities (here described as ‘growth zones’). They are meant to extend their benefits to lagging hinterlands (peripheries) as well as even more disadvantaged and remote (rural, mountainous, deserts) areas through the development of transportation capacity and the expansion of production activities (Ishida & Isono, 2012; Wiemer, 2009, pp. 2–3). As such, an EC is designed to create global, regional and domestic value and supply chains through the creation and/or connection of economic centres; ideally, it is to produce positive multi-sectoral spill-over effects.

In brief, this study understands the concept of EC not only as a strictly infrastructural measure designed to permit the transport of commodities, but rather as a comprehensive development approach designed to foster industrial and other manufacturing capabilities, as well as services, trade and investment. It is expected that the establishment of ECs will be accompanied by crucial economic as well as social and political impacts within and beyond the chosen areas. Keeping this in mind, any given EC involves the consideration of economic, organisational, institutional, behavioural, political, and planning aspects (interpreted here as characteristics) in order for its full potential to be realised. Without these key characteristics, a ‘corridor’ cannot be understood as ‘economic’. Additionally, it is argued that these characteristics not only describe an EC but also serve as criteria for the formulation of indicators so as to measure the feasibility, functionality, effectivity, and efficiency

of an EC. Based on the existing literature as well as on the author's own observations, the following indicators can be identified:

2.2.1 Conceptualised Geographic Framework

As a spatial entity, any given EC development is featured by the identification and definition of a geographical framework. According to its conceptualisation, the geographical framework can span different scales (Arvis et al., 2011, p. 161): from a broad scale which is mostly regional or national to a narrower scale aiming at tackling specific, geographically limited local bottlenecks. As such, a geographical framework for the development of interconnections can take place between regions, within a region and across sub-regions (on a national or transnational scale) as well as between states, within a state or subordinated territorial entities (such as provinces), or across regions and sub-regions (Yhome & Chaturvedy, 2017, p. 1). The chosen space for a corridor can be an either natural or planned area (Marrian, 2001); in both cases it must possess a minimum of 'geographic cohesiveness' which is not undermined by unfavourable environmental conditions such as vast deserts, restive mountainous areas, or other areas with misanthropic conditions.

Based on Srivastava's (2011, pp. 10–12) notion of a development process based on 'sequencing zones' of national corridors and their subsequent transformation into regional corridors, one can state that the geographic framework of an EC has been 'fluent' since its establishment. This 'fluency' depends on the extent of regionality and area of influence of an EC. Here, Srivastava (2011) identified four zones which are demarcated with interzone sequencing: first, Narrow National Corridors which focus on the initial and/or upgrading of existing road infrastructure; second, Broad National Corridors, including area development and railroads; third, Narrow Regional Corridors, including trade facilitation and logistics; and fourth, Broad Regional Corridors, including cross-border economic zones (here understood as 'transnational growth zones') (pp. 10–12).

2.2.2 Identified Growth Zones

The identification of growth zones within the geographical framework is a crucial part of each EC planning process. The growth zones⁷ are centres of economic activities, which are also described as economic and industrial nodes⁸ (Srivastava,

⁷The 'growth zones' are also described as 'growth poles'. Patricia Uberoi (2014, p. 4) states that the notion of 'growth zones' or 'are often allied with various other more or less interchangeable terms, such as 'cooperation zone', growth poles' or 'growth polygon'.

⁸The nodes are also described as hubs or clusters.

2011, p. 2; Wiemer, 2009, p. 2). These nodes function as major providers for most of the essential material and human resources (Brunner, 2013, p. 1), but also as logistic and communication hubs or gateways both within and relating to areas outside the defined geographical framework of the EC (Castells, 1996; Franck, 2014, p. 271). The growth zones or nodes constitute the backbone of each geographical framework of an EC, and we distinguish four types of such growth zones: commercial nodes (linking important locations of economic activities in each participating country of an EC); border nodes (containing foremost border hubs like checkpoints and dry ports); gateway nodes (creating access to external markets); and interchange nodes (determining intersects between different routes within a corridor or between different corridors) (Lainé, 2014, pp. 341–342).

2.2.3 Established Special Economic Zones (SEZs)

Although the first modern Special Economic Zone (SEZs) was developed far back in 1959 in Ireland, it was the extremely successful case of Shenzhen SEZ in China that sold the concept to the world (Khawar, 2018b, January 3). Today, in theory and in practice, the establishment of special economic zones (SEZs) is a crucial instrument to develop growth zones. As for ECs, there is a multiplicity of names and forms of SEZs with differing functions (Baissac, 2011, p. 27; Farole, 2011, p. 24). For example, many SEZs have characteristics of bonded zones (BZs), freeports, export processing zones (EPZs) or free trade zones (FTZs), industrial, science and technology parks, petrochemical zones, and provide special incentives, including tax exemption or reduction to investors, purpose-built production facilities, duty-free imports and simplified customs procedures, and other services (FIAS, 2008, p. 2; Ishida, 2009; Woolfrey, 2013, p. 2).

SEZs can be defined by some of their structural features. First, they can be defined as a geographically demarcated area within a state. Second, as they constitute a formally delimited part of a national territory, SEZs may operate with different regulatory and fiscal regimes which are typically more liberal and administratively efficient (Dobronogov & Farole, 2012, p. 5; Woolfrey, 2013, p. 2). Third, regulatory regimes of different SEZs are often entrusted to a dedicated governance structure (Farole, 2011, p. 24). Fourth, SEZs are provided with a physical infrastructure supporting the activities of the firms and other economic agents operating within them (Baissac, 2011, pp. 24–25; Farole, 2011, p. 24). In order for a SEZ to be a full-fledged and multimodal infrastructure—operating through roads, railways, and waterways, and connecting the zone to markets—input sources and major transportation hubs (gateways) such as ports and airports must be provided (Baissac, 2011, pp. 24–25). In addition, there must be an adequate public transportation net, real estate for business and housing (e.g., industrial or mixed-up parks), education and health facilities, water supplies, and telecommunication networks (Farole, 2011, p. 24). SEZs also demand overall security, including energy and food security as well as protection against crime and terrorism.

SEZs commonly serve numerous objectives: attracting foreign direct investment (FDI); creating jobs (especially in to eradicate local unemployment and to move labour forces from the informal into the formal sector); improving trade facilitation and promoting and diversifying exports and imports; modernising the economy in general and upgrading industry and manufacturing (in particular through technology, knowledge and skill transfers); inducing economic reforms and development strategies; and testing innovative economic policies while maintaining the status quo for the rest of the country (Baissac, 2011, pp. 4–26; Farole, 2011, pp. 91–94; UNIDO, 2009, pp. 8, 79). SEZs are considered successful if they bring about significant structural changes in the economy and long-term dynamic and sustainable economic benefits by achieving the aforementioned targets (Auty, 2011, p. 214; Farole, 2011; Farole & Akinci, 2011). SEZs also have the reputation of offering an easy way to provide a micro investment climate within limited confines, promising to remove investment constraints that a country otherwise faces (Khawar, 2018b, January 3). According to Khawar (2018b, January 3), this is precisely the reason why SEZs are more suitable for developing countries with poor investment climates.

To sum up, SEZs act like development programmes in their own right which determine independent strategies for economic development. However, in combination with ECs, both zones and corridors can provide mutual deepness. In other words, the success of SEZs largely depends on the degree of their integration in the domestic economy. The establishment of necessary linkages⁹ between SEZs and national economies can be promoted by ECs; these in turn benefit from the agglomeration effects as well as from other benefits provided by SEZ. One should mention that ECs can help to reduce potentially negative side-effects of SEZs such as their tendency to create economic enclaves (Farole & Akinci, 2011, pp. 4–5). This is problematic when the enclaves are used by multinational companies and larger domestic investors linked to export-orientated industries. This could create market distortions and undermine free and fair economic competition for local entrepreneurship, especially small and medium enterprises (SMEs). Most of the established, domestic SMEs are naturally not based in the newly established SEZs. Being integrated in longstanding production and logistic chains, the transfer of production units into the new SEZs might be perceived as an extraordinary entrepreneurial risk and thus be rejected. However, it is crucial to point out that the majority of domestic entrepreneurs will continue to operate from outside the SEZs and thus are not able to benefit from the incentives granted to the firms who did settle down in the new economic zones. One must therefore state that there is a concrete threat that the emergence of SEZs might hamper the development of domestic companies. This distortion could gain even greater importance when the SEZ aim to attract exclusively foreign businesses. The SEZs have therefore been criticised on various grounds: for hosting import-dependent activities that do not add significant value; for perpetuating low-skill assembly operations; for attracting FDI in low-skill, low technology and footloose industries; for suppressing labour rights; for allowing poor

⁹The mutual entrenchment will be implemented through so called backward and forward linkages.

workplace health and safety conditions; and for having weak environmental controls (FIAS, 2008, p. 33).

Various experts have emphasized that in order to avoid such aberrations, local authorities must be empowered to plan and implement their respective SEZ in accordance to local needs and conditions. In this respect the major goal should be the disentanglement of an overcentralised decision-making structure. Some countries, for instance, granted their SEZs the flexibility needed to introduce innovative approaches of management such as the ‘Negative List’ (Khawar, 2018b, January 3). The latter means that the government only notifies prohibited or restrictive investment activities (Martinek, 2014, p. 50). Nothing else has been subject to any approval.¹⁰ Another successful strategy aimed at increasing the performance of SEZ is the empowering of ‘local governments to set a broad range of independent economic policies’ (Khawar, 2018b, January 3) as envisaged by Paul Romer (2015, April 30) in his idea of ‘Charter Cities’. Charter Cities should be understood as a ‘new generation’ of smart SEZs (Khawar, 2018b, January 3).

However, a ‘well-managed’ zone can ‘play a long-term dynamic role in their country’s development process’ (Madani, 1999, pp. 7–8), particularly when they are embedded in an EC development. But SEZs are not a sure route to success and many of the existing 5000+ SEZs worldwide are examples of failure (Khawar, 2018b, January 3).

2.2.4 Internal Connectivity Within the Geographical Framework

Internal connectivity within the geographical framework is a sine qua non condition for EC development. In other words, the growth zones (or nodes) of any EC must be linked through various connectivity projects. Furthermore, the nodes must be integrated into production chains (Brunner, 2013, pp. 7, 8; Marrian, 2001) and trade and logistic networks (Srivastava, 2011) within the given geographical framework. Connectivity between nodes is essential because no significant economic movement and interaction can take place along the EC without strong functional links (Marrian, 2001; Roeseler & von Dosky, 1991, p. 338). Ideally, there should be a high level of connectivity within any growth zone. For instance, this can be achieved through the existence of an efficient feeder system that can improve the overall connectivity and mobility within a zone—such as an integrated train, tram, metro, taxi lines, or a bus system that would facilitate pedestrian movement (Roeseler & von Dosky, 1991, p. 338; Marrian, 2001). At the same time, the local transport system shall also

¹⁰In other words, industries which are not explicitly mentioned in the ‘Negative List’ have a presumptive approval and are encouraged to invest. It is expected that the ‘Negative List’ helps to open more sectors for foreign investments, cultivating a transparent, more liberal investment environment that is compliable with international standards (Martinek, 2014, p. 50).

include effective mechanisms for goods traffic. It is essential that the connectivity between (as well as within) the nodes is multimodal, meaning that the various transportation systems, for both the passengers and goods, are complementary, inter-connected and harmonised. The multimodality of infrastructure and transport systems would also help bridge existing diversity of terrains which is a prevalent feature of many an area crossed by an EC. Tariq Karim (2017, p. 12) recommends the adoption of an ‘organic approach’ to ‘configure the corridors and linkages in a manner that best appears to be in consonance with geomorphology of different terrains’. This would contribute to the sustainability of implemented infrastructure connectivity. However, in order for the infrastructure to sync with the variety of territorial and environmental conditions, EC planning should support ‘multimodality of transport rather than uniformity’ (Karim, 2017, p. 13).

Moreover, the connectivity based on multimodality is crucial to achieve the necessary spill-over effects from growth zones into the remote and/or underdeveloped areas—specifically in order for the peripheral regions to be able to benefit from the growth zones (ADB, 2010a, 2010b; Lainé, 2014, pp. 341–342). According to Srivastava (2011, p. 2), this ‘process is uneven, with the core (the metropolitan/urban areas) benefiting first and the periphery (hinterland/rural areas) becoming integrated only later’.

2.2.5 Connectivity Beyond Own Geographical Framework (External Connectivity)

In order to achieve a high level of efficiency of ECs, it is important that measures are conducted so to extend the connectivity beyond the borders of the initially defined geographical framework. This is gaining particular significance when the EC connectivity projects involve transnational dimensions. Referring to the above-mentioned Srivastava’s (2011, p. 11) model of sequencing zones of the EC development, this would mean the extension of Zone IV and the creation of a cross-border dimension of economic corridors.

However, the ‘external connectivity’ of an EC could include initiatives so as to link different ECs, or so as to connect growth zones of one EC with nodes outside its own initial geographical framework. In this context, ECs are supposed to serve as promoters of regional cooperation and integration within as well as amongst different regional entities such as South Asia, South East Asia, Central Asia, Middle East, or South-East Europe. ECs must have an inclusive and comprehensive character so as to function as drivers of economic growth as well as propellers of regionalisation processes. It is not enough to make ECs integral to the economic fabric and the economic actors surrounding them. If this were the case, ECs would generate only limited economic benefits as they remain isolated—a narrow, exclusive area of operation. For example, they would remain at a narrow national or provincial stage. But in order to achieve maximum benefits, ECs must pervade into larger

economic networks such as regional and global value chains as well as production and transport networks (Brunner, 2013, p. 1). The success of an EC depends not only on a smooth functioning of the inter-coordinated and synchronised multimodal infrastructure but also on the development or at least the access to an established gateway node. Ideally, such a gateway node is a port with oversea, blue-water transshipment capabilities. The linkage of an EC with one or more airport(s) is, nonetheless, of great importance too.

2.2.6 Articulated Common Culture and History

Recent and current EC development projects are increasingly featured by an awareness of shared culture and history. Both culture and history play a crucial role in the development of EC initiatives (Winter, 2016a, March 29). The experience of a common cultural and historical ground can contribute to the enforcement of ‘people-to-people’ contacts but also to the improvement of necessary processes of diplomatic endeavours, negotiations, and communication. Furthermore, the sense of a shared history and cultural belonging can create political and economic loyalties within the geographic framework featured by unequal and competing actors (Winter, 2016b). In order to instrumentalize this ‘soft power’, the awareness, or at least the explicit emphasis, of common culture and history is prevalent in most of the implemented and envisaged EC initiatives, especially in those funded by China (Shambaugh, 2015, June 16). But one must be also aware that the extensive use of soft-power instruments can create feelings of cultural deprivation and repression. This gains significance when the geographic framework of an EC includes subordinated territorial entities which are already feeling economically exploited and socially as well as politically side-lined by central authorities. The situation is getting even more complex when these ‘restive regions’ are inhabited by indigenous populations which feel increasingly marginalised by the development of ECs. In such a context, there is an imminent challenge that an EC initiative is getting identified as an instrument of exploitation instead of development, and the use of soft-power instruments as cultural suppression instead of building a common ground.

2.2.7 Processes of Modernisation and Industrialisation

An EC must be endowed with an ‘enabling industry, one that is able to meet goals inherent to transport, trade, logistic as well as other pressing national and social objectives’ (Marrian, 2001; NDoT, 1999, pp. 6, 17, 18). The development of ECs aims not at the stimulation of merely economic growth but also fostering efforts to push processes of overall industrial modernisation. Moreover, a well-planned EC development has the potential not only to create desired industrial agglomeration in urban areas but also industrialisation of the hinterland. It is expected that, especially

in areas of the hinterland which are economically promising yet still unexplored, the development of ECs and related infrastructure leads to high levels of development (Dutta & Gupta, 2017, p. 219; Yhome & Chaturvedy, 2017, p. 1).

Generally speaking, the upgrade of industries is focusing not only on the improvement of existing industrial estates¹¹ and manufacturing capacities, but also on the creation of new industries and industrial clusters. It is thus hoped that the participating countries and/or regions involved in a successful EC initiative would achieve a higher position in the global value chain (GVC) production. More concretely, it is expected that the upgrade of industries will help to produce more qualified, technologically advanced products. Subsequently, the strengthening of the industrial base due to EC development should not result in an increase in low-cost and low-technology products. Instead, the EC should promote the improvement of manufacturing innovation and adaption of integrating technology and industry. It should also foster processes of advanced restructuring of manufacture capacity (e.g. by strengthening more service-orientated sectors and introducing intelligent manufacturing) and internationalisation of industries by fostering domestic brands. Subsequently, the modernisation and upgrade of industry will be most likely accompanied by the build-up of knowledge hubs. New employment opportunities and consequent reduction of poverty should follow; this could further lead to positive impacts on social development (De, 2014, p. 15).

2.2.8 Social and Societal Development

It is expected that a functional and effective EC is featured by a level of economic growth which creates a remarkable uplift in average standards of living, especially among those working and living in functioning and successful growth zones. When these growth zones create sufficient spill-over effects, the whole population within the geographic framework might have the chance to benefit from the EC initiative and its respective projects. For example, the availability and improved access to employment opportunities will not only work towards the betterment of overall living conditions but also increase social integration (Marrian, 2001; NDoT, 1999, pp. 6, 17, 18). More trade and other economic activities between the different areas of an EC and with neighbouring countries will strengthen people-to-people contacts. The latter, in combination with rising socio-economic conditions, will help to bridge cultural, ethnic and other differences between diverse communities within the geographic framework of an EC and its surrounding areas. Furthermore, in numerous cases, the overall EC vision is harbouring the hope that the uplift in living

¹¹Regarding Khawar (2017, December 5) industrial estates are specially acquired areas with requisite infrastructure to facilitate industrial establishments. Currently, they sites got selected too be promoted as CPEC industrial estates, namely Dhabeji in Sindh, M3 Industrial City in Punjab and Rashakai in K-P.

standards contains or even reverses unfortunate developments ('social evils') within the societies involved and beyond these—for example as regards reduction of religious extremism (Jihadism), political violence and militancy, terrorism, separatism, and ethnic and social cleavages, among others. However, the establishment of an EC, especially when it is not well-planned by centralised decision makers which tend to sideline local populations, numerous societal downsides need to be factored in, including the outbidding of local (notably disadvantaged) communities, social displacements, or social conflicts (Yhome & Chaturvedy, 2017, p. 1).

2.2.9 Effective and Fair Regional Distribution Mechanisms

It is in the nature of ECs to create agglomeration effects, which of course are desired phenomena in the initial phase but which can also unfold negative effects on disadvantaged areas with low capabilities (Brunner, 2013, p. 3). In order to enhance spill-over effects and bridge asymmetries it is important to establish effective and fair mechanisms of financial regulations between the different actors and territorial entities, foremost in centre-region but also in inter- and intraregional relations. This mainly includes distributions between political centres (places of decision-making) and peripheral areas. The establishment of distribution mechanisms is gaining significance since in many cases of EC development, the centres of main political decision-making are not identical with the centres of main economic activities and/or revenue creation. In consequence, the establishment of fair allocation mechanisms is necessary due to the fact that territorial sub-entities are often featured by variations in economic conditions and capacities, creating 'differentiated abilities' to exploit the benefit of an EC (Palit, 2017, p. 61).

Respective mechanisms of EC-related financial regulations should be established in three priority areas (in a transparent and balanced manner):

1. Allocation of investments in quantitative (number of envisaged projects) and qualitative ('economic relevance') terms;
2. Distribution of income and revenue;
3. Dispersal of financial costs (e.g., interest rates, maintenance of EC projects, security).

2.2.10 Pre-existence of Economic Viability

The planning of EC, especially the conceptualisation and definition of the geographic framework in general and the identification of the nodes in particular, usually considers the pre-existence of economic viability (Marrian, 2001). The area in which a given economic corridor is to be developed has the necessary economic viability when the following criteria are addressed (Brunner, 2013, p. 1; GPMC, 1997, p. 6; Marrian, 2001; Roeseler & von Dosky, 1991):

1. Natural propensity for economic growth and development;
2. The area possesses an ‘enabling economic mass’. This means that the identified locations ideally encompass a ‘large amount of economic resources and actors’;
3. The area shows a pre-existent strong economic growth.

In sum, the criteria ensure that the development of a corridor in a region must make sense in economic terms. A corridor from ‘nowhere to nowhere through nowhere’ would be futile (Srivastava, 2011, pp. 3–4). It is also not very meaningful to combine substantive economic hubs when there is ‘no potential for growth in between (because of adverse geography such as extremely rugged terrain or desert)’. In other words, if a corridor is not economically feasible and does not offer investors a ‘satisfactory cash return’ on their investment, it cannot become a reality, at least not in sustainable, effective and efficient ways (Marrian, 2001; Roeseler & von Dosky, 1991, pp. 336, 342).

2.2.11 Integrated and Comprehensive EC Planning

EC developments must be based on integrated and comprehensive planning. In other words, there needs to be a cooperative and overarching direction overseeing and executing the corridor vision, its respective plan, the planning process, and the implementation of said plan. In order to devise and administer such a centralised approach, all relevant socio-economic and socio-political realities must be taken into account (Marrian, 2001). Additionally, governmental actions (by sectoral departments responsible for land use policy and management, by organs linked to transportation planning, by organs linked to infrastructure investment and maintenance, and by security sector agents) as well as actions by non-governmental actors, are all imperative so as to ensure the realisation of the ‘corridor-vision’ (Roeseler & von Dosky, 1991, p. 329). Any actions that run counter the vision will need to be adequately addressed. In practice, the integrated and comprehensive planning of economic corridors requires the two elements listed below:

1. *The formulation of an overall EC vision*: the overall vision shall manifest the fundamental principles and guidelines for the establishment and functioning of the EC, as well as a general code of conduct for interaction and cooperation between actors within the chosen geographic framework and also as concerns external relations.
2. *A concrete action plan*: the corridor proposal shall also include a concrete action plan with a complementary time-frame. The action plan should outline exactly when key investments (such as energy and infrastructure) in the corridor will be undertaken so as to ensure private sector trust and involvement (Marrian, 2001; Roeseler & von Dosky, 1991, p. 329).

2.2.12 *Sufficient Political Will*

In order to implement a mega development project such as an EC, all decision-makers need to possess sufficient political will by following four criteria: the commitment and constructive mind-set by all major actors; the existence of an encompassing consensus; the accommodation of local concerns and interests; and the existence of driving forces.

1. *Existence of driving forces*

One of the most significant but also critical factors for strengthening political will is the existence of driving forces. These driving forces are either at a national level—governments and/or semi-governmental agencies as well as business representatives—or at a transnational level—in the form of international regimes or organisations. They function as engines, especially in the earlier periods of planning and implementation. From a critical perspective, the existence of driving forces fosters the notion that the EC is an exclusive, elite-driven project. However, driving forces also ensure the resilience of the necessary political will.

2. *Commitment and constructive mind-set by all major actors*

All actors must possess the political will to implement all necessary measures. Decision-makers at all levels of government and sector representatives need to be fully committed to the corridor-project. This requires a cooperative and constructive mind-set among all major actors, because without it, a successful and comprehensive implementation of any EC remains unlikely (Marrian, 2001; NDoT, 1999, p. 30; Roeseler & von Dosky, 1991). Most importantly, the constructive mind-set is based on a long-term commitment, making the political will sustainable and not appearing as a short-term episode.

3. *Existence of an encompassing consensus*

The decision-makers must not only have the political will, but also the know-how and capacities needed to both produce and maintain a consensus on the EC development. The consensus should include the majority of people living within the entire geographical framework of the EC in question. It is not unusual that individual projects or aspects of the Concrete Action Plan face criticism. Plus, it is not a secret that certain communities and individuals are opposing the entire EC initiative. However, on the whole, the core of an overall EC vision should not be fundamentally challenged. A severe questioning of the general benefits of an EC must be interpreted as an indication for maldevelopment during the planning and/or implementation phases. Additionally, it points to the fact that challenges exist regarding an unproblematic functioning of the initiative in the long run.

4. *Accommodation of local concerns and interests*

Sufficient political will also includes the volition and ability to consider the interests and concerns of local communities. Former experiences show that a successful EC demands local ownership by the people. In other words, in order to ensure a successful EC implementation it is necessary that the affected resident communities are transformed into ‘stakeholders’ instead of remaining ‘bystanders’. There is thus a call for sufficient inclusion of the local people in

the decision-making processes relating to the EC development. This is gaining significance in the context of individual project development in the homelands of the respective local communities, especially in cases leading to compulsory land acquisition and displacements. If the local concerns and interests are not adequately taken into account, the appearance of veto actors will more likely increase costs and delay developments.

2.2.13 Enabling Policy Frameworks and Mechanisms (‘Soft Infrastructure’)

The establishment of ECs requires soft infrastructure; the relevant rules, regulations, and standards need to be in place (De, 2014, p. 39; De & Iyengar, 2014, p. 5). This soft infrastructure is important because there are many hindrances hampering a smooth functioning of an EC, not only as regards poor transportation-related facilities and networks but also as regards non-physical factors. Such hurdles include, for example, high levels of regulations and trade barriers, red tape, corruption, inadequate enforcement of contracts, poor definition and enforcement of rules of engagement, asymmetry in standards, delays in customs and delays at ports and border crossings, pilferage in transit, corruption, highly restrictive protocols on movement of cargo, and confusing and complex customs clearance procedures—for example regarding the numbers of required documents (Subramanian & Arnold, 2001, pp. 75–79). In order to overcome these challenges, the participating countries in a cross-border EC development need to agree on a harmonised set of rules, regulations, and standards. This calls for the formulation and implementation of well-planned national as well as regional policy frameworks and most likely numerous reform programmes. It would also include steps towards the strengthening of existing or the creation of new regional forums and frameworks such as regional trade agreements (RTAs), free trade agreements (FTAs) and other regional regimes as well as measures against corruption and improvement of transparency. The decision-makers involved should not only aim to set regulatory benchmarks for their regional context (meaning the geographical framework of the EC) but also attempt to meet international (global) standards. Apparently, such processes require the set-up and strengthening of transnational, effective coordination among the stakeholders and agencies concerned. Without effective coordination (including respective institutions and ‘hard infrastructure’) it is unlikely that an optimal cross-border EC will come into existence. Furthermore, effective coordination will help maintain and reinforce the political will be involved actors to participate in the EC development; indeed ‘it could also resolve conflicting interests between governments and stakeholders’ (De, 2014, p. 40).

Besides these mainly trade- and transport-related causalities affecting the establishment of enabling ‘smart’ economic policy frameworks and mechanisms, the set-up of financing schemes is of utmost importance for any planning and implementing of an EC vision. The development of an EC demands large investments. This capital needs

to be raised, mobilised, and allocated for individual EC projects. Besides attracting financial resources from international development financial institutions (IDFIs) such as the Asian Development Bank (ADB), the World Bank, and the Asian Infrastructure Investment Bank (AIIB), larger national economies such as Japan, China or India could fill financing gaps (De & Iyengar, 2014, pp. 5–6). Concrete financial mechanisms could materialize in the form of foreign direct investments (FDI), loans, and aid. Besides attracting international capital, it will be of utmost importance to develop effective systems of domestic resource mobilisation or domestic revenue mobilisation (DRM) from both tax and non-tax sources—for example royalties from extractive industries, rents from government properties, income via state-owned-enterprises (SOEs), licenses, levies, or other types of income (Ali, 2017a, 2017b, 2017c, p. 9). The strengthening and mobilising of domestic resources (especially taxes) is relevant ‘not only with regard to the amount of finance available, but also in terms of governance structures’ (Ashoff & Klingebiel, 2014, p. 20). Furthermore, the DRM and the availability of increased indigenous capital creates additional space for sustainable budget expenditures, fosters ownership and reduces dependency on external, international financial assistance.

Furthermore, besides DRM, money could be provided not only from the public sector but also from private investors. In this context, the so called public-private partnerships idea could serve as a model (De & Iyengar, 2014, pp. 5–6). Nonetheless, it must be emphasised that these financing mechanisms aimed at attracting capital must be flanked by national financial reform measures, especially regarding the system of taxation. The latter include the establishment of transparency and accountability programmes and institutions so as to end the impunity for economic and financial crime and misbehaviour. This is essential in order to address current and upcoming EC-related financial burdens such as interest rates or costs of maintaining individual projects.

2.2.14 *Enabling Institutional Structures and Mechanisms* **(‘Hard Infrastructure’)**

It is rather fruitless to prepare corridor plans without enforcing or implementing them, or to hamper the realisation of the plans because of unnecessary red tape and lack of functional institutional and skilled human resources (Marrian, 2001; NDoT, 1999, p. 22). Therefore, in order to ensure a successful implementation of the EC planning, the following further factors must be addressed:

1. Institutional capacities

Whereas integrated and comprehensive planning determines essential preconditions for successful conceptual and preparatory phases, the consecutive period of the EC implementation along with the subsequent action plan and its operationalisation require the support from institutionalised mechanisms. Hall (1983) and Marrian (2001) emphasise the significance of institutions that are able

to manage and ensure comprehensive implementation and regulation of the EC. It is crucial that the EC-related institutional structures are able to operate independently and are free from the influence of partisan interests of certain driving forces over others.

2. *Ability to reform*

Any EC development needs an adequate institutional structure—which is independent. Ideally, such a structure would consist of a newly created entity (such as a semi-governmental authority) which is solely dedicated to the establishment of the corridor. This entity would function as an apex organisation for planning and coordination, supported by numerous and specialised both governmental and non-governmental bodies. However, irrespective of the concrete shape such a new structure would take, its creation must involve processes of institutional transformation (Hall, 1983, p. 73). This often requires complex reform measures involving all levels of government and respective administration. In addition to the establishment of effective planning bodies, the EC would also greatly benefit from the reduction of excessive regulations, rigid conformity to formal rules and regulations, and other bureaucratic hindrances imposing on the decision-making and implementation processes. Moreover, anybody responsible for the planning and implementation of the corridor and respective projects needs to master the capacity and mandate needed to fulfil their tasks (Marrian, 2001).

3. *Human resources and management capacities*

The pre-existence of skilled human resources in both decision-making and administration, which is to be entrusted with sufficient technical and managerial know-how for the implementation of major development programmes in general and ECs in particular, is a prerequisite for any planning and implementation phase of an EC.

2.2.15 *Enabling and Favourable (Safe) Environments*

The success of development projects depends significantly on the geographic stability and zoning security. Stability and security are crucial factors in building a positive image, which in turn can be seen as a third precondition for any enabling and favourable environment. Without guarantees regarding security and stability (which enhances planning reliability) in the medium to longer term, potential investors will hesitate to step up (Marrian, 2001; Roeseler & von Dosky, 1991). As such, security concerns must be addressed adequately before countries start to develop an EC. This includes multidimensional aspects of secure trade like measures so as to promote transport security as well as improvement in customs regimes, port facilities, and logistics management (De, 2014, p. 40). It also includes new, specific security threats such as international terrorism, jihadism, or militant subnational movements. Subsequently, the participating states and regions must develop a collective and coherent concept so as to ensure the security of the EC development

as well as its smooth functioning. This comprises also the delivering of overall good governance by political decision-makers so as to create the necessary stability within the chosen geographic framework. Ghiasy and Zhou (2017) point out that internal challenges, especially weak institutions and poor governance, negatively affect areas on transparency, accountability, public participation, regularity quality, rule of law, and control of corruption are among the most significant threats to stability. Furthermore, potential domestic and bilateral conflicts have to be taken into account. Such conflicts may lead to an increase of both traditional and non-traditional security threats, particularly when there are disputed territories or contested claims over local resources involved. And, since the lack of security and stability can significantly harm a positive image and subsequently hamper the environment for an EC, the success of its implementation also depends on perceptions among the broader public, the media, and potential investors both within and beyond the area of an EC (Marrian, 2001).

2.2.16 Effective Diplomacy

As complex instruments of development involving a multitude of different actors (governments, international organisations and regimes, NGOs, individuals, etc.), ECs have the capacity to affect all spheres of state and society. Factors that are essential in avoiding conflicts include costs and other hindrances related to the EC's development, people-to-people connectivity, transparent and inclusive policy formulation and decision-making, and effective communication regarding EC implementation, especially regarding decision-making, project tenders and negotiations. As such, effective communication is essential to ensure transparency and accountability relating to the EC initiative. Additionally, the establishment of effective mechanisms of public diplomacy, including both bilateral and multilateral formats, are needed for an unobstructed EC implementation.

Incorporating as many different actors involved and/or affected by the EC as possible is a fundamental aspect of public diplomacy. It is crucial to apply not only 'Track One' (i.e., diplomacy and decision-making done exclusively on the official governmental level) but also 'Track Two' negotiation mechanisms—where civil society and other non-state actors have the opportunity to provide feedback with their insights, opinions, and interests into the EC decision-making processes. It is therefore of utmost importance that both local populations and civil society representatives are involved in the debates over the distribution of costs and benefits.

Besides achieving the support of local communities, good public diplomacy and effective negotiation mechanisms would help communicate the overall EC vision on the international level so as to win over more partners. This is gaining significance since there is generally much suspicion towards large-scale development projects regarding concrete incentives, especially when it comes to security and geopolitical orientated considerations.

2.2.17 Sustainability and Ecological as Well as Environmental Awareness

Deteriorating general economics regarding nature, environmental mismanagement and degradation, environment-related social and political conflicts and inefficient use of scarce natural resources all have negative impacts on the overall environment within the EC's geographic framework in general (and on certain economic sectors such as agricultural production and tourism in particular). The lack of ecological and environmental awareness and protection severely hampers sustainable development. This threatens not only agrarian communities (Ghiasy & Zhou, 2017, p. 27) but also urban areas, especially the growth zones. In order to achieve sustainable growth, the development of any EC has to take into account the fact that environmental issues are interwoven with economic and social systems. In this context approaches such as the so-called triple-bottom line (Economist, 2009, November 17) that combine environmental, social and economic aspects seem relevant. Yet the integrative role of this approach will have to include some other essential components regarding sustainable development—such as built environment, governance, and institutional issues.

Proponents of sustainability and environmental awareness emphasise the following determinants. First, the EC developments must recognise the complexity of interactions and relationships which impact the wider environment as well as the economy and both social and institutional systems. Second, regions and local territories should become the centre of the EC planning so as to enhance local ownership, for instance through community participation. Third, in order to avoid negative impacts of large-scale development projects, the environmental assessment of the participating regions is necessary, since it can support processes of formulating and integrating sustainability objectives into plans and programmes for environmental protection. In addition, monitoring and minimising ecological risks imposed by EC developments will require new and innovative strategies: it is expected that ECs will use greener technologies and more efficient regional resources, enforce green manufacturing, and consider issues such as social justice, the needs of disadvantaged local communities, or resource sharing (De, 2014, p. 20). To sum up, local and regional inefficiencies in resource management, combined with a general lack of awareness, both threaten broader stability. The need to address overall ecological issues also provides potential opportunities for cooperation between all actors (Ghiasy & Zhou, 2017, p. 27).

2.2.18 Absence of Crucial Inhibitors (Veto-Actors and Market Distortions)

In order to create a favourable environment for a successful implementation of any EC initiative, it is of utmost importance that the economic domain is free from

market distortions by prerogatives and reserved domains held by government agencies, foremost the military or major state-owned enterprises (SOE).¹² Military activities in business (MILBUS¹³) proved not only to be most harmful towards free economic interaction but also turned out as a roadblock to sustainable development and reform programmes (Siddiqa, 2009). Furthermore, if the MILBUS phenomenon is not adequately taken into account in the planning and implementation process, a mega development initiative like an EC has the potential to worsen the civil-military relations within countries engaged in the EC. Thus, MILBUS can weaken the decision-making power of civilian institutions and subsequently create or enhance existing defects within the democracies located in the respective geographical framework. This is gaining importance since many of the countries in which EC initiatives are taking place are not only hampered by the challenge of economic underdevelopment but also have experiences with truncated processes of democratic consolidation imposed by interventions by the military into politics and the economy.

To phenomenon of MILBUS is complex and appears to be worldwide in scale. Furthermore, business activities by soldiers are not a new trend. They can be traced back some hundred years ago—even before the emergence of standing armies—when a military leader had to be not only a soldier but also an entrepreneur who had to accumulate funds and other resources by himself so as to keep his troops fighting (Cuff, 1978, p. 254). Taking military history into account, the notion that an army should be maintained exclusively by a state or its government is a relatively recent phenomenon. Events and developments of the twentieth century, such as the two World Wars, decolonization, or the implosion of the Soviet Union, led to a further opening up of opportunities for the military to enter the economic sphere as well as to a sophistication of their already existing business activities (Cuff, 1978,

¹²There are different perspectives on how to interpret the role of state-owned-enterprises (SOE) in the economy in general and regarding their contribution to economic development in particular. Protagonists argue that SOEs can play a key role in economic development via the provision of essential infrastructure and services as well as help in enhancing skills and entrepreneurship. However, critical voices are emphasizing that SOEs are often linked to with hurdles for economic development such as inefficient economic management, hampering market-oriented economic reforms, the building of monopolies, capital and other market failures, negative externalities and equity concerns—among others.

¹³Regarding Brömmelhörster and Paes (2003, p. 4), MILBUS can be defined as ‘economic activities falling under the influence of the armed forces, regardless of whether they are controlled by the defence ministries or the various branches of the armed forces or specific units or individual officers’. Furthermore, it is stated by the same authors that economic activities of soldiers can involve all levels of the armed forces. ‘These range from corporations owned by the military as an institution, to welfare foundations belonging to different services, to enterprises run at the unit level and individual soldiers who use their position for private economic gain’ (Brömmelhörster & Paes, 2003, p. 4). Ayesha Siddiqa (2009, p. 5), defines MILBUS as ‘military capital used for the personal benefit of the military fraternity, especially the office cadre, which is not recorded as part of the defence budget or does not follow the normal accountability procedures of the state, making it an independent genre of capital. It is either controlled by the military or under its implicit or explicit patronage.’

p. 261). Today, economic enterprises by the military come in various shapes and forms: Military-Owned-Businesses, Military-Private Partnerships, and Military Collaborations with Private Businesses, including Private Sponsorship Programs for the armed forces, are all valid examples (Brömmelhörster & Paes, 2003, pp. 1–2). Besides these military businesses that formally operate within a legal framework, the list of profit-orientated activities and the involvement of the armed forces in criminal activity so as to extract ‘unconventional resources’ must be added in certain cases. Such types of military business activities can involve all services and tiers of the armed forces and can be carried out by the military as an institution, one or various services/units or an individual soldier from the top brass to the rang-and-files (Castro & Zamora, 2003; McCulloch, 2003; Paes, 2003). Many ‘post-communist states’ in Africa, Latin and Central America, and Asia have a detailed history of military business activities covering virtually all segments of their economies (Castro & Zamora, 2003; McCulloch, 2003; Paes, 2003). They commonly run media, entertainment and leisure enterprises, as well as agricultural farms; they provide transportation and logistics services, offer services in various economic sectors from health to finance, wide-scale manufacturing of pharmaceutical products, vehicles, machines, textiles, and consumer goods.

With the large-scale extension of the military business phenomenon, the discourse of its containment gained momentum. Generally speaking, the idea of stopping or at least monitoring the enterprises by the armed forces is deeply linked with processes of stabilization and consolidation of democracies and with the demand for the entrenchment of control over said armed forces (Siddiqi, 2009). In the last few years, under the virtual cue ‘well-resourced and poorly guided’, the military as owners, stakeholders, or managers of economic enterprises becomes increasingly targeted. Political analysts identified many cases in which the military attempts to counter the loss of political prerogatives or the tightening of their defence budgets by getting involved in economic affairs (Siddiqi, 2009, pp. 1–17). Therefore, in the context of increasing international aversions against armed forces interventions into politics, the military is portrayed as an institution which tries to reinvent itself by substituting its loss in political power by a renewed economic strength (Siddiqi, 2009, pp. 1–17).

This reinvention would provide the soldiers with a new kind of cunning and subtle mechanism so as to gain autonomy. This has far reaching impacts on the balance of power between civilians and military, especially when it comes to decisions on profitable investments and development projects. Through the switch from political to economic control the military can avoid strategies of overt and formal influence on political decision-making processes so as to ensure their corporate interests (New York Times, 1999, September 27). Entrepreneurial activities, pursuant to the claim of the antagonists, constitutes a kind of self-financing which is by nature off-the-budget and which makes the armed forces independent from government allocations (Ball, 2002, pp. 1–3). The latter determines a challenge for democracy from several perspectives.

First, business activities facilitate the military top brass to reduce the oversight opportunities of the parliamentarians over the defence budget. Since the armed

forces can always turn to other, non-state resources, the civilians are losing the budgeting process as a key instrument to keep the army in check. In this context, however, it is also emphasised that the establishment of civilian control is even more undermined when a lack of civilian concern and expertise comes across (Ball, 2002, pp. 1–3).

Second, civilian oversight is also challenged because military business is typically not recognised in the decision-making process for the defence budget, at least not in traceable patterns. Additionally, they are visible neither to the political leadership nor to the general public, a fact which undermines the principles of transparency and accountability (Siddiq, 2009).

Third, it also might enforce the so-called ‘secret-budgets’ used for hidden and extra-legal activities remaining out of bounds for any governmental control authority, usually with reference to national security issues. This can be considered as an outstanding disturbance of civil-military relations because it tends to increase the power of the armed forces at the expense of civilians as well as the military’s reluctance towards supremacy of elected representatives (Heiduk, 2009, p. 20).

Fourth, in the context of extra-legal activities, military business is also accused of entangling the soldiers in criminal activities, corruption, and human rights abuses. In particular in conflict areas it is alleged that the military is interested in maintaining a fragile internal security situation so as to expand or maintain lucrative profit-orientated enterprises (Heiduk, 2009, p. 20). Therefore, military business brings soldiers into direct conflict with other state agencies. It is also not uncommon that such struggles turn into an unrestrained competition with other security forces, including the police and paramilitary, over the domination of economic resources.

Last but not least, these effects aggravate when business activities motivate the military to influence the political decision-making process for the sake of protecting their economic interests with the aim to bounce back civilian control efforts. This can only be avoided by effective parliamentary oversight over the defence budget as well as clear regulations or total restriction on business activities (Kukreja, 1991, pp. 25–28). Nevertheless, with regard to the impact of MILBUS on economic development, there are different types of arguments, both defending and condemning.

Those favouring these endeavours tend to emphasise two major functions of military business. They argue that military business promotes development and nation building. Arguing that the entrepreneurial activities of the soldiers can remarkably contribute to industrialization and modernization of countries, one can see the links with socialist and/or post-communist states. Following the Keynesian path, it is argued that military business is promoting economic development which not only inspires the defence industry but also creates spill-over effects on other economic sectors (Scobell 2000, pp. 8–9). It will therefore support not only social change but also national cohesion.

Proponents of military business activities further believe that military business reduces financial constraints on governments. This is because military business activities are portrayed as a leading to a reduction of burdens for both state and society since the soldiers are ‘more self-financed’. This would reduce the pressure on the national budget. In consequence, the governments would gain more flexibility to

invest in other, non-defence related spheres. This line of argument is typical in countries undergoing economic and socio-political transformations (Scobell 2000, pp. 8–10). Moreover, since these business activities centre on financing welfare and other social services for the military—‘from soldiers for soldiers’—the work load, responsibilities, and liabilities of civilians will be reduced. In sum, the proponents’ main rationale is that military business is legitimate and in many cases needed because it supports the development of state and nation, and takes care of soldier’s basic requirements, especially in cases of budget shortcomings and economic constraints affecting abilities to satisfy the needs of the armed forces. This would significantly help ensure national security even during outstanding crisis situations.

On the other hand, those who oppose these practices claim that military business will lead to a distortion of free market rules and processes since the soldiers are often provided with political and economic privileges, due to a closeness to state authorities which gives them advantages over private sector competitors. Additionally, free economic competition will be hampered by a threat perception among the other non-security actors which will understandably fear that the military will play an unfair role by introducing coercive power as an instrument in conventional business practices (Moskos, 1974, pp. 502–508). In particular, entrepreneurs arising from the middle class, who are in many countries identified as a spearhead of economic development, are to suffer under such market distortions because they remain outside the murky economic-political frameworks produced by military business.

Special problems arise when the military becomes financially dependent on business activities. Military funding becomes conditioned by fluctuations in the global market (e.g., Asian Financial Crisis in 1997, World Financial and Economic Crisis in 2007–2010) and can succumb to its trends, norms and procedures, which makes the funding of the military budget and the entire military institution vulnerable; this could create an additional threat to the national security situation, perhaps even challenging national sovereignty (Laksda, 2005, pp. 69–72). Compensating lower income from ‘legal’ business, particularly in cases of economic deprivation or mismanagement, might force military entrepreneurs to become involved in criminal economic activities such as drug and human trafficking, smuggling or ambiguous services by offering security services to private individuals, companies or institutions outside the realm of national defence (HRW, 2010, January; TI, 2012, p. 25).

Opponents of military business activities further criticise that the military personnel, being primarily soldiers and not entrepreneurs, are running enterprises a-priori inefficient and ineffective, a fact which introduces market distortion and irrationalities into the economic sphere. It is also argued that there might be a threat that management decisions are not at any time on the lines of economic evaluations but become instead more influenced by political and security related considerations. Here a fundamental challenge appears if the military is structuring the economy in security-dominated patterns (e.g., war economy, arms race). This could lead to shortages in the provision of essential consumer goods, services and resources for civilians (Siddiq, 2009, p. 143). According to the last points made, the claimed positive impact of military business on the economic development is either very limited or non-existent.

In terms of the military internal dimension, the advocates of business activities emphasise mainly that they serve both the active and retired personnel of the armed forces, allowing them to enhance their well-being and re-integration into society (Siddiq, 2009, pp. 140, 206–208). This would enforce not only internal cohesion of the military as well as entrenchment of morality, discipline and loyalty among the soldiers but also lead to acceptance of civilian leadership, therefore providing the necessary socio-economic and political framework from necessary transitions. The rationale is that the profitable engagement in entrepreneurial affairs is also a disincentive to resist orders, a fact which is believed to have a twofold effect on the behaviour of the soldiers. One effect is that the threat to lose economic opportunities and benefits makes both officers and rank-and-file subservient to the military hierarchy. Another is that the military as an institution will become loyal to the civilian government which has—at least in normative terms—the power to separate the armed forces from the business sphere. Proponents believe that these effects will reduce the likelihood of military intervention into politics.

However, this line of argument is countered by the statement that business activities do not serve the improvement of conditions for active troops or the well-being of disabled and retired soldiers, constituting instead a profit for only a few well-placed individuals. The argument that military business leads to integrated armed forces is heavily challenged. On the contrary it often generates factions and cliques based on new or resurrected cleavages between those who strive for a share of the wealth, benefits and privileges involved (Kukreja, 1991, pp. 23–27). In brief, the antagonistic Mantra is that ‘doing business disintegrates the military’, which impairs the cultivation of professionalism and instead leads to the growth of corruption, a decline of military discipline, norms and values, and a breakdown in the chain-of-command. This happens on various levels:

First, business practices increase cleavages between the different services and units. Here the access to economic opportunities is largely dependent upon the nature of a certain service, or the geographically deployment of a unit (e.g., economic hub or remote area) which in fact divides the armed forces into rich and poor segments (Siddiq, 2009, pp. 184–185). Second, frictions will appear between individual soldiers, especially between high-ranking and low-ranking officers as well as between officers and the rank-and-file. An unequal access to socio-economic benefits and resources leads to disturbances of military cohesion. According to some assertions, this can become even more serious when economic-orientated ‘young turks’ among the officers emerge. Being interested in ensuring personal shares in contemporary and future businesses, they plunge into direct conflict with the upcoming reform measures which are not in favour of military business (Siddiq, 2009, pp. 1–17). Third, not all military personnel, especially the top brass, share the same preferences for or take a common stand regarding economic interests. This leads to confrontations between professionally oriented officers and those who want to be ‘soldiers in pinstriped suits’. Apart from the tensions between ‘Have(s) and Have Not(s)’, it is argued that economic involvement in general and intra-military-conflicts in particular have a negative impact on military professionalism and combat readiness. Due to the entanglement in business activities, the military is losing its focus on the original task of defending the country, preparing for war and managing

security (Siddiqi, 2009, pp. 244–245). Here, the critics highlight the existing conflict between the military's primary security function as a neutral agent of the state and its interests as a profit-orientated economic actor. Great tensions are likely to emerge when the military becomes involved in internal security tasks that might affect its business activities—especially when the areas concerned have a rich resource basis (HRW, 2010, January; Siddiqi, 2009, p. 55). Additionally, instead of fulfilling their regular duties, many military personnel takes time off so as to carry out entrepreneurial activities and satisfy their own or military institutional profit-orientated interests, thus leading to erosion of combat preparedness.

Against this backdrop, proponents argue that when restrictions or a ban on military business activities are imposed, society (and its government) will have to deal with the additional financial burden and administrative tasks while taking care of social welfare of both active and retired military personnel. In addition, military business can function as a catalyst complementing civilian efforts or even filling the gaps in areas where the state is not able to perform its duties of promoting socio-economic development, for instance in isolated or remote areas. Entrepreneurial activities would therefore be a relief to society (DS, 2010, July 17).

Critics, however, underline the negative impacts of military business on the reputation and perception of the armed forces within society (Kamal, 2010, August 15). It is asserted that the military image becomes seriously damaged when corruption, human rights violations and other socio-economic abuses (e.g., extortion, confiscation of goods, land and properties) are identified as an outgrowth of military business activities. This tends to alienate the general public from their fellow countrymen in uniform, a process which is further deepened when economic interests transform the armed forces into an 'isolated and self-replicating community' or as generally referred to as a 'state within a state' (Islam, 2010, p. 80). On the other hand, when the armed forces are held in low public esteem, this in turn reduces the morale and discipline of the soldiers. This process will gain momentum especially in countries born out of armed conflicts such as decolonization or succession (Islam, 2010, p. 80).

The imminent threat exists when the general image of the military is transformed from a symbol of purity, unity and integrity of the nation into something that we can describe as an enemy of the public, merely interested in money-making at the expense of society. This societal perception can not only extend a rift between soldiers and the state but also enforce mutual distrust. Consequently, an atmosphere will be created in which the military is reluctant to feel responsible and accountable towards society and its institutions. Furthermore, this might prepare the ground for motivating soldiers to engage in political interventions (Islam, 2010, p. 80). As Siddiqi (2009, p. 30) puts it, the 'level of the military fraternity's penetration into the economy is directly proportional to the military's control of politics and governance, and the nature of civil-military relations in a particular country'. In sum, giving economic opportunities to the military can lead to severe distortions in the economic, social, and political spheres of a country, especially in the context of the development of an EC. To avoid such maldevelopment, healthy civil-military relations and the absence of economic monopolies and prerogatives of state-agencies in general and MILBUS in particular are sine qua non conditions for a successful EC initiative.

Key indicators and (Criteria) of economic corridors (ECs)^a

	Key indicators	Characteristics (Criteria)
01	Conceptualised geographical framework	<ul style="list-style-type: none"> • ECs span different scales <i>Broad scale</i>: regions, sub-regions and nations <i>Local scale</i>: subordinated territorial entities • Geographical framework: naturally given or defined through planning
02	Identified growth zones	<ul style="list-style-type: none"> • Existence of centres of economic activities • Availability of resources
03	Established Special Economic Zones (SEZs)	<ul style="list-style-type: none"> • Usually existence of fully-fledged and functioning SEZs
04	Internal connectivity	<ul style="list-style-type: none"> • Connectivity within the Geographical Framework <ul style="list-style-type: none"> – Connectivity between the grow zones; – Connectivity within grow zone; – High level of intermodal connectivity
05	External connectivity	<ul style="list-style-type: none"> • Connectivity beyond the Geographical Framework <ul style="list-style-type: none"> – Connectivity between different ECs – Linking grow zones with nodes outside own geographical framework
06	Articulated common culture and history	<ul style="list-style-type: none"> • Awareness of a common cultural and historical ground • Use of ‘Soft Power’ instruments
07	Processes of modernisation and industrialisation	<ul style="list-style-type: none"> • Existence of ‘enabling industry’ • Improvement of existing industrial capacities • Restructuring of manufacturing • Creation of new industrial capacities
08	Social and societal development	<ol style="list-style-type: none"> 1. General uplift in living standards 2. Improvement of social indicators^b 3. Increase in social integration 4. Bridging cultural and ethnic cleavages 5. Containment of ‘social evils’: terrorism, religious fundamentalism etc.
09	Effective and fair regional distribution mechanism	<ol style="list-style-type: none"> 1. Overall regulations of centre-region relations 2. Investment allocation 3. Income and revenue distribution 4. Distribution of financial costs
10	Pre-existence of economic viability	<ol style="list-style-type: none"> 1. Natural propensity for economic growth and development 2. ‘Enabling economic mass’ encompassing a large amount of economic resources and actors 3. Pre-existent strong economic growth
11	Integrated and comprehensive EC planning	<ol style="list-style-type: none"> 1. Overall EC vision 2. Concrete action plan
12	Sufficient political will	<ol style="list-style-type: none"> 1. Existence of driving forces 2. Commitment and constructive mindset among all major actors 3. Existence of an encompassing consensus 4. Accommodation of local concerns and interests

(continued)

	Key indicators	Characteristics (Criteria)
13	Enabling Policy Frameworks and mechanisms ('soft infrastructure')	<ol style="list-style-type: none"> 1. Financial mechanisms 2. Transparency and accountability programs and institutions 3. Supporting harmonised rules, regulations, and standards 4. Enabling 'smart' economic policy 5. Effective systems of domestic resource mobilisation
14	Enabling institutional structures and mechanisms ('hard infrastructure')	<ol style="list-style-type: none"> 1. Institutional capacities 2. Abilities to reform 3. Human resources and management capacities
15	Enabling and favourable (safe) environment	<ol style="list-style-type: none"> 1. Zoning security: Comprehensive security concept 2. Geographic stability: Good governance 3. Positive image
16	Effective diplomacy	<ol style="list-style-type: none"> 1. Public diplomacy 2. Negotiation mechanism (regional, bilateral, multilateral)
17	Sustainability, ecological and environmental awareness	<ol style="list-style-type: none"> 1. Programs for ecological and environmental awareness and protection; 2. Triple-bottom line approach combining environmental, social and economic considerations
18	Absence of crucial inhibitors (veto-actors and market distortions)	<ol style="list-style-type: none"> 1. Healthy civil-military relations 2. Absence of MILBUS (Military in Business) 3. No economic monopolies and prerogatives of state-agencies

^aNote: The table was compiled by the author based on the existing literature and own observations and interviews

^bE.g. Human Development Index (HDI) based on life expectancy, education, and per capita income as indicators; Millennium Development Goals (MDG); Sustainable Development Goals (SDG); all by the United Nations

Chapter 3

Chinese Motivations



A series of large-scale, multi-faceted development initiatives such as the BRI and CPEC carry much influence over many aspects of state and society, including both domestic and foreign policy objectives as well as regional geopolitics. Against this backdrop, there is no consensus on how CPEC should be interpreted, neither in China and Pakistan nor outside the geographical framework of the corridor. Is the CPEC primarily driven by geostrategic and geopolitical ambitions, as critics tend to claim? Or does the CPEC, as part of the BRI, have a predominantly economic agenda, as is stated by Chinese authorities and other proponents of this initiative? (Johnson, 2016, March 28, p. v; Kalciki, 2017, April 3). One way or another, it is clear that China's interests go beyond a mere development strategy. According to analysts, China has a number of strong reasons to undertake such vast investments in the CPEC, and to do this despite the multitude of threats that challenge the establishment and smooth functioning of the initiative.¹ By and large, Chinese motivations in carrying out the CPEC are driven by economic, social, political, geostrategic, and security interests.

3.1 Economic and Social Dimensions

According to analysts like Cai (2017), Beijing's interest in launching the New Silk Road is largely motivated by economic concerns (p. 1).

3.1.1 Realisation of the 'Chinese Dream'

For several decades, Chinese foreign policy was guided by two strategies aimed at preventing conflicts and producing stability on China's borders so as for the nation to

¹Andrew Small quoted in Domínguez (2015b, January 15).

concentrate on its national development (Fasslabend, 2015, pp. 296–297). These two policies are generally known as the ‘Do not attract attention’ or ‘keep a low profile’ (*tao guang yang hui*²) line of action and the ‘friendly neighbourhood relations’ or ‘good neighbourhood policy’ (*mulin youhao zhengce*) line of action. These two strategies were continued under the principle of ‘peaceful development’ and determined Beijing’s foreign relations during the first decade of the twenty-first century (Ferchen, 2013, November 6). In November 2012 President Xi introduced another directive of paramount importance as the new guiding principle. Soon after the conclusion of the 18th National Congress of the Communist Party of China (CPC) Xi put forward, for the first time, the idea of the ‘Chinese Dream’ (*zhōngguó mèng*) (China Daily, 2014, March 5). The ‘Chinese Dream’ was not in fact entirely new, but rather a notion derived from former Chinese leader Deng Xiaoping’s concept of a ‘xiaokang society’,³ phrased in 1979 as the eventual goal of the country’s modernization (Omoruyi, 2018, March 19). As many other visions and ideas articulated by the Chinese leadership, the ‘Chinese Dream’ was initially only vaguely defined, leading to multiple interpretations. Nevertheless, some commonly accepted statements can be made so as to outline Xi’s ideas. Broadly speaking, the ‘Chinese Dream’ aims at ‘the great rejuvenation of the Chinese nation’ (Tiezzi, 2015c, February 26). It refers to the rebirth of China’s global power status (*fulixing zhi lu*), which got lost during the last couple of centuries. In this context the ‘Chinese Dream’ emphasises the necessity to establish ‘a new pattern of relations’ with the current major powers (Fasslabend, 2015, p. 297). As Hans Spross points out, the ‘Chinese Dream’ must be seen as an expression of Beijing’s claim to global leadership and of its determination to transform China into a global superpower and the world’s preeminent nation (Spross, 2017, December 27). In order to implement Xi’s vision, however, China needs to achieve the so-called ‘Two Centenary Goals’ (Omoruyi, 2018, March 19).

First, the ‘material goal’ refers to the socio-economic uplift of Chinese people with the objective of transforming the country into a ‘moderately well-off society’ by about 2020, the 100th anniversary of the Chinese Communist Party (Kuhn, 2013, June 4). Xi describes a ‘moderately well-off society’ as a society where all citizens, both rural and urban, enjoy high standards of living (Kuhn, 2013, June 4). Here, it is interesting to note that the ‘xiaokang society’ has been described by some observers as the Chinese equivalent of the ‘middle class’ (Li, 2006, p. 74). As such, the apparent goal is to create a middle class-based society, described as the building of a ‘moderately prosperous society’ (‘xiaokang’), by doubling 2010s per-capita GDP to \$10,000 by 2021 and completing urbanization (to include roughly one billion people, 70% of China’s population) by around 2030. Beijing expects the

²The ‘Do not attract attention’ or ‘tao guang yang hui’ is also known as TGYH strategy. See for more information: Chen and Wang (2011). However, it is also important to note, that the notion of keeping a low profile got always contrasted by the protagonists of ‘Fen Fa You Wei’, the call for ‘striving for achievement’ (Chen, 2014, August 21).

³Xiaokang Society is understood as a ‘moderately prosperous society’, it became a frequently used buzzword in contemporary China, as seen in the speeches of Chinese officials, media reports, and think tanks (Global Times, 2017, December 10).

establishment of a ‘moderately prosperous society’ to allow the Chinese population to live comfortably, albeit modestly (Global Times, 2017, December 10). If Beijing achieves this goal, the International Monetary Fund (IMF) estimates that the Chinese economy will then be 40% larger than that of the US, as given by the purchasing power parity (Omoruyi, 2018, March 19).

Second, the ‘modernization goal’ aims at the transformation of China into a fully developed nation by about 2049, the 100th anniversary of the People’s Republic (Kuhn, 2013, June 4). Here, ‘modernization’ is used to refer to China’s goal of becoming the world leader in research and development, science and technology, and in economics and business. Additionally, this would include the resurgence of the country’s civilisation, including both culture (soft power) and military might (hard power). It is envisaged by Beijing that state and society are ‘participating actively in all areas of human endeavour’ (Kuhn, 2013, June 4). If China meets this target by 2049, it is forecasted that the Chinese economy will be three times the size of the US’s economy (Omoruyi, 2018, March 19).

President Xi recognises ‘four comprehensives’ as a strategic blueprint for China to remain steadily on its path of development (Tiezzi, 2015c, February 26): comprehensively constructing a moderately prosperous society; comprehensively deepening reforms; comprehensively governing the country according to the law; and comprehensively using strict governance by the Party. Kuhn distinguishes four parts of the aforementioned ‘Chinese Dream’: Strong China (economically, politically, diplomatically, scientifically, militarily); Civilised China (equity and fairness, rich culture, high morals); Harmonious China (amity among social classes); Beautiful China (healthy environment, low pollution)’ (Kuhn, 2013, June 4). Kenneth Lieberthal (2013, December 7) identifies six key components that are necessary to operationalise all four parts of the ‘Chinese Dream’: a development model based on efficiency and institutional capacity; ecological urbanization; fair distribution of the benefits of economic development; political reform; reduction of governmental interference in the market; and social stability. Both the BRI and CPEC initiatives are key instruments of Xi’s ‘Chinese Dream’ and consequent international and global aspirations (Müller-Markus, 2016, p. 1). In order to realise the ‘Chinese Dream’, Xi indicates that all citizens must ‘walk down the Chinese road, develop the Chinese spirit, and jointly harness China’s strengths.’ He also points at the so-called threefold self-confidence—in the path, theory, and institutions of socialism with Chinese characteristics—as a prerequisite for attaining the ‘Chinese Dream’ (Lam, 2016, p. 413).

3.1.2 New Impulse for China’s Economy and Diversification of Key Markets

Besides the impressive Chinese economic growth during the last decades, the current economic performance of the country is hampered by a lack of an innovation strategy which

is reduced by the mismatch between industry needs and political priorities, inefficient allocation of funding, a lack of bottom-up initiative and investment as well as the current economic downward pressure in China which might cause job losses among less skilled workforce (Kalciki, 2017, April 3).

Therefore, it does not come by surprise that China's economic interest in new markets such as Pakistan is at an all-time high (Pant, 2017, December 29). From an entrepreneurial point of view, it is hoped that both the BRI and CPEC will give new impulses to China's national economy. In order to bridge internal economic asymmetries, modernization and industrialization are perceived as the major steps towards the supreme goals of 'promoting national rejuvenation and cementing the country's place as a leading world power' (Johnson, 2016, March, p. V). Considering this, what Beijing expects from the implementation of both the BRI and the CPEC is the subsequent development and diversification of new trade routes and markets so as to boost its slacking economy. Moreover, China would reduce its dependence on current key countries for its products and services. Having this in mind, Pakistan serves as a supreme example among the participating countries in the BRI. With its 'huge potential for economic growth and broad market prospects' (LTP, 2017, p. 5), the South Asian country is identified by Beijing not only as partner for economic development but also as a market for Chinese products.

3.1.3 Exporting Chinese Standards

One of the least understood aspects of both the BRI and the CPEC is Beijing's desire to use its development initiatives so as to transform into the setter of international standards (Kalciki, 2017, April 3). In the past, attempts to market and establish high-tech manufacturing products with unique Chinese technological and engineering standards have generally been market failures. Only a few Chinese products have gained significant market support outside of China due to the competitive advantage of the US and the EU (Kalciki, 2017, April 3), and most of them have limited success even within China (Breznitz & Murphree, 2013, p. 3). It was therefore difficult for China to enter either the well-established or new emerging markets with its own technologically advanced products. In order to address this challenge, Beijing spent sizeable efforts so as to increase the country's 'skill and sophistication in global standards' organizations and building deep knowledge of their regulations, fostering potential advantages in negotiations' (Breznitz & Murphree, 2013, p. 2). However, in order to function as a norms setter in practice, China needs to export both its technology and engineering standards (Cai, 2017, p. 1). Furthermore, Beijing has to ensure that these standards are accepted by others. For this, Chinese decision-makers are aiming at the creation of a regional production chain, with China being both the centre of advanced manufacturing and innovation and the standard setter (Cai, 2017, p. 5). In view of these 'standardization' attempts, both the BRI and the CPEC are seen as crucial mechanisms to ensure the dominance of Chinese standards. In sum, Beijing plans to enforce its technological standards in the whole area of the BRI,

with the CPEC transmitting Chinese standards into the Pakistani market. As we shall see, China needs to upgrade its industry so as to materialise such vision (Cai, 2017, p. 1).

3.1.4 Upgrading China's Industry

During the last four decades, and given low labour costs, standards, and rights of labourers in manufacturing, China earned the reputation of being the world's 'workbench' or 'factory'. Yet this trend has been changing in recent years as China's comparative advantages, most especially low labour costs, became challenged by rising wages (middle-income trap). Now, in order to shift from labour-intensive industries, China wants to capture the higher end of the global value chain (Cai, 2017, p. 8; Segal, 2018, March 28) by focusing more on technologically-driven and sophisticated products. This can be evidenced by Beijing's 'Made in China 2025' vision inspired by the German concept 'Industry 4.0', which is usually described as Germany's fourth industrial revolution and refers to both vertical and horizontal integration of production processes⁴ through the promotion of both Smart Factories and Smart Supply Chains across businesses (Bartodziej, 2016). By launching the 'Made in China 2025', Chinese decision-makers attempt to upgrade the country's industry in a rather comprehensive way (Kennedy, 2015, June 1). The vision centres around smart manufacturing and serves as a roadmap for political and economic leadership so as to transform China into a hi-tech powerhouse capable of dominating even advanced industries (Segal, 2018, March 28) such as automotive industry, aviation, machinery, robotics, high-tech maritime and railway equipment, energy-saving vehicles, medical devices and information technology, among others.⁵ Jost Wübbeke and others interpret the 'Made in China 2025' as a new Chinese industrial policy that will 'challenge the economic primacy of the current leading economies and international corporations' (Wübbeke, Meissner, Zenglein, Ives, & Conrad, 2016, p. 6). Considering contemporary Chinese ambitions, it becomes clear that Beijing does not only aspire to join the international league of advanced economies based on high-tech industries; rather it ambitions to dominate the current power structure and replace the existing dominant players altogether

⁴The 'Industry 4.0' aims at the improvement of productivity, efficiency, and precision when advanced technology (like wireless sensors and robotics) is combined with internet (Bartodziej, 2016; Smit, Kreutzer, Moeller, & Carlberg, 2016).

⁵Despite the fact that the key objective of 'Made in China 2025' is to realise an overall upgrade of the country's industrial and manufactural sectors, the plan highlights 10 priority areas: (1) New advanced information technology; (2) Automated machine tools and robotics; (3) Aerospace and aeronautical equipment; (4) Maritime equipment and high-tech shipping; (5) Modern rail transport equipment; (6) New-energy vehicles and equipment; (7) Power equipment; (8) Agricultural equipment; (9) New materials; and (10) Biopharma and advanced medical products (Kennedy, 2015, June 1).

(Segal, 2018, March 28). In other words, China wants to control the global market across all critical high-tech industries while attaching special importance to ‘indigenous innovations’ and ‘self-sufficiency’ (Wübbeke et al., 2016, p. 6). In order to achieve ‘self-sufficiency’, China intends to increase the domestic market share of Chinese suppliers for ‘basic core components and important basic materials’: for example in the field of aerospace telecommunication equipment it is envisaged to increase the domestic market share to 70% by 2025 (Segal, 2018, March 28; Wübbeke et al., 2016, p. 6).

In sum, China wants to escape the image of ‘fast and cheap’ producer (Wübbeke, 2015, May 27) and become the leading manufacturing superpower. Here, as already indicated above, both the BRI and the CPEC are seen as crucial mechanisms for upgrading China’s industry (Cai, 2017, p. 1). Moreover, it become obvious that Beijing’s development initiatives aim at ensuring of respective markets for its ambitious advanced technological products and services. Since China is still lacking the necessary know-how in various hi-tech sectors, some observers expect Beijing to acquire these skills through the means of the BRI (and CPEC) framework. Following this rationale, critics of the BRI argue that China will misuse its vast financial resources, camouflaged by a proclaimed win-win rhetoric, so as to get access to cutting-edge technologies by promoting foreign acquisitions or conducting forced technology transfer agreements⁶ (Segal, 2018, March 28).

3.1.5 Absorbing China’s Excess Capacities

Both the BRI and the CPEC are seen as a direct outgrowth of China’s increasing economic challenges such as achieving the growth rates necessary to maintain and further enhance its industrial base. In order to do so, China needs to invest heavily so as to find outlets for excess production capacity (Clarke, 2017, p. 72). Here, the economic corridor initiatives offer opportunities to help absorb China’s vast and chronic excess of industrial capacities (Cai, 2017, p. 1) which the ‘increasingly over-leveraged Chinese economy simply can no longer sustain’ (Johnson, 2016, March 28, p. V). In other words, the BRI should help to offset a slowing Chinese economic growth through exporting excess capacity and supplies (Rafiq, 2018, p. 8). In this context, various international observers argue that the inclusion of Chinese firms in the SEZ within the geographical framework of the CPEC provides China with the ability to outsource industrial units. Yet it is also argued that Beijing has limited motivations to move its industrial capacities abroad, even if it is to speed up the processes of modernization and the build-up of SEZs along the BRI. Instead, one should notice that the Chinese leadership is rather focusing on domestic reallocation

⁶China has a record of forcing many foreign companies into agreements leading to the transfer of valuable intellectual property to Chinese partner in exchange for market access (Segal 2018, March 28).

of existing industries from highly modernised economic booming areas towards underdeveloped regions. Moreover, it is also likely that China will first encourage the settlement of new industries (especially those with research and development/ Research & Development/R&D intensive units) within its own borders and only later in SEZs within states participating in the BRI. In order to explain the contradiction present in Chinese rationales regarding the BRI, one can conclude the following:

Firstly, Beijing's 'Made in China 2025' industrial vision is rather a complementary and subordinated approach vis-à-vis the BRI. Besides the paramount position of the BRI in China's foreign policy and diplomatic activities, the maintenance of the country's sound industrial base and the corresponding upgrade of its technological and engineering level are perceived as a precondition for the 'Chinese Dream'—which, as discussed above, is understood as 'the restoring and legitimising the re-emergence of China as a world power' (Müller-Markus, 2016, p. 1). Consequently, in order to transform China into the world's economic superpower based on self-sufficiency and indigenous innovations, the transferring of innovative industries is rather perceived as deconstructive given the core goal of protecting national interests.

Secondly, considering that China's undeveloped regions still have comparatively lower wages, Chinese companies will not fall into the middle-income trap so easily. Subsequently, the labour cost factor is losing significance as an incentive to move industrial capacities abroad.

3.1.6 Energy and Resource Security

China's economic growth rate has exceeded available of energy and resources. At the same time domestic sources such as oil yields continue to decline (Ghiasi & Zhou, 2017, p. 7). As a result, the country faces serious security issues related to energy and raw material supplies, making China dependent on foreign supplies of crude oil—of which more than half comes from the Middle East and one quarter from Africa. China's dependence on natural gas imports, on the other hand, is close to 30%, of which nearly 50% comes from Turkmenistan (Ghiasi & Zhou, 2017, p. 7). This explains why Beijing's diplomatic and foreign policies are determined by the country's resource scarcities and the need to address them (Bräutigam & Xiaoyang, 2012, pp. 800–801). Besides energy and resource security, food security constitutes an additional motivation for China. In order to enhance food security, Beijing wishes to initiate agricultural and livestock production in Pakistan (Rafiq, 2018, p. 8) as well as in other BRI countries.

As Carmody puts it (2009), 'natural resource access can be achieved through consent or force' (p. 1199). In order to ensure resource security, China follows a multi-dimensional approach. Nevertheless, numerous analysts are expressing rising concerns about Beijing's foreign investments and development measures, which might be perceived as a strategy of 'extractive resource diplomacy' (Lee, 2009, p. 8). Others criticise Beijing's quest for energy and raw materials as a kind of a neo-mercantilist lock up supply strategy leading to rivalry, discord and confrontation

between China and other resource-consuming countries (Tunsjø, 2013) such as Japan, South Korea, the US, or Germany. In this context, China seems to be applying a unilateral strategy approach regarding resource-rich but less developed nations so as to ensure their cooperation. In this context it appears that China is focusing special attention on the so-called pariah states⁷ by building-up diplomatic ties with them (Tunsjø, 2013), thus capitalizing on these states' deteriorating foreign relations, political isolation, and/or weak economic situation in order to exploit their energy and raw material resources. China's quest for closer relations with both pariah and underdeveloped states so as to ensure security in resources supplies, might lead to collisions with Washington.

However, China's decision-makers are hoping that the BRI, and especially the CPEC, will ensure energy security and sufficient supplies of necessary resources by offering alternative channels for the provision of energy and raw material. This is gaining momentum in the context of Beijing's 'Made in China 25 vision': the achievement of energy security and the stable supplies of necessary resources is a precondition to the achievement of the nation's ambitious 'self-sufficiency' and promotion of 'indigenous innovation'. Nevertheless, in order to match these demands, the investments of Chinese state-owned enterprises (SOEs) are focusing on the world-wide exploitation of the fewer yet remaining undeveloped regions known for being rich in oil and other resources (especially precious metals and minerals). Here, it is important to note that China is willing to face higher risks so as to get access to 'off-limits' places (Tunsjø, 2013), and to do this even in extraordinary problematic states—including not only international pariahs but also countries which are labelled as failed or rogue.

3.1.7 Addressing Inequality and Regional Rebalancing: From the GWDS to the BRI

One of the overriding objectives of both the BRI and the CPEC is to address China's deepening regional disparities, especially so as to spur economic growth in its underdeveloped hinterland and rustbelt (Cai, 2017, p. 1). Since the late 1970s, Beijing has adopted an uneven spatial development plan, encouraging only some regions to push local economic growth. As stated by Rongxing Guo (2010), this included differing development preferences among different regions and during different periods. This resulted into a tremendous growth of foreign direct investments and foreign trade; however, there is a trajectory of growing regional asymmetries due to coast-biased regional development programs⁸ (Guo, 2010). Since the beginning of the 1990s, Beijing has been increasingly concerned with the emerging gap between the wealthy eastern and poor western regions. In

⁷States which are considered to be an outcast in the international community.

⁸Foremost the so Coastal Area Development Strategy (Guo, 2010).

response, the Chinese leadership adopted the Great Western Development Strategy (GWDS) in 1999, also known as ‘Open Up the West’ (xibu da kaifa) campaign, so as to tackle the pressing issue of widening regional economic disparities within the country (Yu, 2012) and (re)direct⁹ the attention of Beijing on the country’s border regions. In total, the GWDS covers six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang), and one municipality (Chongqing). These regions have been largely side-lined by Beijing’s development planners, which hampered the sustainable social and economic growth mainly due to unfavourable geographical conditions, lack of economies of scale, weak industrial agglomeration, excessive exploitation of resources and generally low technological levels (Yu, 2012).

Clarke (2016) mentions two inter-linked factors behind the launching of the GWDS. First, it aimed to bridge the rising socio-economic inequalities between China’s eastern and western provinces. Second, it willed to address Beijing’s concerns that such inequalities would exacerbate existing inter-ethnic tensions in those regions as they are heavily populated by minorities of non-Han origin, which ‘not coincidentally tended to be concentrated in China’s interior’ (p. 12). The main instruments of the GWDS included the provision of preferential policies to the backward western regions such as taxation rates, land use rights and favourable bank loans, as well as facilitating huge fiscal transfers to western China (Yu, 2012). Furthermore, Beijing facilitated major investments so as to improve the transportation and infrastructure networks in western China.¹⁰ These infrastructure projects attempted to boost regional economies through physical connectivity between the peripheries and the centres (Becquelin, 2004; Clarke, 2016).

However, despite over 30 years of an economic boom featured by double-digit growth rates, and a decade after the launch of the GWDS or ‘Open up to the West’ campaign, China is still marked by a number of inequalities, particularly an uneven distribution of wealth and income. Income inequality in China has evolved over time and has been shaped by past development policies and patterns of growth. It is widely acknowledged that income inequality has risen sharply in China since the beginning of the reform period in 1979 (Khan & Riskin, 2005, p. 357). In the 1990s, a new set of major structural reforms in government finance, foreign trade and the

⁹Chinese leaders already undertook some attempts so as to develop China’s vast Hinterland. In 1922, Sun Yat-sen, the first president and founding father of the Republic of China (1912–1949) made some efforts to attract foreign powers to invest in the country’s western regions. In the 1960s, Mao Zedong formulated the ‘Third Front’ strategy which started out as a plan for economic and social development of the country’s interior provinces but was then redesigned as a strategy for national defense. In the 1980, Deng Xiaoping formulated a strategy of ‘two overall situations’ with two phases of regional development planning. During the first phase, the coastal areas were given central (priority) support. Once they had reached a sufficient level of economic growth, the interior areas (hinterland) in turn would receive such support (Holbig, 2004, p. 336).

¹⁰Some of the key projects are the first East-West gas pipeline (started in 2002) that now supplies natural gas from Xinjiang to the eastern coastal areas. Other development projects included the Qinghai–Tibet railway (or Qingzang railway) that linked Tibet to the national railway grid since its inauguration in 2006.

urban enterprise sector facilitated tremendous economic performance, yet also further contributed to the rising inequality (Li & Sicular, 2014, p. 2). Urban incomes today are more than three times those of rural incomes, and the Gini index reveals that, even by the standards of other emerging markets (e.g., countries in Latin America or South Africa), China now has one of the most unequal societies in the world (BTI China, 2016, 2018). Inequality thus remains a major problem in China, with the most dramatic disparities lying between the coastal provinces and the western and north-western border regions (Clarke, 2016). China has come to recognise that national stability requires the economic integration and more generally improvement of its poorer regions. Furthermore, there is now a recognition that the respective economic policies need to be conducted in a more sustainable and comprehensive way (Clarke, 2016).

The proponents of the BRI see the initiative ‘as the solution to helping overcome China’s struggle with developing its chronically underperforming regions by integrating them into a holistic, externally orientated development program’ (Johnson, 2016, March, p. V). The BRI project should help bridge the east-west economic divide, the development imbalance between the prosperous eastern and underdeveloped western parts of the country (Ze, 2014, October 18; Weihong, 2015, July 5). Beijing’s key initiative in this context is ‘to encourage regional development in China through better integration with neighbouring states’ (Cai, 2017, p. 6). The CPEC is thus part of Beijing’s larger strategy to open up western China towards South Asia. The implementation of the CPEC would also give further economic and strategic deepness to regional cooperation and integration of its Xinjiang border region with Central Asia. Here, a smooth and effective functioning of the CPEC would work as an engine for further collaboration between South Asia and Central Asia via western China. The latter would be fundamental by providing additional trade and transport networks, widening production chains, and connecting African markets with Europe through Asia. As such, it is expected that both the CPEC and the BRI will create incentives for both Chinese state-owned and private enterprises as well as foreign companies to expand their economic activity, create jobs, and raise consumption levels in the under-developed and landlocked province of Xinjiang (BBC, 2015b, April 22; Tharoor, 2015, April 21).

3.1.8 Improving Connectivity with Existing Chinese Overseas Activities and the Efficiency of SOEs

Another reason behind an improved connection with the Middle East and Africa is the presence of sizeable Chinese companies and employees conducting development activities in the respective regions (BBC, 2015b, April 22). The CPEC is also linked with China’s overseas interests and would provide additional logistic support and coordination to Chinese ‘global business activities’ (Ze, 2015, June 15). Both the BRI and the CPEC in fact represent a reenergised and better

coordinated approach to expand China's influence overseas (Johnson, 2016, March 28, p. 2). Having said this, the BRI must be also understood as both an incentive and a call for Chinese firms to rump up their efforts so as to invest abroad, become more familiar with foreign markets and cultures (Kennedy, 2015, June 1), and strengthen their management capacities. This is gaining significance since Chinese entrepreneurial activities abroad are traditionally featured by a high proportion of failed investments (Kennedy, 2015, June 1). Beijing thus wishes to bolster its troubled state-owned enterprises (SOEs) by exporting overcapacity and oversupply (Rafiq, 2018, p. 8). The BRI can therefore be seen as an attempt by China to offer its larger SOEs a semi-controlled (protected) laboratory so as to test and uplift their abilities (Johnson, 2016, March 28, p. v). This is to be done in two main directions: so as to transform these enterprises into international competitive actors, and so as to meet Beijing's call to improve, export and establish Chinese standards and norms internationally.

In the same vein, the engagement in projects related to both the BRI and the CPEC can provide a lifeline to China's SOEs struggling with debt burdens 'by allowing them to gain access to fresh capital from state banks [and other providers of state resources] that might otherwise have to deal with a large wave of non-performing loans' (Johnson, 2016, March 28, p. v). In other words, both the BRI and the CPEC not only aim at encouraging Chinese companies to 'go global' by strengthening them against their rivals—in particular the US, the EU (especially member states with strong export-orientated economies such as Germany, France, Italy, or Netherlands), Japan, and South Korea, among others—, but also hope to avoid potential financial crisis. The latter strategy is gaining momentum since most of the SOEs' products and services lack both the skills and the ability to match international (Western) standards, especially regarding quality and security aspects. Furthermore, Chinese SOEs had to deal with numerous setbacks while entering new markets as the causal decisions for such moves were often politically driven and not based on economic cost-benefit calculations. The BRI, nevertheless, attempts to break with this unfortunate past of ineffective development projects and economic enterprises.

3.1.9 Improved Use of Foreign Exchange Reserves and Boosting Confidence in China's Economy

China possess large amounts of foreign exchange (FX) reserves (US\$3.112 trillion in June 2018)—which are the foreign assets held and/or controlled by the country's central bank. International analysts state that U.S. bonds (Treasury holdings) make up a major part of China's FX reserves. It is reported that Beijing (with \$1.182 trillion in April 2018) is the largest holder of U.S. government debt (Chen & Yao, 2018, July 9). In this context, some experts argue that China wants to redirect its FX reserves from U.S. financial instruments towards investments with higher rates of

return (Rafiq, 2018, p. 8). The current China-U.S. trade tensions and fears about a global trade war might not only drive Chinese investment flows into safe-haven assets but also promote a general reassessment of the use of its FX reserves, eventually re-directing these towards BRI-related projects. Further financial flows into BRI projects would not only help strengthen the whole development initiative but also boost confidence in China's national economy. This trust in Chinese economic capabilities is important so as to avoid financial outflows from China (capital flight), which has been perceived in the last couple of years as a major risk (Chen & Yao, 2018, July 9).

3.2 Political, Geostrategic and Security Dimensions

Besides the romantic evocation of the historical legacy of the ancient Silk Road and the Chinese officials' rhetoric praising the win-win situation and mutual benefits, both the BRI and the CPEC contain political, geostrategic and security calculations meant to preserve the high-priority national interests of China (Müller-Markus, 2016, p. 3). The New Silk Road must therefore be understood as the most advanced approach through which Beijing translates its economic success into more political and strategic spaces on the global stage.

3.2.1 Maintaining National Unity and Territorial Integrity: Stabilising China's Border Regions

China has traditionally 'perceived its geopolitical and economic interests in several concentric circles from the inside out' (Phares, 2009, May 20, p. 2). The most crucial of these, the inner circle, reflects Beijing's primordial interest to ensure territorial integrity through several development strategies. However, the plans applied at the earlier stages so as to spur economic growth favoured the eastern and southern coastal regions and were thus perceived as 'systematic discrimination against the western regions' (Holbig, 2004, p. 339). This was especially the case after it became apparent that the economic growth and wealth generated in the coastal areas had failed to diffuse into the hinterland and that the expected 'trickle-down' effect¹¹ was not materializing (Holbig, 2004, p. 339). Against this backdrop, Chinese scholars such as Shaoguang and Angang (1999) argue that the central government needs to

¹¹It was hoped by the Chinese government (as well as numerous other administrations world-wide) that through the implementation of certain economic policies focusing on incentives for more investments would lead to economic growth in the short term and thus benefit the society at large in the long term. However, it appears that such economic policies rather increased income inequalities and the accumulation of capital among few elites rather than improving the social and economic conditions of the common people.

bridge these excessive gaps so as to maintain both political stability and national unity; the authors also lobbied for a balanced regional development and for a solution of the most urgent social and political problems associated with China's growing economic disparities. Beijing reacted by launching the GWDS, as discussed earlier, so as to address the growing rifts between the privileged rich eastern seaboard and the poorer western regions which were showing growing levels of political discontent (Holbig, 2004, p. 340). As mentioned before, these regions are home to large non-Han minority populations, in some cases with ethnic and/or religious cross-border connections; it therefore does not come by surprise that China's endeavours to develop China's west and other frontier regions were accompanied by measures targeting social and political integration (Clarke, 2016). With regard to Xinjiang, Nicholas Becquelin (2004) describes Beijing's policy as a 'staged development' which reflects 'a classic process of peripheral territorial integration by the central state' (Becquelin, 2004, p. 358).

One of the core aims of the GWDS was to reverse centrifugal tendencies such as separatism and more generally to eradicate ethno-national unrest. Several regions in China continue to witness strong aspirations towards independence or autonomy vis-à-vis Beijing. The most active separatist movement can be found in Tibet; it is followed by that in Xinjiang. However, while Tibetans are dedicated to a non-violent and non-armed approach, the religiously motivated Muslim Uyghur separatists in Xinjiang are using terrorist tactics against Chinese state and society (Phares, 2009, May 20, p. 4). Additionally, Uyghur militancy is not limited to Xinjiang. They conduct terrorist attacks also in other parts of the country, including the capital. Some are concerned that the instability in Xinjiang can influence other restive regions of China, for instance lower Mongolia and Manchuria where separatist trends may easily arise (Phares, 2009, May 20, p. 4).

Frustration within the underdeveloped hinterland deepened after it became clear that the GWDS and other similar strategies aimed at improving economic conditions in backward regions did not bring out the expected results; in fact in some areas the unbalance between east and west actually increased. The social and political efforts to integrate the frontier regions into the national mainstream and the related development aims are sometimes perceived as repressive measures aimed at controlling restive areas in order to pursue a 'policy of Sinicization'.¹² In order to control Xinjiang and other peripheral areas, Beijing initiated large-scale intra-national migrations by offering incentives to potential migrants, especially to Han Chinese, who would relocate to these restive places (Bhattacharji, 2012, May 29). Such measures led to further social resentments and political discontent among local populations in the targeted areas. Intervention by the centre on the one hand, and the resistance by the indigenous periphery on the other, both challenge western China's development and more generally the goal of overall political stability. China's government hopes that the BRI initiative will not only improve the social

¹²Here understood as process of cultural assimilation of minorities. For more details, see Sect. 3.2.2.4.

and economic conditions in the peripheral areas but will also ensure political stability and territorial (national) integrity.

3.2.2 Towards a New Pax Sinica: Establishing a New International Order

Aside from domestic factors (economic, social, political), and given China's ambition to reshape the existing international system in order to fulfil its national objectives, the BRI can be said to present several implications for the international world order. Beijing's global ambitions lead to the application of different strategies, all connected to the BRI, as discussed in the points that follow.

3.2.2.1 The Build-Up of New Financial Mechanisms and Institutions

In order to implement the BRI vision, Beijing established new multilateral financial institutions and mechanisms and re-directed existing ones. The Silk Road Fund (SRF) or the Asian Infrastructure Investment Bank (AIIB) is of particular importance in this regard. As Ghiasy and Zhou (2017) explain, the BRI and more generally the Beijing-initiated entities are a Chinese response to the 'Western-led Bretton Woods system of international monetary order, which set the global protocol for commercial and financial relations, limits China and developing countries from having a greater role in decision-making processes' (pp. 7–8). Furthermore, some scholars claim that the Western-led development institutions are not able to address Asia's vast infrastructure deficit due to insufficient financial capacities (Ghiasy & Zhou, 2017, pp. 6–7), in response to which Beijing decided to offer alternative ideas to re-arrange the international financial system.¹³ China encourages the countries participating in the BRI to cooperate in order so as to make the currency system more stable. This stability should be achieved through investments and via the signing of Memorandum of Understandings (MOUs) on cooperation in bilateral financial regulation (NDRC, 2015, March 28). Some of the core objectives of the new financial instruments corresponding to the BRI are determined by the search for new uses for Chinese capital surpluses as well as the internationalisation of the underpowered renminbi (Ghiasy & Zhou, 2017, p. 8). It is expected that a successful BRI (and CPEC) would show the advantages of Chinese financial mechanisms so as to face global development challenges and manifest Beijing's position on deciding the terms and conditions of the international financial system. The latter achievement

¹³Some of the preliminary elaborations in this direction can be found in the 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road' (NDRC, 2015, March 28).

would help Beijing promote China's image as the new worldwide frontrunner in international development and cooperation.

3.2.2.2 The Establishment of an Alternative System for Conflict and Dispute Resolution

As part of China's attempts to promote its standards at international level, Beijing tries to build up its own, parallel system of rules and norms for global governance vis-à-vis the West's existing systems. This finds expression partly in the endeavour to establish a Chinese judicial mechanism for dispute resolution within the geographical framework of the BRI: each country joining the BRI will be asked to accept Beijing's suggestions for international legal legislation, for example for dispute resolution (Economist, 2018, March 3, p. 9). For this end China initiated the creation of three courts—with new legal bodies established under the authority of the Supreme People's Court of China based in Beijing, Xi'an (the capital of Shaanxi province), and Shenzhen (Guangdong Province) (Siddiqui, 2018a, February 7). The Xi'an court will, among other issues, manage investment and trade disputes for the land-based Silk Road Economic Belt; the Shenzhen court will deal with sea-route related commercial cases for the Twenty-First Century Maritime Silk Road connecting China, Southeast Asia, Africa, and Europe. The headquarters of these BRI courts will be based in Beijing (Mardell, 2018, February 14; Siddiqui, 2018a, February 7).

Chinese officials say the country's 'new international mechanisms would better serve participating countries' as the current system to solve disputes is deemed 'complicated, time-consuming and costly' (Siddiqui, 2018a, February 7). However, since the new courts and legal entities are all based in China, which gives them the semblance of being national courts, observers doubt their neutrality (Ahmad, 2018a, March 15). Some warn that Beijing 'is trying to force other sides to accept not only Chinese services of consultations, mediation and arbitration of disputes but also systems of litigations of cases through its proposal to have these three courts rule on all BRI issues' (Shira & Associates, 2018b, February 2; 2018a, January 24). It is likely that new legal entities will be based on China's existing judicial, arbitration and mediation norms, procedures, and respective agencies. BRI's opponents therefore argue that this China-led legal system will favour local (Chinese) parties over foreign players; many fears arise regarding these 'internationalised' Chinese courts dealing with disputes related to the BRI or the New Silk Road (Chandran, 2018, February 1). On the other hand, it is not clear how much will Chinese legal authorities be influenced by China's own political decision-makers (Devonshire-Ellis, 2018, January 24). These agents could eventually undermine other nations' sovereign laws—due to the cross-border nature of BRI disputes which the new Chinese courts are supposed to respect (Devonshire-Ellis, 2018, January 24). The question centres on whether the BRI countries such as Pakistan have a choice 'in the form of an alternative to what China has already proposed and established' (Ahmad, 2018a, March 15). One way or another, due to the complexity of the BRI projects,

legal disputes are probable, hence finding adequate solutions to address them is fundamental, both for the purpose of the feasibility and sustainability of the projects themselves. Yet the fact that international bodies¹⁴ like the planned Chinese courts are already in place is rising suspicions about the potential geopolitical dimensions and hegemonic ambitions attached to the New Silk Road (Shamil, 2017, May 15). It seems that Beijing tries to use the natural necessity for international legal procedures so as to establish its own institutional legal framework as an alternative to the exiting dispute resolution systems and thus make sure that the BRI is ‘negotiated entirely on China’s terms’ (Mardell, 2018, February 14).

3.2.2.3 Forging of New Partnerships and (Quasi) Alliance Systems

Being aware that military capability does not guarantee international success, China is strengthening its international position through a variety of partnerships. As mentioned earlier, neither the BRI nor the CPEC are purely economic mechanisms; they both serve different political goals (Bräutigam & Xiaoyang, 2012, pp. 801–802)—for instance helping to create new alliances. Pakistan is perceived as a strategic ally and Beijing has an established interest in this country’s stabilization. Furthermore, the CPEC is a de facto bridge into Pakistan and a ‘window’ to the ‘wider Islamic world’ through which China can improve its image among Muslim countries. Both the BRI and the CPEC are instruments serving China’s goal of gaining international support for such policies (New York Times, 2015, April 23) as the One-China policy (Taiwan), the Tibet issue, and many others. In fact, China’s strategy of using investments and development projects so as to influence its image abroad is not new; the most remarkable example is perhaps the state-directed investments following the massive crackdown of the pro-democracy movement at the Tiananmen Square in 1989, in the aftermath of which Beijing used its massive financial resources to ‘mobilize against American politicization of human rights issues’ (Bräutigam & Xiaoyang, 2012, p. 802).¹⁵

¹⁴For example, the International Finance Center Courts in Dubai and the International Commercial Court in Singapore have several cooperative arrangements with China. Additionally, there are also several bilateral (e.g., the Lahore-based Center for International Investment and Commercial Arbitration/CIICA or the China Africa Joint Arbitration Centre/CAJAC) and multilateral agreements meant to deal with matters of international disputes, including those related to the BRI. These include a variety of issues from bilateral investment treaties to multilateral agreements such as the one ASEAN has with China—the 2012 ‘Agreement on Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Economic Cooperation’. Other noteworthy examples for existing mechanisms for dispute management are the Singapore International Mediation Centre or the eBRAM.hk, an online dispute resolution tool for major BRI infrastructure projects, established by the justice department of Hong Kong (Ahmad, 2018, March 15; Siddiqui, 2018a, February 7).

¹⁵Another example for the strategic use of foreign economic and development policy by the Chinese government are the successful courtship to win-over US, Taiwanese, and Indian quasi-allies (or friends/partners) with pledges that included massive investments (Wang, 2002, p. 205).

3.2.2.4 Sinicization of Both Domestic Affairs and International Relations

It is argued here that from a narrow Chinese domestic perspective, the term Sinicization refers to the process through which non-Han Chinese minority communities are undermined by the Han Chinese majority dominating China's state and society. Sinicization can be understood as a strategy of acculturation, assimilation, or cultural imperialism, assimilating both intra-national minority groups and neighbouring cultures.¹⁶ Katzenstein describes the process as a powerful, flexible, and ideological tool for 'making the world more suitable to China and the Chinese' (Katzenstein, 2012, p. 9). Through Sinicization, Beijing copies the path of other major powers such as the US or Russia in trying to create a milieu in which they feel comfortable (Wolfers, 1962, pp. 67–80). China applies practices and policies so as to penetrate different domains beyond the cultural one, especially the domains of politics, economy, and security. In this light, the BRI (and the CPEC) serve as instruments of Sinicization, as a platform for promoting Chinese culture through the means of soft-power. Against this backdrop, the successful implementation of the BRI marks the completion of the establishment of a new (re-arranged) international milieu and order which is perceived by China as an 'harmonious environment'.

In this context it is crucial to note that the Chinese notion of harmony is not necessarily synonymous to what in the concept means to non-Chinese, especially western, cultures. Regarding Zhao Tingyang, harmony (*he*) is seen as the most essential principle in Chinese thinking (Godehardt, 2016, p. 16): 'the necessary ontological condition for different things to exist and develop' (Tingyang, 2009, p. 14). Here, Zhao introduces the strategy of harmony (*he celüe*) which is based on the link between harmony and cooperation and around strategies on how to build cooperation out of different interests (Tingyang, 2009, p. 14). Furthermore, it is emphasized that this Chinese notion of harmony does not necessary imply 'enforced conformity' (Godehardt, 2016, p. 16; Tingyang, 2009, p. 14). It remains to be seen whether Beijing's endeavours in forming a new international milieu suitable for China's national interests will eventually lead to a complete acculturation and assimilation of non-Han Chinese societies. In sum, Sinicization processes in the context of the BRI are interpreted here as an application of different soft-power cultural tools which contribute to the concealing of more earthly political and economic power. Furthermore, it is argued that Beijing's goal of achieving 'harmonious relations' means the re-arrangement of the existing international order in terms suitable for China but most likely at the expense of existing major players shaping international relations today.

¹⁶The phenomenon can touch all aspects of public and private life like alphabet, diet, economics, industry, language, law, lifestyle, politics, religion, sartorial choices, technology, culture, and cultural values.

3.2.2.5 Nation Branding and Public Diplomacy

By establishing the BRI Beijing wants to demonstrate a new China-led win-win model for international development (Rafiq, 2018, p. 8). In order to propel the image of a new spearhead for development and standard setting in the international arena, Beijing launched a multi-layered campaign of ‘nation branding’ (Aronczyk, 2013). One of the major components of this reputational drive is to project the superiority of Chinese alternative models for global governance in a larger international stage. As Zhao (2015) puts it, nation branding is part of a new coherent strategy and systematic public diplomacy mechanism supposed to serve strategic issues. There is a shift in Chinese public diplomacy from strictly economic matters towards grand strategic issues, including security and political affairs (pp. 195–196). International dialogue platforms make up an essential part of China’s public diplomacy: Beijing either establishes new platforms such as the Shanghai Co-operation Organisation (SCO)¹⁷ and the ‘Belt and Road Forum for International Cooperation’ (BARF)¹⁸ or takes over existing ones such as the ‘Boao-Forum for Asia’ (BFA).¹⁹ All these platforms include high-level meetings attempting to bring together international multi-sectoral leadership and engage in debates that reflect Chinese perspectives. BARF has already transformed into the world’s largest platform for regional cooperation and has become ‘a measure of China’s global standing’ (Dasgupta, 2017, May 15). As far as China’s media coverage is concerned, especially in western news, China is portrayed as the leading country of the economic discourse able to reshape the current world order (Griffiths, 2017, May 14; Meyers, 2017, May 12). In order to create a positive image of the BRI among European or western decision-makers, researchers, general public, and media, China sponsors a number of events organised by universities, think tanks, and other organisations. These measures are to bridge the former gap in Chinese public diplomacy so as to improve the outside perceptions (Tao, 2017, November 29) and dilute the accusation of a transparency gap and

¹⁷The Shanghai Cooperation Organization (SCO) is a permanent intergovernmental international organisation, founded in 2001 in Shanghai. China acted as a main driving force behind its creation. The main goals activities of SCO refer to the strengthening of mutual trust and neighbourliness among the member states; promoting their effective cooperation in politics, trade, economy, research, technology and culture, as well as in education, energy, transport, environmental protection, and other areas. Furthermore, the SCO supports joint efforts to maintain and ensure peace, security and stability in the region; and moving towards the establishment of a new international political and economic order. Ever since its inception, western analysts are wondering about the real intentions and purposes of the SCO, especially since it was identified as a potential rival to the western security architecture (Aris, 2009, pp. 458–459). For more information, see Shanghai Cooperation Organization/SCO: http://eng.sectsco.org/about_sco/

¹⁸For more information, see Belt and Road Forum for International Cooperation: <http://www.beltandroadforum.org/english/index.html>

¹⁹Wolf (2018a, April 7). For more information, see Boao-Forum for Asia: <http://english.boaoforum.org/en/index.html>

unfairness related to the BRI decision-making²⁰ Furthermore, the implementation of the BRI in environments perceived as extremely difficult for development projects such as Pakistan is likely to boost China's efforts of 'nation branding' and global standing.

3.2.2.6 Reducing the US' and India's Leverage in Both Eurasia and the Indo-Pacific

Drawing on official statements, neither the BRI nor the CPEC are directed against third parties (Xinhua, 2017a, December 27); they are both based on the notions of 'equality and cooperation', on one of Zhou En Lai's pillars of 'Five Principles of Peaceful Coexistence'²¹ and on China's officially propagated foreign policy directive of non-aggression (Rifaat & Maini, 2016, p. 7). China demonstrates that the BRI is framed as a relatively altruistic offer based on the principles of mutual benefit and 'win-win' equations, emphasising the principle of 'Three No's' (Ze, 2014, October 18) according to which China (1) is not interested in interfering in other countries' internal affairs; (2) does not seek to increase its 'sphere of influence'; and (3) does not strive for hegemony or dominance.

Nevertheless, many see China as seeking supreme leverage and prominence in both Eurasia and the Indo-Pacific, thus bringing Beijing in conflict with India and the US, both of which have interests in these regions. We can therefore expect attempts from Beijing's side so as to break the perceived US encirclement in Asia-Pacific and constrain the rise of India (Clarke, 2017, July; Prasad, 2015b, September; Tellis, 2017a, April 25). With regard to the CPEC, Curtis and Scissors claim that 'Chinese security interests in Pakistan are driven primarily by China's desire to contain India' (Curtis & Scissors, 2012, p. 1): Beijing has been supporting Pakistan's conventional military as well as the country's nuclear and missile capabilities over the years so as to help keep India off balance and focused on threats emanating from Pakistan (Curtis & Scissors, 2012, pp. 1–2; Small, 2011, August 5). As Phares puts it, Chinese-Pakistani collaboration has been traditionally perceived as a balance of power between China and India (Phares, 2009, May 20, p. 2). Andrew Small, on the other hand, points out that China is aware that the deteriorating internal situation in Pakistan 'is diminishing its capacity to play the role of regional counter-balance effectively' (Small, 2011, August 5).

In light of the lack of proxies to counter India (and the US) in conventional military terms, we can expect Beijing to develop its security-related capabilities outside of its closest neighbours, for instance by establishing overseas naval facilities

²⁰For example, regarding the granting of contracts for individual projects, especially the awards of construction contracts, and supply of machinery for the construction projects under the BRI became the focus of international critique (Dasgupta, 2017, May 15).

²¹For more information, see Ministry of Foreign Affairs of the People's Republic of China (MFAPRC). China's Initiation of the Five Principles of Peaceful Co-Existence.

http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18053.shtml

such as the already existent base in Djibouti or the maritime bases in the South China sea (Deutsche Welle, 2017, December 15; Fei, 2017, December 17). This is possible because until now the Chinese government has been following ‘the principle of no overseas deployment of Chinese troops’ (Sun, 2014, p. 11) as this principle was traditionally perceived as a violation of the foreign policy directive for non-interference in the internal affairs of other countries. As we can see, China’s approach started to change. The presence of Chinese companies in Africa and other world regions shows China’s dependency on Western private security providers due to the unreliability of local ones. The hiring of private Chinese security firms is or was extremely limited due to both political and legal barriers (Sun, 2014, p. 11). In the context of the CPEC too Chinese firms are facing increasing challenges due to their dependence on non-Chinese security providers, leading to severe tensions between Chinese labour and Pakistani security forces (Ahmad, 2016, August 30; Hussain, 2018, April 8; Shah, 2018b, April 4). The latter trend might lead Beijing to take on a more proactive approach towards protecting its interests and achieving its goals, both in its closest neighbourhood and overseas—while taking into account both the US and India as additional factors in boosting China’s military capabilities abroad. In short, both the BRI and the CPEC present China’s vision of creating a comprehensive economic, political, and cultural network so as to promote multi-dimensional connectivity and cooperation among the participating countries and bounce back the influence of both the US and India in the Asia-Pacific.

3.2.2.7 Integration into the Indian Ocean: Access to Port Facilities and Naval Power Expansion

In order to secure its sea-based transport and trade, China wishes to expand its maritime facilities—especially in the Indian Ocean. The build-up of port-facilities such as the ports of Gwadar, Karachi (including Qasim²²), or Keti Bandar in Pakistan is an essential step towards the goal of integrating the Indian Ocean region and improving access for secure refuelling, replenishing, and ship repair facilities (Rafiq, 2018, p. 8). It is apparent that Chinese maritime ambitions in the Indian ocean also contain a clear security-related dimension and that the build-up of ports can serve purposes which surpass mere economic interests. In other words, Beijing’s expansion into the Indian ocean, especially via Pakistani port facilities, is a determining geo-strategic and security rationale. The above-mentioned establishment of the Chinese PLA Support Base in Djibouti, which is not only perceived as part of BRI but also as a military base, is an indication of the attached strategic and geopolitical dimensions of the new Chinese maritime Silk Route—and of Beijing’s determination in its naval power expansion. (Jacobs & Perlez, 2017, February 25). It is interesting to note that China’s first overseas military base is just a few miles from Camp Lemonnier, one of Washington’s largest and most important foreign

²²Official known as Port Muhammad Bin Qasim.

installations. As such, the Chinese Djibouti base can be seen as an expression of Beijing's global aspirations and as a challenge US military dominance in the region (Jacobs & Perlez, 2017, February 25). China perceives that port developments (including naval facilities) constitute a crucial move towards the 'break out of US containment efforts' (Rafiq, 2018, p. 8).

3.2.2.8 Solving the 'Malacca Dilemma'

As already indicated, the BRI refers to the ancient Silk Road as a land-based network of routes across Asia connecting mainland China with continental Europe. In modern times, the old Eurasian passage lost importance after sea transport became cheaper, faster and safer. This determines, especially for China, a significant development since the country 'became a net-importer of energy and raw materials' (Zingel, 2015, p. 19). Yet during the last decades, the persistently growing dependency of China's economy on sea transport via the Strait of Malacca became a matter of concern for Beijing. Furthermore, China's officials (at least publicly) started to question the notion that sea-borne trade is a priori a better option compared with land-based trade and transport. Subsequently, Beijing decided to look for land routes supposed to be shorter and less costly, in addition to their ability to reduce China's dependency on sea transport. The land-based CPEC offers China another access route to the Indian Ocean and allows the country to by-pass the Malacca straits so as to reach Africa and the Middle East (BBC, 2015b, April 22; Chang, 2014, December 10). Strategists have long perceived the corridor as a strategic liability; they look to insulate China from a potential blockade through the US and its allies in the Asia-Pacific region (Joshi, 2013, August 12). The current diplomatic turmoil under Trump's administration and increasing tensions in the South China Sea as well as the North Korea challenge are indicators for the likelihood of such a scenario. This phenomenon, which was described by former Chinese President Hu Jintao as the country's 'Malacca-Dilemma', gains further significance if one takes into account that around 80% of Chinese energy imports flow as well as most of its trade and raw material from (East) Africa pass through the Malacca route—which as a result is generally perceived as the most crucial lifeline for China's economy (Sahgal, 2015, April 24). In other words, China is afraid that its dependence on the flow of energy and raw materials through narrow transport sea lines creates a crucial weakness which adversaries can exploit (Asian Warrior, 2013, June 18). Having this in mind, Chinese security circles expect that the establishment of land-based supply routes, which are running through sovereign states, are less vulnerable to potential US interferences than maritime routes (Ghiasi & Zhou, 2017, p. 7).

While Pakistan claims that the CPEC is expected to be a shorter, cheaper alternative, and one which would avoid the risk of piracy (Detsch, 2015, April 21; Daily Times, 2015a, April 21), it is doubtful that any land corridor could fully substitute the Malacca Strait. The tremendous investments needed to develop the necessary infrastructure through extraordinary difficult terrains, and the required security costs necessary to guarantee a safe environment, must be considered here.

Additionally, regarding the China Containerized Freight Index (SCFI) by the Shanghai Shipping Exchange (SSE), the shipping costs dropped dramatically between 2013 and 2017.²³ At the moment, the global shipping rates are at an astonishingly low rate. As of March 2016, it costs around \$400 to move a 40-foot container from Shenzhen to Rotterdam whereas three years ago the number rounded \$1000. The shipping of goods around the world has never been cheaper (Petersen, 2016). The major reason for this is the over-investment in shipping capacity by ocean carriers and the aggressive upgrading of their fleets in both qualitative (modernization in form of the new Triple-E class ships²⁴) and quantitative terms (number of container ships). We can expect a further increase of around 30% in container shipping capacity by 2019 (Petersen, 2016). It appears that sea-borne trade remains the most reasonable option: ‘it would be easier for the United States to prevent the unloading of oil at Gwadar than to blockade the Strait of Malacca’ (James Holm quoted in *Asian Warrior*, 2013, June 18; Small, 2015). Furthermore, there are also alternative maritime routes to the Malacca Strait such as the sea routes via East Timor or Indonesia. It is also interesting to note that Beijing proposed Bangkok a canal project,²⁵ known as the Kra canal or Kra Isthmus canal, which would connect the Gulf of Thailand with the Andaman Sea across southern Thailand. Observers of this ambitious development proposal compare its connectivity effects with the those of the Panama or Suez canals. The Kra canal would determine a severe competition for the Strait of Malacca and shorten maritime transit (and costs) between the Pacific and the Indian Oceans. China seems determined to reduce its reliance on the Malacca passage as much as possible.

3.2.2.9 Eradicating the ‘Three Evils’: Separatism, Terrorism and Religious Fundamentalism

In the wake of the 9/11 attacks, the US and other western states were hoping for closer cooperation with Beijing on the issue of antiterrorism (Xu, Fletcher, & Jayshree, 2014, September 4). Yet China was, and apparently still is, not willing to join US-led initiatives to combat terrorism. In contrast, Beijing perceived the India-US rapprochement and Washington’s activities in both South and Southeast Asia as a threat to its own security and national interests. The US-China rivalry in

²³See also: <http://en.sse.net.cn/indices/ccfinew.jsp>

²⁴The Triple-E class ships of the ocean carrier Maersk belong to the largest container ships in the world.

²⁵One must mention that the current Thai government has no policy yet on the Kra canal proposal and that the debate about it is overshadowed by several political, environmental and security concerns. Firstly, the construction of such a waterway across the country’s south would have a deep impact on the environment. Secondly, the canal would be located in an area of Thailand which is troubled by two decades of simmering conflict between the government and Muslim insurgents. Thirdly, there are concerns that the waterway would split the country into two parts and subsequently supports the idea of a breakup of southern Thailand (Strait Times, 2018, February 13).

this extended region, especially the issues related to the Strait of Hormuz, the Indian Ocean, the Bay of Bengal, the Strait of Malacca, and the Southern China Sea, prevents resolution of issues such as the Uyghur question or the Rohingya refugee crisis. In consequence, Chinese leadership prefers its own path in dealing with both traditional and non-traditional security threats. Beijing's official rhetoric describes its approach as a fight against the 'three evils': separatism, terrorism, and religious fundamentalism (Davis, 2008), the eradication of which is the key determinant of Chinese domestic and foreign policies. The struggle against the 'three evils' has become a driving force for Beijing's security and political engagement, not only domestically (e.g., Uyghur separatism and militancy²⁶) but also in its neighbourhood (Lei, 2017b, June 17).

During the last years, Chinese assets and personals increasingly became the focus of religiously- (jihadi) and politically-motivated attacks. Particularly significant to Chinese security interests is the presence of Uyghur militants in Central Asia (Ghiasy & Zhou, 2017, p. 27) and Pakistan (Wolf, 2015a, July 21). Among the Chinese foreign policy goals vis-à-vis neighbouring countries the avoidance of a spill-over of Islamist activities into Xinjiang which might feed into subversive movements and ideologies is paramount. The BRI and especially the CPEC constitute crucial instruments to persuade the participating states to crackdown on terrorists operating against Chinese national interests. China believes that the betterment of economic conditions in restive regions such as Xinjiang and in bordering countries such as Pakistan will bring more stability and eventually help undermine the 'three evils' (Davis, 2008). However, militants based in the recipient regions and countries might perceive China's development initiatives as a way to exploit their resources. The Chinese government is therefore prepared to take a more active role in fighting the global jihadi movement (Lei, 2017b, June 19). A major step in this direction was the enactment of a new counter-terrorism law; the judicial regulation provided for the first time a comprehensive anti-terrorism concept and offered a legal definition of terrorism²⁷ in China (Tiezzi, 2015a, December 29). It is important to note that the bill allows Chinese security forces to be deployed in their respective missions abroad (Tiezzi, 2015a, December 29). This law gave President Xi power to declare a 'people's war against terrorism'²⁸ (Sandhu, 2017, March 20; Tiezzi, 2014, August 2). Beijing is also intensifying its counter-terrorism capabilities through the build-up of special security forces. These measures, combined with Chinese

²⁶See in detail Chap. 5, particularly the section on the Uyghur issue.

²⁷The term terrorism is defined as 'any advocacy or activity that, by means of violence, sabotage, or threat, aims to create social panic, undermine public safety, infringe on personal and property rights, or coerce a state organ or an international organisation, in order to achieve political, ideological, or other objectives' (Zhou, 2016, January 23).

²⁸This 'people's war against terrorism' must be understood as China's new comprehensive anti-terrorism approach, namely a four-layered counter-terrorism structure combining efforts from the party (Central Government), local government, military forces, and citizens together so as to fight against terrorists (Sandhu, 2017, March 20).

increased security diplomatic endeavours, indicate that Beijing's attention is shifting beyond its borders and towards its two neighbours, Pakistan and Afghanistan.

(a) Pakistan: Stabilization and Reducing Security Threats

Officials in China have been concerned about the existence of terrorist sanctuaries in Pakistan since the beginning of 2000 (Hussain, 2017d, June, p. 14; BBC, 2012, May 31). The major source of tension centres on the Uyghur separatists operating from Pakistan. Chinese media emphasise that the recent terrorist incidents were conducted by people who received training in Pakistan (Bhattacharji, 2012, May 29): Beijing sees a correlation 'between the growing bellicosity of the Uyghur separatists and the rise in terrorist militancy in Pakistan' (Hussain, 2017d, June, p. 14). The latter observation is consistent with Curtis and Scissors, who point out Chinese officials' tendency to connect the terrorist activity in Pakistan with instability in western China (Curtis & Scissors, 2012, January 19, p. 5).

The establishment of the CPEC corresponds to Beijing's proactive security concepts advocating for common security through development and economic cooperation (Ghiasy & Zhou, 2017: IX). China is convinced that Pakistan needs major development projects so as to bring stability to the country (Small, 2015, July 3; Tiezzi, 2015b, April 21). From Beijing's point of view, this would protect Chinese economic interests and reduce terrorist threats coming from Pakistan: China believes sustainable economic prosperity in Pakistan will help contain the terrorism that challenges Chinese economic interests, territory and security. In other words, China aims to secure a win-win situation by eradicating the threat within Pakistan and protect its economic interests within the country (Fullerton, 2015, April 20). As Small reports,

Chinese investments have been constrained by Pakistan's instability and security threats to Chinese workers'. By some measures, 'Pakistan has been the most dangerous place to be an overseas Chinese.'²⁹

Therefore, China demands both a clear commitment and concrete actions from Pakistan so as to protect the sovereignty and territorial integrity of China and Chinese citizens on Pakistani soil. Pakistan is thus required to undermine terrorist activities and their attempts to destabilise 'mainland China', especially the Xinjiang province (Daily Times, 2015a, April 21).

(b) Afghanistan: From 'Controlled Instability' to 'Sustainable Security'

Part of China's development strategies concerns the stabilisation of fragile neighbouring states. Besides Pakistan, Afghanistan moved into Chinese focus. The role of Afghanistan is fundamental for the overall regional stability without which China's cross-national development projects would hardly be feasible. Yet Afghanistan was not much integrated in the initial plan of CPEC³⁰ or other parts of the BRI. China was never before engaged in multi-lateral endeavours supporting

²⁹Andrew Small quoted in Domínguez (2015b, January 15).

³⁰The inclusion of Afghanistan into CPEC will be discussed in detail in Chap. 8.

political stability and good governance in Afghanistan. Most of Beijing's concerns were centred around threats from Afghanistan only insofar as they could harm Chinese investments in Central Asia and Pakistan. Being aware of the deteriorating security situation in Afghanistan, it seemed for long that Beijing was opting for a 'minimum solution' which can be best described as a situation of 'controlled instability'—meaning the acceptance of internal turmoil as long as it does not create negative cross-border spill-over effects.

However today Beijing is increasingly interested in Afghanistan's domestic affairs, as evidenced by numerous diplomatic activities supporting peace and development in Afghanistan. Two remarkable examples of this are the inclusion of Afghanistan into its development initiatives, especially the CPEC (Saifullah, 2018b, January 10), and the support for the latest 'Tashkent process', an initiative by the government of Uzbekistan³¹ to support the peace process in Afghanistan (Casaca, 2018, March 23; Saifullah, 2018a, March 27). Historically, Beijing does have a record of some major economic investments in Afghanistan and provided some substantial economic aid, too. A major reason therefore is that Afghanistan determines a crucial factor for security and stability in western China. Concretely, Beijing was and is still convinced that developing cooperation will help to undermine destabilizing spill-over effects from Afghanistan into China. This is why there is a growing collaboration between Beijing and Kabul in security related matters. However, any major development initiatives such as a potential CPEC enlargement into Afghanistan will face numerous challenges which will require a substantial interference into Afghan domestic trajectories. At the moment, it remains to be seen how far is Beijing willing to change its policy from a bystander into stakeholder in Afghanistan.

³¹The 'Tashkent process' initiated by the government of Uzbekistan supports the notion of an Afghan-owned, Afghan-led process for national reconciliation in Afghanistan. Uzbekistan is a fundamental advocate of a political settlement of the situation of the Afghan imbroglio. What is new in the Uzbek initiative is that it offers for the first time a comprehensive approach. The efforts to support the peace process are embedded in a strategy of economic development and cooperation between Afghanistan and Central Asia. This is innovative and sets the new Uzbek initiative apart from other, earlier attempts to bring peace and stability to the Afghanistan.

Chapter 4

Pakistani Motivations



Pakistan is developing increasingly exclusive economic relations with China, using the CPEC as the main platform for this cooperation. Pakistan is the focal point of the CPEC project. The country is incentivised to participate in economic corridors such as this for a number of reasons. As regards China, Pakistan's interests are multi-dimensional, encompassing economic, social, political, geostrategic, and security aspects.

4.1 Economic and Social Dimensions

4.1.1 *Improving Economic and Social Conditions*

First and foremost, Pakistan is interested in boosting its national economy. Despite a slight improvement in the last few years, as evidenced by Pakistan's economic growth in 2017 and 2018¹ (ADB, 2017a, pp. 166–168; World Bank, 2017, November), growing fiscal and external imbalances due to a widening trade deficit and decreasing international remittances have eroded the recent 'hard-earned gains in restoring macroeconomic stability' (World Bank, 2017, p. I). Furthermore, foreign exchange reserves were drawn down to fill the financial gap (ADB, 2017a, p. 166). The subsequent lack of foreign exchange reserves impacted the country's opportunities to invest in crucial sectors and hampered its capacity to innovate (BTI Pakistan, 2016, p. 14).

Besides Pakistan's rather poor economic achievements since its inception in 1947, the country's human development indicators (including education, poverty

¹Pakistan widened its GDP from 2.1 to 4.0% in 2017 and from 2.5 to 4.2% in FY2018. This was mainly due the recovery in agriculture, stronger manufacturing and service sectors as well as the expansion in infrastructure and energy investments (ADB, 2017a, pp. 153–154).

reduction, and income as well as gender inequalities) remain among the lowest in South Asia (ADB, 2017a, p. III). Although some efforts were made in reducing illiteracy and increasing school participation, youth enrolment in higher education and skills training remain very low. Health indicators such as skilled birth attendance, child immunization, maternal mortality ratios and adolescent fertility rates have improved, but are still matters of concern.

The poverty rate in Pakistan is significant, with 36.9% of the population living below the poverty line,² meaning that almost 60% of the population (estimated 102 million) live on less than two dollars per day. Nearly four out of ten Pakistanis live in multidimensional poverty³ (UNDP, 2016, June 20), referring access to good education, insufficient healthcare, poor housing, and an unsafe environment (MoPDR, 2016). On a positive note, Pakistan improved access to water and sanitation, although many rural communities still lack these services (WB, 2017, p. 34).

It is expected that the CPEC, if implemented successfully, will significantly improve the country's macro-economic and human development indicators by bridging gaps in infrastructure and energy, boosting modernisation in core economic sectors, keeping low inflation, contributing to an optimal international balance of payments, and reducing the national trade deficit (especially with China). Some say that the CPEC will also increase foreign exchange reserves and create a more stable environment for foreign investment. Last but not least, it is believed that the envisaged economic growth will eventually lead to a social uplift among the citizenry.

4.1.2 Energy Security

Pakistan has been facing deep and complex energy problems since its creation in 1947. Pakistan's energy security situation during these decades has been influenced by the following factors (Kugelman, 2013, March 13; Rafique, 2015): (1) Pakistan's political leadership never developed a comprehensive, integrated energy strategy; (2) Pakistan has always been an energy importer (especially of fossil fuels); (3) Pakistan faces immense electricity shortages. As a consequence, the country has witnessed the (4) Emergence of a vicious cycle revolving around energy deficiency, economic recession and lack of investments in the energy sector, all of which led to a downward economic spiral.

The crisis was accelerated by the (former) lack of political will to address the energy challenge, the insufficient energy supplies from abroad as well as inadequate management of domestic energy capacities and other distortions within Pakistan's energy sector (e.g., ageing infrastructure, overloaded transmission and distribution

²According to the 2013 data.

³The report has been compiled by the Ministry of Planning, Development and Reform, Government of Pakistan with technical support from UNDP Pakistan and the Oxford Poverty and Human Development Initiative (OPHI), University of Oxford (UNDP, 2016, June 20).

systems, energy thefts), and an inefficient use of energy. The latter finds expression in vast energy shortages which turned into a major barrier for the country's development (Kugelman, 2017, November), often bringing economic growth close to stagnation. It is reported that 67% of the population in Pakistan (around 150 million people) have either no access to the power grid or suffer over 12 hours per day⁴ of load-shedding and power outages (Dawn, 2016e, August 5).

The World Bank reports that these energy shortfalls present a significant challenge for Pakistan's productivity, especially for energy-intensive and technical manufacturers⁵ who rely on power as a key input to production (Grainger & Zhang, 2017). In response to the absence of a reliable electricity supply, companies were forced 'to substitute away from energy-intensive capital or divert investments toward diesel generators' (Grainger & Zhang, 2017, p. 2). In 2013, around 75% of Pakistani companies identified electricity as a major constraint to their operation and growth. Rising fossil fuel prices and the higher cost of oil, combined with credit constraints, additionally hindered Pakistani entrepreneurship. A number of companies were forced to shut down due to energy shortages, affecting at least half a million households with unemployment (Dawn, 2016e, August 5; Grainger & Zhang, 2017, p. 2, 14).⁶

Besides the costly impacts on the economy, there is a correlation between energy crises and the emergence of social and political turmoil (Rafique, 2015): confinement the citizenry's daily lives and the sharp rise in unemployment led to massive popular unrest and radicalisation, resulting in clashes between security forces and enraged protesters (Johnson, 2015, January 13). These turbulent demonstrations, often accompanied by road blocks and sit-ins in front of government buildings, not only led to the paralysation of urban areas but also created additional economic costs (Rafique, 2015, p. 2). Furthermore, some experts state that the energy crisis in Pakistan 'is arguably a more serious long-term threat than periodic outbreaks of Taliban-led violence—simply because it affects so many more people (Johnson, 2015, January 13). An increasing number of observers and authorities identify the lack of stable energy supplies as a source for terrorism and a matter of national security (Kugelman, 2013, March 13, p. 1).

This acute energy deficiency is unfortunate since Pakistan possesses large untapped energy resources, especially gas and coal. Furthermore, there is a large potential for alternative energy sources (from water, wind, and sun), enough resources to supply all of Pakistan's electricity needs (Grainger & Zhang, 2017). Yet the country was yet unable to break with the aforementioned patterns and utilise

⁴Some areas in Pakistan suffer from even more serious power shortages leading to cuts of up to 18–20 h per day (Vandewalle, 2015).

⁵Some of the most affected industries include metal, wood, and paper manufacturers (Grainger & Zhang, 2017).

⁶In 2015, it was estimated that the chronic power shortage costed the Pakistan economy Rs 14 billion (7pc of GDP) and that only in the years between 2011 and 2016, the country has taken a hit of Rs 145 billion per annum from system losses in the grid due to inefficient transmission and distribution (Dawn, 2016e, August 5).

its own potential for energy generation. It is hoped that the CPEC will generate enough money to support Pakistan's power generation capacities and address the country's energy crisis. In this context, it is also envisaged by Pakistan to achieve a more affordable and diverse energy fuel mix. The country relied heavily in the past on expensive furnace oil and high-speed diesel for electricity, which should be replaced by cheaper and/or more efficient alternative sources (Rafiq, 2018, pp. 8, 16). The fact that a substantial part of the CPEC investments is energy related can be seen as the key incentive for Pakistan's leadership. It remains to be seen, however, to what extent will the respective CPEC energy projects be embedded in a coherent energy policy addressing Pakistan's need for stable energy supply. The latter refers to the shortage of good governance as well as the inefficient payment practices and the overall mindset of the people. The CPEC might not only lead to the 'power generation expansion and other supply-side quick fixes' (Kugelman, 2013, March 13) but also contribute to a comprehensive energy policy approach deriving from a fundamental change in the patterns of political culture and behaviour; if not, most of the CPEC-related energy projects will be neither sustainable nor able to generate a positive spill-over effect into all other economic sectors.

4.1.3 Improving Infrastructure and Enhancing Trade

Infrastructure affects all spheres of public and private life and as such is fundamental for the proper functioning of any country (SBP, 2007). It is a critical constituent of an enabling investment climate and is therefore a precondition to sustain any growth momentum (GS, 2012, September 13). Poor infrastructure in key sectors also undermines poverty alleviation efforts (Bajoria, 2009b, April 30). Despite having the highest urbanisation rate in South Asia, Pakistan's infrastructural situation is relatively dismal by international standards, suffering from multi-fold infrastructure dearth, especially in the water, irrigation, power, and transport sectors (World Bank, 2007, November 22). Pakistan's deficiencies in infrastructure had some negative impacts, usually in the form of increased costs of production which hindered the country's economy and the competitiveness of Pakistani companies, both on the national and international levels (SBP, 2007). Due to the latter factor Pakistan has been facing growing competition from India and China in export markets.

Having this in mind, the Pakistani leadership is aware that it needs to improve significantly its road and rail networks as well as its ground logistics efficiency (Rafiq, 2018, p. 8). the country is in need of massive investments so as to build new as well as upgrade existing infrastructure. However, Pakistan by itself has only minimum financial resources to manoeuvre, in addition to huge gaps in public sector capacity to build and operate infrastructure due to the paucity of human resources, poor planning and management skills, and the inability to timely 'substitute' external implementation resources (World Bank, 2007, November 22). Nevertheless, despite these shortages, the CPEC includes large-scale infrastructure projects with multi-

geographical dimensions. The CPEC itself possesses an intrinsic duality as it is both a regional and national corridor⁷: within its regional dimension, the corridor helps bridge the ‘divided geography’ (due to an adverse environment such as extremely rugged terrain, deserts, mountains, or sea) between China and Pakistan as well as link both countries with other world regions. Better land infrastructure (e.g., Karakorum Highway) will lead to greater interregional connectivity between South Asia and both Central Asia and Europe. Furthermore, sea links will also be established to connect the CPEC with Africa and the Middle East, for instance through the construction of the Gwadar port or through the enhancement of the Karachi port capacities (Hussain, 2016, August 25). The CPEC’s national dimension, on the other hand, aims to link Pakistan’s major cities so as to serve as junctions in a new nation-wide infrastructure connecting Pakistan’s underdeveloped regions such as Balochistan, FATA, and KPK with the country’s economic hubs—namely the Punjab province and the port city of Karachi. This would also include integrating rural areas in the transportation and trade networks as well as production chains of Pakistan’s major urban centres so as to make the movement of people and goods faster.

In order to improve international linkages, Pakistan is also aiming at the improvement and extension of its port facilities. It is hoped that the CPEC will help to turn Pakistani ports into transshipment nodes for South Asia, Central Asia, and western China (Rafiq, 2018, p. 8). Another part of Pakistan’s rationale is that the build-up of ports, and the offer to grant access to them, will help to attract other countries—especially Russia—to join the CPEC. It is expected that Moscow’s direct participation would strengthen the corridor initiative as well as Pakistan’s position in the region (ValueWalk, 2017, September 18).

However, despite the importance of all port projects, Gwadar remains the focal point of the corridor. In this context, an important goal is to reduce the dependence on the Karachi port and the Port Qasim (also in Karachi). This would make a full naval blockade of the country less likely (Rafiq, 2018, p. 8) and help to reduce the negative impacts of a potential blockade of the Karachi ports in times of tension with India. Here, the closeness of Karachi to India is a strategic concern for Pakistan’s security circles. Another economic and logistic goal of the envisaged port development is to lower port congestion (Rafiq, 2018, p. 8).

4.1.4 Overcoming Premature De-industrialisation and Enhancing Capabilities for Production

The industrialization process plays a vital role in the economic development of any country; industrial development is considered one of the most reliable strategies to promote sustainable economic growth (Khan & Anwar, 2017, p. 2). Yet Pakistan is

⁷For a detailed elaboration of the intrinsic national/regional duality of corridors, see Srivastava (2011, pp. 4–6).

deemed by concerned experts to be facing since decades tremendous problems due to insufficient investment and subsequent technology replacement as well as inadequate economic policies, for example the suspension of proactive economic policies combined with inconsistent attempts (stop-and-go) towards trade and economic liberalization. This led to a stagnation in both industrialisation and modernization, especially in the manufacturing sector, a process also described as ‘premature de-industrialisation’ (Jamal, 2016a, December 26). The latter phenomenon was and still is seriously eroding chances of sustainable economic development, including perspectives of managing the current account deficit and employment opportunities (Zaidi, 2018, June 26).

Pakistan is therefore not only lagging behind in industrialisation performance; it is the case that many of its industrial units turned ‘sick’. The term ‘sickness of industries’ has become a buzzword in underdeveloped or developing states these days. An industry is ‘sick’ if it is not anymore able to perform its normal activities such as purchasing materials and other resources, cannot require or manage the required fund to run its core business, fails to generate surplus and/or remains dependent on external funds (loans) for economic survival (Hoque & Biswas, 2013, pp. 82–83). It is reported that in 2015, around 4000 industrial units became ‘sick’ (Nawaz, Azam, & Noor, 2015, p. 313). The CPEC is expected to give the needed impetus to boost the modernisation of Pakistan’s economy—since the corridor serves not only as a transit route for commodities and raw materials but also aims at the promotion of production and manufacturing capacities, particularly through the construction of Special Economic Zones (SEZs) and industrial estates. The CPEC is supposed to turn into a catalyst for industrialisation and spur a great variety of economic activities. These hubs are supposed to boost Pakistan’s underperforming economy and create opportunities for entrepreneurs. Most importantly, it is hoped that the hubs will attract foreign companies bringing with them innovative technologies, know-how and management skills. By identifying economic nodes not only in established urban centres but also disadvantaged rural areas, the government hopes to generate a nationwide economic boost that does not fail to reach Pakistan’s poorer provinces (Rafi, 2015, April 29). Last but not least, it is hoped that Chinese investments and the transfer of respective technologies via the CPEC will promote the modernization and diversification of the Pakistani agricultural industry. Islamabad believes the country ‘could position itself in the top 25 economies of the world by 2025’ with the help of the CPEC⁸ (MoPDR, 2014, vii).

⁸It is reported that CPEC already helped Pakistan to climb up several notches on the global competitiveness scale. Thank to the CPEC related investments the country moved from the 133th position back in 2014 to 115th out of the 137 countries in 2017 ranked in the Competitiveness Ranking by the World Economic Forum Report (WEFR) (Mourdukoutas, 2017b, September 28).

4.1.5 Mobilization and Management of Increased, Improved and Diversified Foreign Resources

The CPEC comes at a time when major investments in Pakistan are considered a crucial necessity (Chang, 2014). During the last few years, corruption and an unfortunate record as regards implementing major development projects has pressured the confidence of potential investors (BTI Pakistan, 2016, p. 14). Given its fragile balance of payments and urgent need to boost industrial production, Pakistan requires an increase in the mobilization of foreign resources and foreign capital (Khan & Kim, 1999). Here it is hoped that the CPEC will have a 'demonstration effect', indicating to other investors that Pakistan is a safe and attractive destination for foreign direct investment/FDI (Rafiq, 2018, p. 8).

Looking back, FDI in Pakistan used to be rather scanty—Islamabad was mainly dependent on aid (and loans). Yet part of this financial support was granted on the condition that the country would address certain economic, social and political issues (for example respect for human rights, labour rights, promotion of democracy). Pakistan's main interest is therefore to attract foreign capital with as little commitments as possible.

Furthermore, the portfolio of foreign capital inflow is traditionally dominated by a few main donors and/or investors, especially the US and Saudi Arabia. But the aid from Washington is shrinking and Riyadh already announced that its financial support will be limited when compared to what Beijing, who is now Islamabad's main source of funding, is able to offer.⁹ Another feature of FDI and the use of aid in Pakistan is that they were concentrated only in some parts (and economic sectors) of the country. Here, from a Pakistani point of view, one of the CPEC's main aims is to leverage Chinese investments, technological know-how, and managerial expertise in SEZs so as to bolster and diversify the manufacturing sector through new and/or upgraded industries capable of producing higher added-value goods (Rafiq, 2018, p. 8).

It is expected that a successful implementation of the SEZs and other industrial areas within the CPEC will gain the trust of potential international companies to move both industrial and manufacturing capacities to Pakistan and subsequently increase the FDI level. Islamabad is not only looking beyond China to attract new investors but is also trying to diversify the investment portfolio which was, until now, dominated by the transport infrastructure and energy sectors. An essential step towards (re-)gaining the trust of foreign companies to get engaged in Pakistan is that the country's own companies would 'lead the way' in gaining confidence and starting to invest in the formal economy (News, 2018a, March 29).

⁹Saudi Arabia says it 'can't be big as an investor as China' (Maqsood Ahmad Jan quoted in Shams, 2015b, April 20).

4.1.6 Changing Mindsets: Reversal of Both Human and Financial Capital Flight

If it proves to be successful, the CPEC could have a positive impact on the population's overall mindset, especially as regards the behaviour of both elite and (upper) middle class sections of Pakistan's society. In order to ease the consequences of 'brain drain', Islamabad hopes the CPEC could attract educated people who are currently living or planning to live abroad and engage them in Pakistan's future. Brain drain (or Human Capital Flight) has been on the rise in Pakistan for the past three decades (Khan, 2016b, April 24). The proportion of highly skilled and highly qualified migrant workers compared to low, semi-skilled and unskilled migrants from Pakistan is low¹⁰; however, the absolute numbers are growing dramatically: the highly skilled migration rate of Pakistan has increased more than 60% between 1990 and 2000 (Srivastava & Pandey, 2017, p. 19). According to Gallup Pakistan, more than two-thirds of the country's adult population plans to move abroad, half of which expresses no desire to return (Abbas, 2000, November 17). Even the odds brought forth by the post-9/11 visa restrictions could not stop this staggering trend. The data provided by the Ministry of Overseas Pakistanis and Human Resource Development show that 2.765 million people left Pakistan over the last 5 years and over six million Pakistanis migrated from the country over the last two decades (Ahmad, 2017c, June 5). Many of these migrants were qualified by foreign employers as 'the right person for the right job' (Khan, 2016b, April 24). Islamabad is hoping to turn the 'brain drain' into a 'brain gain' through the creation of lucrative job and business opportunities as well as through the build-up of CPEC-related scientific research and (higher) education capacities. Furthermore, it is expected that the CPEC will not only attract foreign capital but also convince Pakistani entrepreneurs to invest in their own country rather than abroad.

4.1.7 Bridging Regional Disparities

Besides Pakistan's institutional state-building problems, interregional disparity is one of the most striking issues since it is not only a challenge for overall economic development but also has social and political implications for both state and society (Khan & Komei, 2003, p. 293). From a historical perspective, regional disparity in Pakistan became serious in the 1960s because of the growing tensions between the then Eastern and Western wings of the country. These eventually led to separatist movements in East Pakistan, then to an armed struggle for national independence in what became Bangladesh in 1971 (Hussain, 1993, p. 1). Ever since the creation of

¹⁰For example, in 2016, of the emigrating labour from Pakistan only 1.82% were highly qualified, 0.89 highly skilled, compared to 40.24% which were skilled, 18.31 semi-skilled, and 38.75 unskilled (Srivastava & Pandey, 2017, p. 18).

Bangladesh regional imbalances between Pakistan's provinces continue to create deep domestic unrest. Both inter-regional and intra-regional disparities have grown persistently (Jamal & Khan, 2003; Wasim & Munir, 2017, October 30).

These asymmetries find expression in differentiated levels of economic development, spatial concentration of industries and manufacturing units, infrastructure endowments, as well as an unequal distribution of income and poverty levels (Hussain, 1993; Siddiqi, 1981). The variety of development processes across different regions of Pakistan are mirrored in the socio-economic and geographical structure of the country (Jamal & Khan, 2003), with large provincial cities being more developed than other urban areas (Wasim & Munir, 2017, October 30, p. 4). Less developed areas can be found in provinces such as Balochistan, Gilgit-Baltistan, parts of rural Sindh, KPK, and Pakistan-administered Kashmir (Siddiqi, 1981). Even Punjab, Pakistan's most dominant and best performing province, which is in the focus of many critics claiming that it is absorbing most of the country's wealth, is featured by remarkable internal asymmetries: central and northern Punjab is not only performing better than the national average (BTI Pakistan, 2018, p. 18) but also better than southern districts. The differences between and within the regions are creating both conflicts and a demand for a reallocation of resources and investments. It therefore does not come as a surprise that the announcement of the CPEC as well as the allocation of related projects sparked a lot of criticism from already deprived regions. Nevertheless, despite the ongoing political turmoil and debates over fair mechanisms relating to CPEC implementation, it is hoped that the corridor has the potential to bridge interregional disparities and remove structural imbalances within the country (Hussain, 2017a, June, p. 3).

4.1.8 Inclusive Growth and Formalising the Parallel Economy

Sustainable, inclusive growth is one of the major pillars of the 'Vision 2025' of the Government of Pakistan (MoPDR, 2014). Achieving inclusive economic growth is impossible without tackling the informal economy (Ali, 2018e, February 27), perhaps the major factor holding back comprehensive growth. In Pakistan, the informal economy has been expanding at a rapid pace¹¹; in fact, the formal sector appears to be on the retreat (Sherani, 2013, February 22; Ziauddin, 2017, November 9). Informal activities are present in all sectors and economic activities, including agriculture, manufacturing, construction, finance, transport, and services (Kemal & Qasim, 2008); this is clearly indicated by a growing share of informal jobs and a widening 'tax gap' (Sherani, 2013, February 22). The share of the country's informal

¹¹It is reported that in 2000 the informal sector was about 42% of the national economy in 1980–1981 and that it grew to 46% in 1998–1999. In 2000, it was estimated that the share of the informal economy already reached 50%.

economy is estimated to be more than 50%; employment trends also show that the informal sector is in fact the largest employer in Pakistan (MoPDR, 2014, p. 46). This sector provided employment to 73.5% of the non-agricultural workforce in 2010–2011—and trending upward. Other estimations are drawing an even grimmer picture: in a 2008 survey (re-confirmed in 2012) conducted by Ali Kemal and Ahmed Waqar, the informal economy was estimated to constitute 91% of all activity.¹² Although the informal sector helps absorb vast proportions of workers who may otherwise be unemployed, and although it provides goods and services at cheaper cost and thus complements the formal sector (Ali, 2017c, April 28), at the same time it also determines a severe challenge for Pakistan’s economy. Economic activities classified as ‘informal’ are unreported, unregulated, and untaxed; hence people employed in the informal sector are usually underpaid, do not possess health insurance or social security benefits, and work in unsafe environments (Ali, 2017c, April 28). The informal sector is often associated with child labour and bonded labour, which can be classified as modern slavery.¹³

In order to tackle these issues, Pakistan’s government wants to introduce strong incentives and simplify the regulatory environment so as to help formalise undocumented sectors. In an attempt to attract FDI, the authorities expect that such measures will provide the state with ‘huge dividends to the economy in the form of revenue and ensure a level playing field among entrepreneurs’; this is hoped to eventually decrease the number of informal businesses and increase the amount of formal endeavours (MoPDR, 2014, p. 46). International companies willing to transfer entrepreneurial capital and technology to Pakistan are ‘invariably attracted by the formal sector of the economy, and hardly ever by the informal one’ (Sherani, 2013, February 22). There is much hope, foremost among the country’s labour force, that the CPEC will bring the desired policy action.

4.1.9 Reducing Unemployment

Pakistan has numerous important strategic endowments and development potentials. The Vision 2025 recognises the citizenry, especially the booming Pakistan’s youth, as the ‘greatest asset and tries to leverage their strengths for growth and development’ (MoPDR, 2014, p. v); yet at the same time the rapidly growing population¹⁴

¹²Ali Kemal and Ahmed Waqar quoted in Ziauddin (2017, November 9).

¹³According to an IMF survey in 2016, more than 60% of the Pakistani work force comes from the black economy with little or no protections. A 2015 report by the International Labor Organization (ILO) estimates that about 5.7 million children between the ages of 10 and 17 usually work under hazardous conditions. Additionally, more than two million people live in conditions of (modern) slavery as per the Global Slavery Index, 2016 (Maken & Ahmed, 2017, July 30). See also Chap. 7.

¹⁴According to the economic survey, the total work force in Pakistan increased from 59.74 million in fiscal year 2012–2013 to 61.04 million in fiscal year 2014–2015. A growth rate of 2.2% per annum was registered (ILO, 2013).

confronts the country with the challenge of providing adequate employment. It is estimated that Pakistan needs to create over two million jobs over the next decade if it is to absorb new workers entering the labour market (Ali, 2018e, February 27). This is especially challenging given that Pakistan experienced various both natural (floods in 2010 and 2011) and economic shocks which affected both the economy and the labour market, leaving many people in poverty and dependent on informal sectors (Roberts & Sattar, 2015, June 30, p. 17). The CPEC is hoped to change this by transforming the economy through the labour market, which is to address the growing demands for employment in the formal sector (Ali, 2018e, February 27). Employment opportunities are expected to increase productivity and rise incomes, leading to a subsequent growth in consumption. The CPEC would thus help ensure the self-esteem of the Pakistani people and lead to an overall improvement in the social fabric of the country's society (MoPDR, 2014).

4.1.10 Combatting Illegal Economic Activities

Illegal economic activities are here understood as the hidden, underground, illicit, black, shadow, informal, irregular, unofficial, invisible, subterranean, and/or unrecorded part of the economy; illegal economic activities are defined as activities that contradict to the legislation in place (Ashok, Haq, & Mehmood, 2017, p. 4). Participants in the illegal economy engage in the production and distribution of prohibited goods and services (Feige, 1990). Illegal economic activities are part of the informal sector of any national economy, yet they should be clearly distinguished from said informal sector as such. There is a 'distinction between illegal processes or arrangements and illegal goods and services' (Chen, 2007, July, p. 4): while the production or employment arrangements in the informal sector are usually semi-legal or illegal, most informal workers and enterprises produce and/or distribute legal goods and services (Chen, 2007, July, p. 4). Definitions of what constitutes an informal economy encompass criminal activities, yet the term is customarily reserved for such activities which, although their production and exchange escape legal regulation, are not intrinsically illegal (Portes & Sassen-Koob, 1987, p. 31). Clearly, there is a nexus between crime *stricto sensu* and those economic activities (criminal economy) which operate illegally and deal at least mostly in illegal goods and services.

An illegal economy indicates conflicts between individuals or between groups and the state. It therefore shapes various socio-economic aspects of a society (e.g., justification of illicit economic behaviour) and has an impact on such crucial institutional features as the formation and redistribution of income, investment, trade, inflation, the tax system, economic growth in general and most macroeconomic indicators (Ashok, Haq, & Mehmood, 2017, p. 4). Consequently, an illegal

economy undermines the stability and responsibility of both political, legal and economic institutions which might otherwise serve to facilitate development processes and economic growth (Feige, 1990). Furthermore, the criminal economy (understood as a facet of the informal economy) robs legitimate markets by undercutting legitimate businesses, limiting legitimate profits, and undermining economic potential; this hampers future economic growth and investment and, among other consequences, deepens poverty (VOA, 2016, October 12). Criminal economic activities determine a severe problem for both developed and underdeveloped countries—or economies in transition such as the ones in South Asia.

Pakistan is challenged by a large informal sector as well as an endemic, pervasive criminal economy. Some of the most pressing issues include the drugs trade, human trafficking and migrant smuggling, arms trafficking, trade in illegal natural resources (e.g., timber), kidnapping for ransom, bribery, and money laundering (SDPI & UNODC, 2011). Pakistan's geographic proximity to both Afghanistan and Iran places the country in a vulnerable position when it comes to the traffic of illegal goods and other illicit activities (SDPI & UNODC, 2011, p. 1). Islamabad's relations with both Kabul and Tehran are rather troubled if not hostile. Due to tensed foreign relations and trade restrictions, most of the ongoing exchange of people and goods between Pakistan and its neighbours is illegal in kind. This high intensity of cross-border criminality further complicates the international situation. In fact, during the last decades, 'complex informal and formal organized criminal networks of supplier rings, wholesalers, financiers, protectors and patrons' were able to build-up a deeply entrenched 'regional illegal economy'. The cross-border criminal economy has negative impacts on the development of both the formal economy and the whole social and security-related situation in Pakistan. Most smuggling activities (mainly via the FATA or Balochistan) are not registered and thus create tremendous losses to Pakistan in both revenues and taxes. Due to inefficient border controls on all sides of the borders in question, boundary areas are turning into a 'virtual free-trade zone' (Zingel, 2015, p. 15). Furthermore, this illegal 'regional' economy funds the activities of organised crime, both local groups and global jihadist movements as well as other militant groups such as insurgency networks active in conflict zones worldwide (Casaca & Wolf, 2017).

The scale and dimension of illegal activities in Pakistan are surprising, given that the country possesses a 'complex institutional framework and an extensive security apparatus in place to deal with organized or isolated crimes' (SDPI & UNODC, 2011, p. 1). It seems that Pakistani decision-makers either lack the necessary political will to deal with cross-border criminality or that the country's security forces are preoccupied with other internal security duties. Successful integration of the CPEC into regional infrastructure networks would lead to new trade arrangements legalising much of the current trade volume. Furthermore, an intensified collaboration in trade and economic activities could help build a conducive environment in which both bilateral and multilateral measures would combat cross-border crime.

4.2 Political, Geostrategic and Security Dimensions

4.2.1 *Reducing Pakistan's Dependence on the West*

After its inception in 1947,¹⁵ Pakistan relied heavily on foreign assistance. Pakistan's army looked towards the US so as to gain assistance in military organisation and achieve the respective hardware (Khan, 1967). In the 1980s Pakistan relied substantially on financial aid from the US (in the form of grants or loans) so as to keep its economy afloat and bridge the gaps caused by persistent deficits in the state budget (Roberts & Sattar, 2015, June 30, p. 2). Islamabad became the fourth largest recipient of the US aid¹⁶—after Israel, Afghanistan, and Egypt (Roberts & Sattar, 2015, June 30, p. 2). Besides military and economic aid from Washington, Pakistan also received significant development assistance and loans from the World Bank, IMF, the Asian Development Bank (ADB), Saudi Arabia, Japan, the United Arab Emirates (UAE), the EU, the UK, and other individual European countries. Today, Pakistan aims to reduce this financial dependence, particularly as regards the US, through the diversification of its foreign aid and investment portfolio.

As already indicated, monetary support from the US used to be the major source for the inflow of financial assets. However, the provision of capital by the US (and the EU) is usually linked with political conditions. Following the Soviet Union's withdrawal from Afghanistan, Washington reduced its engagement with Islamabad. The subsequent estrangement in US-Pakistan relations left Islamabad looking to replace an 'unreliable' US support. This gained significance after the so called 'Pressler Amendment' was passed in 1985. The regulation in question was supposed to control and restrict Pakistan's nuclear program so as to ensure that aid from the US was not diverted towards building nuclear weapon capabilities (Mahmood, 1994). When it became clear, at the end of the 1990s, that Pakistan would not abdicate from military purposes of its nuclear program,¹⁷ Washington decided to halt (although only temporarily) the flow of both military assistance and financial aid to Pakistan. Islamabad perceived this suspension of aid as selective, discriminatory and as ignoring Pakistan's security concerns and vulnerabilities. Having in mind similar past restrictions in US support, for example during the armed confrontation with

¹⁵After the partition of British India, the pre-condition for the creation of the independent states of India and Pakistan. Pakistan itself was in an unfortunate position due to the structure of colonial administration, most of whose administrative infrastructure was located at Indian territory (Khan, 1967). In this context, the conflict over the division of the remaining financial and military resources from British colonial rule according to the partition plan led to an intensification of tensions between an increasingly polarised 'Hindu India' and 'Muslim Pakistan'. Furthermore New Delhi refused to hand over military resources, which made the build-up of a Pakistani army even more complicated.

¹⁶Washington provided both economic and military aid to Pakistan from 1951 to 2011 (worth of \$67 billion) (CGD, n.d.).

¹⁷Most remarkable in this direction is that Beijing tested a nuclear warhead on its own soil on behalf of Pakistan before Islamabad formally conducted underground test explosions in Chagai district in western Balochistan on 28 May 1998 (Hussain, 2017a, June, pp. 11–12).

India in 1965, Pakistan's leadership started reconsidering its partnership with Washington (Mahmood, 1994, pp. 1, 100, 106). In order to fill the gap created by US restrictions, Islamabad decided to seek assistance from China, not only in the field of military equipment and technology but also regarding economic development (Hussain, 2017a, June, p. 11). Beijing reacted in a remarkably positive fashion to Pakistani rapprochement attempts and offered large-scale and multi-sectoral aid, and with the only major condition of ensuring a safe environment for Beijing's projects in Pakistan. Given the extent of the CPEC investments, Chinese capital is likely to substitute the 'traditional' US military assistance in Pakistan.

However, the US does maintain influence in Asia, for example through deepening ties with Islamabad's arch rival India, a country which is also perceived as a threat to China's further rise (Adnan & Fatima, 2016, p. 610). We can therefore expect Islamabad to strengthen its relationship with Beijing at the expense of its ties with the US. As regards Washington and Beijing's different perspectives on issues such as the South China Sea, North Korea, free trade, Taiwan ('One-China Policy'), and counter-terrorism, one can observe a closer alignment between Pakistan and China's stances. The sharpening rhetoric by US President Donald Trump towards Islamabad, and his revised strategy for Afghanistan—including Washington's renewed commitment towards Kabul (Wolf, 2017b, August 23)—will likely enhance the convergence of Sino-Pakistani interests. Given the US's increasing pressure on Pakistan to cease supporting cross-border terrorism, this trend is expected to deepen even more (Dorsey, 2017, February 10). As Rashid (2017, November 26) points out:

President Donald Trump and NATO have clearly signaled that they will no longer tolerate the Pakistani army's alleged duplicity—that while it fights those terrorists who threaten the state of Pakistan, it shelters outside groups like Afghan Taliban, which does its fighting elsewhere.

Referring to Pakistan's role in combating cross-border militancy, Trump indicated in his 2018 New Year's Day tweet the cut off of the US aid for Pakistan due to 'lies and deceit'.¹⁸ But contrary to some statements, and as outlined above, the announcement to suspend security assistance to Pakistan—worth about \$2 billion¹⁹—does not come out of the blue. US-Pakistan relations have been rather troubled for some time now, in part due to diametrically opposite visions and interests regarding the future of South Asia in general and Afghanistan in particular. Hence, instead of interpreting the US President's tweet as an 'impulsive' statement or as an unexpected 'formulating policy by tweet' (Landay et al., 2018, January 11), one should see this in a broader political context—as a further step towards a new US

¹⁸The full text of the tweet: "The United States has foolishly given Pakistan more than 33 billion dollars in aid over the last 15 years, and they have given us nothing but lies and deceit, thinking of our leaders as fools," Trump tweeted. "They give safe haven to the terrorists we hunt in Afghanistan, with little help. No more!". See also: <https://twitter.com/realDonaldTrump/status/947802588174577664>

¹⁹Trump's decision could affect about \$1 billion in planned security assistance and \$900 million to reimburse Pakistan for counter-terrorism operations (Landay, Mohammed, & Walcott, 2018, January 11).

strategy for achieving its national objectives, a policy directive which Trump calls ‘principled realism’. Trump has already made clear his intent to take a tougher stance towards Islamabad as part of his revised strategy for Afghanistan unveiled in August 2017 (Wolf, 2017b, August 23). Critics of Trump’s ‘Pakistan tweet’ argue that there is neither a cohesive nor effective policy in place yet—hence these moves would only harm the US’s position in the Afghanistan-Pakistan region. The expert community in both Europe and the US seems to be divided and inconsistent on this point. Some argue a support to Pakistan so as to counterbalance China’s presence and achieve sustainable peace in Afghanistan. This would mean the continuation of the so-called ‘traditional appeasement policy’—accompanied by ‘unconditional’²⁰ (and as yet unsuccessful) aid. Nonetheless, it seems that the West, especially the US, are starting to realise that a change of policy towards Islamabad is necessary. Both the US and EU must take stronger stand and become more decisive towards Pakistan. Decision-makers in Washington began to recognise that providing support to Pakistan does not lead to any constructive change, neither in modifying Pakistan’s foreign policy nor in stopping the Pakistani state from sponsoring cross-border terrorism. Against this backdrop, several politicians and analysts are considering to designate Pakistan as a state that sponsors terrorism (Wolf, 2017a). This can reshape both Pakistan-US and Pakistan-EU relations in a comprehensive manner. With regard to the EU, the European Commission could remove the GSP+ status²¹ (i.e., Generalised Scheme of Preferences in trade) as a possible sanctuary measure towards Pakistan. As argued in a policy brief published by the South Asia Democratic Forum (SADF), a Brussel’s based think tank,

Pakistan has not only failed to effectively implement several [...] UN conventions but, most importantly, has not curbed its support for terrorist groups that destabilise the region. Islamabad’s strategy of nurturing and propelling cross-border terrorism as a foreign policy tool is a serious violation of GSP principles, and distorts the efficacy of EU’s global fight against terrorism (SADF, 2017a, November 6, p. 1).

The latest review of the GSP+ status conducted by the European Commission (EC, 2017b, September 21) revealed that the EU does not share the critical views of the US and other international experts as regards the effectivity of Pakistan’s counter-terrorism efforts and ‘shortcomings pertaining to violations of GSP+ conventions as well as violations of fundamental GSP principles stemming from state-sponsored, cross-border terrorism’ (SADF 2017a, November 6, p. 1). For the time being, the European Commission prefers to stay engaged with Pakistan via the annual Counter-Terrorism dialogue and continue to grant Pakistan the GSP+ status. Although the EU is willing to continue collaborating with Pakistan without any major punishments, there are growing concerns among both experts and civil society representatives with regard to

²⁰‘Unconditional’ is here understood as without any pressure targeting the Pakistani leadership for it to stop sponsoring cross-border terrorism or improve human rights conditions or the quality of democracy in the country.

²¹See for more information on the political framework of the Generalised Scheme of Preferences (GSP): EC, (2016a), SADF (2017a, November 6, p. 1), Wolf (2014b, June 20) as well as Chap. 7.

Pakistan's policies—domestic and foreign. These pressures force Islamabad to move closer towards Beijing, and it is possible that closer cooperation with China will eventually strengthen Pakistan's position vis-à-vis the EU.

4.2.2 Reducing Economic Asymmetries and Achieving Military Parity with India

After decades of animosity—leading to four major armed engagements, numerous cross-border skirmishes and at least two severe ‘war-in-sight crises’—the relationship between India and Pakistan continues to be trapped in the old patterns of mutual mistrust and hostility, with no signs of a more promising future (Ganguly, 2016; Mitra, Wolf, & Schöttli, 2006, pp. 146–148). Historically, the conflict between India and Pakistan is the result of the politically utilised Hindu-Muslim antagonism and the subsequent development of two diametrically opposed concepts of state ideology known as the ‘two-nation theory’. Other factors included the problematic conditions of state formation during the partition of British India and the everlasting struggle over the territory of Kashmir (Cohen, 2004). These socio-political grievances, combined with the fragmentation of centuries-old trade and economic structures (e.g., the Jute industry in the then East Pakistan) which affected Pakistan disproportionately, sharpened rivalries even more (Mitra et al. 2006, p. 328). Unfortunate colonial legacies and the emergence of a situation perceived as a threat for its own political existence as a state led a negatively-formulated national identity in Pakistan (Shaikh, 2009). Pakistani elites were convinced that Pakistan was everything India did not want to become—the embodiment of all principles that one must reject (statehood, culture, political norms and values among others). Consequently, fears of Indian regional dominance increased after New Delhi refused to accept Pakistan's sovereignty. In result, the combination of factors such as threat perception, distrust, and the different self-perceptions which shaped the trajectory of India-Pakistan relations, could hardly lead to a constructive collaboration. Except for a few cases, negotiation and dialogue²² efforts between the two failed almost on every occasion. Among the few bright moments in India-Pakistan relations are included the Indus Waters Treaty concluded in 1960, the agreement to submit the Rann of Kutch dispute of 1965 to the International Arbitration Court, and the acceptance of the tribunal award in 1968 (Rizvi, 1993, p. 18).

Apart from the endogenous causes of this long-running rivalry, together with the emergence of Pakistan's powerful military élite and its involvement in cross-border terrorism, there have been some exogenous factors at play—for example the Cold War and the role of extra-regional players. During the Cold War, India and Pakistan found themselves on opposite ‘sides’ of the divide: Pakistan became a strategic ally

²²Like the temporarily much promising ‘India Pakistan composite dialogue’ (Dasgupta, 2015, May 21).

of the US (and China) as India maintained a policy of non-alignment with a tilt towards the Soviet Union. Pakistan's close relations with China added to India's security concerns (Garver, 1996, pp. 323–324). The downward spiral in Pakistan-US ties, the recent Pakistan-Russia rapprochement, and the growing US-India cooperation all further contribute to the complexity of India-Pakistan tensions. Despite the end of the Cold War and the series of civilian governments in Pakistan under Benazir Bhutto and Nawaz Sharif, which both made efforts to improve ties with India, 'normalised' relations are yet to be achieved. Pakistani leadership, foremost the army top brass, continues to approach India as an omnipresent menace. Threat perceptions on both sides is still relevant today both because of the two countries' conventional military capabilities (and nuclear weapon capabilities) and because potential economic conflicts. There is an awareness that nuclear weapons are useful for deterrence, but not for war fighting. There is therefore no substitute for the military capabilities necessary for conventional defence and internal security (Mason, 2016, p. 8). However, in order ensure full capacity in conventional armoury Pakistan needs to invest tremendous financial resources in the defence sector, and these simply cannot be generated by the country's economy as it stands today.

Pakistan's establishment recognises that the notion of state survival, which is exclusively dominated by the security paradigm, must be modified and focused more on economic pragmatism. From a Pakistani point of view, however, this does not mean the revival of the traditional, historic economic and trade links with India. Instead, Pakistan decided to enter increasingly exclusive economic and developmental relations with China, using the CPEC as the main platform for this cooperation. Apparently, Pakistan's leadership is convinced that only through collaboration with Beijing will the country and its armed forces be able to build up economic capabilities and enough financial resources so as to reduce economic and military imbalances.

4.2.3 Deepening of China-Pakistan Relations

In the past, relations between China and Pakistan were exclusively dominated by concerns regarding security and defence. Nowadays Islamabad wishes to further deepen cooperation and benefit from China's willingness to go beyond geopolitics and towards economic and commercial relations. As pointed out by Ahsan Iqbal, Pakistan's minister for planning and development, the CPEC will change the scope of Sino-Pakistani ties 'from geopolitics to geoeconomics', which will have a 'significant transformative effect on Pakistan's economy' (in Shams, 2015b, April 20). If implemented successfully, the CPEC will change 'the entire geo-strategic importance of Pakistan' (in Shahzad, 2015, March 3). Islamabad expects that the fusion of national development strategies through the CPEC will facilitate policy coordination between China and Pakistan and deepen their ties (LTP, 2017, p. 6).

4.2.4 Towards a Terror-Free Pakistan

According to official statements, the vital goals of Pakistan’s government for 2025 include the eradication of violence, religious fanaticism, and terrorism (MoPDR, 2014, pp. 37, 54, 102). The government ambitions to achieve a ‘terror free’ Pakistan (Pakistan Today, 2016, December 24) through economic growth—which is expected to spur socio-economic uplift among the citizenry. Both civilian and military top brass believe that the improvement of the living conditions (through the CPEC projects) will help address political radicalisation, Islamisation, militancy, and jihadism (Haider, 2015b, July 3). However, the leadership’s interpretation of a ‘terror-free’ Pakistan has a different meaning: it does not imply the comprehensive eradication of either terrorism sources or jihadism, but instead promotes a kind of mixed strategy. On the one hand, Pakistan’s security policy aims to fight anti-systemic forces who act against the state; yet on the other, this strategy reduces efforts by security agents to address cross-border terrorism. Countering this cross-border terrorism is necessary for Pakistan to prove to the international community that the country is a reliable partner in counter-terrorism; this is often a pre-condition for obtaining financial aid or trade benefits. Nevertheless, both civilian leadership and military top brass are reluctant to act decisively in order to avoid conflict with jihadists who have a strong presence in Pakistan.

4.2.5 Towards ‘National Harmony’ and Political Stability

Political stability plays a vital role in economic development of any country. Political instability, economists claim, presents a severe challenge that always hinders economic performance (Aisen & Veiga, 2011, January 1; Asteriou & Price, 2001). Pakistan’s economic growth has been challenged since its inception by many forces. Although Pakistan was one of the fastest growing economies in the developing world back in the 1960s, the country could not achieve sustainable political stability due to wars, irregular regime changes, and political discontent—especially rivalries between the major political parties and provinces. This political instability had adverse impacts on the economic environment and subsequently affected the growth rate of Pakistan’s economy.

Today, Islamabad believes that the political and social impacts of the CPEC will lead to political stability, better economic opportunities, and improved centre-state relations as well as relations between Pakistan’s provinces. So far, there is a lack of national consensus regarding the CPEC due to asymmetries among political decision-making powers (federal government vs. regions) and an unequal distribution of both national wealth and investments (privileged vs. disadvantaged provinces). Tensions exist between the disadvantaged provinces of Balochistan, Khyber Pakhtunkhwa (KPK), and the Federally Administered Tribal Areas (FATA) vs. privileged Punjab and Sindh—though we also observe rivalries between these

latter two. Besides other expected changes, it is believed that the CPEC will improve both the credibility and capacities of the civilian government vis-à-vis the military in the political realm, and as such strengthen the means of good governance. This would improve the country's unhealthy civil-military relations and restrain the military from intervening in political decision-making (Wolf, 2016d, September 13).

4.2.6 New Positioning at the International Stage and Elevating Pakistan's Image

Pakistan's international image suffers from several negative perceptions. The country is commonly associated with state-sponsored terrorism and religious extremism, bad governance and military rule, deconstructive and/or hostile relationship with neighbours, nuclear proliferation, human rights violations, and backward societal structures similar to feudalism (Shabbir, 2012; Wolf, 2017a). Based on these grounds, many analysts claim that Pakistan is an isolated player because it lacks credibility within the international community (Cheema, 2016, November 16). Pakistan's external image negatively affects economic development and the inflow of foreign investments; because of these sectors such as tourism (despite high demand) were not able to develop (Chen, Joseph, & Tariq, 2018, p. 64). It is hoped that closer cooperation with China in general and the implementation of the CPEC in particular will help address Pakistan's 'reputational challenge'. China is perceived by Pakistan as not just an 'all-weather friend' but also a valuable ally—which will soon become not only an economic but also a political superpower. Pakistan hopes to improve its image through China's growing international leverage—and through the CPEC in particular. The CPEC would entrust Pakistan with enormous economic capabilities and help materialise Pakistan's geostrategic position, leading not only to a 'new economic self-confidence' but also to a new international status and improved regional standing (Rafi, 2015, April 29). With this in mind, Pakistan plans to overcome its international 'diplomatic isolation' (Fazil, 2015, May 29) and improve relations with its neighbours while opening up to new regions (Central Asia) and countries (Russia) (Barber, 2014, February 27).

Chapter 5

Challenges Towards the Implementation and Functioning of the CPEC



While expectations relating to the CPEC are high, Pakistan remains challenged by problems related to the patterns of the country's traditional realpolitik. The international media labels Pakistan as one of the most dangerous places in the world (Economist, 2008, January 3), as evidenced by various publication titles such as 'Descent into Chaos',¹ 'Frontline Pakistan', 'Armageddon in Islamabad', 'Pakistan's Lawless Frontier', 'Pakistan: a hard country', or 'Breakdown in Pakistan', to name but a few. Although such platitudes cannot explain the complexity of the multi-layered challenges the country faces, they show that the issues go beyond Pakistan's negative image. Most international attention centres around Pakistan's links with terrorism, especially its cross-border facets, while domestic causalities are either ignored or not properly taken into account. There is a common understanding, however, that today's Pakistan is characterised by several factors: a fragmented civil society and weak civilian institutions; a central governance system which undermines the state's federal organisation; a lack of human capacities; environmental problems; and unhealthy civil-military relations. These in turn find expression in an absence of civilian supremacy and subsequent military dominance, which is supported by an inefficient and corrupt bureaucracy in all decision-making areas and which creates an institutional imbalance. Security-related governance mechanisms are favoured over civilian procedures. Social and economic development is hampered not only by institutional shortcomings but also by a 'military leviathan' consuming most national resources. This is especially significant because the overstretched security apparatus was until now not able to ensure either stability or law and order in the country. Additionally, Pakistan's militarized politics have severe consequences not only for domestic developments but also for the country's foreign policy. There are also severe consequences as regards the CPEC's development: the CPEC not only enforces internal flash points but also limits constructive

¹Rashid (2012), Hussain (2007), Riedel (2009, June 23), Gul (2010), Lieven (2011), and Bano (2012).

rapprochements with Pakistan's closest neighbours, as it makes transnational conflict resolutions in practice non-negotiable—particularly territorial disputes with both India and Afghanistan. China too has to deal with several implications arising from the CPEC: China's western Xinjiang region, for instance, suffers from a weak industrial base and limited economic scale while facing both social and political challenges. Some of these problems are closely interlinked and could even reinforce each other in the context of large-scale development initiatives such as economic corridors. In sum, the challenges that might hinder the realisation of the CPEC are both internal and external, encompassing political, geostrategic, social, economic, environmental, and legal-constitutional aspects.

5.1 Constitutional and Legal Dimensions

Within Pakistan, China has been investing for a long time in the disputed areas of Gilgit-Baltistan, formerly known as Northern Areas, as well as Azad Jammu and Kashmir (AJK).² The two regions are at the centre of territorial disputes between Pakistan and India; Islamabad claims de facto autonomous control over both regions (Fazil, 2016, February 15). Historically, Gilgit-Baltistan and AJK were integral parts of the former Jammu and Kashmir princely state, which was ruled by the Hindu Dogra dynasty (Bansal, 2013, p. 4). Both Gilgit-Baltistan and AJK were taken over by Pakistan in the late 1940s. Following India's partition³ in 1947, an insurrection among the Muslim inhabitants broke out and the then commanding British officer Major William Brown of the Gilgit Scouts⁴ decided to side with the rebels and declare accession to Pakistan on 4 November 1947 (Cloughley, 2006, p. 7). The accession of Gilgit-Baltistan to Pakistan lacks legitimacy since it was viewed by some as a military coup against the then Maharaja of Kashmir, the supreme authority at the time (Brown, 2014, pp. 136–196; Singh, 2015, May 11). The seizing of control over AJK through the use of coercive force during the first Indo-Pakistan war (1947–1948) was also conducted illegally. These events, establishing Pakistani administration over parts of Kashmir, had far-reaching consequences for the region and its people (Bansal, 2008, pp. 81–101). A legal-constitutional limbo was created in these regions which is maintained by Pakistan's government until today (Singh, 2016b, March 4). Given that the Pakistani constitution does not recognise Gilgit-Baltistan as part of the country, the region has neither a defined relationship with the state of Pakistan nor a clear legal status (Ramachandran, 2016b, September 29). This

²Also known as 'Azad Kashmir' or Free [Azad] Jammu and Kashmir.

³The 'partition' refers to the territorial division of British Colonial India, which gave rise to the independent states of Pakistan and India on 14 and 15 August 1947 respectively (Mitra, Wolf, & Schöttli, 2006, p. 328).

⁴The Gilgit Scouts were a paramilitary force raised by the British colonial ruler in 1889 and deployed in the former princely state of Jammu and Kashmir.

means that the people of Gilgit-Baltistan have no citizenship rights and lack political representation (Hong, 2012; Sering, 2010, pp. 354–358). Facing steadily growing anti-Pakistan sentiments in the region, the central government decided to undertake a ‘political uplift’—in 2009 Islamabad issued the Gilgit-Baltistan Empowerment and Self-Governance Order (GBESGO), which not only renamed the region (formerly called Northern Areas) into Gilgit-Baltistan (Kreutzmann, 2015, p. 9), but made also gave Gilgit-Baltistan the appearance of a ‘quasi-formal’ Pakistani province (Puri, 2009, pp. 13–15). This legal framework did establish a new Gilgit-Baltistan Legislative Assembly (GBLA), even though it remained ineffective since power was concentrated in the Gilgit-Baltistan Council (GBC)—which controlled all executive and legislative functions (at least until recently) and was headed by the national Prime Minister (Bhasin, 2009, September 11). In February 2018, the Prime Minister of Pakistan Shahid Khaqan Abbasi decided to abolish the Council (Nagri, 2018, February 17), shifting power towards the Assembly, a move still to be finally approved and implemented by national authorities in Islamabad. Until then, the people of Gilgit-Baltistan will remain excluded from crucial decision-making bodies—especially those dealing with the CPEC initiative. Critics claim that earlier attempts to improve the local population’s political situation, such as the aforementioned GBESGO, were only ‘designed to give the impression of liberal self-rule’ (Singh, 2015, May 11). In other words, they served as tactical tools to calm the opposition within Gilgit-Baltistan in its struggle against Islamabad in general and the CPEC in particular.

Given China’s increasing demands for judicial clarity of its investments, the CPEC might force Pakistan to address the legal-constitutional status of Gilgit-Baltistan (Yasir, 2016, January 13). Beijing is looking for ways to legalize the implementation of the CPEC—which is being constructed on disputed territory. The Pakistani government could, for instance, officially integrate Gilgit-Baltistan as the nation’s fifth province (Chandran, 2016). This region, however, was never part of the former princely state Jammu and Kashmir, hence such act would be challenged by a lack of legitimacy (Sood, 2016, August 24). In fact, legal commitments by the former Maharaja regarding India, especially the accession treaty, did not include Gilgit-Baltistan (Ali, 2015, August 9). Islamabad might therefore see the integration of Gilgit-Baltistan into Pakistan as justified and in line with the regulations set by the former British colonial rulers in order to implement the transfer of power and divide British India (Singh, 2016b, March 4). The downside of such political rationale is that if Islamabad annexed Gilgit-Baltistan, Pakistan would lose its normative argument against New Delhi’s efforts to incorporate the Indian-administered part of Jammu and Kashmir, and would eventually give up its claim over the disputed territories. Islamabad is thus walking a thin line between giving Gilgit-Baltistan a ‘certain constitutional status’ as well as political rights and avoiding the impression of a constitutional integration of this area (Singh, 2016b, March 4). The former would violate the pending UN resolutions of 13th August 1948 and 5th January

1949,⁵ which consider that the future status of Jammu and Kashmir should be determined in accordance with the results of a free and impartial plebiscite (Akram & Midhat, 2015). These UN resolutions are of great significance for Islamabad since, at least in theory, they keep the option open that the people of Kashmir might vote in favour of Pakistan. These are the reasons why the GoP has hesitated to annex Gilgit-Baltistan officially.

Understanding the territorial disputes involved is fundamental for a successful implementation of the CPEC in the short run as well as for its smooth functioning in the long run. Gilgit-Baltistan, as the only land connection between Pakistan and China, would see most roads, pipelines and communication networks run through its mountainous areas (Ramachandran, 2016b, September 29). Being located close to the Chinese Xinjiang province, as well as to Afghanistan's Wakhan Corridor, AJK, Pakistan's KPK, and India's Jammu and Kashmir, the geostrategic relevance of Gilgit-Baltistan is enormous—in fact, the implementation of the CPEC is impossible without the region (Sood, 2016, August 24). It is thus imperative for Islamabad to ensure complete control over this increasingly restive area. The issue of control is essential since the CPEC has severe negative impacts affecting all spheres of governance and economy, as well as public and private life. In sum, the legal-constitutional challenges involved, combined with the negatively perceived trajectories of the CPEC initiative, could all lead to increased political resistance against Beijing's investments as well as function as a stumbling block for non-Chinese economic engagements in the region.

5.2 Security and Law and Order Dimensions

For multiple reasons, during the last years (or decades) both economics and violence levels in Pakistan worsened dramatically. The country continues to face multiple security challenges—including religious extremism, radicalisation, sectarian and ethno-political violence, and severe issues relating to law and order. The overall lack of security in Pakistan determines one of the greatest challenges for the country's development and economic cooperation with other countries, especially regarding the attraction of foreign investment. This is gaining significance not only in the context of economic relations between Pakistan and India but as regards other neighbours too. Most remarkable in this context is that despite earlier development projects financed by Beijing (e.g., the KKH), Chinese workers and companies are now increasingly targeted. As Andrew Small (2015) states,

⁵For more details, see 'the India-Pakistan Question' in the United Nations, Repertoire of the Practice of the Security Council, Chap. 8: Consideration of 'Questions under the Council's Responsibility for the Maintenance of International Peace and Security' [1946–1951], pp. 344–352. See: http://www.un.org/en/sc/repertoire/46-51/Chapter%208/46-51_08-16-The%20India-Pakistan%20question.pdf

instead of being known as China's gateway to the Gulf, Pakistan has developed a reputation as the most dangerous country to be an overseas Chinese, with kidnappings and killings taking place with disturbing regularity (Small, 2015, p. 98).

The security threat level was so high that Beijing was even considering removing its workers from the country, thus putting the economic ties between China and Pakistan at risk (Small, 2015, p. 99). These security issues threaten both the implementation and smooth functioning of the CPEC in the long-run (Hussain, 2017a, June, p. 7; Markey & West, 2016, May 12, p. 7). As we shall see, the biggest challenges as regards a stable security situation in Pakistan include (1) the Baluchistan factor; (2) the Uyghur issue; (3) domestic terrorism, militancy and ungoverned territories; and (4) international jihadism.

5.2.1 The Baluchistan Factor

The ongoing insurgency in the Baluchistan province presents one of the main security challenges for the implementation of the CPEC. The Gwadar port, the CPEC's focal point, is located in this province (Economist, 2015a, June 6). Its vast natural resources and geostrategic location make Baluchistan a vital part of the CPEC's success. However the relationship between the Baloch people and the central government has always been strained (Axmann, 2012; Jetly, 2009, p. 213; Wolf, 2017d, June 8). Today, Baluchistan presents one of the most complex and multidimensional conflicts in the region. Covering over 40% of the country's landmass (around 347,190 km²), Baluchistan is the largest of Pakistan's four provinces (Grare, 2013, April 11, p. 25). It is also the least populated region in the country (Grare, 2013, April 11), comprising around 12.34 million inhabitants⁶ (out of approx. 208 million as total population of Pakistan). Although the region is rich in energy and mineral resources,⁷ as well as geostrategically very important (Mitra et al., 2006, p. 20; Wirsing, 2008), Baluchistan is Pakistan's most impoverished and least industrialised area, with the nation's lowest literacy rates and extremely high levels of so-called multidimensional poverty (MPI, 2016, p. 16).⁸ The poverty rate has more than doubled in the last 25 years, and public schools suffer from lack of

⁶As per the Population of Baluchistan Census 2017, <http://www.pakinformation.com/population/Baluchistan.html>

⁷Baluchistan possesses a remarkable amount of both metallic and non-metallic minerals: Antimony Ore, Barytes, Chromite Ore, Coal, Copper, Fluorite, Gypsum, Anhydrite, Iron Ore, Lead-Zinc Ore, Limestone, Magnesite, Marble, Quartzite, Sand, Gravel, Sulfur.

⁸The highest incidence of poverty in Pakistan prevails in Baluchistan, where more than half (52%) of the households live in poverty. The situation becomes worse when one considers the urban-rural divide: rural Baluchistan has the highest incidence of poverty in Pakistan, where three-quarters of the total households (74%) living below the poverty line and 29% of the households living below the power line. Urban poverty in Baluchistan is much lower than that occurring in the countryside (Naveed & Ali, 2012, p. 19).

teachers and classrooms (SADF, 2017b, January 10). Teachers and educational centres that exist in Pakistan are referred to as ‘ghost teachers’ and ‘ghost schools’ as they usually exist only on paper (Shah, 2016, September 9). Health indicators are equally bad. Maternal mortality is almost three times higher than in the rest of the country and about 15% of the population suffers from Hepatitis B or C (Brohi, 2016, August 28). Secular and anti-religious movements among the Baloch people on the one hand and growing jihadism on the other often lead to sectarian clashes (Keck, 2013, January 23). The national civilian and military elites apply strategies meant to maintain control over Baluchistan, affecting all spheres of life of the Baloch people. For instance, the Punjabi-dominated central government ousted the Baloch from local political decision-making processes by appointing non-Baloch peoples to provincial institutions. In addition, the central government does not shy away from dismissing ‘inconvenient’ provincial governments, treating Baluchistan as an ‘internal colony’ (Haider, 2008, June 10). The Punjabi-dominated government applied the same strategy in Baluchistan as the one used to control the former East-Pakistan wing, today’s Bangladesh (Bass, 2014; Mascarenhas, 1986; Wolf, 2017a). Prior to the Bangladeshi Liberation War of 1971, Pakistani security forces and their local collaborators conducted a large-scale genocide, leading to the death of three million Bangladeshis. We can find similarities between the suppression of the Bangladeshi people in the past and Islamabad’s current attempts to silence the critics of the CPEC project, most of which come from Baluchistan, Gilgit-Baltistan, and rural Sindh. It can be assumed that the central government keeps the development of both institutional and human resources in Baluchistan extremely limited purposefully by neglecting and under-funding the educational sector. Paradoxically the central government—while denying funds for Baluchistan’s educational institutions—claims the province itself is responsible for the poor state of education. The government instead promotes ultra-conservative religious schools known as madrasas. It claims to be obliged to take care of education in Baluchistan due to the lack of sufficient local capacities; high illiteracy rates and a need for human resources are the main arguments (Syed Fazl-e-Haider in Aamir, 2015a, June 27). Through madrasas the central government aims to promote Islamisation in order to weaken the secular Baloch opposition. The consequent increase of violence is used to justify the deployment of troops and use of force in Baluchistan. Islamabad also takes action to change the social demography of Baluchistan (Gishkori, 2015b, September 9) in order to weaken the demands of the local people for political self-determination. Pakistan conducts a ‘guided migration’ of non-Baloch people from other provinces, especially from Punjab, into Baluchistan. The Baloch people are thus becoming a minority in their own homeland. The massive immigration of foreign workers and settlers into Baluchistan can undermine the local culture of the Baloch people and, as the Baloch people themselves perceive it, threatens their collective identity. The influx of Chinese companies and workers enhances this trend further. The Balochi perception that a local, shared feeling of collective belonging does not receive any attention in Islamabad reflects the effects of cultural suppression and deprivation. In Gwadar alone, one million newcomers are expected to settle in the upcoming years; this would outnumber the Baloch population and threaten both free competition and local

businesses in Baluchistan. The Baloch people argue that their discontent with the Pakistani government is a ‘logical response’ resulting from being a marginalised component of a highly centralised governance system dominated by the all-powerful Punjab province (Wolf, 2017d, June 8). Instead of addressing local demands politically,⁹ the central government responds with an excessive use of force when suppressing dissent and critical voices of Baluchistan. Feeling militarily oppressed, economically exploited, and socially and politically side-lined, the Baloch people have been involved in several armed uprisings against Islamabad¹⁰ (Wirsing, 2008), creating an unfortunate environment for the successful establishment of any large-scale development project in Baluchistan. The Baloch people do not identify the CPEC initiative as an opportunity for economic and social improvement, but rather as an instrument strengthening the power of the central government.

5.2.2 *The Uyghur Issue*

The **Uyghurs** are a distinct and mostly Sunni Muslim ethnic community residing in China’s Xinjiang Uyghur Autonomous Region (XUAR), the restive and politically unstable province inhabited by around eight million mostly Uyghur people (Bhattacharji, 2012, May 29; Curtis & Scissors, 2012, p. 4) who are one of China’s 55 recognised ethnic minorities (Beech, 2014, August 12).

5.2.2.1 **Genesis of the Uyghur Conflict**

The Uyghurs feel suppressed by the Chinese central government and perceive Beijing as a ‘colonising power’ (Holmes, 2015, July 9) attempting to undermine their cultural identity as well as political and religious rights while exploiting the region’s rich natural resources. The Uyghurs identify themselves as the indigenous inhabitants of Xinjiang, which they refer to as ‘East Turkistan’ (Pantucci & Schwarck, 2014). The Eastern-Turkic speaking Uyghurs are in fact closely connected to Central Asia (Keck, 2014, October 22). The Uyghur majority calls for separation from China and for the creation of their own state, the republic of ‘East Turkistan’—or at least for greater autonomy (Chang, 2014, December 10; Pantucci & Schwarck, 2014). Xinjiang constitutes one-sixth of China’s territory, and the Chinese perceive it as an integral part of the country (Pantucci & Schwarck, 2014). China is therefore incentivised to tighten its control over the region for

⁹For example, higher representation in the National Assembly, restructuring of the constituencies (especially the creation of more and smaller ones), new (fair) system for the distribution of revenue, among others.

¹⁰Since independence, the Pakistani state and Baloch nationalists had already fought on four occasions—in 1948, 1958, 1962, and 1973–1977 (Grare, 2013, p. 25). Currently, Baluchistan is witnessing the fifth insurgency movement.

both economic and geostrategic reasons. The Chinese government struck down Uyghur separatist intentions several times in the past, leading to a radicalisation of the Uyghur militancy. The situation is even more complex considering that Uyghur separatism is not just an ethnic-nationalist movement but also has a religious dimension. Muslims in Xinjiang feel oppressed by both central and regional authorities, which are dominated by the Han Chinese majority (Aljazeera, 2009, July 6). These intervene in the Uyghurs' religious practices, for instance by banning public worshipping and fasting during Ramadan (Aljazeera, 2015c, June 18; Matta, 2015, February 18; Meyer, 2016, June 14).

Reacting to the increasing militancy among radicalised Uyghurs demanding separation from China, Beijing enforced regulations, raised the budget for internal security, and intensified activities so as to combat terrorism, separatism, and religious extremism (Keck, 2014, October 22; RFA, 2015, June 29). Tensions between the Uyghurs and Han Chinese increased dramatically after July 2009 when clashes between the two communities broke out in Urumqi, Xinjiang's capital, leading to at least 195 fatalities (Hussain, 2017a, June, p. 14). Another wave of violence occurred in 2012; it was followed by several others in the next years.¹¹ In response, Chinese security forces conducted large-scale raids aiming to suppress public disorder. Almost all those arrested were Uyghurs (Aljazeera, 2016, March 13). This led to a massive Uyghur migration from China to other countries, including Pakistan. Pakistan is home to around 1000 Uyghur families, including many who left China.¹²

5.2.2.2 Organised Uyghur Militancy

The Uyghur militants are organised under an umbrella group, the East Turkestan Islamic Movement (ETIM)¹³—which was labelled by the US as an 'extreme separatist group' and terrorist organisation (U.S. Department of State, 2002; Xu, Fletcher, & Jayshree, 2014, September 4) with close links with the Tehrik-i-Taliban Pakistan and other Pakistani militant groups (Hussain, 2017a, June, p. 14; Matta, 2015, February 18). It is assumed that the Uyghur militants mingle with other international jihadist networks such as al-Qaeda and the Islamic State (IS)¹⁴ so as

¹¹It is reported that in 2013 and 2014, around 700 people were killed in political violence (Surya & Tiba, 2015, March 19). In 2014, Xinjiang witnessed a total of 27,164 arrests, a 95% increase from 2013 (Abuza, 2017, August 15). Furthermore, Chinese courts convicted 712 suspects for the incitement of separatism, terrorism and related charges (Abuza, 2017, August 15). In 2015, that number jumped to 1419.

¹²Especially in the 1950s and 1960s, many Uyghurs left China and migrated to Pakistan (RFA, 2010, April 6).

¹³Another large Uyghur militant group is the Turkestan Islamic Party (Hizb al Islam al Turkestani), aiming to establish a territorial entity that stretches beyond the borders of today's Xinjiang (Pantucci & Schwarck, 2014).

¹⁴According to Chinese officials, about 300 Uyghurs from Xinjiang joined IS (Surya & Tiba, 2015, March 19).

to attain their separatist goals (Keck, 2014, October 22). Both the UN Al-Qaida Sanctions Committee and the Taliban Sanctions Committee listed the ETIM for its associations with al-Qaeda (U.S. Department of State, 2002). Besides serving both al-Qaeda and the Islamic State as fighters in Syria and other countries, the ETIM supports the Afghan Taliban in their anti-US and anti-NATO activities. Uyghur fighters fought alongside both al-Qaeda and Taliban forces in Afghanistan during the US-led Operation Enduring Freedom, and offered support in fight against NATO's International Security Assistance Force (ISAF) mission. Uyghurs also gained some experience in Chechnya and were involved in terrorist activities in Central Asia; they were behind the 2002 attacks against the US Embassy (Ghosh, 2012, May 31; U.S. Department of State, 2002) and those against the Chinese Embassy in 2016, both in Kyrgyzstan. Uyghur militants and their sympathisers¹⁵ are also alleged to be involved in the deadly 2015 bombing of Bangkok's Erawan Shrine, a popular tourist site among Chinese visitors (BBC, 2015d, August 17; Sherwell 2015, August 29).

However, despite their engagement outside the region, the ETIM remains focused on planning attacks which specifically target Chinese citizens and projects in the Afghanistan-Pakistan region (Kucera, 2011, August 1; Mehsud & Golovnina, 2014, March 24; Reuters, 2015b, January 14; Tiezzi, 2015b, April 21). Beijing thus interprets the Uyghur issue primarily in the context of a rising global jihadist movement and radicalised Islamic fundamentalism. China classifies the militant Uyghurs as a severe threat towards China's national security and territorial integrity (Joscelyn, 2008, October 9; Wolf, 2015a, July 21). However this rationale grossly oversimplifies the Uyghur challenge. In any case, the crucial point in the Chinese argument is that the Uyghur cause is increasingly hijacked by the global Jihadist movement (Wolf, 2016i, January 12).

5.2.2.3 The Uyghurs and the Global Jihadist Movement

In the early stages, neither the Islamic State or al-Qaeda seemed to engage much with the Uyghurs, showing only little interest in the Chinese Muslims' situation; however, this has recently changed. It is important to note that active international terror organisations—the Islamic State and al-Qaeda in particular—declared jihad against China by condemning Beijing for poorly handling of the Uyghur issue, referring to the Chinese state as an 'enemy of all Muslims' (Mehsud & Golovnina, 2014, March 14; Nash, 2014, October 27). This is classic Sunni-jihadist propaganda which was also present in Uyghur rhetoric, as seen in various video materials depicting the Uyghurs calling for global jihad and uprisings within China (Pantucci & Schwarck, 2014). This led to the creation of 'Uyghur terrorist inroads' into Syria, Turkey, and Central Asia, as well as South and Southeast Asia. In search for a shelter in both Pakistan and Afghanistan, especially during the Taliban regime, the Uyghurs

¹⁵It is believed that one of the main suspects belongs to Turkey's Grew Wolves, a neo-fascist organisation in Turkey (Sherwell, 2015, August 29).

intermingled with international terrorist organisations, notably with al-Qaeda. After receiving training and equipment, Uyghur militants were introduced to the ideology of ‘global jihad’. South Asia’s experience with Uyghur militancy reveals the security implications of this issue to a large extent. In the AfPAK region, China’s Uyghurs have proven not only to be an unusual source of frictions in bilateral China-Pakistan and Afghanistan-Pakistan relations but also to increase regional instability (Haider, 2005). Uyghur issues also cast shadows on Pakistan-Turkey relations as well as add to the simmering tensions between Turkey and China (Reuters, 2014a, November 28). As part of its general strategy meant to appease domestic jihadist elements, Pakistan used to adopt a rather tolerant attitude toward Uyghurs living in its territory; the country also ignored their separatist activities in neighbouring China for several decades. This policy, however, changed in the late 1990s in response to China’s concerns about the fact that Pakistan had developed into a hideout for Uyghur extremists—especially its lawless tribal areas bordering Afghanistan (Mehsud & Golovkina, 2014, March 24). According to China’s *Global Times*, Uyghur militants intended to use fake Turkish passports to enter both Afghanistan and Pakistan¹⁶ and join the international jihadist network (Aljazeera, 2015a, July 12). In both Afghan and Pakistani camps, which were funded heavily by sources from the middle east, Uyghurs received ideological indoctrination along with military training in weapons and explosives (Ghosh, 2012, May 31; Hussain, 2017a, p. 14).

5.2.2.4 Uyghurs as a Threat for the CPEC

The size, scope, and capacity of the ETIM are so far unclear. This also applies to other militant Uyghur groups operating outside China such as the Turkestan Islamic Party. A 2014 Reuters report estimates there are around 400 Uyghurs in Pakistan and 250 in Afghanistan; *Global Time*’s calculation counts about 300 Uyghurs within China fighting for the cause of an Islamic State (Mehsud & Golovkina, 2014, March 24). Yet these numbers are not verified and thus questions appear not only regarding how large the Uyghur terrorist network actually is but also the level of threat it represents (Ghosh, 2012, May 31; Tiezzi, 2015d, January 15). Although the number of Uyghur militants may seem marginal (they currently keep a lower profile in Pakistan) these fighters do constitute a serious threat: their size and material resources are compensated by logistic, financial, and personal support from both domestic and international jihadist networks. Uyghurs can also become integrated into the existing jihadist structure and actions. This is of particular concern since the IS is increasing its activities in the AfPAK region. Through Uyghurs, the IS could

¹⁶Uyghurs with fake Turkish passports were also found in other countries, for example 155 in Malaysia in October 2014. China claims that Turkish diplomats in South Asia had facilitated the illegal movement of Uyghurs (Reuters, 2015b, January 14).

work with both al-Qaeda and the Taliban in the form of issue-based cooperation, a strategy which seemed rather unfeasible before.¹⁷

Furthermore, despite their small number, Uyghurs determine an extraordinary threat because they represent a new type of terrorist—‘full-time, professional, international acting jihadists’. Interpreting ‘jihadism as a profession’, many of them are joining international jihadi groups for economic reasons rather than for the ideological notions or traditional links with certain groups such as the Afghan Taliban and al-Qaeda. Due to historical reasons, Uyghur fighters in general are ‘popular’ among IS recruiters; IS seems to be attracted to Uyghurs also because of their geographical, demographic, and socioeconomic diversity in terms of force composition. Many Uyghurs are older and poverty-stricken, as well as often accompanied by their families when forcefully relocated from their Chinese homeland. Many Uyghurs are therefore not just ‘seasoned fighters’ (like many Taliban mercenaries in Afghanistan are), but instead look for long-term engagements everywhere from Syria to South and Southeast Asia. It is noteworthy that the number of Uyghur fighters in Syria has been growing significantly in the last years¹⁸ and that many were recruited in the AfPak region. These engagements at the ‘global battlefields of jihad’ determine a critical juncture for Uyghur militants with regard to both strategy and methods: in order to gain support for their fight against China, they not only attacked Chinese facilities abroad but also joined terror groups in foreign parts. They also gradually acquired more technical skills and switched to more sophisticated weapons.¹⁹ Due to the growing number of refugees building up vast transnational networks, the internationally operating Uyghur terrorists gained additional strength. These networks became involved in a new and growing terrorist-crime networks as both petty criminals and terrorists.²⁰ Being less involved in sectarian tensions, IS finds the Uyghurs attractive despite their lack of combat experience. Lastly, as they cannot turn their backs to either China or other neighbouring countries without facing harsh reactions, the Uyghurs are becoming dependent on affiliated terror organisations within their host countries. Thus, as indicated, the Uyghurs are exploited by the global jihadist movement. This happens in two ways: (a) directly, because the Uyghurs are indoctrinated and manipulated by the jihadists so as to fight for them, and (b) indirectly, since the persecution of the Uyghurs as members of the Sunni Muslim community (*Umma*) is utilised as part of an ideological platform aiming to unite IS, al-Qaeda, and the Taliban operating in South and Central Asia.

In this context, the CPEC could become a primary target for Uyghur militants and affiliated terrorists so as to fight China and to revenge Pakistan’s change in its

¹⁷Because of the rather competitive than cooperative relationship between al-Qaeda and Islamic State as well as the local focus of the Taliban.

¹⁸According to the latest available surveys, the number of the Uyghur fighters in Syria are running in high hundreds or even thousands (Ali, 2016b, March 2; Pantucci, 2016a, September 1).

¹⁹Initially, their preferred to use knives.

²⁰See for the increasing significance of the Crime-Terror Nexus in detail, see Basra, Neumann, & Brunner (2016).

Uyghur policy from appeasement to abatement. The situation became more difficult for the Uyghurs in the AfPak region due to Chinese pressure on Pakistan, in consequence of which Islamabad conducted various military campaigns aiming to please Beijing such as Operations Raddul Fasaad, Zarb-e-Azb, Koh-e-Sufaid, or Rah-e-Nijaat, to name a few (Nabi, 2016, December 28; Wolf, 2016f, June 26). The Uyghurs were forced to leave their camps in Pakistan and move to Syria or other war-torn areas; many were sent to China despite tough treatment and the threat of capital punishment by the Chinese authorities (Mehsud & Golovnina, 2014, March 24; RFA, 2011, August 10). Paradoxically, western governments and media both underreport the deportation of Uyghurs from Pakistan to China—especially as compared to the coverage of Thailand’s 2015 decision to repatriate illegal Uyghur migrants to Beijing (Holmes, 2015, July 9; Reuters, 2015a, July 10). Apparently, the need for Pakistani support in the war against terror and the subsequent multi-national engagement in Afghanistan, in addition to close Sino-Pakistani ties and China’s role in fighting international terrorism, silenced the international (Western) critique of Islamabad’s approach towards the Uyghur issue (Wolf, 2015a, July 21).²¹

In order to fully assess the Uyghur threat one needs to consider their activities and respective circumstances beyond regional borders. Turkey, which traditionally maintains good relations with Pakistan, was surprisingly silent about the situation in the country, despite being—much to Beijing’s displeasure a—major host for displaced Uyghurs (Reuters, 2014a, November 28; Tiezzi, 2015d, January 15). It seems that Turkey changed its position vis-à-vis the Uyghur issue and became more receptive towards China’s point of view. Anatolian Turks and Uyghurs share ethnic features; they are also bonded by religion and culture (Girit, 2015, July 9). Turkey’s interest in the Uyghur situation in Xinjiang seems obvious. Religious radicals and ultranationalist conservatives within Turkey such as the neo-fascist organisation Grew Wolves or the rising nationalist civil society organisation Turanci Movement Platform (Turancı Hareket Platformu) both showed sympathy for Uyghur resistance against China (Aljazeera, 2015c, June 18). There is a growing anti-Chinese sentiment in Turkey, as evidenced by the burning of Chinese flags, attacks on Chinese restaurants, tourists, and even the consulate and embassy in Ankara²² (Aljazeera, 2015b, July 5; Erdemir & Tahiroglu, 2015, July 30). Anti-Chinese agitations also received immense support from the radical Islamist press, the Turkish state media, and President Recep Tayyip Erdogan (in his search for support from conservative political powers in the context of 2015’s the general elections).

Considering the ‘open sympathies’ for Chinese Muslims and the exchange of diplomatic blows between Ankara and Beijing (Dorsey, 2015, July 15), one would expect friendly ties between the Turkish and Uyghur peoples; however, the relationship turned sour for several reasons. Firstly, anti-Chinese protests were inspired not

²¹ Also in the Cambodian case of 2009, where a group of ethnic Uyghurs who had sought political asylum, got returned to China, international responses remained on a relatively moderate level (RFA, 2010, April 6).

²² Summer of 2015.

by seeking justice for the Chinese Uyghurs but because of domestic power political dynamics. Instead of benefitting from Turkish support, the Uyghurs had to face indifference, racism, and discrimination against all peoples of Asian origin—including themselves. Secondly, the latest shifts in Ankara's foreign policy, especially Erdogan's policy towards Moscow—which is perceived as anti-Uyghur—impacts Turkish attitudes towards the cause. Besides Turkish military involvement in Syria, the country's rapprochement with Russia was criticised by some 'Islamist hardliners' who identify Moscow with the genocide in Aleppo, mass killings of Muslims, and numerous other crimes against humanity. Additionally, Moscow's increasing involvement in Afghanistan and Central Asia, and the emerging Sino-Russian regional security cooperation in counter-terrorism, both have significant repercussions for Turkey. Thirdly, in order to revitalize Turkey's economy, Erdogan wants Turkey to join the BRI initiative (Singh, 2016a, October 24)—hence the Uyghur militants identify Turkey as part of the 'Chinese Orbit'. Given Uyghur attempts to fight China both inside and outside its borders by targeting Chinese economic and geopolitical interests, Turkey can easily become the focus of Uyghur separatists and other anti-Chinese forces.

International ignorance regarding the Uyghur situation in China and Pakistan can particularly strengthen the Uyghur militancy and provide an additional incentive to jihadists who wish to further exploit the Uyghurs' struggle for independence as a means to improve their social, cultural, economic, and political conditions. The Uyghur demands, however, are hardly in line with those of international jihadist organisations, which would rather try to incorporate the Uyghurs into a greater Islamic Caliphate ruled by their own notions of an Islamic fundamentalist state and society (Wolf, 2017a, September 26).²³ Given the aforementioned circumstances, one can expect further radicalisation and more attacks on foreign targets—foremost Chinese, Pakistani, and Afghan. What is also worrisome is that the 'prestige' attached to being a professional terrorist can lead to the creation of a new generation of terrorists. Additionally, armed Uyghurs are supported not only by 'established' jihadist groups such as the Taliban, the Islamic State, and al-Qaeda but also by political radical and militant groups—in majority from Muslim countries that are not affiliated with the broader global jihadist movement (like Turkey's Grew Wolves). The military defeats of the Islamic State in Syria and Iraq—and the subsequent return of the Uyghurs and other fighters to Pakistan and Afghanistan—can also have negative ramifications regarding not only a quantitative increase in the number of fighters in the region but also a qualitative strengthening of their capacities. The returnees would thus be better equipped than the then part-time mercenaries of the Afghan and Pakistani Taliban. Belonging to the groups already established in the AfPak region, we can expect the returnees to be accompanied by new yet extremely professional terror groups with

²³The inaugural issue of *Resurgence*, a new jihadist magazine published in English by al-Qaeda's media arm, As-Sahab ('The Cloud') Media, with a particular focus on the Asia-Pacific region, describes 'East Turkistan' as an 'occupied Muslim land' to be 'recovered [into] the shade of the Islamic Caliphate' (Resurgence, 2014, p. 50).

similar mindsets such as the aforementioned new types of Uyghur fighters. For example a group called Malhama Tactical, sometimes labelled as the ‘blackwater of jihad’, which functions as the first private jihadist training force and consultancy, would fall into this category (Arduino & Soliev, 2017, November 27)—its group members include battle-hardened fighters from Russia’s Muslim republics of Chechnya, Dagestan, Tatarstan, and other former Soviet countries such as Belarus and Uzbekistan (Arduino & Soliev, 2017, November 27). Being a major training force for young jihadists (including Uyghur militants), the Malhama Tactical became a highly dangerous group. The group also issued statements declaring a will to expand its activities from Syria to China—which can make Chinese and other regional security circles in both Afghanistan and Pakistan most concerned (Arduino & Soliev, 2017, November 27). Current developments can complicate the implementation of the CPEC as well as economic development in Afghanistan. The Uyghur issue could eventually threaten Pakistani-Afghan relations and challenge ties between Islamabad and Beijing, further complicating the regional enlargement of the CPEC.

5.2.3 Domestic Terrorism, Militancy and Ungoverned Territories

Domestic terrorism and international jihadism represent two separate phenomena threatening the implementation of the CPEC. Domestic militants acting against the CPEC are not exactly anti-Chinese; their goal instead is to use anti-CPEC activities as a ‘means to deal with the Pakistani state’ (Abid & Ashfaq, 2015, p. 155; Falak, 2015). On the other hand, international terrorist groups do perceive Chinese development projects in Pakistan as an opportunity to challenge Beijing itself. In other words, potential attacks from globally acting jihadists against the CPEC are designed to challenge Chinese national interests, not to harm Pakistan.

Independent Pakistan was always unable to adequately manage its state and internal security affairs—mostly because of poor governance, weakness of key institutions, and policy failures. Both military and civilian regimes ignored their responsibilities regarding fundamental needs of the people in terms of welfare, health, education, and rule of law. Consequently, parts of the territory—particularly the FATA, Southern Punjab, and Karachi—slipped out of the federal state’s control and became so-called ‘ungoverned’ territories (Bokhari, 2017, August 17)—meaning poorly controlled ‘areas within otherwise viable states where the central government’s authority does not extend’ because the state ‘lost control of some geographic or functional space within their territories’ (Rabasa, 2008, p. 2). Nevertheless, ‘ungoverned’ does not mean that political order disappeared. These areas are in fact wielded by actors other than formal state authorities—for instance by traditional or religious elites, warlords, or rebel organisations (Keister, 2014, December 9, pp. 2, 5). In Pakistan most political vacuums were filled by militant outlaws, terrorist groupings, separatists, criminal networks, and other armed elements. The menace of militancy in Pakistan is

multifaceted and deeply rooted in the country's political, economic, ethnic and societal characteristics (Azam & Javaid, 2017). Religiosity is the omnipresent element that makes militancy in Pakistan so complex. The most frequently cited reasons for militancy in Pakistan include the Afghan jihad, Kashmir insurgency, sectarianism (e.g., Shia-Sunni conflict), influx of refugees, Islamization and religious rhetoric, bigotry and rigid religious beliefs, anti-American sentiments, dictatorial rule, alarming socio-economic indicators (especially poverty, unemployment, health, illiteracy, inequality), relative deprivation, and social justice and lawlessness (Azam, 2014). The persistent increase of militancy in Pakistan is also caused by the mushrooming of private security forces acting on behalf of different groups. This leads to the establishment of a complex criminal-militant-terror nexus supported by variegated political-religious patronage networks. There are numerous cases in which terrorist or insurgent groups develop opportunistic alliances with criminal networks (Rabasa, 2008, pp. 2, 5).

Today, the extreme trends of militancy represent Pakistan's major security issue. From intolerance to extremism, radicalisation and violence, militants in Pakistan are undermining all spheres of state and society (Azam, 2014). Varied people and places become targets of militant activities in Pakistan: mosques, educational institutes, religious seminaries, and public areas such as markets, security forces, the judiciary, and politicians (Azam & Javaid, 2017, p. 189). The militant groups tend to 'vary by their sectarian commitments, ethnic composition, targeting, tactics, objectives, and theatres of operation'; however, all 'couch their activities as various forms of jihad and claim that violent jihad is a duty incumbent upon all Muslims' (Fair, Malhotra, & Shapiro, 2010, p. 507).

Pakistan's militancy increased both quantitatively and qualitatively, influencing the overall social and political development and economic performance of the country. Terrorism and militancy are the major factors hindering economic growth (Hyder, Akram, & Padda, 2015, p. 704). Economic costs include agricultural and manufacturing losses, low foreign direct investments, diminishing tourism, internally displaced people, large-scale destruction of both private and public property, restrictions on the people mobility, and ineffective security and defence activities, to name a few (Afridi, 2014, December 22; Hyder et al., 2015). The expenditures on law and order maintenance are also leading to severe economic distortions (Sami & Khattak, 2017, p. 31). Militancy in Pakistan significantly lowers living standards, social conventions and structures, resulting in long-lasting consequences (Ali, 2014).

5.2.4 *International Jihadism*

After the 9/11 attacks Pakistan came to be perceived as the world's epicentre of jihadist activities (Murphy, 2013, p. 1). As summarised by Ayesha Jalal (2011): 'while not all Pakistanis are terrorists, most acts of terrorism in the contemporary world carry the Pakistani paw print' (p. 7). Greig (2016, p. 23) agrees that virtually every terrorist incident since the attack on the twin towers was somehow connected

to Pakistan: the terrorists involved were either Pakistani citizens, of Pakistani origin, or supported by contacts in Pakistan. Hence the targets of US drone strikes within Pakistan included diverse ethnic groups and nationalities from outside the AfPak region (i.e., Arabs, Uzbeks, Uyghurs, Chechens, etc.). Pakistan is not on the US list of governments involved in state-sponsored terrorism, yet the ‘charge sheet’ against the South Asian country is a long one (Byman, 2005a, 2005b; Inkster, 2012, p. 168; Wolf, 2017a, pp. 109–110). The country remains, along with Iran, one of the major sponsors of terrorism worldwide. International experts confirm that Pakistan has not only been flirting with militant jihadism, but has been using terrorism as a state policy instrument for decades (Greig, 2016, p. 12). Such claims are backed by Pakistani elites themselves: former President Asif Zardari, for instance, publicly admitted that the country created and nurtured terrorist groups, such as Lashkar-e-Taiba (LeT) and Jaish-e-Mohammed (JeM), in order to achieve short-term tactical objectives (Nelson, 2009). The phenomenon of state terrorism in Pakistan thus stems from severe defects in the country’s political administrative system in general and unhealthy civil-military relations in particular. These are structural issues that prevent consolidation of any type of democratic reform or governance and hence pave the way for an uncontrolled and illegitimate use of force and state terrorism.

In the past, Pakistan was forced to clamp down on home-grown terrorist groups (Prasad 2015a, 2015b). It however became apparent that Pakistan only acted against militant groups with an openly anti-Pakistan agenda while terrorist organisations targeting Afghanistan and India were largely ‘overlooked’. Additionally, measures against these groups were ineffective and temporary, meant above all to appease the international community. Despite facing numerous insurgencies, armed confrontations, and sectarian violence, it seems that Pakistan is not willing to confront militant groups—such as the LeT and the Haqqani Network—which do not target the government of Pakistan. Conservative segments of Pakistan’s security establishment appear to be convinced that ending the country’s involvement with state terrorism would mostly benefit India and Afghanistan (the main targets of Pakistan-based cross-border terrorist groups). Furthermore, these hard-liners argue that Pakistan would face negative ramifications from formerly allied cross-border terrorist groups if and when the state would cease to support them (Tankel, 2011; Wolf, 2017a).

In this context, it is important to understand that Islamic religion itself is not necessarily the dominant factor contributing to the high level of jihadi terrorism in Pakistan (Murphy & Malik, 2009, p. 24). Rather, it seems that Islam has been blatantly misused as an instrument of policy implementation—not only by influential non-state actors but also by government agencies—so as to achieve certain societal and political goals. According to Malik (2011, p. 42), most of Pakistan’s rulers have sought to use Islam to enhance their political legitimacy and authority as well as undermine the political opposition. The process of Islamisation of both state and society provided the Pakistani military and intelligence with an opportunity to cultivate a pro-jihad climate and thus facilitate popular support for their activities abroad—such as conducting the resistance of the Afghan mujahideen against Soviet occupation or later engineering a build-up of Taliban forces within Afghanistan. Furthermore, the country’s religious radicalisation both strengthened and justified

the linkage between ‘mosque and military’ (Haqqani, 2005), which in turn supported and accelerated the push towards Islamic fundamentalism in the nation (Murphy & Malik, 2009, p. 25).

Pakistan has thus a long record of establishing, nurturing and protecting extremist jihadist networks with a strong potential to export terrorism across borders. The hard-liners within the army and the Inter-Services Intelligence (ISI) remain to this day in control of decision-making—blocking any change in the country’s mindset and obfuscating any liberal reforms or improvements in either domestic security or foreign policy (Rashid, 2009, p. 51). Cooperation between state authorities and Islamic fundamentalists—and terrorists—continues to be the *modus operandi* of the Pakistani government. The Financial Action Task Force (FATF)²⁴ at their joint plenary session in June 2018 in Paris placed Pakistan on the ‘grey-list’ for not doing enough regarding ‘anti-money laundering’ (AML) and ‘combating the financing of terrorism’ (CFT) (Dawn, 2018a, June 28; FATF, 2018, June 29); this clearly indicates the ongoing state support for jihadists within the country. Pakistan was so far able to avoid being designated on the FATF ‘black-list’²⁵—the list of ‘Non-Cooperative Countries or Territories’ (NCCTs)—which would lead to legal and penal procedures. But being on the watchlist (i.e., ‘grey-list’) does not imply direct punishable measures by the international community. It instead involves ‘increased scrutiny from watchdogs, regulators, and financial institutions that may turn adverse the climate for trade and investment’ (Talukdar, 2018, February 24). The ‘grey listing’ may harm the country’s financial sector and force foreign banks to reassess their operations, ultimately leading to Pakistan’s global isolation. In this context, experts argue that watch-listed countries—especially economically weak ones—will face more difficulties in meeting their financing needs and accessing international capital markets (Younus, 2018, March 1). Credit rating agencies may issue further downgrades. Jorgic, Price, and Chatterjee (2018, February 16) from Reuters notes that ‘a decline in foreign transactions and a drop in foreign currency inflows could further widen Pakistan’s large current account deficit’, which has led in the past to balance of payments crisis. It is also reported that Pakistan’s stock market witnessed a ‘significant correction as soon as news emerged on its inclusion in the terror watchlist’ (Talukdar, 2018, February 24).

²⁴The FATF intergovernmental organisation was founded in 1989 so as to develop policies designed to set standards and promote effective implementation of legal, regulatory and operational measures for combatting money laundering and other threats to the integrity of the international financial system. Since 9/11, the FATF focuses on preventing terrorist financing. For more information, see <http://www.fatf-gafi.org/about/historyofthefatf/>

²⁵In cooperation with the FATF and the International Co-operation Review Group (ICRG), Pakistan negotiated an ‘26-point action plan’ to address strategic deficiencies in the country’s anti-money laundering and counterterrorism financing regime. This process put Pakistan on the grey-list but was a necessary step to avoid an immediate black-listing. However, if Pakistan fails to implement the action plan’s commitments, which includes measures like ‘squelching of finances of Jamaatud Dawa, Falah-i-Insaniat, Lashkar-e-Taiba, Jaish-e-Muhammad, Haqqani network and Afghan Taliban’ (Syed, 2018a, June 29), blacklisting will be a very likely consequence.

Overall, the situation is unfortunate. Pakistan's policy of supporting both domestic and international jihadists poses a challenge to security and stability in the region and presents a huge risk for its own people—and for the country's development. Pakistan's political and military leadership is obviously unwilling to fully break with established patterns of involvement with state terrorism. Furthermore, Islamabad is reluctant to change its selective counter-terrorism approach of only fighting anti-Pakistan elements while appeasing cross-border militants. The efforts by Pakistani authorities to downplay potential implications of the FATF grey-listing on the Pakistani economy reveals that the country's national elite is not willing to change its policy of nonchalance and inaction regarding international commitments (Younus, 2018, March 1).

This will lead to severe consequences, especially in the light of Pakistan's FATF 'grey-listing'. Although it is yet to be seen in which areas and to what extent this will harm the country's economy, the country's international reputation will certainly be negatively impacted. A further limitation in Pakistan's diplomatic efforts so as to improve its external image (Iqbal, 2018b, February 18) and reduce (potential) negative effects of state-sponsored terrorism is revealed. Pakistan was 'grey-listed' mainly due to a proposal by the US which was backed by the UK, Germany, and France—showing an increasing EU critique. Besides, the decision by the global financial watchdog shows that Pakistan is losing patronage from traditional supporters like China and Saudi Arabia at the FATF and other cooperating platforms. Beijing, for instance, will not accept Pakistani activities that are not in line with its national interests. Pakistan's ongoing support for terrorists threatens Chinese investments as well as the overall image of both CPEC and BRI. This issue will gain significance when Pakistan fails to implement the '26-point action plan' as negotiated with the FATF regarding the AMF and especially the CFT. If Pakistan fails to address with the commitments taken in the context of the International Co-operation Review Group (ICRG) of the FATF, the country will be 'black-listed'. Being classified as one of the NCCTs will have severe legal and economic consequences, leading to the 'complete international financial and diplomatic ostracization' of the country (Nation, 2018b, June 28; Neelakantan, 2018, June 29).

In sum, besides the consequences related to its linkage with jihadism, the country's leadership must realise that the domestic landscape of militancy, terrorism and jihadism is undergoing tectonic shifts. Firstly, the country's security agents are losing control over many of these groups—which were traditionally recognised as steady allies. After constituting for a long-time what may be called 'assets' in Pakistan's strategic calculus, these forces are now turning in increasing numbers against both national state and society. The tremendous human losses resulting from this rising lack of control as well as the economic losses and overall deplorable levels of quality of life in the country are almost inconceivable. Secondly, while facing growing resistance from domestic militant groups, both military and civilian officials were reluctant to admit the growing presence of the IS in the country. It might be true that some years ago there was not much evidence of any significant physical presence of IS in the country. Yet relying on such low numbers disregarded known experience of how terrorism evolves over time. It ultimately led to apathy

and ignorance of the tremendously drastic and burgeoning ramifications that IS presence has in Pakistan's both present and future security scenarios as well as political trajectories. The growing number of high-level attacks by the IS on Pakistan's soil (ANI, 2018, January 8) points out that the appearance of this international jihadist group defines a completely new security paradigm: instead of being a hub for the 'exportation' of regionally-controlled state terrorism, Pakistan became a country increasingly attracting the importation of uncontrolled global jihadist elements. Instead of being a place of departure or for transit, Pakistan itself became a destination for international terrorist activities. Therefore the official, long-time denial of a noteworthy IS presence and influence in the country is both dangerous and hypocritical. It ignores the elasticity and resilience of both global and regional terrorist networks as well as Pakistan's role in the emergence of a global jihadist movement. Thirdly, both Pakistan's security forces and government should be concerned about the extraordinary impact that the IS can have on political stability and the institutional-administrative system. This group is deeply enmeshed with the strengthening of anti-democratic and anti-systemic tendencies and forces which already plague Pakistan—and serve as a dangerous source of inspiration for militant fundamentalists in the country. In addition, the jihadist forces are marked by a deeply anti-democratic and above all non-negotiable habitus. The IS, the Taliban, and other Islamic militant groups oppose any form of democratic government. They condemn as anti-Islamic and alien concepts all kinds of liberal values and norms, respect for human rights as well as democratic institutions such as political parties and elections. Furthermore, they are not interested in the social and economic development or modernisation of the country. As the IS emerges in force within Pakistan, the country's security circles must reassess the differentiating between 'good and bad' fundamentalists and the ambiguity in the fight against Islamic terrorism.

The aforementioned trajectories determine severe challenges for the CPEC. The likelihood of legal consequences by the international community will make it more difficult for Pakistan to attract foreign, non-Chinese investments, which will increase Pakistan's dependency on Chinese capital. Considering that China is becoming an ever more important focus for both domestic militants and international jihadists, we can expect an increase in anti-Chinese agitation and violence within Pakistan. This will force Pakistan's leadership to further militarise itself, always using disproportionate and illegitimate force so as to suppress both CPEC critics and the political opposition. The position of Pakistani jihadists will thus be strengthened, leading to a vicious circle of violence and counter-violence which may render the sustainability of the CPEC questionable.

5.3 Political, Institutional, and Administrative Dimensions

5.3.1 Political Discontent, Street Politics and Violence

Unfortunate political trajectories, coupled with a disastrous management of natural catastrophes, have created practical existential threats for large segments of Pakistan's population. Alarming levels of economic performance and the country's reputation as one of the most dangerous places in the world is leading to a widespread political alienation by the populace. Deeply entrenched frustrations among Pakistanis are further fuelled by limited opportunities for political participation—articulation of interests and their respective aggregation through political parties. Since Pakistan's political parties are highly personalised organisations, in which loyalty is more important than efficient agenda setting and implementation, they have been transformed into ineffective organisations, serving only the particular interests of specific political dynasties and pressure groups (Hussain, 2012, July 24). That public opinion holds established political parties and their respective leaders as working against the common good is not surprising. Pakistanis are increasingly turning towards alternative forms of engagement and mobilisation so as to gain a voice in the system—not only to protest against current conditions but also to enhance effective participation in the political decision-making process. This is reflected in a growing presence of protest movements in the country. Mass protests are not unusual for (non-party) political activists within Pakistan. There is a number of protest movements across the country addressing a variety of issues such as fair trade, economic and educational development, human rights, environmental problems, and labour and minority issues (Mitra et al., 2006, p. 296). As such, protest movements are not new creatures in the contemporary political landscape. They can rather be seen as societal phenomena deeply entrenched in the wider and rich timeline of Pakistan's socio-political movements. Student organisations and trade unions cultivating non-party political activism are a 'trademark' of the country's public protest scene since the 1950s and 1960s. Though different martial law and authoritarian civilian regimes often interfered with the activities of these organisations, many managed to survive due to donations from both international circles and Pakistani citizens living abroad. Political observers claim that protest movements can contribute to the build-up of civil society as both complements to and contenders with political parties and the electoral arena, thus contributing to the expansion and deepening the democratisation process in Pakistan. However, whereas the critique of politics and politicians is perceived as an essential part of most Western democracies, expressing disagreement in Pakistan indicates a 'chronic sickness' of political institutions. The core reason for this phenomenon is that democracy can only grow when the majority of the people are able to take part in the political debate through independently organised political behaviour—and by political actors whose actions manifest themselves in public campaigns, local initiatives, action groups, and social movements. In this context, one must state that the last two general elections (2013 and 2018) in Pakistan are the best proof that electoral participation is not enough to establish a democratic system worth the name (Wolf, 2013d, June). These elections should rather

be interpreted as successful attempts by the country's elites to mock the vision of democracy (at least for a short while). The country's establishment tried to produce an electoral result at the cost of all democratic norms and values so as to create a positive national image—to keep aid of the international community flowing and to give Pakistan's people the notion that the country is heading towards political stability and reform. However a real and sustainable participation of the masses in the political arena as well as a well-grounded role of independent civil society organisations are not in the interest of the establishment. Said establishment prefers to conduct political affairs behind closed doors, either directly through the army's top echelon or indirectly via governments installed by means of a military-supported pseudo democratic spectacle. The major aim of this political manoeuvring is to protect the economic interests of the elites. In practice, the civilian and military elite establishment is against any remarkable reform in the country, especially when it comes to the implementation of mechanisms for the redistribution of wealth and power and the containment of their deeply entrenched influence in political decision-making (Hussain, 2012, July 24).

Since its inception, Pakistan witnessed major protest movements determining a long history of street politics. One of the most remarkable examples was the 'Movement for the Restoration of Democracy' (MRD)²⁶—a populist, left-wing political alliance formed to oppose and ultimately end the military government of President General Muhammad Zia-ul-Haq in the early 1980s. The MRD (1981–1984) was the greatest non-violent protest movement in post-colonial South Asia. More recent social and political movements were initiated by agents such as the 'cricketer-turned politician' Imran Khan and his party Tehreek-e-Insaf (PTI),²⁷ the cleric Muhammad Tahir-ul-Qadri's Pakistani Awami Tehrik (PAT),²⁸ and Khadim Hussain Rizvi's Tehreek-i-Labbaik Ya Rasool Allahs (TLYRA).²⁹ From a comparative perspective, such movements are not unique. Many world regions witnessed a tremendous increase in both peaceful and violent movements aiming for increased political participation. But there is a major difference between movements outside Pakistan and the endeavours of Khan, ul-Qadri, and Rizvi—whose real and fundamental goal was to fulfil partisan interests and position themselves at the centre of Islamabad's political arena. Instead of promoting a positive interpretation of citizenship—for example through the independent, peaceful and constructive articulation of their interests and demands, respecting the constitution, and accepting

²⁶Following the suppression by the military, the MRD reassembled as the 'Alliance for Restoration of Democracy' and contributed successfully to the ousting of former COAS General and then President Pervez Musharraf in 2007 (Mitra et al., 2006, pp. 242–243, 289).

²⁷Imran Khan is a chairman of the PTI, the Pakistan Movement for Justice. Critics say that the philosophy of pursuing justice has gone bankrupt. Instead, the party adopted extreme political points of view, especially developed a 'soft-corner' towards Islamic fundamentalism (Wolf, 2013f, April 19).

²⁸For more details on Muhammad Tahir-ul-Qadri and his movement, see Wolf (2013j, February 8).

²⁹A hard-line religious party belonging to the Barelvi sect of Islam (Masood, 2017, November 27). Available at <https://www.nytimes.com/2017/11/27/world/asia/islamabad-protesters-blasphemy-deal.html>

the ‘rules of the game’—Khan, ul-Qadri, and Rizvi all encouraged populist and non-reflective criticisms specifically tailored towards the dissolution of government. Of course, it is a fundamental right in any democracy to be able to press a charge. However in the above-mentioned Pakistani cases the issue was not at all about protecting individual citizen rights or the ‘democratic livelihood’ of the demos. These ‘scam movements’, instead of producing much-needed positive and constructive energies, in practice contributed to the growing aggressive nature of Pakistani politics. They promote illegal protests, unrestricted political violence, and militant blackmailing as determining constituents of Pakistan’s political culture. As a consequence, violent agitations like those of the PTI, PAT, and TLYRA, instead of strengthening the notion that politics is not the sole affair of the establishment, pushing for social change and political reform, only further weaken the political system and its institutions. The existing reactionary power structures in Pakistan are so strong that each reform attempt is confronted with its own powerlessness. The power of the elites and corruption remain unchanged, benefiting the establishment and never the citizenry. Given these circumstances, it will be very difficult for Pakistan to develop a culture of constructive political participation and consolidate democracy so as to initiate reforms towards a fair distribution of political power and wealth.

The ability of political populists and religious extremists to manipulate people and engage in the promotion of radicalised political ideas and mass violence has severe ramifications for the CPEC. Street agitations usually lead to massive, violent clashes between protesters and security forces—and also to tremendous economic losses. There are occasions when the protest movements cause the blockade of the country’s major urban areas, leading to a standstill of nationwide trade and economic activities of entire regions.

5.3.2 Regional Imbalances and Inequity

As already indicated, Pakistan faces multiple internal problems, such as unhealthy civil-military relations, the Islamization of state and society, reactionary feudal structures, political radicalisation and violence, and political struggles. We have to consider in addition a number of regional imbalances³⁰ leading to centre-region conflicts. The disparity between Pakistan’s regions created major armed conflicts in the 1960s—leading to the break-up of the country’s eastern wing and subsequent creation of Bangladesh (Hamid & Hussain, 1974). Despite losing a large part of its territory and population, the issue of growing regional imbalances in Pakistan remained largely unresolved (Hussain, 1993, December). Pakistan instead continued to witness different development levels and growing imbalances across its regions

³⁰Regarding regional imbalances in Pakistan, see also Sect. 4.1.7.

(Jamal & Khan, 2003), leading to social and economic inequalities as well as political unrest.

The prospect of development and equality in Pakistan remains hindered by the unfortunate political trajectories. Development policies (and their implementation) have ‘seldom incorporated any significant element of equity’ (Rashid, 2009, p. 12). Mega projects like the CPEC have a tendency to either fall prey to lack of vision or stall on political tussles. Furthermore, large-scale development initiatives often face setbacks due to the lack of political will to share power with the regions and grant ownership to local residents (Fazil, 2016, February 15). It does not come by surprise that major urban areas in the Punjab and Sindh provinces are widely more developed than other areas in the country. Less developed areas include Baluchistan, the KPK, and rural Sindh. The situation in other areas under Pakistan’s administration, namely the Gilgit-Baltistan and the AJK, looks even more grim as regards social development and economic performance. As Abbas Rashid puts it, ‘a large section of the population has always lived a marginalized existence and the performance of successive governments has left much to be desired’ (Rashid, 2009, p. 12). The traditional tendency regarding policies that deal with inequality issues is flanked by a ‘discomfort with diversity’ among the Pakistani leadership. Excessive centralisation functions as a catalyst for the entrenchment of structural and systemic inequities—which in turn contribute to the rise of sub-nationalism, politicised ethnicity, religious extremism, and militancy (Rashid, 2009, p. 23). The anomalies in Pakistan’s political-institutional and power structure, combined with a pattern of unequal development, will likely have severe consequences for the CPEC initiative.

5.3.3 Lack of Good Governance, Inefficient Bureaucracy and Corruption

The absence of good governance is a critical issue in Pakistan (Tufail, 2018, May 5). Corruption lies at the core of the problem, affecting the country’s governance and administration. According to some experts, the quality of governance has not just worsened, it has completely collapsed (Bokhari, 2017, August 17). Corruption in Pakistan is widespread and can be found in all segments of society: public, private, political, judicial, commercial, and even the religious sphere (Chêne, 2008; Javaid, 2010, p. 123). It badly affects both domestic and foreign investment, lowers economic performance, hampers trade, causes distortions in the composition and magnitude of government expenditure, deteriorates the banking and financial systems, and strengthens exchanges within the informal and underground economies (Faisal & Jafri, 2017, p. 60). Political instability and unrest created an environment in which corruption can flourish and undermine governance. The persistent institutional clashes (for instance between judiciary and executive), constitutional crisis, lack of accountability, poor law and order conditions, reflect the poor quality of governance (Tufail, 2018, May 5) and alarming levels of corruption in Pakistan.

According to the 2017 Transparency International Corruption Perception Index (TI, 2018, pp. 5, 8), Pakistan was the 9th (out of 30) most corrupt country in the Asia Pacific, and the 60th (out of 176) most corrupt country in the world.³¹ The culture of impunity, weak institutional systems, lack of transparency, special economic status of the military, and the ability of powerful businessmen to flout competition laws in Pakistan discourage foreign investors from doing business in the country (BTI Pakistan, 2018, pp. 19–20). Furthermore, domestic companies, especially small and medium-sized enterprises, as well as local economic communities can hardly protect their interests—which further aggravates frustration. International corruption surveys indicate corruption as the third greatest obstacle to doing business in Pakistan—after government bureaucracy and poor infrastructure linked to an energy crisis (Javaid, 2010, p. 128).

But fraud, bribery, lawlessness, and the lack of credibility of the main economic and political actors are not the only reasons for the country's inability to 'clean its own house and restore public integrity' (Ibrahim, 2011, November 29). The build-up of corrupt clientelist networks among feudal elites, bureaucracy, and politicians added to the entrenchment of reactionary forces into the political-administrative system of the country. These networks function as major roadblocks for social reforms and socio-economic development. The failure to effectively collect taxes indicates the level of poor governance (Bokhari, 2017, August 17). Pakistan has always been run by a permanent bureaucracy, establishing an extraordinary technocratic-bureaucratic culture of governance. Additionally, economic power and market controls have historically been concentrated in the hands of a few prominent families and the military (BTI Pakistan, 2018, p. 20). Corruption, weak governance, and inefficient bureaucracy will continue to hinder law enforcement (Bokhari, 2017, August 17), which in turn will lead to severe distortions of free and fair competition. This will also impact the implementation of the CPEC since public procurement is a major area of corruption in Pakistan. In principle, Pakistani law³²

³¹Regarding the Global Corruption Barometer (GCB) 2013, 91% of the population in Pakistan think corruption is a problem, even a serious one. Moreover, 72% of the population believes that the level of corruption in Pakistan increased. Only 16% think the anti-corruption efforts of the government are effective (Martini, 2016, p. 3). Nearly half respondents admitted they paid a bribe for public services in the last 12 months, as the 2017 GCB survey showed (Pring, 2017, p. 8).

³²The Constitution of Pakistan provides for certain 'Fundamental Rights' which are available and enforceable against the federal state. Neither the central government (federation) or Parliament can act or pass any law contrary to or in violation of Fundamental Rights which may result in unequal or discriminatory or arbitrary treatment. The country's Public Procurement Policy is based on such principles and aims to achieve transparency and equal treatment for bidders. State authorities decided to establish a Public Procurement Regulatory Authority (PPRA) at the federal level, under the Public Procurement Regulatory Authority Ordinance 2002—followed by promulgation of Public Procurement Rules in 2004. Muhammad Saqlain Arshad points out that the PPRA is an autonomous body responsible for recommending laws and regulations governing public procurements. It is also responsible for monitoring the application of procurement laws and regulations as well as the performance of federal procuring agencies aiming to improve governance, management, transparency. Provincial Governments have independent Acts and Rules of Public Procurement for provincially owned entities (Arshad, 2017, July 4).

provides for open and competitive bidding in awarding government contracts (Chêne, 2008, p. 4). However, in practice, public procurement lacks transparency regarding government expenditures and decision-making, in particular when it comes to strategic sectors such as energy and infrastructure—the main areas of CPEC investment (Chêne, 2008, p. 4).

5.3.4 MILBUS and ‘Miltablism’: The State Capture by the Military

State capture refers to a societal, economic and political phenomenon that emerged as a global threat present in numerous countries—developing as well as developed—especially after the decline of the former Soviet Union (Mtimka, 2017, December 6). As a ‘theoretical’ concept, state capture gained prominence through the World Bank in its attempts to describe and measure political stability in transitional economies. Joel Hellman and Daniel Kaufmann (2001) point out that ‘in transition economies, corruption has taken on a new image—that of so-called ‘oligarchs’ manipulating policy formation and even shaping emerging rules of the game to their own, very substantial advantage.’ This happens through the providing of illicit and non-transparent private gains to public officials (Omelyanchuk, 2001). Hellman and Kaufmann (2001) name this behaviour as ‘state capture’. International experts state that state capture is one of the most pervasive forms of corruption,

where firms, institutions or powerful individuals or interest groups use corruption such as the buying of laws, amendments, decrees or sentences, as well as illegal contributions to political parties and candidates, to influence and shape a country’s policy, legal environment and economy to their own interests (Hellmann & Kaufmann, 2001; Martini, 2014, p. 1, 2).

It is crucial to understand that agents of state capture (‘captors’) do not include only firms and certain well-placed individuals. State capture can be also found in entire nations: here the armed forces, ethnic groups, kleptocratic politicians or organised criminal groups become extremely powerful and manage to shape the political decision-making process as well as influence legal frameworks (Martini, 2014, p. 2). Francis Fukuyama (2014) said that capture of the state reduces legitimacy and accountability regarding the population as a whole: the state’s decision-making bodies ignore public interest and favour only the interests of a specific group or individuals. Such

laws, policies and regulations which are designed to benefit a specific interest group are often times to the detriment of smaller firms and groups and society in general. In result, state capture can seriously affect economic development, regulatory quality, the provision of public services, quality of education and health services, infrastructure decisions, and even the environment and public health (Martini, 2014, p. 2).

State capture will thus make any development initiative more costly and time-consuming, as well as challenge the project’s overall sustainability. By creating distortions within the overall business environment, it can lead to an output decline

and waste of (mostly scarce) resources on unproductive expenditures (inefficient projects). In other words, the diversions of money and other resources (especially human resources) from areas of public interest towards partisan goals of powerful ‘captors’ hampers economic growth (Faisal & Jafri, 2017, p. 61). As Fukuyama (2014) put it, the process of state capture is a disease that afflicts all modern, public institutions such as the legislature, the executive, the judiciary and regulatory agencies—both at federal and local levels (Martini, 2014, p. 2).

It is argued here that the process of state capture by the military in Pakistan finds particular expression in two phenomena: ‘Miltablism’ and ‘MILBUS’. ‘Miltablism’ refers to a term coined by Najam Sethi (2014, August 15), from the Pakistani weekly Friday Times, to describe the ‘alliance between the army, its all-powerful Inter-Services Intelligence agency (ISI), the senior judiciary, the government bureaucracy, and some politicians’. More recently, large sections of the national media were forced into this ‘coalition’³³ (Khattak & Bezhan, 2018, June 3; Sayeed, Johnson, & Hassan, 2018, April 18). The ‘Miltablism’ underlines the conflict between military leadership and civilian government over political power. Its preponderance is often based on the argument that civilians dangerously squandered the opportunities they did benefit from so as to regain control over the bureaucracy.³⁴ This civilian co-option of parts of the bureaucracy is identified by Sethi as weakening the traditionally ‘military-bureaucratic steel-frame’ (‘military-technocracy’³⁵) which helped the army’s top echelon to achieve and maintain political leverage within the administrative-governance structure—including a decades-long direct and indirect rule of the country. However, all civilian attempts to loosen the soldiers’ grip over the bureaucracy provoked decisive interventionism into the political realm with generally negative consequences. The latest peak of this deeply entrenched conflict between soldiers and elected politicians appeared after former Prime Minister Nawaz Sharif took office for a third time as a result of Pakistan’s first successful transfer of power via general elections. Besides several unsuccessful attempts to gain control over the decision-making areas such as

³³The media was forced to stop critical reporting on the army’s involvement in the country’s politics and economy.

³⁴There is an an-going debate about how far the civilians ever had a chance to establish effective control over the armed forces and exercise their legitimate rights for political decision-making and running the affairs of the state. Here some argue that civilians never had either a realistic chance or the opportunity to establish functional oversight mechanisms, for example over the bureaucracy. However, others state that periods in the country’s history did exist in which civilians had the power to exercise a substantial amount of decision-making power, such as during Prime Minister office of Nawaz Sharif’s second term (1997–1999). However, due to corruption and autocratic tendencies by civilian leaders, it is argued that the military was forced to intervene in order to protect the country’s stability, a rationale which came to be known as the ‘doctrine of necessity’. For more information, see Wolf (2012a).

³⁵Understood as a praetorian regime dominated by the military, a coalition of the military and bureaucracy, or a coalition of military, civilian politicians and technocratic groups (Kukreja, 1989, p. 163).

national security and foreign policy,³⁶ Sharif was able to increase access to state resources for (civilian) corporate elites.

The allocation of state resources, contracts and other benefits within the economic domain was perceived by the military as a severe threat to their own business activities. This phenomenon was termed by Ayesha Siddiqi as ‘MILBUS’. The term conceptualises the business activities of the military, including all economic activities ‘regardless of whether they are controlled by the defence ministries or the various branches of the armed forces or specific units or individual officers’ (Brömmelhörster & Paes, 2003, p. 4). These business operations can involve any level and branch of the military: ‘from corporations owned by the military as an institution, to welfare foundations belonging to different services, to enterprises run at the unit level and individual soldiers who use their position for private economic gain’ (Brömmelhörster & Paes, 2003, p. 2). Siddiqi (2009) goes beyond the definition of Brömmelhörster and Paes (2003) by considering and including defence ministries as actors, non-institutional benefits as additional motivations for soldiers to get involved in the economic sphere, as well as aspects of accountability. Siddiqi (2009) defines

MILBUS as military capital used for the personal benefit of the “military fraternity”, especially the officer cadre, which is not recorded as part of the defence budget or does not follow the normal accountability procedures of the state, making it an independent genre of capital. It is either controlled by the military or under its implicit or explicit patronage (Siddiqi, 2009, p. 5).

In this context,

MILBUS refers to all activities that transfer resources and opportunities³⁷ from the public and private sectors to an individual or a group within the military, without following the norms of public accountability and for the purposes of personal gratification (Siddiqi, 2009, p. 5).

In developing economies such as Pakistan, MILBUS comprises military engagement in non-traditional roles like farming or running businesses such as hotels, airlines, bakeries, milk dairies, transport and construction companies, cement plants, banks, or real estate agencies (Waseem, 2016, July 21).

Since the creation of Pakistan, the military not only absorbed political power and leverage within the governance structure of the country, it also created an economic empire. The Ministry of Defence (MoD) functions as the armed forces’ main institutional bridgehead into the country’s political system. The MoD is not only

³⁶Especially Nawaz Sharif’s attempt to initiate a normalisation of the relations with India so as to open an opportunity for more economic interaction was blocked by the military (Aljazeera, 2018, May 23; Shams, 2015a, December 25).

³⁷Such resources and opportunities can include the transfer of state-land to military personnel; resources spent on providing perks and privileges for retired armed forces personnel, such as the provision of support staff, exclusive club memberships, subsidies on utility bills and travel; diverting business opportunities to armed forces personnel or the military organisation by flouting norms of the free-market economy; or money for training of personnel who seek early retirement in order to join the private sector (Siddiqi, 2009, p. 5).

the leading controlling authority for the defence establishment, it also functions as an apex institution for the armed forces' business conglomerates. In 2016, the Pakistani senate was briefed about the military running 50 economic projects, units and housing colonies (Waseem, 2016, July 21). However, this number does not include all economic activities by Pakistan's soldiers. Besides the aforementioned business ventures operating under the administrative oversight of four core military subsidiaries³⁸—the Fauji Foundation, Shaheen Foundation, Bahria Foundation, and the Army Welfare Trust (AWT)—the economic role of Pakistan's armed forces far wider. Some entities such as the Defence Housing Authorities (DHAs), the National Logistic Cell (NLC), the Frontier Works Organisation (FWO) and the Special Communication Organisation (SCO) were also able to establish 'monopoly-like-situations' in their respective areas of work because of their ability to obtain disproportionate business opportunities.

Although the MoD may offer the MILBUS an overall, roughly visible, institutional-administrative form, it does not control the whole structure. Instead, each of the army's three main services (army, navy, air force) plans and runs its business activities independently, outside civilian influence and oversight. Civilians of course should be represented and in charge of the MoD as part of the governance structure. However the MoD itself transformed into a civil-military hybrid, working under the supervision of the armed forces rather than under that of the civilian government—while occupying a crucial position in running and penetrating the country's economic sphere. Siddiqua (2009) states that the 'MoD is used as a forum to negotiate economic opportunities and the monopolization of resources' (p. 113). In other words, the MoD and other government units cooperating with the defence establishment are being instrumentalized as administrative mechanisms for economic exploitation. The influence of the defence administration plays an essential role in obtaining public-sector business contracts and securing industrial or financial inputs at subsidised rates and with other benefits (Siddiqua, 2009, p. 117). The direct military involvement in Pakistan's economy, backed by the patronage of state institutions, has tremendous impacts on the country's development. Here, the MILBUS creates significant financial and socio-political costs for state and society in Pakistan. It provides the armed forces with preferential access to decision-making and to the allocation of national resources at the disadvantage of other economic and social actors. The military involvement in money-making activities is creating severe distortions for the establishment and functioning of a free-market economy. Today, whole segments of Pakistan's agricultural, manufacturing, and service sectors—such as cargo transportation, road construction, fertilisers and cereal manufacture—are dominated by the MILBUS. As indicated above, these monopolistic tendencies favouring military business units were made possible by the colluding of civilian elite groups with the armed forces' leadership so as to monopolise the state resources. This creates an environment in which decisions about access to and

³⁸Each of them functions as a subsidiary of one of the three branches of the military. The Fauji Foundation is directly subordinated to the MoD.

allocation of public assets are not taken based on merits but linked to military interests. This can be seen not only in the domains of the economy reserved to the military but also in sectors which were so far less affected by the influence of the MILBUS. In order to access state resources and business opportunities, non-military corporate actors started entering patron-client relationships with the military and their co-opted civilian elites so as to ensure their economic interests. The existence of the MILBUS challenges the implementation of development projects as well as the sustainability of overall development initiatives because of the following reasons. Firstly, there are indications that the armed forces will use the CPEC to further extend the MILBUS—for example large sections of the road construction are handed over to the army-owned FWO and the management of the important Sost Dry Port in G-B was delegated to the NLC, which also belongs to the army (Mir, 2016a, 2016b). Secondly, the emerging struggle between the civilian administration of former PM Nawaz Sharif³⁹ and the army top brass over CPEC-related decision-making proves the soldiers' determination to secure a 'piece of the CPEC pie' (Pantucci, 2016b, July 15). Further market distortions within Pakistan's economy can be expected due to the CPEC, especially through an exacerbating cartelization in the corporate sector. The fact that military companies have much greater financial, technical, and human capacities necessary to deal with major projects like those relating to the CPEC gives them additional advantage over private entrepreneurs in Pakistan (Siddiq, 2009, pp. 237–238).

5.3.5 Administrative and Management Challenges: The Lack of Human Resources

There are clear indications that an insufficient Human Resource Development (HRD) and subsequent lack in appropriate domestic human resources is a major cause for administrative and management-related tussles much contributing to Pakistan's unfortunate record⁴⁰ in larger development projects. For decades Pakistan's decision makers have not been paying enough attention to the importance of human resources (Abbasi & Burdey, 2008; Asrar-ul-Haq, 2015). Some of the indications include the lack of funds and qualified staff in the area of HRD (Budhwani, 2008, p. 1). Pakistan has made little progress in key indicators of human development (Kemal, 2005). According to experts in the field, HRD in Pakistan is conceptualized as

³⁹A struggle which obviously seems to continue under the new PM Iran Khan after the 2018 elections.

⁴⁰Insufficient human resources combined with rampant corruption leads to failure of numerous development initiatives, like the 'Yellow Cab Scheme', 'Green Tractor Scheme', 'Karachi Mass Transit Project', 'Ghazi Barotha Hydropower Project' and even the earlier attempt to conduct the 'Motorway Project' among others (Faisal & Jafri, 2017, p. 62).

policy for capacity building of individuals to attain the goals of national manpower planning at the macro-level, and as a training and development function of any human resource management department at the micro-level (Asrar-ul-Haq, 2014, p. 97).

Several measures were taken so as to promote HRD in different sectors including public education, the corporate sector, community development, and the non-profit sector; nevertheless, HRD is still in its early stages in Pakistan. There are numerous new educational capabilities in planning such as a new fully-fledged ‘University of the 21st Century’ (Malik, 2018c, May 9). However these are unable to fulfil the rising demand for developed human resources needed for the CPEC: ‘there is still an inadequacy of centres or institutes that could be considered as the main breeding ground for the labour market and industry’ (Ahmed, Arshad, Mahmood, & Akhtar, 2017, p. 136). Traditionally disadvantaged areas such as Baluchistan (especially outside Gwadar) lack functional educational institutes that would supply labour for the economic corridor and other major development projects (Ahmed et al., 2017, p. 136). It will be difficult to build the necessary human capital in the form of a qualified workforce so as to ensure sustainable innovation with a continuous and efficient utilisation of resources unless Pakistan manages to bridge the HRD gap—which is necessary in order to establish a conducive working culture leading to greater organisational performance and economic growth (Watkins & Marsick, 2014). Otherwise, Pakistan will stay trapped in old patterns dominated by the lack of a skilled workforce, brain drain, lack of entrepreneurship, lack of education, unemployment, militancy, and religious extremism (Ahmed et al., 2017, p. 136; Asrar-ul-Haq, 2014, pp. 99–102). To conclude, Pakistan is not only hampered by deeply entrenched corruption, it also has to deal with an extraordinary level of incompetence pervading ‘the entire sphere of governance’ (Ibrahim, 2011, November 29). As Bilal Hussain (2011, April 9) points out, ‘because of bribery, jobbery and nepotism, the lower ranks of our civil bureaucracy are filled with incompetent and under-educated people’; in an environment like this, the sustainability of the CPEC cannot be ensured.

5.4 Environmental Conditions: Challenging Terrain and Natural Calamities

Large parts of the CPEC’s geographic framework are featured by very unfortunate environmental conditions. These areas are prone to both natural and human-induced disasters, including geophysical events and hydro-meteorological phenomena (Rahman, 2017) which create frequent and destructive tectonic uplifts and seismic activity (Hodge, 2013, June 30). Common earthquakes, landslides, extraordinary climate unbalances, floods caused by heavy monsoons—such as that of 2010 which affected approximately one-fifth of Pakistan’s total land area-, desertification, and glacial runoffs,⁴¹ are additional natural hazards. Several natural incidents already

⁴¹Reportedly, some of the washing out of bridges create halt on traffic up to more than a month (Hodge, 2013, June 30).

destroyed substantial parts⁴² of the designated CPEC infrastructure belonging to the fundaments of several Early Harvest Projects.

Geography is yet another major challenge for the CPEC. The mountainous border area between the Pakistan and China (namely the Chinese Xinjiang), where the world's three highest mountain chains (the Karakoram, the Hindu Kush and the Himalayas) meet, determines a significant hurdle for a smooth, effective and efficient functioning of trade, transit and economic exchange (Hodge, 2013, June 30). One such impediment is due to the winter season⁴³ closure of the KKH, the cross-border road network that connects Gilgit-Baltistan with Xinjiang, due to heavy snow (Afzal & Naseem, 2018, p. 17; Lan, 2015, December 9–10, p. 187). This would lead to the suspension of all Sino-Pakistani land-based business activities during the harsh winter months since the KKH is the only land-route between the two countries.⁴⁴ Moreover, it would have far-reaching negative effects on the functionality and efficiency of the Gwadar port since this port would be cut off from its main economic node, Chinese Kashgar (Hodge, 2013, June 30). Besides the destructive effects of environmental conditions on the road infrastructure, it is also reported that several hydroelectric facilities, transmission towers and power lines, schools, health clinics, and communications in the region remain damaged or completely destroyed (Gall, 2010, August 26). This is important because of China's concerns relating to the recurrence of seismic activities in the region. Beijing may look for alternative routes such as that via Iran, which would relocate Chinese overseas trade and transit towards the Chabahar port, 100 km from the potential rival Gwadar port. In sum, even if China and Pakistan are able to address the challenging geographic hurdles, the mountainous route would remain an extremely costly and unreliable connection. Furthermore, looking at the record of natural disasters in Pakistan, it becomes apparent that these are not just isolated incidents—rather they appear increasingly as interlinked and mutually reinforcing events.

⁴²For example, the earthquake on 4 June 2010, loose a mountainside next to the KKH, which tumbled onto the road and dammed the Hunza River, 100 km from the Chinese border. Subsequently, during the next months, a 100-m deep lake appeared (Attabad Lake) which immersed around 27 km of the road bringing the transport of goods in both direction to a halt (Hodge, 2013, June 30).

⁴³The Khunjerab Pass remains traditionally closed from December 1 to April 1 due to harsh weather conditions prevailing in the region (Mir, 2016, December 6; Wolf, 2016d, September 13).

⁴⁴Another harsh reality for Pakistan is that most of its logistic companies are equipped with old fashioned vehicles for cargo transport, unfit for a smooth flow of goods to China through the rugged, high-altitude terrain (Wolf, 2016d, September 13).

Chapter 6

Assessment



6.1 Indicator: Conceptualised Geographic Framework

As outlined in the previous chapters, the CPEC must be interpreted in the context of China's BRI. Consisting of two major development proposals aiming to connect Asia, Europe and Africa—through the land-based Silk Road Economic Belt (SREB) and the sea-based 21st Century Maritime Silk Road (CMSR)—the CPEC is expected to link the 'belt' and the 'road' via land and marine infrastructure. The corridor should connect Kashgar in China's Xinjiang Uygur Autonomous Region (XUAR) with the Gwadar port on the Baloch coast in south-west of Pakistan (and partly the city of Karachi), passing through China's western Xinjiang Uygur area and through the whole territory of Pakistan. A 'Long Term Plan for the China-Pakistan Economic Corridor' (LTP) conceptualises the geographic framework as an area divided into a 'core zone'—which consists of five functional sub-zones¹ and one 'radiation zone'. As we shall see, these zones determine a spatial layout consisting of 'one belt, three axes and several passages' (LTP, 2017, p. 4). First, the 'one belt' or the belt area is understood as the core zone of the CPEC. It includes the cities of Islamabad, Kashgar, Tumshuq, and Atushi, in addition to the Akto county in Xinjiang, parts of the provinces of Punjab, Sindh, Khyber-Pakhtunkhwa (KPK), Baluchistan, but also disputed areas under Pakistani de facto control, namely Azad Jammu and Kashmir (AJK) and Gilgit-Baltistan (LTP, 2017, p. 4). Second, the 'three axes' refer to specific routes: the western alignment connecting Lahore and Peshawar (axis 1), the eastern alignment connecting Sukkur and Quetta (axis 2), and the central route, connecting Karachi and Gwadar (axis 3).² Last but not least, the 'several passages' refer to

¹For a more detailed description of the 'sub-zones', see Sect. 6.2.

²It is interesting to note that diverging for the Long Term Plan for the CPEC (LTP, 2017, p. 4), some reports only refer to two horizontal axes, but do not mention the Sukkur-Quetta axis. For example, see (Ahmad, 2018c, p. 92).

various railways and highway trunk lines connecting Islamabad to Karachi and Gwadar (LTP, 2017, p. 4). There is also the so-called northern alignment or northern route connecting the three axes with the overall infrastructure network. In reference to Srivastava's typology of corridors (Srivastava, 2011, pp. 10–12), the CPEC determines a hybrid version of a 'Broad National Corridor', which is based on a multi-modal infrastructure—including railways, port facilities, local urban transportation networks, area developments, and a set of 'Narrow Regional Corridors' with trade facilities and logistics. Given the lack of cross-border economic zone(s), the CPEC is different from a 'Broad Regional Corridor'. Yet, the global dimension of Beijing's development missions shows that the CPEC's envisaged geographical framework goes far beyond the national boundaries of Pakistan. It crosses disputed territories, China's Xinjiang province, as well as Afghanistan and Central Asia—which is of critical importance for the BRI and an essential northern extension of the CPEC.

The LTP gives a rather vague definition of the 'radiation zone'; hence it seems that all parts that do not belong to the core zone³ determine the radiation zone. The urban and rural backward areas, which are not identified as key nodes and are not directly connected with either the three axes or the passages, belong to the radiation zone. Given the geographic framework, we can declare the entire area of Pakistan as part of the CPEC. However, the 'two-zone idea' gives room for the agglomeration of most individual projects in certain areas, namely within the core zone, without violating the overall development vision of the CPEC. Furthermore, there is no manifested commitment within the LTP to extend the CPEC project efforts from the core zone into the radiation zone. The CPEC possesses a conceptualised geographical framework, but there is unclarity regarding the inclusion of remote, peripheral areas in Pakistan. On the Chinese side, the Xinjiang province in general and the extended urban Kashgar area in particular are identified to be parts of the CPEC. On the Pakistani side, state authorities are emphasising that the CPEC is a national endeavour which includes all provinces and areas under Pakistani administration. But due to asymmetries in the allocation of individual, CPEC-related projects and uncertainties regarding the availability of necessary funds to extend the CPEC nationwide, severe doubts regarding the concrete geographical framework persist. There are heated debates surrounding concrete routes and the allocation of special economic zones (SEZs) of the CPEC, as well as complaints by some regions that they are not sufficiently (if at all) included in the initiative.

In sum and despite its shortcomings, CPEC planning is based on a defined geographical framework. This geographic framework is rather artificially planned and lacks geographic cohesiveness. It poses severe connectivity challenges as current models are very costly and ineffective.

³The LTP speaks just about '*parts of Punjab, Sindh, Khyber-Pakhtunkhwa, Baluchistan, AJK and Gilgit-Baltistan*'.

6.2 Indicator: Identified Growth Zones

As outlined above, the conceptualised geographic framework consists of a core and several radiation zones.

The core zone is composed of five ‘sub-zones’ (also described as ‘functional zones’) determining the immediate growth zones of the CPEC. Most node cities, transportation corridors and industrial clusters within these functional zones are dense and concentrated (LTP, 2017, p. 4). These functional zones operate as clusters of economic activities; they organise the core zone from North to South. The five sub-zones are:

(a) The Southern Xinjiang Zone (China)

The Southern Xinjiang zone—located in China—, also described as the Xinjiang foreign economic zone (LTP, 2017, p. 4), focuses on industry, logistics and economic development (Ahmad, 2018, p. 92). The node city of this zone is Kashgar. As the westernmost major urban area in the Chinese XUAR—which borders both South Asia and Central Asia—Kashgar is the northern focal point of the CPEC. It determines the second major multimodal hub linking the corridor’s internal and external connectivity. Other crucial growth areas identified for corridor development in this zone include Atushi, Tumshuq, Shule, Shufu, Akto, and Tashkurgan Tajik (LTP, 2017, p. 4).

(b) The Northern Pakistan Zone

The Northern Pakistan Zone, also described as the ‘northern border trade logistics and business corridor & ecological reserve zone’ (LTP, 2017, p. 4), focuses on transport, resources exploration, and ecological conservation (Ahmad, 2018c, p. 92). The node city of this zone is Gilgit, the capital of the Gilgit-Baltistan region. The geostrategic location of this zone is of utmost importance for the CPEC: the zone is not only the northern transit point of the Pakistani part of the CPEC, but it is also the only land connection between Pakistan and China. This is the major reason why Gilgit-Baltistan is viewed as a port belonging to the core zone of the CPEC despite the fact that it is part of territories disputed between Indian and Pakistan. Being the world’s richest ecosystems in terms of biodiversity and having a population which is 90% engaged in agriculture, this zone is so far envisioned as a hub for agriculture and tourism (Ahmad, 2018c, pp. 92–93). However, it is clear that this area’s core function within the CPEC is to provide an essential ground connectivity—in road transportation (as well as fibre optic cables) in the short-term, and, if feasible, in long-term planned railway networks.

(c) The Central Pakistani Zone

The purpose of the Central Pakistani Zone, also regarded as the eastern and central plain economic zone (LTP, 2017, p. 4) is industrial and economic development. It comprises the districts of Punjab, Sindh, and part of KPK and includes the four node cities of Islamabad, Lahore, Multan, and Sukkur (Ahmad, 2018c, pp. 92, 94). The cities of D.I. Khan, Faisalabad, Jacobabad, and Hyderabad are also crucial for connectivity and development activities. This central zone determines the ‘economic backbone’ of the CPEC—it hosts most of the crucial industrial clusters as well as the largest agricultural sector of the country. Furthermore, the central zone is the pivot

between all main transportation infrastructures of the CPEC, the point where the three main routes, the northern alignment and the three horizontal axes meet.

(d) The Western Pakistani Zone

The role of the Western Pakistani Zone is to focus on logistic channels, mineral exploration and ecological conservation (Ahmad, 2018c, p. 92; LTP, 2017, p. 4). The zone includes parts of Baluchistan, the KPK and Federally Administered Tribal Areas (FATA).⁴ Quetta is the node city of the zone and the provincial capital of Baluchistan. The zone is the least developed of all four Pakistani CPEC zones; however it holds a ‘huge potential to harness mineral and other natural resources such as forests, range lands and renewable energy’ (Ahmad, 2018c, pp. 95–96).

(e) The Southern Pakistani Zone

Karachi is the node city of the Southern Pakistani Zone, also known as the southern coastal logistics business zone (LTP, 2017, p. 4). It focuses on energy, logistics, trade and business development (Ahmad, 2018c, p. 92). The crucial port city of Gwadar, the focal point of CPEC connectivity and an envisaged leading business, trade and transit activities hub, is also located here. The ports of Karachi (Karachi Port and Port Qasim) and Gwadar will both serve as the main transit points for the southern CPEC. If successfully completed, the Keti Bunder seaport will further increase Pakistan’s port capacities. Furthermore, it is host to the horizontal axis (no 3) of the CPEC, connecting Karachi and Gwadar and which will gain momentum after the completion of the Makran Coastal Highway. This seaport should establish a coastal economy with developed tourism, fishery, and coastal aquaculture sectors.

Following the identification of the different growth zones within the core zone, it becomes clear that parts of Baluchistan, the KPK and AJK do not belong to the core but rather to the radiation zone, leaving these regions outside the immediate focus of CPEC-related development projects. The process of identification of growth zones for a successful corridor development took place in this context. Most of the identified key nodes are within the core zone’s key functional areas. The only exception is Peshawar, which lies within a radiation zone. One is to see how far the CPEC produces spill-over and/or trickle-down effects, not only from the economic prosperous areas towards rural, underdeveloped regions within the core zone but also from the core towards the radiation zones.

6.3 Indicator: Special Economic Zones

The notion of established Special Economic Zones (SEZs) is not entirely new in Pakistan. Already in 2001, companies from China (Haier Group) and Pakistan (Panapak Electronic Company) started a joint venture to set up a joint industrial

⁴KPK and the FATA got merged in 2018.

park near Lahore (in Punjab),⁵ the ‘Haier [Pakistan] Industrial Park’ (Haq, 2015, April 12). In 2006, the Haier Group in collaboration with the Pakistani Ruba Group won over the support of China’s MOFCOM (Ministry of Commerce) to launch the ‘China-Pakistan Enterprise Zone’, an overseas trade and economic cooperation zone. The area, also known as the Haier-Ruba Economic Zone, was China’s first ‘overseas economic zone’⁶ (Xinhua, 2016, November 22). At that time the MOFCOM was running two programs to support such endeavours.⁷ The concept of ‘overseas economic zone’ can be seen as an earlier cornerstone of today’s BRI and CPEC. Pakistan first experienced the promotion of industrial units in 1952 when the Pakistan Industrial Development Corporation (PIDC) was created so as ‘to enhance industrial development in the economy’ (Janjua, Khan, & Asif, 2017, p. 7). In the 1970s, Islamabad focused on the clustering of industries, establishing more than 100 industrial clusters around selected areas in Pakistan (Khan & Anwar, 2017, p. 4).

The first comprehensive Pakistani SEZ programs were launched by the SEZ Act 2012 and the SEZ Act XLV 2016, which was based on the Special Economic Zones (Amendment) Ordinance of December 2015 as well as in the Special Economic Zones Rules of 2013.⁸ Within this framework both federal and provincial governments initiated several initiatives—which however and as we shall see later did not materialise efficiently. According to official statements, this unfortunate path will be disrupted by the CPEC, which is to provide the SEZ with a new impetus in a larger and more promising context.

There have been severe debates and confusions regarding the number and location of the SEZs set up under the CPEC scheme. As initially reported by Dawn, Islamabad has devised a comprehensive plan to set up 37 SEZs⁹ across four provinces and other areas of the CPEC’s Pakistani section. Although the authorities claim that the first selection process will consider the opinions of the provinces, the choices available will be rather indefinite and will most likely be subjected to modifications. Potential SEZs were in fact handed over to the China-Pakistan Joint Cooperation Committee (JCC). The JCC will then discuss

⁵The Haier Group entered the Pakistani market in February 2001 by jointly establishing a facility with Pakistan-based Panapak Electronic Company and opened the Haier (Pakistan) Industrial Park at Lahore (Haq, 2015, April 12). The joint venture focuses on the production of household goods such as air conditioners, high-powered refrigerators and freezers, washing machines, TVs, among others.

⁶China experimented years ago with a variety of overseas industrial and trade zones. For example in 1999 China made an agreement with Egypt so as to offer assistance in the establishment of an industrial zone in the Suez economic area (Bräutigam & Xiaoyang, 2011, pp. 71–72).

⁷At that time, the MOFCOM was running two programmes. The ‘Trade and Economic Cooperation Zone Development Fund’ provided subsidies meant to cover costs of zone development for preconstruction and actual implementation. The second programme was the Special Fund for Economic and Technical Cooperation (Bräutigam & Xiaoyang, 2011, pp. 82).

⁸See for more details: BOI, 2012b; GAO, 2012, September 12; GAO, 2015, December 7; GAO, 2016, October 26.

⁹The BoI reported that it has identified a total of 41 sites in the four provinces for SEZs to be connected with the CPEC (Khan, 2017f, March 13).

the shortlisted zones, and the final decision will be taken by the Joint Working Group (JWG).

Besides the free economic zone in Gwadar, there are nine SEZs in planning.¹⁰ In August 2018, the Board of Investment (BOI) announced that three SEZs have already become operational while the remaining six zones should become active by June 2019 (Ary News, 2018, August 11). Two SEZs are to be developed on the Chinese side: the Kashgar Economic and Technological Development Zone and the Caohu Industrial Park (LTP, 2017, p. 17). Besides the SEZs, the government of Pakistan plans to establish 21 Mineral Economic Processing Zones so as to promote the exploitation of the country's natural resources.¹¹

Given that the SEZs are still in development, it is rather difficult to assess the success of their implementation and sustainability. It is nevertheless clear that corruption in Pakistan, omnipresent as it, must be radically reduced—otherwise the country cannot realistically expect foreign companies to invest in the SEZs. A major challenge in Islamabad's management of SEZ development is the lack of investment incentives. It can be assumed that the incentives offered by Beijing to companies willing to invest in China's SEZs or in its projects overseas can hardly work in Pakistan (Khawar, 2018b, January 3). On the one hand, Pakistan offers interesting incentives in the form of tax holidays,¹² duty-free import of capital goods, and 'one-window facilities'¹³ which replicate successful incentives observed in other parts of the world. Yet on the other most these incentives have almost no stimulating effect as they are not properly linked with 'performance targets such as investment mobilisation, employment generation or technology transfer' (Khawar, 2018b, January 3). The latter is significant mainly in terms of the labour factor.

Until now, Chinese companies were not encouraged to incorporate domestic workforces, either in Pakistan's or in Xinjiang's side of the CPEC. The SEZs

¹⁰(1) The Rashakai Economic Zone, M-1, Nowshera; (2) the China Special Economic Zone Dhabeji; (3) the Bostan Industrial Zone; (4) the Allama Iqbal Industrial City (M3), Faisalabad; (5) the ICT Model Industrial Zone, Islamabad; (6) the Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi; (7) the Special Economic Zone at Mirpur, AJK; (8) the Mohmand Marble City; and (9) the Moqpondass SEZ Gilgit-Baltistan. For more details, see: <http://cpec.gov.pk/special-economic-zones-projects>

¹¹Thar (coal), Larkana (coal), Salt Range (antimony), Chiniot (iron ore), Dargai (chromite), North Waziristan (chromite), Kurram (antimony), Waziristan (copper), Chitral (antimony), Beham (iron ore, lead), Nizampur (iron ore), Mohmand (marble), Khuzdar (chromite, antimony), Chaghi (chromite), Qila Sifullah (antimony, chromite), Saindak (gold, silver), RekoDiq (gold), Kalat (iron ore), Lasbela (manganese), Gwadar (oil refinery), Muslim Bagh (chromite) (Malik, 2018a, p. 82; News, 2015b, July 26).

¹²Tax holidays are understood here as sales tax and income tax exemptions for a limited timeframe. Other offered incentives offered to those willing to invest in Pakistani SEZs include 'duty-free access to import of capital goods', or 'one-window facilities' (Khawar, 2017, December 5).

¹³'One Window' Facilities are understood as certain administrative services offered by state agencies so as to support and facilitate foreign investments—especially to act as an interlocutor between foreign investors and the state of Pakistan and ease certain regulations (BOI, 2012a, pp. 24–26).

under the CPEC are thus expected to experience the same fate as other Chinese development and SEZ projects overseas. Instead of employing locals—for example like the Balochis for projects within Baluchistan—Chinese companies prefer to deploy their own workforce. Official promises to increase local employment are not backed by evidence (Jacob, 2017, August 22). Additionally, there will be some Pakistani internal migration, for example Punjabi workforce will move towards Baluchistan and Gilgit-Baltistan (Menon, 2005, p. 141). This will further contribute to the outbidding of local workforce, especially as regards non-Chinese run projects or companies operating in the SEZs. It is interesting to note that the phenomenon of ‘guided internal migration’ appears not only in the four Pakistani key zones of the CPEC but also in the Chinese (Southern Xinjiang Zone). The CPEC’s two Chinese SEZs in Xinjiang will most likely observe a ‘guided’ internal migration, too. In other words, many of the newly created jobs will be offered to migrants from other Chinese provinces who moved to Xinjiang. It is expected that the economic prospects of the corridor will especially attract Han Chinese. Instead of improving the local Uyghurs’ living conditions, ‘Han migration’ would rather add to the existing social, economic and political tensions in Xinjiang (Zingel, 2015, pp. 21–22). Potential investors should consider employing local labour.

Some are concerned that the new SEZs will only benefit Chinese entrepreneurs, leading to a sort of ‘colonisation’ and de facto deprivation of Pakistani enterprises. On the other hand, CPEC proponents argue that the envisaged SEZs are not limited to Chinese investors from China—it is said that ‘investors and industrialists of Pakistan are equally entitled to own and operate the enterprises in SEZ’ (Zaidi, 2018, June 26). There is a rising challenge to balance out the need for more investments in the CPEC’s SEZs as well as the disadvantaged position of non-CPEC areas. As Zaidi (2018, June 26) states, ‘there should not be any concession or protection in tariff and taxes, which necessarily and compulsorily provide disincentives for the existing units of similar products located in other parts of the country’. In other words, the incentives granted to the CPEC’s SEZs should not be conceptualised in such a way that they disadvantage, or even undermine, other economic areas, industrial or manufacturing units outside the CPEC scheme (Dawn, 2017a, November 30).

The issue of ‘sick industries’ has not yet been adequately addressed, although Pakistan initiated several provincial projects such as the Gadoon Amazai Industrial Estate (GAIE) in the KPK. However, this project was rather unsuccessful as it became apparent that neither Pakistani nor Chinese sources were interested in investing in the industrial production of advanced products in remote areas suffering from such disadvantages as a lack of skilled workforce, energy capacities, security problems, and poor living conditions (Khan & Anwar, 2017, p. 1; Nawaz, Azam, & Noor, 2015, p. 313). Industry in remote areas suffers from poor infrastructure, which increases production costs (Nawaz et al., 2015, p. 316). CPEC supporters must therefore consider the accommodation and consideration of local demands for industrial development as well as the factual constraints affecting sustainable economic performance. Only then will the government and regional authorities be able to create ‘tailored packages of incentives’ so as to bridge locational disadvantages of

remote regions (which include also the problem of necessary land acquisition¹⁴) as well as the needs of potential investors. The case of the GAIE indicates that the industrialisation of the backward areas such as KPK, Gilgit-Baltistan, Baluchistan, and rural Sindh would face resistance from entrepreneurs from Punjab and Karachi, who would perceive such advances as an additional challenge to their own businesses (Nawaz et al., 2015, p. 317). Punjabi and Sindhi entrepreneurs in fact successfully lobbied for the removal of incentives for sites like the GAIE (Nawaz et al., 2015, p. 319).

Until now none of Pakistan's more than 60 industrial zones (unrelated to the CPEC) contributed much to the increase of the industrial competitiveness of Pakistani companies¹⁵ (ICG, 2018, June 29, p. 12). As pointed out by the International Crisis Group, 'the most prominent industries, such as textiles and automobile manufacturers, survive on subsidies and other forms of protection, with few incentives to be competitive' (ICG, 2018, June 29, p. 12). Although the encouragement of Pakistani industrialists with modern technology signals an improvement, the current re-focusing on 'import substitutions' will at best attract companies focused on low-value products. Hence, Pakistan needs to incentivise both foreign and domestic companies investing in advanced technology, research and development, and long-term projects. The misuse of governmental incentives intended to agents willing to invest in SEZs and industrial estates in backward areas is another reason why these measures did not lead to sustainable development. Domestic entrepreneurs took advantage of granted benefits for short-term profits instead of investing in long-term engagements in the supported sides. Furthermore, there are cases where companies diverted capital goods, raw materials and other assets from these areas so as to deploy them in their main industrial or manufacturing units in centres such as Karachi, Sindh, and Punjab (Nawaz et al., 2015, p. 318). These dysfunctions make clear that 'smart incentives' intended to develop backward sites are not sufficient in themselves; competent authorities must take legal and executive measures against entrepreneurs who do not comply with their engagements. In order to address this challenge, local SEZs authorities should be provided with special powers. This strategy has proved to be successful in several instances across the world. Such an empowerment of local decision-makers would include not only the permission to make crucial administrative decisions while operating and overseeing their zone (such as the approval of investment proposals), but also the right to formulate their own economic policies (Khawar, 2018b, January 3). However it does not seem that Islamabad is yet willing to grant large-scale autonomy to SEZ authorities so as to run their own affairs. CPEC decision-makers 'still believe in highly centralised approval

¹⁴Many of the envisaged SEZ initiatives are either hampered or totally blocked because of problems in land acquisition.

¹⁵Besides the fact that many of the attempts to set up effective SEZs failed, there are some successful examples such as industrial clusters and estates in Sialkot (surgical goods cluster), or the ceramic/pottery industrial cluster in Gujarat, or the readymade garments manufacturing cluster in Faisalabad—among others (Raza, 2018, August 7).

structures' (Khawar, 2018b, January 3). Regarding current law and regulations,¹⁶ the provincial SEZ authorities are required to pass the applications received from developers (investors) to the BOI at the federal level. The BOI acts as the secretariat to the Board of Approvals and the Approval committee—two other federal bodies who will be the prime decision-makers.¹⁷

In order to make CPEC SEZs successful, the federal government and bureaucracy need to start a process of devolution of power towards the provinces. Furthermore, Islamabad needs to realise that providing reliable infrastructure, sufficient security, energy as well as granting 'blank-check incentives' are not sufficient measures to ensure a successful SEZ development program. The government needs to establish institutionalised mechanisms so as to protect the 'incentives' against undue intervention from veto-actors from traditionally dominant economic and political power-hubs. As long as investment incentives under the CPEC framework are not accompanied by protective measures against economic misuse and political influence from certain lobby groups, they will face the same unfortunate fate as did their predecessors under earlier development schemes.

6.4 Indicator: Internal Connectivity

The CPEC envisages substantial infrastructure-related measures meant to improve intra-regional connectivity in Pakistan—which includes sea ports, airports, roads, and railways, as well as local and public transport.

6.4.1 Road Infrastructure

The traffic of goods via road is the backbone and dominating mode of Pakistan's transport system. Road transportation accounts for more than 90% of national passenger traffic and freight. Here, it is important to note that the international movement of goods is hampered by a lack of transport protocols between Pakistan and its neighbours. Nevertheless, the country's road transport sector contributes with

¹⁶The SEZ Act No XLV 2016. An Act further to amend SEZ Act No XX 2012 (amended and modified version of SEZ Act 2012 (GAoP, 2016, October 26) and Special Economic Zones Rules 2013 (BOI, 2012b).

¹⁷The Board of Approvals (BOA) is the highest approving body. It is headed by the Prime Minister with membership from Economic Ministries, Provincial Governments, and Public and Private Sectors. The Approvals Committee is headed by the BOI Chairman and has memberships from Economic Ministries, Provincial Governments, Public and Private Sectors, and SEZ Authorities (at the provincial level including Gilgit-Baltistan) who work under the leadership of the Chief Ministers. For more details, see Board of Investments (BOI) at <http://boi.gov.pk/InvestmentGuide/SEZ.aspx>

10% of the national GDP and 6% of total employment (UNESCAP, 2017, p. 84). Having this in mind, it becomes clear why Pakistan's decision-makers promote roads as the preferred instrument to improve internal (ground) connectivity and follow different financing strategies so as to improve the country's road network. Rafiq (2017, p. 11) emphasises that there lacks one continuous road built entirely by the Chinese that would run from the Sino-Pakistani border in the north, through the country towards the Pakistani southern coastal areas.

Essentially, the CPEC encompasses three main routes through Pakistan and one northern extension. The Eastern alignment passes through central Punjab and Sindh, connecting most of the industrial and population centres¹⁸ of the country (including the city of Peshawar, the provincial capital of KPK; Rafiq, 2017, p. 14; Rana, 2015). The Central route crosses the KPK and the unconnected parts of Punjab and Sindh. The Western alignment spans the relatively underdeveloped areas of KPK and Baluchistan, including the city of Quetta¹⁹ (Zingel, 2015, pp. 14–24)—bypassing most of the major centres of economic activities and populous areas. Finally the Northern route is expected to connect the three aforementioned alignments with the Pakistani-China border at Khunjerab Pass, to then proceed into Chinese territory.

These four main alignments—plus envisaged additional, criss-crossing intersections which connect the different routes (also described as the feeder-system of the corridor)—are supposed to determine the intra-Pakistan CPEC road network. Without this feeder-system it will not be possible to integrate backward areas into the CPEC's main road network. A major problem occurs relating to the distribution of the existing urban and economic centres and their connectivity within Pakistan, especially outside Punjab. Besides Karachi, the country's major economic hub which is relatively well integrated within existing infrastructure (including a new deep-water container terminal), the envisaged Gwadar port project and other cities in Baluchistan, FATA/KPK, and Sindh suffer from underdeveloped infrastructure. Some CPEC feeder road projects are planned in order to bridge this gap; however not much information regarding timing, costs or feasibility studies have been publicly disclosed yet.²⁰ Additional schemes under the Public Sector Development Program²¹ aim to improve infrastructure through the National Highway Authority (NHA). It is interesting to note that the NHA is supposed to undertake World Bank

¹⁸For example, the eastern route will include Lahore, Faisalabad, Rahimyar Khan, Bahawalpur and Multan.

¹⁹More concretely, the western route will go from Islamabad through Khyber Pakhtunkhwa's Dera Ismail Khan district, Balochistan's Zhob, Qilla Saifullah, Quetta, as well as Panjgur and Turbat districts before reaching Gwadar (ICG, 2018, June 29).

²⁰Some of the envisaged projects include an area road link between Pakistan-administered Kashmir (AJK) and the city of Chitral in KPK—which borders also the Gilgit-Baltistan region. A further goal is to incorporate the seaport Ketu Bunder into the CPEC road network. According to Arif Rafiq, China is willing to finance these projects.

²¹For example, the construction of the Chitral-Garam-Chashma-Doraha Pass Road covering 82.5 km (PSDP, 2018).

projects, particularly the Khyber Pass Economic Corridor Project (also known as the Peshawar-Torkham Expressway Corridor project), with a credit volume of USD 460.6 million (World Bank, 2018a, May 25).²² These roads will later function as additional connections for the CPEC. In sum, an observation of ongoing construction activities on the ground at the end of the CPEC's first phase reveals that Pakistan's internal connectivity improved significantly.

However, when speaking of the CPEC-related road construction, one must not forget to highlight the following phenomena. First, the routes for the CPEC road network are not entirely new (Rafiq, 2018, p. 11). Some infrastructure already exists—for example parts of the Asian Highway Network (UN ESCAP, 2017, p. 35), especially that located on the eastern alignment and partly the central route; these were just in need of an upgrade or extension. Similarly, the northern route is drawing on the already existing Karakorum Highway (KKH). Significant parts of the decades-old KKH²³ were damaged or entirely disrupted; Islamabad and Beijing started the necessary realignments, maintenance and repair works years before CPEC started (Hodge, 2013, July 30). Subsequently, the required upgrading of the mountainous highway included building costly and time-intensive systems of tunnels and bridges—demanding remarkable financial, administrative and logistic investments from CPEC planners. However, the initial 'ground work' for the KKH, prepared the ground for following upgrades of the road infrastructure in the Karakorum under the CPEC scheme. Only on the western alignment were there substantial sections of the road network started from scratch.

Second, some road construction projects are not CPEC-related projects. Staying outside the official CPEC scheme, these non-CPEC projects will constitute significant pillars of the corridor's ground connectivity.²⁴ Many of these non-CPEC projects are funded by non-Chinese international agencies—which usually have different motivations and visions regarding regional cooperation than China and Pakistan. However, intentionally or not, they are complementing the CPEC infrastructure network (Rafiq, 2017, p. 15). In practice, CPEC planning currently completed several infrastructure projects and incorporated other ongoing non-CPEC endeavours.

Third, despite evident progress, several unfortunate geographical and climatic issues continue to hamper the efficiency of the CPEC. Great concerns focus on the mountainous areas of the Himalayas and the possibility of natural calamities. For example, the Khunjerab Pass to China closes seasonally due to heavy snow (Xinhua, 2014, December 2). These extreme weather conditions also create an array of

²²See also Sect. 6.5.

²³The KKH is prone to natural calamities, especially landslides. In January 2010, a mountainside near the KKH was affected by an earthquake leading to a massive landslide. These blocked parts of the road dammed the Hunza river, which resulted in the creation of the Attabad Lake. This new inland water inundated 27 sq. kilometres of the KKH (Hodge, 2013, July 30).

²⁴For example, the Faisalabad-Multan Motorway 4 is co-financed by the ADB, the AIIB, the Islamic Development Bank, and the UK's department for International Development (Rafiq, 2017, p. 13).

technical difficulties for transportation companies—which prove to be especially problematic for Pakistani trucks running on older (diesel) engines. Being unable to operate in a high mountainous area, the trucks have to unload around 30% of their cargo (Khan, 2015a, January, pp. 21–22). Pakistan’s outdated transport fleet usually causes many delays and increases costs (UNESCAP, 2017, p. 77). Given the threat of earthquakes, rock slides, and snow which make the KKH almost impassable, to improve infrastructure is a rather complicated task (Khan, 2015a, January, pp. 21–22). There are plans to excavate tunnels along the northern extension so as to make winter time trade possible and materialise the ambition of an ‘all-year road’ (Mir, 2016a, December 6). However concrete plans remain vague (Rafiq, 2017, p. 9).

Fourth, road construction is the source of both debates and tensions. A huge controversy centres around the CPEC’s internal connectivity and the concrete routes to cross Pakistan’s territory (Malik, 2015, February 20; Shahzad, 2015, February 15). Tensions between different provinces, especially Baluchistan, the KPK (including FATA) and Punjab, as well as between the central government and the provinces, all determine severe challenges for a smooth implementation of the CPEC (Iqbal, 2015a, May 25). Being unable to agree on whether the route passes through X or Y, it seemed for long that the ‘only points of agreement are that it should go from Kashgar to Gwadar’ (Pillalamarri, 2015b, April 24). There are claims that the original route was supposed to go through western Baluchistan and KPK/FATA (western alignment), and to a much lesser extent through Punjab and Sindh (eastern alignment). Following China’s attempts to depoliticise the project (Ashraf, 2015a, June 25) so as to cool down the heated debate, the then Prime Minister of Pakistan Nawaz Sharif organised an All-Party Conference (APC) on 28 May 2015 intended to clarify the issues involved (Express Tribune, 2015b, May 28; Manan, 2015, May 14). During this meeting, a ‘national consensus’ emerged that the western route was to be developed first and include all provinces. All political parties then pledged full commitment to the CPEC (Haider, 2015a, May 28). It is interesting to note that Islamabad appears to be keen ‘to send a good message to China that the entire Pakistani nation is committed to the economic corridor project’ (Express Tribune, 2015b, May 28). In order to calm the situation, the first Chinese cargo container which arrived in the port of Gwadar via land used the then existing section of the western alignment (Zafar, 2016, November 12). The route served two main purposes: to assure all parties that the western route is safe and send a message to Baluchistan that the province is not excluded from the CPEC (Dawn, 2016b, November 13). Nevertheless, observers remain sceptical. In March 2018, the debate gathered momentum again after it was reported that the western alignment does ‘not exist on Chinese records’ (The News, 2018b, March 10). The controversy worsened after it became apparent that renegotiations were conducted and new Chinese conditions on the western route were introduced. It was held that the immediate focus of the construction efforts ‘is on using and upgrading the existing eastern route before eventually turning to new western routes’ (ICG, 2018, June 29). This sparked tremendous protests among representatives of Baluchistan and the KPK. Afrasiab Khattak, a former senator and senior ANP leader, stated that the KPK’s people feel

cheated: once again, Punjab benefits from industrial zones and trade while Khyber Pakhtunkhwa receives nothing but [militant] training grounds and madrasas (ICG, 2018, June 29).

In sum, if the provinces' interests are not taken into account, the CPEC runs the risk of falling victim to provincial rivalries, competition between different political parties, and tense centre-province relations (Pillalamarri, 2015b, April 24). The above described 'route controversy' is closely linked with negative perceptions regarding the CPEC and the central government per se among local populations. This must not be underestimated since center-region tensions as well as inter-provincial rivalries can spark rather serious conflicts and threaten other contested components of the CPEC—such as urban public transport, special economic zones, industrialisation and, in particular, the infrastructural criss-crossing project linking the three major alignments (western, eastern, central) as well as neighbouring cities and areas.

6.4.2 Railways

Railways determine the second pillar of the general plan to improve the CPEC's internal ground connectivity. The state of the railway system in Pakistan differs greatly from the 'pre-CPEC' road network. Being neglected for decades, railway transportation suffers from poor conditions due to which the rail cargo cannot be fully utilised (Rafiq, 2017, p. 15). It is reported that the goods carried by Pakistani railways dropped down from over 70% of the national freight load in the 1970s to around 4% in recent years. In order to improve the railway network, several projects proposals are on the table, including the reconstruction of the Karachi-Lahore Peshawar (ML-1 and ML-2) Railway Track, Pakistan's 1872 km long mainline (Khawar, 2018a, March 6). There are plans to build new railway lines in the middle and long terms—one from Quetta (Bostan) to Kotla Jam on ML-2 via Zhob and D.I. Khan, and one between Peshawar and Torkham. If implemented, these new railway lines would help improve the CPEC's feeder-system.

Besides the improvement of the Pakistani railway network, CPEC decision makers are also assessing the feasibility of the Pakistan-China Railway (CPR) to complement the KKH's infrastructure. On the Pakistani side, a 662 km-long route would connect Haveli to Khunjerab Border Pass via Gilgit, and another 415 km-long route would lead from Khunjerab to Kashgar, both of which are part of the CPR. The complex geographic structure of this mountainous terrain will make construction difficult and extremely costly (Mengsheng, 2015, December 10, pp. 176–177). The CPR is planned to be realised at a later phase of the CPEC. CPEC-related railway projects are expected to renovate around 50% of Pakistan's rail-tracks network (Mengsheng, 2015, December 10, pp. 177) and include water hazard treatments, overhaul of tracks, signal upgradings, extensions of arrival-departure tracks, electrification, and locomotive purchases, to name a few. Pakistani railways can benefit greatly from the CPEC as they urgently need investments in rolling stocks

(locomotives and wagons).²⁵ However upgrading and building new tracts per se are unlikely to suffice. Khawar (2018a, March 6) estimates that railways need an additional investment of \$4.5 billion—augmenting the total required investment to \$12.7 billion.

6.4.3 Ports (Sea Ports, Airports, and Dry Ports)

Pakistani port facilities too need to be greatly improved. At the moment, there are 13 projects allocated to ports—including investments in supplementary measures and infrastructure (Sherdil, 2018, p. 67). Besides the construction of the Gwadar port, two other deep-sea ports, Karachi and Qasim, will be upgraded. Furthermore, there are plans to develop a Keti Bunder Sea Port so as to increase connectivity between Pakistan's ports. The main focus is on Gwadar; however Karachi is better integrated in economic terms (domestically as well as internationally) as it is deeply entrenched in the country's multimodal transport and logistics networks. An example of Karachi's advantage is that its container terminal is deeper than Gwadar's (Rafiq, 2018, May 4).

Nevertheless the Gwadar port remains the most prominent cross-sectoral projects of the CPEC. It includes multiple port-related facilities and a series of additional projects—such as the Gwadar Free Zone—which are meant to attract export-orientated industries and lead to the internationalisation of the Gwadar airport.²⁶ The envisaged integration of Gwadar into the national road²⁷ and rail infrastructure makes the 'Gwadar port project' the largest and most advanced multi-modal connectivity-related initiative of the CPEC. Furthermore, Gwadar is expected to become home for 'good-will projects'—providing health care, fresh water treatment, and educational facilities. It is interesting to observe that most Chinese investments within

²⁵According to Hassan Khawar (2018a, March 6), Pakistani Railways currently have 95 locomotives in use for freight operations (including 55 newly purchased engines). The author estimates that they will need about 380 additional locomotives and approximately 15,000 wagons (40 wagons per locomotive).

²⁶Besides the ongoing project in Gwadar, a second international airport project, the New Islamabad International Airport (NIIA), was finally inaugurated in Islamabad. Besides not being part of the CEC scheme, the new airport is perceived as crucial for the success of the CPEC in general and connectivity in particular. The airport project was hampered by numerous delays and other hurdles but was apparently pushed through in the context of the corridor. Furthermore, some of the projects (especially roads) meant to increase infrastructure connectivity of the airport are CPEC-related projects.

²⁷Regarding current planning, Gwadar's integration into the CPEC road and railway ground connectivity should be realised by the construction of the Gwadar Eastbay Express (a six-lane highway) which will be linked to the Makran Coastal Highway. Additionally, there are two new railway lines discussed: (1) A 1328 km-long line from Gwadar to Jacobabad and Quetta (Mastung) via Besima New Railway line; and (2) a railway line between Gwadar and Karachi (Gwadar Port Passage).

the CPEC are dedicated to projects either in Gwadar or linked to Gwadar (Hussain, 2018, June 6)—for example a \$230 million grant for airport development. This can be interpreted as the expression of a special interest by Beijing in the Gwadar port—which goes beyond the officially proclaimed economic scope of the CPEC.

After Gwadar, the second largest multimodal project proposal involves a dry port in the municipality of Haveli—which would gain access to both road and rail networks, replacing the current Sost port in Gilgit-Baltistan. Some argue that the Havelian municipality must demand future freight traffic resulting from the CPEC. In logistic terms, the municipality has a great potential to become a multimodal infrastructure hub, in part due to the fact that it is not located in a disputed territory. It also hosts one of Pakistan’s largest manufacturing units, the Havelian Cantt—which belongs to the Pakistan Ordnance Factories (POF), the country’s prime defence industries for arms and ammunition.²⁸

6.4.4 Public Transport

In order to improve urban connectivity, the CPEC also includes a series of local rail transport projects. According to current planning, each province is supposed to get one urban rail transport: Punjab will get the Orange Line Metro in Lahore; Sindh, the Karachi Circular Railway; KPK the Greater Peshawar Region Mass Transit System, and Baluchistan the Quetta Mass Transit System. So far, however, the Orange Line Metro is the only in actual process of implementation—the fate of the other three public transport measures remains unclear. The Karachi Circular Railway project was put on hold at the seventh session of the JCC (Abrar, 2017, November 20). Some argue that, due to the weakness of revenue collection in the provinces of Baluchistan and KPK, the provincial governments would most likely lack the finances needed to keep the transport systems operational.²⁹ Such rationale would have tremendous political implications,—namely by strengthening the feeling of marginalisation and enflaming the debate about fair distribution of revenues obtained from the extraction of Baluchistan’s natural resources. Besides the rail transit, there are plans to expand the bus rapid transit system in Punjab. The only cities with this kind of bus transport are Lahore and Rawalpindi; it is now to be established in other Punjabi cities (Rafiq, 2017, p. 36). Outside Punjab, nevertheless, it seems that there is no intention to implement mass transport systems under the CPEC. According to Arif Rafiq (2017, pp. 33–36), this unequal approach damages the credibility of the CPEC—which is referred to as an ‘all-Pakistan project’. Punjab’s privileged position of within the CPEC can lead to heightened conflicts between Pakistan’s provinces and ethnic groups.

²⁸For more information on Pakistan Ordnance Factories (POF), see <http://www.pof.gov.pk/>

²⁹Actually some experts estimate that also the Punjabi mass transport systems, particularly the Orange Line, will not be profitable and will need substantial subsidies so as to maintain them (Dawn, 2016f, June 16; Rafiq, 2017, p. 36).

6.5 Indicator: External Connectivity

Although the CPEC can positively impact regional cooperation, its result ultimately depends on its success in increasing international connectivity. Therefore, it is essential that the CPEC is well integrated in transport, energy and trade infrastructure networks beyond the Pakistan-China nexus (Wolf, 2017b). Islamabad and Beijing of course claim that Pakistan's neighbours would greatly benefit if they were to join the corridor project (IANS, 2015b, April 21; New York Times, 2015, April 23). Greater cooperation on regional development and trade would definitely provide the CPEC with much greater economic viability and sustainability. The CPEC is integrated in Kashgar's growing special economic zone (Abrar, 2012, December 6), which increases connectivity beyond China's western borders. This is a successful entrenchment into the northern networks as it connects the CPEC with Central Asia, Russia and Europe (Barber, 2014, February 7). Furthermore, the CPEC can gain enormous benefits if it opens up to the West (Iran and Afghanistan) as well as East (India). Only with the inclusion of Pakistan's neighbours can the CPEC make a decisive impact on regional connectivity and become a game changer for regional cooperation in South Asia. Yet so far CPEC's connectivity beyond Pakistan's borders continues to face severe obstacles.

6.5.1 *Connectivity with India*

Both the BRI and the CPEC offer many possibilities for regional cooperation, especially as regards India (Wolf, 2017b). New economic corridor projects such as the CPEC and the Bangladesh-China-India-Myanmar-Economic Corridor (BCIM-EC) could help foster Indian trade and development greatly. Pakistan and India could work together to revive existing transportation and economic linkages. The opening of the Indian-Pakistan border to trade and economic cooperation³⁰ could re-establish connectivity between the two countries. This would also provide an opportunity to integrate the CPEC with Indian corridor projects such as the 'Delhi Mumbai Industrial Corridor', the 'Amritsar Kolkata Industrial Corridor', to Indian-South East Asian infrastructure measures like the East-West Economic Corridor (EWEC), and to the India-Myanmar-Thailand Trilateral Highway. Yet, despite a growing Sino-Indian economic cooperation and Beijing's willingness to invest in Indian infrastructure, New Delhi has a very cool response to invitations to join the CPEC. Nor has it made any efforts to push its own economic corridor with China via

³⁰Measures could also include the reopening of additional trade routes (Rajasthan-Sindh) so as to complement the Wagah-Attari route (Punjab) and/or the revival of the old Grand Trunk Road. A smooth functioning, land-based trade and transport would but also help solve the problem of time-consuming and expensive sea trade. Furthermore, it would diminish financial losses incurred through smuggling and informal economic networks.

Bangladesh and Myanmar, which constitute the second envisioned South Asian part of the BRI. In recent years, New Delhi distanced itself from the BRI by refusing to take part in the ‘new Silk Road’ 2017 Summit in Beijing.³¹ This raises questions regarding why India remains so reluctant to define its position towards the BRI or its potential role within the initiative. One also wonders about the roots of New Delhi’s obvious uneasiness regarding the CPEC. We can mention at least three aspects that make India reluctant to join the BRI.

Firstly, Indian decision-makers are concerned about increased Sino-Pakistani strategic and security cooperation related to the protection of CPEC-related projects (Daily Times, 2015a, April 21; Tiezzi, 2015b, April 21). Clearly, both the CPEC and the BRI have significant strategic implications for India. Conservative Indian security analysts identify the CPEC as Beijing’s long-term strategy not only to increase its leverage in Pakistan and counter US influence, but also contain Indian influence in Afghanistan, Iran and Central Asia (Barber, 2014, February 27). Some argue that the build-up of an economically prosperous and socio-politically stable Pakistan would not only help to bring security and stability to the region, foremost to Pakistan and China’s Xinjiang province, but also improve China’s influence in South Asia. Furthermore, the CPEC would strengthen Beijing’s position in relation to India, keeping its rival New Delhi busy and focused on ‘local (bilateral) difficulties’ (Economist, 2015b, April 20; New York Times, 2015, April 23). It is interesting to note that the Chinese President Xi Jinping explicitly pointed out that the Sino-Pakistani ‘cooperation in the security and economic fields reinforce each other, and they must be advanced simultaneously’ (Xi quoted in Daily Times, 2015a, April 21). While Islamabad promised to raise and dedicate special forces to the protection of Chinese workers in Baluchistan (Ahmed, 2013, July 21; BBC, 2015b, April 22; Tiezzi, 2015b, April 21), one should expect China to insist on the deployment of its own security forces in the area.

Furthermore, there is a possibility that the Gwadar port may one day become a Chinese naval base (Ashraf, 2015b, April 9; Talwar, 2015, June 22; Wolf, 2013h, March 24). Not only New Delhi but also Washington feel uneasy about a potential Chinese military presence in the Arabian Sea and Indian Ocean. However, it remains to be seen whether Beijing would want to create such a strong presence and risk further antagonising the US. China established a naval base in Djibouti in proximity to US military facilities (Jacobs & Perlez, 2017, February 25). Additionally, Beijing apparently supports the set-up of a military camp in Afghanistan (Chan, 2018, August 28; RFE/RL, 2018, August 31). Both instances, Djibouti and Afghanistan, must be seen as clear signs that Beijing is determined to implement its own security-military approach despite the concerns by the US and other regional actors such as India. New Delhi is obviously concerned about China’s maritime expansionism, fearing that Beijing could encircle India by using the so-called ‘string of pearls’ or

³¹Representatives of 60 countries, including the United States and Japan, took part in the largest dialogue platform on the China’s Belt and Road (BRI) initiative—President Xi Jinping’s signature project—which took place in Beijing on May 14–15 (Miglani, 2017, May 21).

'pincer' strategy by establishing a series of strategic naval ports (Barber, 2014, February 27; Rahman, 2012, March 22; Zingel, 2015, p. 22).

Islamabad and Beijing decided to deepen their security-military cooperation and agreed to intensify collaboration in defence, counter-terrorism, and space and maritime technology (Daily Times, 2015a, April 21; Syed, 2015, April 21). China promised to deliver military equipment, including eight submarines worth around \$4–5 billion (Detsch, 2015, April 21; Shams, 2015b, April 20). This naturally raises concerns from both India and the US—it is suspected that Gwadar will not only serve economic purposes but also function as a major naval base for both Chinese and Pakistani navies. Incidentally, China agreed to deepen its cooperation with Pakistan on the field of civil nuclear energy (Daily Times, 2015a, April 21).³² Some even regard Pakistan as a 'satellite state' of China—a notion which creates further suspicion among India's security circles (Shams, 2015b, April 20; Shams, 2016a, November 14; Wolf, 2014, January; 2013i, March 22). Put simply, the CPEC reinforces the notion that the Sino-Pakistani partnership poses a challenge to India's regional standing and could even constitute an attempt to contain New Delhi's influence in South Asia and beyond (Wolf, 2017e, January 24).

Secondly, the fact that the corridor crosses Gilgit-Baltistan, a disputed area in Kashmir (AJK), is a major setback for India's participation in the project. Any potential cooperation regarding CPEC-related developments to include India might be interpreted as a legitimisation of the status quo (Wolf, 2016h, March 16). The fact that China and Pakistan continue to implement major development projects in disputed territories without legal cover makes a constructive dialogue over potential Indian cooperation in the CPEC even more difficult. Additionally, CPEC activities might involve the presence of Chinese personnel belonging to the construction corps of the People's Liberation Army (PLA). This would represent another threat to India's security interests, especially given that it seems Beijing is about to build up a military presence in disputed areas (Chang, 2014, December 10; Chansoria, 2015, April 27). China's military presence could be also seen as a means to deploy Chinese private security contractors despite Pakistan's strict regulations barring foreign Private Security Companies (PSCs) from operating in the country (Legarda & Nouwens, 2018, August 16, p. 11). However, there are loopholes resulting in a 'legal grey-zone for joint ventures between Pakistani and foreign private security firms' (Legarda & Nouwens, 2018, August 16, p. 12; Leng, Liu, & Huang, 2017, July 23). It remains difficult to access reliable information on the real dimension of Chinese PSCs' presence and activities in Pakistan. Some PSCs such as Frontier Services Group and China Overseas Security Group (COSG) openly acknowledge their operations in Pakistan (Legarda & Nouwens, 2018, August 16, p. 12).

³²Considering the significance of nuclear weapons for South Asian states' military capabilities as well as self-perception and identity, the importance attached to Beijing's essential role in the nuclear programme can hardly be overstated (see also Andrew Small cited in Domínguez, 2015b, January 15).

Thirdly, there are suspicions regarding the overall BRI initiative and China's real intentions. Some observers think Beijing aims to push its own stagnating economy and develop its remote western Xinjiang province by increasing connectivity with Central and South Asia. Taking the tremendous demands and nature of China's manufacturing industry into account, it is perhaps not surprising that the country is launching vast activities so as to ensure energy security and supply of resources as well as access to new markets. As indicated earlier, major Chinese development projects abroad are not rare and can be traced back to earlier economic development schemes such as the 'go global' strategy—with which Beijing tried to encourage Chinese companies to invest abroad by launching various programs so as to establish the so called Chinese overseas SEZs or industrial estates. What is entirely new, however, is that China is attempting to transform its economic success abroad into political influence. Looking at the tremendous geographical and financial dimensions, it becomes apparent that the BRI is far more than just a 'development initiative'. Even if Chinese officials refuse to use any term other than 'initiative,' it is clear that the BRI is China's 'New Grand Strategy', determining its foreign policy and diplomacy's main focal point of. Therefore, the CPEC as a flagship project of the BRI can be seen as the most visible expression of Beijing's desire to create a new world order—one more favourable to Chinese national interests. It becomes apparent that New Delhi is persuaded that China's efforts to recalibrate the international system are disadvantageous to India. China's increasing political leverage in Pakistan, combined with intensified Sino-Pakistani security cooperation, will harden India's stand on the CPEC. New Delhi questions not only the feasibility and economic benefits of the CPEC but also China's overall altruistic, win-win rhetoric. The growing cooperation between Pakistan and China in economic, political, security-related, and strategic matters is increasingly threatening. According to Wolfgang-Peter Zingel (2015, p. 22), Pakistan is—like China—a major trading partner with India. However New Delhi ranks among Beijing's most important partners, while Islamabad plays only a minor role in China's trade relations. Zingel also refers to Pakistani critics of the CPEC who argue that the corridor will ease access to western China not only as regards Pakistan but also as regards India. Taking the economic potential of its eastern neighbour into account, it is likely that New Delhi would ultimately profit much more from the CPEC than Islamabad (Zingel, 2015, p. 22). However, such a scenario would depend of the further trajectory of India-Pakistan relations.

6.5.2 *Connectivity with Afghanistan*

Pakistan maintains rather difficult relations with both New Delhi and Kabul. As of now, the intensification of trade relations between Pakistan and Afghanistan is hardly feasible. It is imperative that Pakistan drops the vision of 'strategic depth' and adopts a nonpartisan policy approach towards Afghanistan's internal affairs (Rizvi, 2013, July 9). For, despite tense bilateral relations, there's a great scope for increased collaboration in the context of the CPEC. As with 'internal connectivity'

of the CPEC within Pakistan, also the external connectivity between Pakistan and Afghanistan could benefit from non-CPEC and non-Chinese funded projects. The most remarkable examples include the Khyber Pass Economic Corridor (KPEC) Project and Peshawar Torkham Economic Corridor (PTEC) Project (Component I), both financed by the World Bank. The former consists of two major components: (1) the Expressway Development³³ and (2) the Development of the KPEC. The ‘Proposed Development Objectives’ aim to expand economic activity between Pakistan and Afghanistan by improving regional connectivity and promoting private-sector developments along the Khyber Pass corridor, which would promote the integration of local producers into global value chains (World Bank, 2018a, May 25). Another project supported by the World Bank is the PTEC (Component II) aiming to improve connectivity efficiency within the existing Component I. The development objectives involve ‘to ensure safety at higher speeds on modern road’ and create ‘financially viable, socially acceptable, environmentally manageable, gender-neutral and pro-poverty alleviation’ (World Bank, 2018d, January 21).

However, in order to achieve sustainable regional cooperation, the integration of a stable Afghanistan into the CPEC as well as other economic corridors must be ensured. Beijing has a strong vested interest in the internal stability of Afghanistan. Furthermore, China wants an Afghanistan free of control from jihadist elements—who among other factors give shelter to Muslim Uyghur separatists (Shams, 2015b, April 20; Wolf, 2012a, May 11) and challenge law and order in Xinjiang. Furthermore, it is of utmost importance that Afghanistan is not to become a base for forces aiming to destabilise Central Asia,³⁴ itself a crucial area for the overall success of the BRI. This raises questions regarding how much influence China has on Pakistan’s security sector agents so as to persuade them to eradicate Pakistani-based cross-border terrorist groups. Pakistan must realise the need to combat jihadists operating in not only on national territory but also in neighbouring countries. Otherwise the sustainability of the BRI projects and the potential enlargement of the CPEC into Afghanistan will remain grim.³⁵ While it may be tempting to assume China’s powerful influence in this matter, assessing the genesis of foreign leverage in Afghanistan shows that Pakistan and China have differing priorities: while Beijing’s primary interest is to maintain peace and stability in Afghanistan so as to avoid negative spill-over effects towards Central Asia, Islamabad’s objective is to gain influence over domestic power dynamics and keep its rival India out of the country (Daily Times, 2015a, April 21; Domínguez, 2015b, January 15). Andrew Small³⁶ points out that in the past ‘China used to outsource its Afghanistan policy to Pakistan but is now taking a far more active

³³More concretely, this component covers the finance of ‘the detailed design, construction and supervision of the proposed four-lane PTEX [Peshawar Torkham Expressway] and associated road-user and administrative infrastructure facilities, the laying of fibre optic cables in trenches along PTEX, land acquisition and resettlement, afforestation along PTEX, and technical and independent reviews and studies for the preparation of new projects’ (World Bank, 2018, May 25).

³⁴Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan.

³⁵For a detailed assessment of the inclusion of Afghanistan into the CPEC framework, see Chap. 8.

³⁶Andrew Small quoted in Domínguez (2015b, January 15).

role in the planning for the aftermath of the West's drawdown'. The latest 'trilateral talks' between China, Russia, and Pakistan constitute a clear indication that Beijing aims to transform itself from a bystander into a stakeholder in Afghanistan's security affairs (Tiantian, 2016, December 27; Nation, 2016, November 21). In this context Beijing 'expects Pakistan to take Chinese concerns into account'.³⁷ This could help improve overall relations between Kabul and Islamabad. Severe litmus tests for future constructive collaboration between Kabul and Islamabad will include the envisaged Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI), an Afghanistan-Pakistan Transit-Trade Agreement, and the Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000).

6.5.3 *Connectivity with Iran*

The increase of the CPEC's 'western connectivity' can be also improved through collaboration with Iran. A successful eastward orientation would deepen regional cooperation and offer ample opportunities for the CPEC in general and the western alignment of the economic corridor in particular. The cooperation in energy and trade would benefit much from a rapprochement between Islamabad and Tehran. Furthermore, the construction of an Iran-Pakistan-India pipeline would create other venues for potential cooperation between India and Pakistan as well as Afghanistan. Until recently, it seemed for many observers that the Joint Comprehensive Plan of Action (JCPOA)—a deal reached between Iran and other world powers so as to limit Tehran's nuclear program (Jin, 2017, February 7)—and the subsequent removal of sanctions would re-establish Iran's position on the international stage and open up new opportunities for cooperation, especially with Pakistan. But in the wake of the US-Iran tensions, after Washington enacted new sanctions against Tehran³⁸ and withdrew from the nuclear deal, the situation must be reassessed—especially as regards impacts on international relations with the Iran. Tehran was put 'on notice' by Washington; punitive measures by President Trump's administration were announced in cases of further violations of the JSPOA notions or continuation of state-sponsored terrorism. The US expects its allies and partners to follow its policy on Iran. More concretely, individuals and companies which are on the US sanction list are to be 'barred from doing business with US companies, and companies around the world will be blacklisted by the US if they do business with them' (Aleem, 2017, February 6). Despite the fact that the latest US sanctions also target Chinese

³⁷ Andrew Small quoted in Domínguez (2015b, January 15).

³⁸ On February 3, the US administration enacted new sanctions on Iran. The sanctions list includes three separate networks linked to supporting Iran's ballistic missile development program and those providing support to the Islamic Revolutionary Guard Corps Force. The measures are partly a response to Tehran's test of a medium-range missile on 29 January 2016 as well as Tehran's support for foreign armed groups like the Yemeni Shia Houthi rebels or the Lebanese Hezbollah among others (Borger & Smith, 2017, February 3; Jin, 2017, February 7).

individuals and companies (Jin, 2017, February 7), Beijing will most likely try to follow a ‘neutral approach’ regarding the US-Iran confrontation in order not to get drawn into a major conflict between the ‘Iranian-led Shia camp’ and the ‘Saudi Arabia-guided Sunni camp’.³⁹ Such an involvement would harm the BRI as well as Chinese interests in the Middle East. Nevertheless, Beijing will not allow Washington to interfere decisively in Sino-Iranian ties or admit any substantial challenge to China’s long-held dominant investing position in and economic cooperation with Iran (Jin, 2017, February 7). It seems that not only Pakistan but also Iran are moving towards closer cooperation with both China and Russia. The cancellation of the Trans-Pacific Partnership (TPP), the Russia-Pakistan rapprochement, increasing Russia-China cooperation, and a growing interest by Turkey in BRI, although they do not improve Iran-Pakistan cooperation per se, all constitute favourable conditions for the development of the CPEC.

Any rapprochement needs to take into account both Pakistan’s special relations with Saudi Arabia and Riyadh’s sentiments towards Tehran. Riyadh and Islamabad share a long history of cooperation in defence and security; Saudi Arabia often helped the Pakistani government in precarious financial situations (Vandewalle, 2015). Nevertheless, the CPEC may initiate a gradual shift in Pakistan’s regional outlook regarding relations with both Iran and Saudi Arabia. On the one hand, Pakistan considers Iran a potential partner in the field of energy, transport, and trade; on the other hand it does not wish to further displease Saudi Arabia by becoming too close to Tehran (Shams, 2016b, March 24). This will be a difficult balancing act for Islamabad due to a growing Saudi-Iranian hostility in the Middle East. For example, Saudi Arabia was vexed that Pakistan’s parliament voted against joining the Saudi-led attacks (Operation Decisive Storm) against Iranian-supported Houthi rebels in Yemen (BBC, 2015c, April 10). Pakistan can be thus expected to approach the situation carefully and be cautious not to further alienate Saudi Arabia. The difficult task of bridging relations between Islamabad and both Tehran and Riyadh is only one of the many challenges relating to the CPEC. It is unclear whether Iran will turn out to be Pakistan’s competitor or partner within the BRI endeavour. As indicated above, the Chinese government is concerned with ongoing political conflicts, security problems, delays and other issues obstructing the CPEC’s implementation. Tehran may offer Beijing an alternative economic partnership and corridor. Iran’s main argument in this context is that it possesses a functional port in Chabahar, only 36 km away from Gwadar (Chang, 2014, December 10). In contrast with Gwadar (Fazl-e-Haider, 2014, May 9), Chabahar is well connected with national infrastructure and Iran can guarantee the security of both Chinese

³⁹The differentiation between ‘Iranian led Shia camp’ and ‘Saudi Arabia guided Sunni camp’ must be understood as ideal types. There are several cases in which a clear cut distinction between both types are nor possible because they are intervening. Iran’s military intervention in Syria, and its collaboration with Sunni as well as with Shia groups can be seen as a proof therefore. Another example is Iranian support for (Sunni) Taliban in Afghanistan, or the use of Shia communities by Pakistani governments’ ‘settlement policies’ to change the social-religious demography of restive areas in Pakistan.

investments and of its workers. It is interesting to mention that China offered to invest \$51 billion in Iran to implement the CPEC, which is more than was initially proposed to Pakistan (today Chinese investments are much higher and will most likely further increase). In sum, there is an imminent threat that a potential Iran-China Corridor competes with the CPEC. However, considering Chinese interests and Pakistan's strategic location (Fazil-e-Haider, 2014, May 9)—the country's major asset—it seems probable that Iranian venues will remain but an additional option unlikely to substitute the CPEC.

In sum, a normalisation of Pakistan-India as well as Pakistan-Iran relations is an essential precondition for the greater external connectivity of the CPEC. Pakistan's predominantly security-based approach towards both Afghanistan and India needs to be reassessed (Malik & Naseer, 2015a, April 30; 2015b, April 30; Wolf, 2012c, April 20). This requires a decisive change in the mindset of regional decision makers since tensions in bilateral relations continue to obstruct regional collaboration. Pakistan must redefine its regional profile and improve both economic and diplomatic relations with its neighbours (Rizvi, 2013, July 9). With the formulation of its 'Vision 2025' (MoPDR, 2014), Islamabad took a first step—at least in theory. Pakistan must develop a foreign policy free from ideological parameters and allow rational behaviour in bilateral relations, putting greater emphasis on trade and economic cooperation rather than focusing solely on security (Barber, 2014, February 27). The country's military and intelligence services however have yet to play any constructive role in Pakistan's relations with its neighbours. Cross-border activities conducted by Pakistan-based terrorists deeply undermine any sustainable rapprochement between Islamabad and either New Delhi or Kabul. China often sides with Pakistan on such matters.⁴⁰ Nevertheless, it doesn't seem that China's willing to get involved in India-Pakistan disputes. Beijing could play a middleman essential role and make it clear 'that the proposal to open access to the economic corridor for India has credible commitment at the highest levels in China' (IANS, 2015a, October 10). Beijing is most likely the only actor capable of encouraging a change in Pakistan's conservative security circles' policies. Only through a change of mindset can Pakistan, China, and the whole extended region enjoy maximum benefits from both regional cooperation and the CPEC.

6.6 Indicator: Shared Culture and History

A shared culture and history play a crucial role in the development of an economic corridor. With regard to both the BRI and the CPEC, the cultural factor is gaining significance for various reasons. Culture forms a common ground between the

⁴⁰For example, in the territorial dispute with India over Gilgit-Baltistan or the case of Indian and US attempts to designate Pakistan based-militants on the United Nations Security Council Sanctions Committee list of terrorists (Dawn, 2017f, February 7).

people of Pakistan and China, creating people-to-people bonds and people-to-people diplomacy. Beijing launched several exchange programs for students, experts and practitioners. The country also established a number of cultural and educational institutions, namely the Confucius Institutes⁴¹ in BRI countries. Cultural influence is perceived by China as an essential soft power instrument in foreign policy (Zhao, 2015, p. 4). However, China's motives go far beyond connecting people; we are in the presence of a comprehensive strategy surrounding people-to-people diplomacy. This finds expression in a proposal made by Chinese leaders:

the guiding principles of 'non-officials leading the way and encouraging officials', 'officials and non-officials on the same level, with officials guiding non-officials', and 'never forget old friends and broadly make new friends' to establish foreign relations with other countries (Zhao, 2015, p. 17).

Although the claim is denied by Chinese officials, it becomes increasingly obvious that Beijing has a strategic rationale behind the use of culture for the promotion of both BRI and CPEC. China's objective seems to include the notion of a 'BRI community' among participating states. Such a community is hoped to influence 'others' (non-BRI members). This includes the organisation of major events, particularly the Belt and Road Forum for International Cooperation⁴² which serves as a dialogue platform and 'diplomatic showcase' (Tiezzi, 2017, May 16) promoting the perception of a community of 'BRI states'—in the words of Xi Jinping, 'a community of common destiny' (Mardell, 2017, October 25). Another objective is to construct a 'BRI-identity' so as to strengthen a feeling of belongingness by individual member states and consolidate unity. It appears that rejuvenating the Chinese nation and accepting Chinese culture as 'Leitkultur' (leading culture) are the core building-blocks⁴³ of such a 'BRI-identity'. Another element of the identity's construction is to create an alternative model for international development and as well as a new global order which departs from the traditional international order dominated by 'the West'. Culture can also serve China as an instrument to enlarge the 'BRI-community' by fostering relationships with potential BRI newcomers. Through culture, China can also counter attempts to undermine the BRI's vision and fight off alternative visions such as the concept of 'Indo-Pacific' formulated by the administration of US president Donald Trump (Doan, 2018, August 1). The Chinese diaspora also plays significant role in

⁴¹Although China's officials refute allegations that cultural entities such as the Confucius institutes are part of a political agenda, they 'indirectly or inadvertently provide an outlet for public diplomacy' (Zhao, 2015, p. 15). According to experts, all Chinese cultural institutions engaged in public diplomacy so as to enhance Chinese soft power and export China's culture are under tight control of foreign affairs circles (Zhao, 2017, p. 14).

⁴²For more information on the Belt and Road Forum for International Cooperation, see <http://www.beltandroadforum.org/english/index.html>

⁴³Construction of collective identities is influenced or shaped by codes. There are different basic types of codes which serve (usually as a set codes) as building blocks or components for identity constructions (Eisenstadt, 1998).

supporting China's foreign policy. During the last decades, Chinese leadership adapted a policy regarding expansion abroad and tried to instrumentalize its large diaspora communities (approximated 60 million⁴⁴) so as to gain economic and political leverage in 'host countries' (Chang, 2013, June). However, the term 'host countries' remains in numerous cases a misnomer since many members of the 'Chinese diaspora' are actual citizens of these countries.⁴⁵ Nevertheless, Beijing uses both culture⁴⁶ and benefits of various kinds so as to appeal these communities to keep their linkages to the 'country of the ancestors'—to make the 'ancestral land' their basic point of belonging and prime loyalty. In order to do so, Beijing created incentive programs and soft-power inducements priming 'Chinese individuals to represent the country's interests abroad through commercial, cultural, and political engagement' (Chang, 2013, June). China is in fact promoting the build-up of diaspora communities, using BRI as a main framework. For example, China attempts to establish a 'Chinese city' in Gwadar. This 'city' should provide housing for half a million Chinese nationals at a cost of US\$150 million. It is important to note that this sub-city or real estate complex is arranged as a 'gated community' intended only for Chinese citizens. Such Chinese expatriate 'colonies' already exist in both Africa and Central Asia, yet Gwadar will be the first real estate project of this type in South Asia. The project, which will likely establish a sort of Chinese exclusive zone, is 'giving rise to considerable local resentment' (Chaudhury, 2018, August 21). Critics emphasise that these 'Chinese cities' are accompanied by enforced displacement, restrictions on free movement, and destruction of local people's livelihoods, in fact serving as an instrument for Beijing to acquire new territories (Chaudhury, 2018, August 21). The use of soft power instruments by Beijing and the rapidly growing presence of Chinese citizens in Pakistan are obviously causing unease among local populations (Sadiq, 2018, March 8). As we shall see, the implementation of the CPEC is facing two major ethnic cleavages—the issue of Punjabi dominance and regional cultural disparities on one hand and the 'cultural divide' between China and Pakistan on another.

⁴⁴There is no confirmed information available regarding diaspora numbers. However, already in 2012, it was estimated that the Chinese diaspora counted 50 million people (Xinhua, 2012, March 11). However, today the numbers are probably much higher (Baijie, 2018, June 13).

⁴⁵This is limiting Beijing's influence over ethnic Chinese who are not citizens of the People's Republic of China (PRC). There is the risk that these 'Chinese' who are citizens of host countries are losing 'citizenship, rights, or significant political or social capital' if they support the PRC cause (Chang, 2013, June, p. 25). Furthermore, the Chinese diaspora consists of many heterogeneous groups with 'diverse views, values, and identities' (Heath, 2018, March 1), which determines an additional challenge for Beijing to instrumentalize them via cultural and soft power tools.

⁴⁶These cultural measures (understood as soft power tools) are efforts aiming at the promotion of traditional Chinese culture and benign views of the country through investments in movies, advertising, exhibits, and activities related to the Confucius Institutes (Heath, 2018, March 1).

6.6.1 The Punjabi Factor and Regional Cultural Disparities

As a multi-ethnic federation, Pakistan is challenged by the phenomenon of one dominant ethnic group united within a single core ethnic region (BTI Pakistan, 2018, p. 35) leading to asymmetries in the distribution of power and resources as well as in the representation of different regions and ethnic groups on the national level. This phenomenon is named after Pakistan's most dominant region Punjab, and is regarded as the 'Punjabization of Pakistan'.⁴⁷ In addition to resentments towards Punjab, smaller provinces tend to oppose any cultural, socio-economic or political influence from that province, which they perceive as foreign penetration (BTI Pakistan, 2018, p. 35). The influx of Chinese elements (both cultural and economic) deepens the feeling of cultural marginalisation. In other words, Pakistan's ethnic minorities feel threatened by 'Punjabi dominance' on one hand and by growing 'Chinese footprints' on the other. This is gaining significance since Pakistani minorities are increasingly mobilising in social and political protest movements, as evidenced for instance by the social movement for Pashtun human rights known as Pashtun Tahafuz Movement or Pashtun Protection Movement (Wazir, 2018, April 27). Movements such as this are cultivating their own identity by using anthems and other symbols.⁴⁸ They question both Pakistan's national identity and the growing Chinese leverage in the country. National identity is often perceived by the marginalised regions as a Punjabi construct serving Punjabi interests. This creates a severe challenge to Islamabad's efforts to portray the CPEC as a national endeavour and questions the Chinese rhetoric of mutual benefits and win-win situations.

6.6.2 The Lack of Common Cultural Links Between China and Pakistan

Despite their enthusiastic rhetoric, Pakistan and China have little in common in terms of either history, culture, or language. The two countries have different political and social systems. Development in Pakistan is persistently hindered by the presence of state-sponsored Islamisation, religiously radicalised militants, and the role of religion in state and society. This contrasts with China's secular approach and its determination to suppress religious extremism and fundamentalism. The religiously-influenced social and cultural norms as well as the 'way of life' in Pakistan are rather a source of alienation. It is interesting to mention that while Pakistanis view China in an overwhelmingly positive light, it seems that the Chinese either look down on their South Asian neighbour or at the very least experience a far less enthusiastic attitude. A 2014 Pew Research Center survey found that 78% of

⁴⁷An interesting assessment on the phenomenon is offered by Ian Talbot (2002a).

⁴⁸The most prominent symbol of this movement is the 'Pashteen hat'.

respondents view China favourably, whereas only 30% Chinese perceive Pakistan in a positive light. The Chinese seem to view Pakistan as a violent, lawless, chaotic, and poorly governed country (Allen-Ebrahimian, 2015, April 22; Tharoor, 2015, April 21). Despite these differences, cooperation between China and Pakistan has grown in the past decades as Beijing acknowledged the importance of good relations with Islamabad. However, this has not led to any significant improvement in terms of a sense of belonging. On the contrary, it seems that there is a growing awareness in Pakistan regarding cultural differences between Chinese and Pakistanis. As summarised by Sadiq (2018, March 8),

‘Pakistanis genuinely believe that the Chinese are a nation devoid of the ability to blend in with new communities, hampered by poor interpersonal skills or a more basic lack of social trust’; they, however, ‘seem faintly unsettled at the prospects of more Chinese swamping through their landscape, seeing them as more foreign and culturally remote than the British or even the Americans’.

Observing how the CPEC’s first phase is being implemented, it seems that the major difficulties are linked to differences between China and Pakistan in terms of culture, ethnicity, religion and language, as well as political and economic systems and contrasting approaches to environmental protection (Zhang, Andam, & Shi, 2017). These differences can increase certain social risks, especially cultural, leading to the destruction of both historical and cultural heritages. The lack of understanding by Chinese companies and workers may lead to violations of taboos related to local customs and religion, causing local resistance and rejection (Zhang et al., 2017, p. 15). There is evidence of local protests and violations that took place in response to a growing Chinese presence in Pakistan (PTI, 2017b, May 9)—for instance terrorist attacks against Chinese workers (Pantucci, 2018, August 26) or the increasing number of reports criticising the growing Chinese presence as well as their lifestyle and behaviours. Conflicts between Chinese citizens and Pakistani security forces are a cause of concern for many observers (Shah, 2018b, April 4; Niazi, 2017, June 12). Although the tensions are not so intense as to be called ‘Sinophobia’, concerns about the Chinese presence in Pakistan are on the rise and pose a threat to the long run functioning of the CPEC.

6.7 Indicator: Modernisation and Industrialisation

Being at least ‘30 years behind in terms of technology and machinery’, industry in Pakistan urgently needs to be upgraded (Naqvi, 2018, April 23). Unable in the past to address infrastructural and technological needs, Pakistan’s economy was primarily based on the production of basic goods (Tarin, 2018, June 7). In an attempt to modernise its national industry, Pakistan started importing modern technologies from China, causing a trade deficit with Beijing. However, it is unclear whether the quality of the imported machinery complies with international norms, given that it consists of ‘second hand’ products potentially damaging for Pakistan’s economy

(Husain, 2018, June 6). The import of outdated technologies has negative ramifications for the environment, too.

There are two factors that need to be considered when thinking of buying advanced equipment for industrial production and manufacturing from China. Importing new machinery would increase Pakistan's dependence on China as Chinese technology would become pervasive in the country's industry—thus also becoming a setter of technological and engineering standards. Moreover, Pakistan's reliance on China would decrease competition—the incorporation of western technological components in projects conducted with Chinese help is very unlikely. A growing Chinese leverage and the lack of domestic resources for research and development will additionally hamper Pakistan's capacities to develop its own advanced technology. Hence, imports from China can help Pakistani businesses to bridge the technology gap, but only temporarily. CPEC decision-makers should therefore create incentives within the framework of the planned SEZs so as to attract and diversify foreign investments in new technologies and encourage technology transfers that can help domestic companies to become more competitive. Any concrete policy measures in this direction, however, are yet to be seen; moreover the provinces and regions are not entitled to act independently.

China's approach towards industrialization is quite different and extremely successful. SEZs or industrial estates in China are empowered to conduct their own economic policies. For example, the Chinese mega industrial zone of Tianjin⁴⁹ 'explicitly bans the use of backward technology or outdated equipment and gives an outright priority to new industries and technologically advanced companies' (Khawar, 2018b, January 3). However there are numerous indicators that Pakistan's decision-makers continue to invest in obsolete technology—for instance buying old coal plants from China while ignoring the country's own and vast resources of renewable energies (especially wind and solar). Furthermore, Pakistan's apparent revival of import substitution policies so as to attract foreign direct investments offers little promises to counter premature de-industrialisation (Zaidi, 2018, June 26). In this context, the announced focus by the Long Term Plan for the CPEC (LTP, 2017) on technological transfer in the agricultural sector⁵⁰ might distract both planning capacities and financial resources from the required modernisation of Pakistan's industries and manufacturing.

It becomes obvious that Pakistani decision-makers hope China to transfer its industrial units, especially those in advanced technological sectors, to Pakistan's SEZs. However, considering China's overall vision and development policies such as the 'Made in China 2025', we can expect Beijing's priorities to lie in supporting industrialisation of its own underdeveloped areas in western Xinjiang and other

⁴⁹Tianjin consists of several industrial zones.

⁵⁰The LTP emphasises agricultural modernisation with the goal of strengthening agricultural production (LTP, 2017, p. 18). Islamabad obviously hopes that an increased cooperation between China and Pakistan in the agricultural sector will lead to more exports of Pakistani food products and help to reduce the trade deficit with China.

remote border areas so as to reduce regional imbalances. Moreover, Islamabad has to realise that Beijing is neither morally obliged nor legally contracted to make Pakistan more competitive in the international field. This must be accomplished by Pakistan itself (ICG, 2018, June 29, pp. 12–13). As most CPEC-related economic plans are designed by Chinese and not Pakistani decision-makers, Pakistanis are becoming aware of the fact that China's 'first priority will be to industrialise its Western side and no extra concession can be sought from China on this subject' (Zaidi, 2018, June 26). However, increased labour costs in China can influence Chinese economic considerations and lead to a shift of eastern industries towards western regions as well as towards areas along CPEC routes conducting to the export terminals in Gwadar and Karachi. This would reduce both labour and transport costs—especially when entering Pakistan as the required raw materials would be available locally. Nevertheless, it is still hoped by Pakistan's decision makers that Beijing encourages both its private and state-owned enterprises (SOE) to set up industrial units in Pakistan. This would help Pakistan to modernise its manufacturing sector (Rehman, 2018, June 1) and both produce and export high-technology products, not merely raw materials; in other words, the aim is to create an export-based economy with a sound industrial base by 'using local raw material which effectively means that value addition previously being undertaken outside Pakistan will be undertaken in Pakistan' (Zaidi, 2018, June 26).

It's too early to measure the potential impact of the CPEC on Pakistan's industrialisation and modernisation since the measures involved are still in planning or in the first phases of implementation. A crucial benchmark for the corridor's success will be whether it pushes industrial productivity and exports so as to help Pakistan enter the path towards high, equitable and sustained levels of economic growth (Rafiq, 2017, p. 3). However, at the moment there is not much indication that Pakistan will overcome its 'premature de-industrialisation' (Zaidi, 2018, June 26). The country may—instead of turning into a manufacturing and industrial hub—continue its path towards a consumer economy with some elements of a service economy, agricultural production, and provision of raw materials.

6.8 Indicator: Social and Societal Development

Pakistani political elites and their Chinese counterparts view the CPEC as a catalyst for economic and social development. As we shall see, however, perceptions may differ.

6.8.1 Raising Living Standards

The CPEC is expected to foster economic growth and improve overall economic and social conditions. According to official rhetoric, both people living in the special

economic zones as well as those residing in the hinterland will benefit. Proponents of the CPEC highlight the emerging job opportunities and gradual improvement of economic and social conditions (Klasra, 2018, January 20). While the official ‘win-win’ narrative presents the CPEC as a benefit for all, there are voices criticising the negative impacts of the CPEC on local communities and their livelihoods. Concerns include rising demands for a ‘fair compensation for the land [acquired for CPEC projects], as had been promised’ and the ‘reduction in environmental destruction’ (Khan, 2017d, June 27). Facing a massive influx of Chinese workers on one hand and migrants from surrounding Pakistani regions on the other, residents are worried about their future employment opportunities. Having created around 60,000 jobs since 2015 (Dada, 2018, June 13), some praise the CPEC as a ‘job engine’. However it is difficult to verify this data (Jacob, 2017, August 22). Perhaps it is still too early to evaluate the long-term impacts of the CPEC on the Pakistani labour market.

Creation of employment in Pakistan depends on several factors. First, a successful implementation of CPEC-related SEZs is vital. However Pakistan’s record with earlier SEZ initiatives is shaky and the trajectories taken by new economic zones and industrial area projects are not foreseeable yet. Second, China may not be willing to reallocate enough industrial units to Pakistan—as Beijing’s number one goal is to industrialise and modernise its own remote and underdeveloped border eras. This could reduce China’s ambitions to outsource its production capacities towards Pakistan’s SEZs. There are other factors that might influence migration by Chinese companies and workers. Trade tensions between Beijing and Washington affect manufacturing costs in China and lead many Chinese companies as well as smaller and medium-sized businesses to reduce their employments and contemplate moving overseas (Huifeng, 2018, September 21). Third, the willingness of Chinese firms to hire domestic workforces instead of Chinese workers is questionable, given the changing nature of official statements on the subject as well as local complaints about scarce job opportunities within CPEC projects. Partnerships between Chinese firms and local Pakistani companies so far seems unlikely (Khaliq, 2018, April 16). Fourth, if Chinese companies decided to move its business units into Pakistan, it would be because of Pakistan’s cheap labour. Wages paid by Chinese firms to domestic workers are known as extremely low, in many cases lower than national standards. Hence, there is no guarantee that the new employment opportunities generated by the CPEC would improve local living conditions. Finally, there is a threat that new jobs could cause environmental degradation and endanger the existence of current jobs. There are also fears that Pakistani companies will be unable to compete with their Chinese counterparts—which would ultimately result in layoffs (Khaliq, 2018, April 16).

CPEC impacts on the environment may include water and air pollution as well as noise disturbances caused by higher transit traffic and transport volume. These can negatively influence local living standards—especially of those living in mountainous and coastal areas with vulnerable ecosystems, but also of those who rely on natural resources, tourism (ecotourism), and organic agricultural production. For example, the economy of Gilgit-Baltistan is largely based on agricultural production (almonds, apricots, cherries); a pollution-free climate and high-quality water

resources are major factors responsible for the rich taste and organic nature of the region's agricultural products (Dawn, 2017e, March 27). It is feared that new road infrastructure will pollute air and water and thus threaten Gilgit-Baltistan's competitive advantages. There are also growing concerns (not only in Gilgit-Baltistan but in other areas such as Baluchistan) that many homes will be destroyed and people displaced in CPEC areas (Ebrahim, 2016b, May 12; ICG, 2018, June 29, pp. ii, 25). It is important to note that local people's forced abandonment of their homes and land due to CPEC constructions and related government-guided migration processes (including displacements due to security issues) is not the only factor involved. Local people are also forced to migrate due to degrading environmental conditions—such as landslides or flooding—caused by the CPEC. Another point of concern is that local land will be taken over either by the government or 'rich investors from outside' (Ebrahim, 2016b, May 12), destroying agricultural production and making the locals economically subservient and marginalised. So far CPEC planners haven't proposed any strategy offering alternative solutions or compensations. It seems that Pakistan's authorities are either not aware of or ignore the correlation between poverty and environmental degradation. It can be expected that the poor and marginalised rural communities which lost their agricultural land and/or (traditional) job opportunities due to the CPEC will be forced to instrumentalize and consume locally available but limited natural resources (such as wood and wildlife) for their survival. This situation will lead to the creation of further detrimental effects on the environment. In this context, Ramay points at another aspect regarding the overuse of available resources, namely the extreme husbandry used for short-term benefits which is leading to severe damages of local land such as soil pollution and decreased soil fertility (Ramay, 2018, January 15).

Moreover, the housing losses will force rural populations to migrate to urban areas. Domestic economic migration will likely increase social and political stress and further worsen environmental issues—for instance by affecting green areas, waste disposal, or water usage (Ramay, 2018, January 15). Eventual tensions between domestic migrants and initial residents would pose additional challenges for CPEC planners.

6.8.2 *Improving Social Conditions*

Despite slight improvements in social conditions within Pakistan during the last years,⁵¹ the situation remains grim. Given the CPEC's obvious impacts on the environment, the health and general well-being of Pakistani populations is at risk (Sarwar, 2016, July 20). Many energy projects are in close proximity to highly

⁵¹As a country with 'Medium Human Development', Pakistan's Human Development Index (HDI) improved from 147 (out of 188) in 2016 to 150 (out of 189) in 2017. For more information, see <http://hdr.undp.org/en/countries/profiles/PAK>

populated urban areas. On the other hand, the CPEC's new road and railway infrastructure projects are often close to remote rural areas, where the population can suffer from increased pollution. Negative effects on health can decrease productivity as well as work efficiency (Sarwar, 2016, July 20). Water scarcity issues affect increasing numbers⁵² within the areas affected by CPEC projects—Baluchistan and Sindh in particular. There are threats of malnutrition and undernourishment (Ali, 2018c, September 8; Shah, 2018c, September 27). Several reports state that health conditions among both Pakistani and Chinese workers is seriously threatened (Khwaja, 2018, March 29).

6.8.3 *Social Integration*

Several experts working on economic corridor developments (NDoT, 1999, pp. 6, 17, 18; Marrian, 2001) believe that economic growth will increase overall living conditions and improve social integration between different communities. However, after observing the implementation of the CPEC's first phase, it seems that the corridor fails to address some key developmental aspects. One is to expect rising socio-economic asymmetries within Pakistan's society, widening social gaps between traditionally privileged communities (such as Punjab's and Sindh's Feudal landlords) and economically disadvantaged sectors (workers, peasants and land tenants). There is little information available on labour standards agreed on by Pakistan and China regarding the workforce deployed in CPEC-related projects. Observing the existing conditions among Chinese workers involved in projects related to the BRI, one can expect a worsening situation regarding both implementation and respect for human rights and law in Pakistan.

It is likely that the CPEC will enhance the 'exclusive nature' of and social stratification in Pakistan. The national government did not take into consideration the societal impacts related to the CPEC's implementation. It does not come as a surprise that the CPEC hasn't yet had any positive effect on the welfare of Pakistan's society—nor has there been any remarkable effort to assess potential risks. Despite some CPEC-related 'good-will projects',⁵³ there are no new development schemes or projects aiming to support the country's social safety nets and

⁵²Water scarcity in these areas affects particularly women and children. The Baloch Nutrition Cell reports that 52% of Balochi children suffered from undernourishment due to droughts. Compared to other provinces, child mortality in Baluchistan is also very high. Another survey by the National Nutrition Cell states that 49% of women in Baluchistan suffer from malnutrition (Shah, 2018c, September 27).

⁵³For example, China provided aid for the construction of a facility for fresh water treatment and supply, a public hospital, and technical and vocational institutes (Rafiq, 2017, p. 16). However, these 'goodwill measures' are limited in number and seem to be chosen rather on a strategic basis rather than according to purely altruistic considerations. Gwadar is supposed to be the CPEC's flagship project.

welfare programmes related to the corridor. This is in part due to financial constraints and a growing fiscal deficit. It appears that the CPEC is further reducing government opportunities to invest in the social sector.

Development funds are being redirected towards security and current spending. This marks a change in priorities—we now witness a focus on CPEC-related ‘core development projects’ and respective financial needs (e.g., security costs). Pakistan’s national budget for 2018–19 already underwent significant re-allocations (Dawn, 2018c, April 28). Schemes supposed to improve living standards, especially in remote areas, were abolished. The federal ‘Public Sector Development Programme’ (PSDP) has been slashed by 20% when compared to the previous year’s (2016–2017) budgeted amount. It is noteworthy that programmes with strong social welfare elements introduced by former Prime Minister Nawaz Sharif were either completely abolished or significantly reduced. For example Sharif’s ‘Global SDGs Achievement Programme’ was annulled—and Pakistan will spend significantly less on Sustainable Development Goals (SDGs). Pakistan’s SDG budget was reduced to 16.67% of the previous year’s figure (from Rs 30 billion to only Rs 5 billion). Furthermore, the ‘Special Federal Development Programme’, the ‘Clean Drinking Water for All and Energy for All’, and Nawaz Sharif’s national health programmes—including plans for new hospitals—were completely dismissed. The whole budget for national social and health services was in fact reduced almost by half (Dawn, 2018c, April 28). These budget reallocations will affect more than 70 new projects proposed by the Higher Education Commission, four new projects by the Human Rights Division, new schemes by the Information and Broadcasting Ministry and by the Interior Division, projects by the National Food Security Ministry and by the Ministry of Health, as well as various water schemes (Rana, 2018c, February 3). The government does plan to increase the defence budget—arguing that the ‘economy of any country cannot grow without security, peace and stability’ (Dawn, 2018b, May 1; Syed, 2018b, April 28). Pakistan’s objective of creating a safe environment for the implementation of the CPEC is underlined. These changes in budget allocations will have a significant impact on living standards (Rana, 2018d, February 3). Poverty in Pakistan is likely to deepen (BTI Pakistan, 2018, p. 24)—the country’s main safety net, the Benazir Income Support Program (BISP),⁵⁴ suffers from severe shortcomings⁵⁵ (Khan, 2018a, April 27). As pointed out by the IMF’s managing director Christine Lagarde with regard to BRI projects (Clover, 2018, April 12), Pakistan also faces increased challenges regarding the national debt and balance of payments. Pakistanis will further face

⁵⁴The Benazir Income Support Program (BISP) provides unconditional cash transfers to the poorest sectors of society, as well as conditional cash transfers to support primary school attendance. In 2017, in 5.4 million beneficiaries were supported by the BISP. Other welfare programmes include the Benazir Income Support Program (BISP), Bait-ul Mal, and the Pakistan Poverty Alleviation Fund (PPAF).

⁵⁵Critics argue that the subsidiaries are unable to lift impoverished families above the poverty line. Furthermore, it is reported that the BISP is flawed by financial mismanagement, corruption and political favouritism (Ghumman, 2014, January 12).

rising energy prices since part of the security costs attached to power generating projects is being passed on to consumers.

6.8.4 *Bridging Cultural and Ethnic Cleavages*

Trade and other economic activities related to the CPEC are expected to deepen people-to-people contacts, both domestically and internationally. It is promised that said contacts, combined with the hoped improvement of the socio-economic conditions, will help bridge cultural and ethnic differences in heterogeneous Pakistan. Observing the CPEC's first phase of implementation, however, it appears that hostile relations between Pakistani communities remain, especially between the Punjabi majority and the numerous ethnic minorities. This is evidenced by competition between provinces and provincial minorities. Both Chinese and Pakistani authorities support guided migrations through policies that are changing social fabrics and demographic dynamics within the CPEC's geographical framework. Local communities perceive this as a severe threat to their cultural and ethnic identities. With reference to Brown (1996), Ayesha Shehzad (2011) points out the economic causalities of intra state conflicts:

When the state fails to protect an individual's rights and liberties, and to maintain equitable opportunities among various groups, marginal identities tend to perceive state institutions and laws as unjust or oppressive. This situation is further aggravated when some ethnic groups are not drawn into mainstream politics by the state. It increases their isolation from the state structure and creates ethnic conflicts. The ethnic groups can also tend to violence, if the situation persists as the marginalized groups take violence as the only way to vent their grievances (Shehzad, 2011, p. 125).

Local communities feel marginalised in their own homeland due to a massive influx of migrants caused by the CPEC. This indicates widening social and economic disparities. Conflicts occur on both sides of the CPEC, particularly in Baluchistan and Xinjiang. Local communities in these regions feel economically exploited and disadvantaged by their governments, a belief which is strengthening identities and fostering ethnic conflicts (Shehzad, 2011, p. 125). In addition, some major development projects such as dams and roads influence local cultures and traditional ways of living.

6.8.5 *Containment of 'Social Evils': Terrorism and Religious Fundamentalism*

Many believe that the CPEC will improve living standards and reverse some unfortunate developments such as religious extremism (jihadism), terrorism, political violence and militancy, and separatism. However, the CPEC per se is unable to address these 'social evils.' Vulnerable sections of society remain the main target of

religious extremism. It is argued that the CPEC can in fact increase terrorism in Pakistan for the following reasons. First, the CPEC is identified as a target by the international jihadist movement IS—cited reasons include a claimed mistreatment of Muslim populations and several secular policies promoted by China (Aamir, 2018a, August 17). International terrorists target Chinese national interests abroad—especially within fragile states like Pakistan—and make Chinese investments, companies and workers particularly vulnerable. Secondly, focusing on infrastructure, energy, transport and communication, the CPEC *per se* provides only a ‘minimum for the functioning of the economy and of the state’, essential for the country’s security and stability (Grenda, Ślachcińska, & Majdan, 2017, p. 165). Terrorists began targeting critical infrastructure, including hydrological projects, transportation, and communication systems. The functioning of both state, its economy and security can be seriously threatened by terrorist activities. Third, Chinese companies and workers engaged in the CPEC are likely to become the focus of domestic terrorists and other local militant groups (Pantucci, 2018, August 26). They are perceived as instruments of economic exploitation and political suppression by Islamabad. Furthermore, the increase of Chinese elements is associated with unwanted influence from other Pakistani regions as well as from abroad. The Chinese may become targets of Pakistani terrorists due to their reputation of violating local customs, especially those linked with religion.⁵⁶ In fact, anger within Pakistani society about the central government’s activities as well as militant separatist tendencies are not a new phenomenon. What is novel, however, is that China is becoming the ‘focus of attention as the biggest outside player who is focusing on supporting the central state’ (Pantucci, 2018, August 26). Here we witness an increase of violent incidents against Chinese citizens in Pakistan; the Chinese embassy in Pakistan even issued a security alert⁵⁷ for Chinese nationals residing in the country (Jorgic & Goh, 2017, August 28). The CPEC is likely to strengthen the social support base of terrorists and other militant forces in Pakistan.

Despite minimum suggestions of better living standards and reduced inequalities (Iqbal, 2018a, May 30), we can observe that the CPEC is becoming a new source of societal conflicts and insecurities. One of the major reasons is the indifference regarding the needs of local populations when it comes to decision-making processes related to the CPEC. Local communities increasingly perceive themselves as disadvantaged and subjected to various forms of social, political and economic discrimination. Lack of attention to the CPEC’s environmental impacts also contributes to a worsening of living conditions, increasing poverty and affecting health conditions. If not addressed, these challenges will prevent Pakistan from meeting the

⁵⁶For more details on this ‘clash of culture’ between Chinese and conservative Muslims in Pakistan, see Sect. 6.15.

⁵⁷The Chinese embassy in Pakistan warned all ‘Chinese-invested organizations and Chinese citizens to increase security awareness, strengthen internal precautions, reduce trips outside as much as possible, and avoid crowded public spaces’ (Reuters, 2017, December 8).

United Nations' Sustainable Development Goals (SDGs)⁵⁸ which the country agreed to achieve by 2030—, especially that of the social sector.

6.9 Indicator: Effective and Fair Regional Distribution Mechanisms

The CPEC was announced as a national endeavour. There was initially a large-scale support for Chinese investments in general and for the CPEC in particular. However, Pakistan's political parties, provinces and other regions under Islamabad's administration are deeply divided on the subject of equitable decision-making and control over the CPEC initiative (Rafiq, 2018, p. 3). Concretely, there is a sharp domestic debate about the allocation of individual projects (roads, public transport systems, SEZs, among others), distribution of potential revenues, and distribution of costs of the corridor. It was expected that the provinces (and other regions) were to 'have a key role'—as they would provide land and allied facilities for development projects' (Ahmad, 2017, p. 56) and have to deal with any social, economic, political or environmental risks. This is gaining significance since regions and their populations are immediately affected by the corridor's potential negative impacts. Furthermore, the provinces must share a substantial part of the costs, either directly through financial contributions or indirectly through hidden costs such as increased energy prices, tolls and transit fees for new roads, or cuts in budget allocations due to changes in priorities, etc. This raises the question of how far will provinces and local communities of costs and benefits. This phenomenon is linked to deeply entrenched, systemic aberrations in the political-administrative system in general and the implementation of federal priorities in particular.

6.9.1 Overall Regulations Concerning Centre-Region Relations

According to its constitution, Pakistan is a Federal Republic. Nevertheless, regulations concerning centre-region relations are plagued by tremendous imbalances which not only create distortions between centre and provinces (as well as regions under Pakistani administrations) but also between the provinces themselves, especially between the dominant province of Punjab and smaller provinces and regions. A major problem in federal financial and power sharing mechanisms steams from the fact that one of the provinces—Punjab—has a strong population majority, which is dominated by one ethnic group, the Punjabis. Although Punjabis are not a

⁵⁸For more information on the UN SDGs, see: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

monolithic ethnic group, the country's other provinces and regions identify the Punjab as a homogenous actor which dominates not only Punjab itself but is also in control of all important national institutions, especially the army and bureaucracy (Adeney, 2007, p. 175).

This is important because the Pakistani state lacks any effective mechanism to cope with intra-state conflicts and rivalries—especially as regards the distribution of financial assets and allocation of development projects between centre and provinces. Despite the fact that institutions were established so as to deal with these matters, they all have to date failed to play any meaningful role in the resolution of interprovincial and state-region disputes (BTI Pakistan, 2018, p. 36). This of course has severe ramifications for the implementation and sustainability of the CPEC.

6.9.2 Investment Allocation

According to the critics there is a clear interprovincial imbalance regarding investment allocations linked to CPEC projects (Tanoli, 2016, September 3). It is argued that there are tremendous asymmetries favour Punjab at the expense of the smaller provinces and regions under Islamabad's administration (Ebrahim, 2016b, May 12). More concretely, it is reported that the number of projects in Punjab amount to 176 (determining 53% of all initially envisaged CPEC projects), 'Baluchistan's share stands out in stark contrast: merely eight projects have been allocated for it. Other provinces do not fare well either as Sindh and Khyber Pakhtunkhwa have been allocated 103 projects and 19 projects respectively' (Daily Times, 2016, September 4; Tanoli, 2016, September 3). Furthermore, there are complaints by smaller provinces that their needs and interests regarding development projects are not being accommodated. For example, a KPK official alleged that 'none of the projects we sent to the Ministry of Planning, Development and Reforms have been included in the CPEC' (Khattak, 2017, November 17). In Baluchistan there is a broad consensus among eminent sections of the provincial government, opposition parties, and the local population that the province is getting nothing out of the CPEC project. In fact Baluchistan seems to be harmed rather than benefitted by the corridor. One can argue that Gwadar is being 'carved out' of Baluchistan—the expected economic growth generated by the port city hardly adds to Baluchistan's development.

First, it seems that the provincial government of Baluchistan is receiving no share from the revenue generated by the Gwadar port (Aamir, 2017, December 31). As will be further outlined below, the port's Chinese operator will receive the major share of revenues; the remaining profits are to be allocated to the Gwadar Port Authority which runs under the federal Ministry of Ports and Shipping. In other words, the income generated by the Gwadar port will be divided between China and Islamabad.

Secondly, most of the significant decision-making procedures regarding the port city lay with the federal government, namely the Ministry of Ports and Shipping and its local cell the Gwadar Port Authority.

Thirdly, the extraordinarily high security measures, the establishment of fenced areas—including a highly protected special economic zone (Gwadar Free Zone)—as well as the build-up of a Chinese colony (also destined to people from other Pakistani provinces) will cut off Gwadar from its hinterland, separating it from the rest of Baluchistan.

Another sensitive issue regards the fact that some of the projects included in the CPEC scheme by the federal government so as to benefit smaller provinces are now put on hold. For example, in Baluchistan the funding for both the Khan-Zhob road and the Khuzdar-Basima road was frozen (Raza, 2017, December 5). In the KPK, the construction of the Diamer-Bhasha Dam was removed from CEPC projects (Khattak, 2017, November 17) and the Shandur-Chitral road project was stopped (Pakistan Today, 2018a, October 4). The unequal allocation of CPEC-related projects further enhances the strong regional disparities within Pakistan's economic development.

6.9.3 *Income and Revenue Distribution*

Like all other crucial issues related to the CPEC, also the distribution of expected revenues is kept largely secret—only some rudimentary information is made public. However, according to available official information, ‘any increase in income generated by CPEC projects will come into Federal Consolidated Fund (Public Account of the Federation)⁵⁹ for further distribution between Federation and Provinces. It is proclaimed that the revenues generated by CPEC-related projects will have positive impacts on the income of provinces through the NFC (National Finance Commission) award (Nation, 2018, February 11). The NFC is supposed to arrange the distribution of tax proceeds between federation and provinces as well as concede federal grants-in-aid to provincial governments. The taxes in question are collected by the federal government and a share is distributed among provinces according to a mutually agreed-upon formula (Ahmed & Gillani, 2018, October 28). Under the current award (which is during the time of writing the seventh NFC award), Punjab gets 51.74% share, Sindh 24.55%, Khyber Pakhtunkhwa 14.62%

⁵⁹Regarding Pakistan's constitution (Article: 78 Federal Consolidated Fund and Public Account): (1) All revenues received by the Federal Government, all loans raised by that Government and all money received in repayment of any loan shall form part of a consolidated fund, to be known as the Federal Consolidated Fund. (2) All other money either (a) received by or on behalf of the Federal Government; or (b) received by or deposited with the Supreme Court or any other court established under the authority of the Federation shall be credited to the Public Account of the Federation. For more information, see: <https://pakistanconstitutionlaw.com/article-78-federal-consolidated-fund-and-public-account/>

and Baluchistan 9.09% under of the divisible pool. These numbers are clearly indicating large-scale distortions in and inherently unfair features regarding the applied revenue distribution mechanisms. These are largely based on the provinces' population numbers. They almost ignore factors relating to backwardness (the need for essential financial support for development) and landmass as well as their actual contributions to revenue generation. Only 18% of the net NFC's divisible pool is earmarked for revenue collection/generation (5%), poverty (10.3%), and inverse population density (2.7%). The remaining 82% is distributed on the basis of population. Another area of severe tensions regards the exploitation of natural resources without adequate financial reimbursement. The argument made by smaller provinces is that again Punjab benefits disproportionately from resources exploited in other provinces—'in addition to receiving most of the revenue from the central government' (Adeney, 2007, p. 168).

The most populous province—Punjab—squarely receives most resources; it is also the major beneficiary of the current NFC award (Adeney, 2007, p. 168). It is hardly surprising that the smaller provinces demand the implementation of new distribution mechanisms granting them a higher share of revenues. According to senior economist Kaiser Bengali, fiscal autonomy (as granted by the 18th Constitutional Amendment and the seventh NFC award) has proved an 'empty shell' as regards provincial interests (Bengali, 2018, p. 41; Bokhari, 2018, September 17).

However, regarding the distribution of the income generated by the CPEC, the core questions are: which kind of income are we discussing, and what can Pakistan expect from individual projects? Despite the lack of information at such an early stage of corridor implementation, the following statements can be put forward:

Firstly and as discussed earlier, due to the type of contracts (IPP mode) made with the involved power generating companies, revenues from energy projects are not to be expected—at least not in the near future. At best no additional financial burden is to be foreseen due to given guarantees for minimum equity returns regarding investments made in power generating projects.

Secondly, the establishment of the envisaged SEZs and the subsequent promotion of the country's industrialization just began; it is far too early to assess potential revenue generation. Nevertheless, considering the huge investments needed so as to provide basic infrastructure as well as various incentives targeting potential investors, again it appears that opportunities for revenue generation are very limited.

Thirdly, the port of Gwadar is being portrayed as a major source for future revenue generation. However, as already outlined, the port is operated by a Chinese firm in a BOT ('build, operate, transfer') mode for the next 40 years (Ahmad, 2018a, p. 54). According to the current contract, 91% of the port's income will remain with the Chinese and only 9% will be transferred to the Gwadar Port Authority (Khan, 2017c, November 25). This is an extraordinarily small share, especially considering the costs Pakistan has to cover.

Fourthly, most revenue generated by the CPEC will be most likely originate in toll taxes and transit fees. These are understood as incomes which 'Pakistan will receive from the vehicles coming from and going in to China carrying goods and commodities along the CPEC. . .' (Idrees, Shapiee, & Ahamat, 2018, p. 217). This

could include not only the trade between China and Pakistan but also some Chinese trade undertaken with the Middle East, Africa and Europe.

Pakistan will also be able to collect toll taxes and transit fees from vehicles transiting through central Asian states⁶⁰ and Afghanistan using the CPEC route (Idrees et al., 2018, p. 218). However one needs to keep in mind the tense Afghanistan-Pakistan relations—which in the past had large-scale negative effects on (formal) Pakistan-Afghanistan trade in general and transportation of goods and commodities from and to Afghanistan via Pakistan in particular. Furthermore, due to large-scale investments and the build-up of the Chabahar port and road as well as railway infrastructure in Iran, Afghan-based trade enjoys an alternative route other than transit via Pakistan.

However, despite the above-mentioned limitations in the generation of transport and transit-based revenues, Pakistan's Board of Investment (BoI) seems quite optimistic. It stated that 'the toll income generated by the route of CPEC, after the completion of the project by 2030, will be three times of the national budget of Pakistan' (Rizvi, 2017, October 5). Yet such assessments regarding the CPEC's generated income are questioned by experts—the numbers in question would approach Rs 14+ trillion (\$135+ billion) as relating to the 2017 national budget of Rs 4.75 trillion (Khawar, 2017, October 26). More moderate estimations seem to suggest earnings of \$6–8 billion a year (Times of Islamabad, 2018b, January 26); cautious analysts rather point to \$4.8 billion in annual toll income as this would reflect the maximum revenue potential from toll taxes and transit fees (Khawar, 2017, October 26). However, considering maintenance and repair costs of infrastructure,⁶¹ necessary additional investments in logistics hubs, facilities to increase intermodal connectivity, warehouses, etc., net earnings will likely be much lower. Furthermore core questions remain—for instance, to what extent will China transfer its sea-based transportation of goods towards the new land-based CPEC structures? Is Pakistan's new infrastructure capable of managing Chinese demands for good transportation? Who will use the roads in question, Chinese or Pakistani transportation companies? Will Chinese trucks have to pay the same amount of fees as their Pakistani competitors? Some concerns were already formulated by Pakistani politicians, who wonder if China is willing to pay for the use of the roads built (Hashim, 2017a, February 28). It is also interesting to mention that a military-ran Frontier Works Organization (FWO) is currently managing toll collection (a task which was initially conducted by private contractors) on all the country's roads⁶² (Siddiq, 2009, p. 116). Due to a lack of competing bidders for toll collection contracts

⁶⁰Here, in order to improve trade relations, the so-called Quadrilateral Traffic in Transit Agreement (QTTA) was signed in 1995 between Pakistan, China, Kyrgyzstan and Kazakhstan. In 2017, Tajikistan expressed an interest to join this transit deal (Bhutta, 2017, February 24).

⁶¹This is gaining momentum since the rapid pavement deterioration due to overloaded vehicles is a severe problem in Pakistan—which has in the past caused tremendous 'economic loss to the country and increases the rehabilitation and maintenance costs while decreasing the pavement service life' (Hanif, 2014, p. 15).

⁶²In agreement with the National Highway Authority (NHA).

awarded by the National Highway Authority (NHA), the FWO was able to win all the latest deals. Critics state that only ‘a very small amount’ of the fees will go to the government and that the FWO is increasing the fees without government permission (Daily Messenger, 2018, September 7). It is not quite clear yet how the FWO’s role in road toll collection will impact future revenue generation and how will state and society benefit from the new transit and transportation infrastructure. It is also important to mention that current toll taxes and transport fees are relatively low by international standards.⁶³ This is gaining significance since it is apparent that the current toll rate for most of vehicles classes (trucks) is not sufficient to cover the damages these cause to the pavement. Furthermore it is reported that due to an imbalance between road fees and truck weight transport companies are in fact encouraged to use trucks with a greater number of axles (meaning heavier vehicles) (Hanif, 2014, p. 61). Another question concerns potential differences in future toll taxes due to the fact that road networks are to be constructed (or upgraded) by different companies (FWO, Chinese, and Pakistani—private, non-military owned) and different funding modes and sources (China, ADB, World Bank). Taking into account all these factors, estimations of \$2–2.5 billion revenues per year—even in the long run—seem more realistic (Khawar, 2017, October 26).

There are several other sectors which CPEC planners expect will generate Pakistan some income. Any credible estimations however—and again—seem too precocious. After observing investment priorities in infrastructure and energy projects, it does not seem like Pakistan will have access to remarkable incomes generated by sectors such as mining, agriculture or tourism. Due to the remote location of mineral resources, combined with infrastructure gaps and a lack of both material investments (besides the identification of 21 mineral zones and the development of some coal mining projects) and funds to develop the mining sector, this source for revenue remains largely untapped (Awan, 2018, July 10). Agricultural improvements within CPEC schemes which could lead to an increase of food exports remain underexplored. Earnings from tourism also appear limited—no less because of the country’s worsening security situation as well as increasing Islami-zation and radicalisation. Another issue concerns the large-scale tax exemptions for the import of Chinese goods such as machinery which deprives the Pakistani state from great amounts of income. A more promising source of revenue generation might be the transport/transit of oil and gas from the Middle East via Pakistan to China. However, the required infrastructure investments are tremendous—and numerous experts question the economic and geographic feasibility of a pipeline project from Gwadar to China (Xuanmin, 2016, November 23).

Thus one should not expect concrete revenue generation in this field to be enough so as to cover upcoming financial obligations in the form of debt repayments and profit repatriation from CPEC-related projects. These are to begin in 2019—totalling

⁶³Concretely, the toll rate in Pakistan for a 40 feet articulated truck between Peshawar and Islamabad is Rs. 1745 which means \$3 for 100 km. In contrast, in some African countries, the toll rate is around \$10 for the same distance (Idrees et al., 2018, p. 221).

then about \$1.5–1.9 billion, rising to \$3–3.5 billion by the following year and to around \$5 billion by 2022 (Times of Islamabad, 2018b, January 26).

6.9.4 Distribution of Financial Costs

Due to the lack of transparency regarding financial arrangements and mechanisms related to CPEC projects it is difficult to make concrete statements regarding the distribution of costs. Major questions are still to be addressed:

How much must the government of Pakistan pay and what will be the provinces' (and other regions') share of these costs? What will be the financial burden for Pakistani citizens? How much will companies involved in CPEC projects contribute?

Based on available information, the following statement can be made:

Costs related to the implementation and maintenance of road infrastructure projects are likely to be covered by toll taxes and transit fees—the users of the road network are to pay for it. The CPEC's infrastructure improvements are likely to lead to a tremendous increase in the fees so as to repay debts. Thus apart from a reduction in some expenses (for example less petrol consumption and maintenance costs for vehicles due to shorter and improved roads) we will witness an overall increase in costs for transit and transportation. This will result in increased prizes for goods and commodities, particularly as concerns Pakistan's domestic markets. Furthermore, any rising costs for users will harm opportunities for Pakistani carriers to increase and modernise their fleets so as to face their Chinese competitors.

Rising toll taxes and transit costs do not include security costs, which are to be split between central government and provincial administrations. Additional interprovincial imbalances within the CPEC's financial regulations are very likely—the currently enacted NFC award above all is clearly disadvantageous for less populated provinces. However both present and future cost related to the build-up of local security forces (foremost police) are to be covered by the provincial administrations. It seems that all the provinces bear the same requirements—meaning to provide similar numbers of new, sufficiently trained and equipped security personnel—irrespective of their anticipated share of earnings.

Furthermore, some of the security costs related to energy projects will be passed on to consumers through a direct increase in electricity prices. An additional factor in this context concerns the expenditures linked to Chinese developmental assistance (Sinosure⁶⁴), namely as regards the capital-intensive upgrade of Pakistan's energy sector. Again the financial burdens must be covered by consumers. This strategy of transferring costs to consumers leads to an additional reduction in available money

⁶⁴For more details on Sinosure, see Sect. 6.13, Section: (2.3) Sinosure: Chinese international project insurance.

as well as to worsening living conditions—already threatened by significant budget cuts in social areas.

This short and partial discussion of the costs linked to the CPEC’s implementation and functioning is enough to reveal that the corridor lacks transparent and fair mechanisms for the distribution of both costs and income. There are clear disparities in allocations arranged between the central government and regional administrations; between Chinese and Pakistani firms; and between the government and the companies on one hand and citizens of the other. It seems in any case clear that the greatest share of costs as well as social and economic risks related to the CPEC’s implementation have to be faced by the people of Pakistan.

6.10 Indicator: Pre-existence of Economic Viability

An analysis of the initial conditions for major development projects in Pakistan, as well as of the first phase of the CPEC’s implementation, led numerous experts to question both the profitability of individual projects and the overall economic viability of the CPEC. There are numerous reasons for this.

6.10.1 Natural Propensity for Economic Growth and Development

Pakistan has several endowments contributing to a strong natural propensity. With a population of approximately 207 million and an overall GDP of close to \$300 billion, Pakistan is the seventh-largest market in the Middle East and African regions as measured in Purchasing Power Parity (PPP; in South Asia the country holds second place. There is thus a tremendous internal market, especially for multinational companies operating in consumer-goods, infrastructure, and communication sectors. The country presents high levels of household consumption (over 80% of the GDP) and dynamic demand trends. Furthermore, Pakistan holds a young population with high levels of proficiency in the English language. Increasing urbanisation trends offer additional market opportunities for potential investors. However the country’s tremendous potential for economic growth and development remains to be realized due to distorted policies and an ‘excessive state involvement in the economy and inefficient but omnipresent regulatory agencies [which] inhibit private business formation’ (HF, 2018). Lack of access to both domestic (inter-provincial) and international markets and to opportunities in employment, education, health and socialization in entire regions is another problem. This adds to low human development levels which hamper significant labour productivity and economic growth. Moreover, due to an ‘almost negligible manufacturing base’, Pakistan was not able to broaden its production base and remains heavily dependent on certain imports and

exports. This makes the country highly vulnerable to both external shocks (for example increases in oil prices) and internal calamities (such as the 2010 flooding) with only limited buffers so as to cover major economic setbacks.

Its geostrategic location (understood as a gateway to both central Asian and Gulf States) constitutes another economic and trade endowment. However tense relations with most neighbours⁶⁵ greatly limits available opportunities. Also trade prospects with China seem severely limited. Apart from the generally weak historical and economic ties between China and Pakistan—especially when compared to Chinese commercial interactions with other Asian countries and Pakistan’s businesses with western nations—Beijing and Islamabad were so far not able to improve much regarding land-based commercial activities. Neither the establishment of the KKH nor the arrangement of a free-trade agreement has yet had a crucial impact on increased cross-border trade. In fact cross-border movement at the Khunjerab Pass via the KKH has a record of being very limited. In the years before the CPEC was launched, the KKH bore no more than 7–8% of total Sino-Pakistani trade, at best a few hundred million dollars’ worth a year (Small, 2015, p. 100). A major reason for this was that the bordering Chinese province of Xinjiang was largely underdeveloped; the bulk of commercial activities and trade between China and Pakistan was conducted via sea through Pakistan’s Karachi port and the Chinese eastern and southern coastal provinces of Guangdong and Zhejiang (Small, 2015, p. 100). There is a general understanding among experts that the cost of sending goods, oil and other resources overland via Gwadar and Xinjiang is much higher than using the sea route through Shanghai or other Chinese ports. Thus until recently the option for land-based trade via the KKH was largely ignored.

6.10.2 ‘Enabling Economic Mass’ Encompassing a Large Amount of Economic Resources and Actors

Thus in many areas related to the CPEC there is an undeniable, strong potential for economic growth. We observe tremendous human capacities (especially cheap labour), an extraordinary potential to harness mineral and other resources (mining), opportunities for large-scale agriculture, horticulture and aquaculture production (especially seafood), livestock, fisheries, rich ecosystems, cultural heritage, vast varieties for tourism, tribal/local skills in handicrafts, among others. Furthermore, besides Pakistan’s strong agricultural sector, numerous clusters of industries (manufacturing) are well developed (Ahmad, 2018c, p. 94). Nevertheless Pakistan’s geographical framework is featured by tremendous asymmetries regarding the existence of a necessary ‘enabling economic mass’. According to Kaiser Bengali (2015, May, p. 12), just half of the Pakistani share of the CPEC’s road network will pass through relatively developed areas (mainly located in central

⁶⁵See also Sect. 6.5.

Punjab) which are not only densely populated but have also high rates of industrial and agricultural productivity. Here it is hoped that the new or improved alignments (routes) of the CPEC ‘will open up economic opportunities for a vast swathe of abjectly backward regions of the country’ Bengali (2015, May, p. 12). This is essential since large territories covered by the CPEC’s road infrastructure include areas known to be backward and little populated. Another crucial challenge regards an unequal distribution of skilled labour. Pakistan possess a huge pool of young people. However, the distribution of this more or less adequately skilled workforce is subject to noteworthy regional disparities. For example, there are reports that some provinces (particularly Baluchistan) and other regions lack skilled labour due to insufficient and inadequate investments in the local educational sector. These provinces witness an excess of religious institutions and a lack of secular educational which hampers local economic growth and add to intra-provincial economic distortions. Moreover large parts of Pakistan’s hinterland suffer from inadequate basic infrastructure in both rural and urban areas. Besides being disadvantaged through poor road and railway infrastructures, severe shortcomings in necessary services such as sanitation, drinking water and waste management hamper economic potential.

Domestic companies often lack the technology needed to exploit available resources in an efficient and effective manner. For instance in the agriculture sector the lack of water-saving technology is a severe issue since agricultural production contributes much to the country’s water scarcity problems. This is unfortunate since the country is rich in water resources and possesses one of the largest irrigation systems (Imran, 2018, September 24) in the world—which has helped agricultural developments to a great extent. Yet smart technologies are glaringly absent. Last but not least, Pakistan’s authorities seriously neglected areas perceived as politically and/or economically unstable—for example the mining sector in Baluchistan (Bengali, 2018, p. 41)—which would contribute both to economic development and to a successful implementation of the economic corridor.

6.10.3 Pre-existent, Strong Economic Growth

As mentioned above economic potential in Pakistan is extremely unbalanced—including both vast, less populated ‘economic black holes’ in Baluchistan and flourishing, densely populated economic hubs in Punjab. However, when it comes to promoting economic growth and development through the CPEC, both these ‘extreme situations’ have both economic advantages and disadvantages. Largely undeveloped areas present an advantage in that land acquisitions necessary for projects are much cheaper than in the already industrialised centres. Wide availability of land and low population levels mean low levels of forced dislocations, a factor which greatly reduces potential human and financial costs linked to land acquisitions. On the other hand, projects in underdeveloped areas with large areas of unspoiled nature would lead to large-scale environmental impacts. This is likely to increase social and political risks due to a growing

resistance by local communities concerned about general livelihoods, loss of cultural heritage, and environmental impacts. The fact that these regions severely lack in infrastructure (even when road infrastructure exists, it's mostly narrow and low quality) when compared to the country's developed areas determines another stumbling block for potential economic growth since the build-up of the required road, train and multimodal components is time-consuming and costly.

However the major problem lies in the fact that CPEC planners often do not utilize existing economic capabilities efficiently (if at all). Instead of adapting CPEC projects to the locally available opportunity structures, most projects are planned centrally—without incorporating local expertise or recognising local requirements, assets, or demands so as to serve the corridor's overall goals. For example, the increase in road infrastructure in Gilgit-Baltistan will be of only limited use for the farming sector, especially that of fresh fruits and vegetables which constitutes the backbone of the local economy. Due to long road journeys (despite new and or upgraded roads), fresh agricultural products cannot be dispatched in time to most Pakistanis and certainly not to international markets. The nearest large Pakistani urban areas are the twin cities of Rawalpindi and Islamabad, about 600 km away from Gilgit-Baltistan. Lahore, the largest economic hub of north Pakistan, is even further away. Additionally, besides the 'traditional logistical challenges', there is also the problem of persistently recurring severe political crisis (Aftab, 2014, August 18; Imran, 2017, November 16). The closest and most significant destinations for food products from Gilgit-Baltistan are not accessible due to unrests and turmoil—which are usually accompanied by temporary roadblocks. These are stalling crucial entry and exit points, leading to a severe reduction of regional economic and trade activities (Haq, 2014, August 15). The best alternative to road transport via highways demanded by local entrepreneurs would involve substantial investments in modern air cargo facilities. This would not only ensure a timely delivery but also reduce negative environmental impacts related to road construction. Furthermore, there is a tremendous need for a build-up of localized feeder-systems not only so as to build regional logistic networks but also incorporate these into a nationwide network. Also included are the creation of further warehouse capacities and distribution networks (Ahmad, 2018c, p. 94). However, the central government in Islamabad has yet to consider these demands (Dawn, 2017e, March 27).

6.11 Indicator: Integrated and Comprehensive EC Planning

The CPEC is often criticised for a lack of transparency in terms of planning and potential geostrategic as well as political dimensions. The scepticism derives partly from the fact that neither China nor Pakistan have yet openly addressed the CPEC's overall vision and its implementation. There are only a few documents available that provide a rough impression about the overall vision of both the BRI and

CPEC—plus some basic guidelines and action plans. The two most important documents are the ‘Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road’ (later called ‘Vision and Actions document’) and the ‘Long Term Plan for China-Pakistan Economic Corridor (2017–2030)’.

6.11.1 Overall Vision for the Economic Corridor

A key document providing a detailed impression of China’s vision of the BRI and CPEC is the ‘Vision and Actions document’ which was prepared by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People’s Republic of China. The document calls for a revival of the ancient ‘Silk Road Spirit’ determined by notions of ‘peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit’, drawing on the symbolic strength of the ancient Silk Road and on ‘communication and cooperation between the East and the West’ (NDRC, 2015, March 28). It is further stressed that the envisaged development vision must be done inclusively and be open to any entity (countries, international and regional organisations, etc.) wishing to participate. In order to emphasise the peaceful and cooperative nature of the approach, it is stated that the BRI is in line with the principles of the United Nations Charter as well as with the Five Principles of Peaceful Coexistence⁶⁶: mutual respect for each other’s sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefits, and peaceful coexistence.⁶⁷ Through the ‘Vision and Actions document’, the Chinese government wants to promote the BRI, giving a new impetus to the global economy while addressing the complex international and regional situation. This should be achieved through the improvement of connectivity between Asia, Europe and Africa and their adjacent seas, creating ‘strategic propellers for hinterland development’. It is noteworthy that the document highlights China’s interests in a ‘westward opening-up to deepen communication and cooperation with Central, South and West Asian countries’ (NDRC, 2015, March 28). The ‘New Silk Road’ must thus be seen in line with

⁶⁶In South Asia, especially in India, the the ‘Five Principles of Peaceful Coexistence’ came to be known as Panchasheela (or Panch Shila), a term which has its origin in Buddhism. Panchasheela was utilised by the administration of India’s first Prime Minister Jawaharlal Nehru so as to describe the notion of the ‘Five principles of peaceful coexistence’ from an Indian perspective. This process led to the formulation of the so called ‘panchashesela doctrine’ which was supposed to determine the foundation for the relationship between China and India. A 1954 treaty signed between the two countries encapsulated the five principles as: (1) mutual respect for each others’ sovereignty and territorial integrity; (2) mutual non-aggression; (3) mutual non-interference in each other’s internal affairs; (4) equality of standing and equal benefits; and (4) peaceful co-existence (Mitra et al., 2006, pp. 326–327).

⁶⁷See for more details on the Five Principles of Peaceful Coexistence: Yuan and Song (2015).

former development ideas and initiatives, namely strategies such as the ‘Go Global’, ‘Marching West’ or ‘Greater Western Development Strategy’.⁶⁸ The BRI attempts to combine these policies with a new a coherent development strategy which is part of President Xi’s ideological vision of a ‘Chinese Dream’.

In this context, the BRI marks the completion of two fundamental phases in China’s economic development, the ‘bringing-in’ and ‘bringing out’ periods. During the former, Beijing opened up to the world so as to receive international assistance and foreign investment. In the course of the latter phase, China encourages domestic enterprises to ‘Go Global’ and invest overseas. With the launch of the ‘Go Global’ policy in 2001, China introduced various economic reforms targeting foreign exchange controls, investment restrictions and approval procedures (Bhattacharjee, 2015, p. 3). In 2003, Beijing allowed private companies to apply for permission to invest abroad (Buckley et al., 2008). Now, with the introduction of the BRI, Beijing is entering a new, third phase of domestic economic development and international cooperation, combining and extending the original two development strategies of ‘bringing in’ and ‘bringing out’. One of the novelties is the introduction of the ‘mutual benefits’ concept through which China promotes its development vision as a ‘win-win’ situation, defending that all actors can benefit from China’s economic growth through ‘mutual and equal paces of development’ (Ze, 2014, October 18).

In Pakistan, the idea of economic corridors can be traced back to national aspirations and aims to open up to China. In the early 1960s, the ‘US Army Corps of Engineers’ compiled a proposal for a direct road link between Peshawar and Karachi, called the Indus Super Highway. It was meant to become a military supply route and economic lifeline in the event of an armed confrontation with India (Zingel, 2015, p. 21).⁶⁹ However, wishing to avoid any incentive for the Soviet Union to invade Pakistan and gain access to the Arabian sea, the project was abandoned by the then military dictator General Zia ul Haq (Zingel, 2015, p. 21). More recently Pakistan’s military ruler General Pervez Musharraf, showed interest in the development of several major infrastructure projects. He was the first to articulate the idea of a ‘Trade and Energy Corridor’ (TEC) from Gwadar and overland into China (Subramanian, 2017, March 23). Musharraf’s proposal was based on the ambition that Pakistan should not just turn into an easy market for Chinese goods, but offer its strategic location in exchange for investments (Subramanian, 2017, March 23). Yet the TEC never materialised beyond the ordering of a feasibility study regarding transportation of crude oil imports from Africa and Iran via Gwadar and Baluchistan to western China (Jize, 2006, February 22).

⁶⁸For more details on the significance of western China’s development for the BRI, see Chap. 3.

⁶⁹The Indus Super Highway by the US Army Corps of Engineers was part of a military aid programme to Pakistan. A successfully established project within this scheme was the Kharian Cantonment in the late 1950s, which is until today one of the largest army bases in Pakistan located near Kharian city, in Punjab’s Gujrat district.

6.11.2 Concrete Action Plan

So far, there has not been any concrete action plan embracing either the CPEC's entire geographical framework, the radiation zones or the individual key core functional zones. However there is a kind of 'conceptual framework' for the CPEC's development called 'Long Term Plan for China-Pakistan Economic Corridor (2017–2030)' (LTP, 2017). The LTP is approved by the governments of both China and Pakistan. According to a report published by the Pakistani newspaper Dawn, two versions of the LTP exist. One is a 231 pages-long 'full version' finalised in 2015 which was compiled by the China Development Bank and the National Development and Reform Commission of the People's Republic of China.⁷⁰ The other is a short, entirely undetailed version completed in 2017 which provides 'only broad brushstroke descriptions of the various "areas of cooperation" (Husain, 2017b, June 21). As the report states, the 'only provincial government that received the full version of the plan is the Punjab government'. Until now, the full version of the report hasn't been made public, enforcing an impression of secrecy and neglect of smaller regions.

Beijing and Islamabad emphasise that the LTP is in line with their national development visions, Pakistan's 'Vision 2025'⁷¹ and 'Made in China 25'. The LTP will be effective until 2030, providing guidance for the CPEC's implementation. The timeframe of CPEC projects should be the following: (a) Early Harvest Projects (EHP), to be completed by 2018/2019; (b) Short-term projects (including some delayed EHP) to be completed by 2020; (c) Medium-term projects to be completed by 2025; and (d) Long-term projects to be completed by 2030 and beyond (Husain, 2018, June 6).⁷² Understood as a 'live document', it is to be reviewed every two years by both China and Pakistan (LTP, 2017, p. 12). The LTP highlights that, from the Pakistani side,

The CPEC is driven by the vision 'to fully harness the demographic and natural endowment of the country by enhancing its industrial capacity through creation of new industrial clusters, while balancing the regional socioeconomic development, enhancing people's wellbeing, and promoting domestic peace and stability'. Furthermore, the CPEC is supposed to serve as a platform to design 'a new international logistics network and industrial layout based on major transportation infrastructure; elevate the status of South Asian and Central Asian countries in labor division of global economy; promote regional economic integration through stable trade growth, international economic and technological cooperation and personnel exchange' (LTP, 2017, p. 9).

⁷⁰Regarding Dawn journalist Khurram Husain (2017b, June 21), this original draft 'is an astonishingly detailed roadmap of the pitfalls and opportunities that Chinese enterprises can expect as they venture into every area of economy and society. It contains specifics of what is going to be built by the Chinese over the next decade and a half; its detailed description of Pakistan's economy and attendant risks shows clearly that the Chinese are fully aware of what they are getting involved in (Husain, 2017b, June 21).

⁷¹For more information on the 'Vision 2025' and its significance for CPEC, see Chap. 4.

⁷²For more information regarding the phases of CPEC, see Chap. 1.

On the other hand, China's vision is to

'further advance the western development strategy, promote economic and social development in Western China, accelerate the Belt and Road construction, give play to China's advantages in capital, technology, production capacity and engineering operation, and promote the formation of a new open economic system' (LTP, 2017, p. 9).

Besides the LTP, there are other agenda-specific schemes such as the security-oriented National Action Plan (NAP) or the Gwadar City Master Plan (GCMP). The latter provides guidance for the construction and development of Gwadar (LTP, 2017, p. 14). It is supposed to give concrete timelines for construction projects and clarify 'who gets what'. Other important documents are the Foreign Direct Investment (FDI) Strategy, 2013–17 (BOI, 2012a) and the 'Special Economic Zones Rules 2013' (BOI, 2012b)—both by the Board of Investment (BOI) of the Prime Minister Office of Pakistan—the SEZ Act 2012 (GAoP, 2012, September 12) meant to provide for setting up and operations of the Special Economic Zones (SEZs) in Pakistan, as well as its amended and modified version, the SEZ Act No XLV 2016 (GAoP, 2016, October 26) based on the Special Economic Zones (Amendment) Ordinance of December 2015 (GAoP, 2015, December 7).

Neither the 'Vision and Actions document' or the LTP offer a new vision or even clear guidelines for the CPEC's implementation; both are vague and unclear. Other documents regarding the CPEC's planning are either not available or hardly informative. Visible shortcomings in the implementation of the BRI and CPEC make obvious that corridor planners did not translate their vision into any concrete action. The CPEC's negative ramifications questions the rhetoric of 'win-win' situations and 'mutual benefits'.

China needs to clarify its vision and formulate specific plans. There are accusations that decisions related to the CPEC are made without local consent, especially among the non-Punjabi. Instead, the CPEC's planning and implementation is made based on political considerations while ignoring economic cost-benefit calculations. The scepticism regarding the economic viability of CPEC projects such as the Gwadar port is hardly surprising. The disregard for local expertise relating to infrastructure and policies will hinder sustainable economic growth and social transformation.

6.12 Indicator: Political Will

6.12.1 The Driving Forces

Powerful actors in both China and Pakistan support the CPEC. In Pakistan the most significant force supporting the corridor is the 'so-called' establishment, which includes military, central government, leading business community, and regional elites of the country's dominant provinces of Punjab and Sindh—including the port city of Karachi, Pakistan's leading economic hub. In other words, all segments of the

Pakistani state and society that stand to benefit from the new investment projects support the corridor. In order to support the CPEC publicly, in 2015 authorities organised an All Party Conference (APC) which promised to bring together all provinces and major political parties to form a ‘national consensus’ (Manan, 2015, May 14). In response to promises that the CPEC would increase economic opportunities for military businesses, Pakistan’s military turned into the main supporter of CPEC. In China, on the other hand, the project is supported by the Communist Party, namely by the Politburo Standing Committee which is China’s top decision-making body, but also by leading banks and corporations (Khan, 2015b, May 28). The CPEC’s most prominent proponent is of course president Xi Jinping, indeed the most powerful Chinese leader of the last decades (Tan, 2017, October 24). Following Xi’s first official proposal, the BRI became the central focus of Chinese diplomacy. The BRI is China’s most ambitious foreign policy programme and ‘one of the [country’s] largest development plans in modern history’ (Cai, 2017, p. 2). Xi Jinping’s grand vision became part of China’s Communist Party’s constitution and in effect the new guiding principle of both party and nation (Lam, 2018, March 5; Lam, 2018, March 12). Another constitutional amendment included the promotion of the BRI ‘as one of the major future objectives’, giving it ‘greater policy heft and added pressure to succeed’ (Goh & Ruwitch, 2017, October 24).

Not that one can take these initial commitments for granted. There are signs that Sino-Pakistani relations can easily turn sour. For instance, some of the CPEC’s major projects were rejected either by the Chinese or the Pakistani. In order to downplay negative connotations, Islamabad and Beijing both justify these rejections by referring to different perspectives or financial issues. From Pakistan’s perspective, this can be interpreted as an attempt by authorities to ensure control of projects that are of national significance and limit Beijing’s influence. For example, Islamabad withdrew its request to include the (\$14 billion worth)—Bhasha Dam in the CPEC scheme, citing the strict monetary conditions imposed by Beijing (Rana, 2017, November 15). It was made clear that not only were the financial conditions set by China not feasible but also that Beijing’s demand to take ownership of the Diamer-Bhasha Dam project was not in line with Pakistan’s national interests (Jamal, 2018, January 11). Additionally, not only Pakistan but also other countries involved in the BRI cancelled major hydroelectricity projects—Nepal and Myanmar side-lined two such projects (Dasgupta & Pasricha, 2017, December 4).

6.12.2 *Commitment and Constructive Mind-Set Among Actors*

Strong commitment to the CPEC by the Pakistani military’s top echelon and civilian leadership, despite all shortcomings, could be sensed from the very beginning. One of the most crucial hurdles regarding the implementation and sustainability of any large-scale development project in Pakistan is that national decision makers express

political will yet lack the commitment necessary to conduct any structural reforms (BTI Pakistan, 2018, p. 35), limiting the prerogatives and reserved domains of influential interest groups. Furthermore basic commitments are shaky among civilian and military leaderships guided by partisan interests in economic and security areas. Islamabad wants to maintain its political and military control over the provinces, especially strategic ones (i.e. functional zones⁷³). The country's conservative security circles particularly wish to preserve Pakistan's territorial integrity and keep in check any regional quests for more political rights and decision-making powers. Any substantial power-sharing arrangement between centre and regions is recognised as a loss of oversight and management capabilities. This mindset is seriously undermining any opportunity to establish a constructive working relationship with local administrations and communities, foremost in Baluchistan, Gilgit-Baltistan, rural Sindh, and in part the KPK. Local inhabitants feel militarily oppressed, economically exploited, and socially and politically marginalised. There is in fact a growing opposition against the CPEC, which is identified as an instrument of suppression and exploitation (Kumar & Stanzel, 2016, October 5). Despite being aware of its policies' negative impacts, both military and civilian authorities continue to rely on an excessive use of coercive force by the security apparatus. Handling conflict situations in restive areas through political, non-violent means is not a priority. There is a lack of will among Pakistan's national leadership to improve relations with regions and local communities, especially with those doubting the benefits of CPEC. Both civilian and military leaders are determined to realise the CPEC at any cost (Dawn, 2015f, July 26). Mechanisms relating to CPEC development further strengthen the dominant role of the military at the expense of civilian decision-making powers and democratic rule. These issues create an atmosphere in which the above-mentioned, traditional conservative mindset of Pakistan's elites can further flourish and determine both contemporary and future national courses. It's possible that this backward and narrow-minded thinking will make the fulfilment of pre-conditions such as national harmony and political consensus more difficult and costly, harming the CPEC's smooth functioning in the long run.

6.12.3 Consensus

Political consensus and national harmony are major Chinese pre-conditions for the implementation of the CPEC in general and the continuation of the financial assistance for Islamabad in particular. However, the required consensus and harmony have not been achieved due to multiple reasons. Firstly, unhealthy relations between soldiers and politicians often lead to a civil-military disconnect, hindering well-coordinated policies (BTI Pakistan, 2018, p. 33). Furthermore, the military acts as a veto-actor in several decision-making areas (BTI Pakistan, 2016, p. 27). This is

⁷³See also, Sect. 6.2.

particularly true of foreign policy, in which crucial steps could be done so as to improve the CPEC's efficiency, for instance the normalisation of relations with Pakistan's neighbours by ceasing all support for cross-border terrorism and jihadism (Wolf, 2017a). Secondly, the existence of a civilian divide undermines the process of consensus building at all levels of Pakistan's governance structure. Pakistan is challenged by persistent struggles between the main political parties and poor functional working relations between government and opposition, rivalry between different branches of government, namely central versus provincial administrations, but also between provinces. Thirdly, lobby groups in Pakistan have a strong influence on decision making (BTI Pakistan, 2016, 2018; Haider, 2018b, March 7). The military strategy of co-option of a few selected civilian leaders so as to achieve their corporate interests further accentuated political polarisation and fragmentation. In consequence, military interventions into the political realm further truncated prospects for political accommodation and consensus-building. Fourthly, there is a persistent threat regarding the consistency of a political consensus. In other words, even if the government can build a consensus, such political decision will remain fragile since it'll be subject to constant political bargaining between government entities and/or pressure groups as well as other stakeholders. In other words, there are no protective mechanisms for political decisions—or any minimum guarantee regarding the validity of policies and their directions. Of course, political decision-making is always a fluent process. However in the case of Pakistan there is a lack of trust and continuity which turns middle or long-term development projects into an unsure endeavour. Besides the problem of political consensus, the major challenge for achieving sustainable development is how 'economic reforms could be made irreversible' (Haider, 2018b, March 7). History reveals that political gains take precedence over national interest, and issues such as allocation of funds and natural resources have always been politicised (Ali, 2016, p. 4; Hussain, 2017a, June, p. 9). The political situation since the 2018 general election raises doubts about the current administration's ability to break with historical patterns. Imran Khan enjoys but a thin majority provided by small parties—which face the country's traditional, major parties, all willing to form a 'grand coalition' against the Prime Minister. Consensus building is likely to become an even more difficult endeavour.

Criticism of both BRI and CPEC in China is cautious but persistent. Although it can hardly disturb political consensus and decision making, it indicates potential readjustments in implementation. Major areas of discontent in China include the following. First, some regions have an ambiguous relation with the BRI. The economically prosperous, industrial coastal regions in the southeast and east of the country identify development efforts of China's western and other border areas as the creation of potential rivals for business, investments and resources.

Second, the volume of Chinese financial engagements in the context of BRI is raising concerns. For instance, Wenguang criticises the offering of almost CNY 400 billion in aid to 166 countries, as well as the sending 600,000 aid workers. The author deems these endeavours to amount 'throwing money around'—which 'doesn't do any good for our country or our society' (Schrader, 2018, August 10). The fact that most Chinese people are perceived as poor adds to the rising critics

regarding the country's foreign aid activities, especially in Africa (VOA, 2018, August 2). That many BRI projects are political in nature and do not achieve any economic benefits adds to the frustration among the BRI's critics.

6.12.4 Accommodation of Local Concerns and Interests

The CPEC is supposed to accommodate the interests and concerns of all parties involved (NDRC, 2015, March 28). However, the increasing criticisms and local protest movements against CPEC projects make clear a mismatch between 'normative claims' and real developments on the ground. There is a clear unwillingness by the national elite to accommodate the concerns and interests of the regions outside Punjab and their populations. Similarly, Beijing does not take local concerns into account when it comes to planning and implementing major development projects. To achieve these in a timely fashion, Beijing usually negotiates BRI-related projects bilaterally in close interaction with national decision makers from participating countries. The Chinese leadership shirks tasks and responsibilities—it is Islamabad who must accommodate and address local concerns. Beijing is more concerned about its own goals than about accommodating the peculiar dynamics and needs of each BRI country (Shah, 2018a, February 14).

Islamabad's disrespect for regional interests is not really unexpected yet remains unfortunate. After all, hopes were heightened. Proclamations and formulated goals related to CPEC developments seemed to promise a strong political will among Pakistan's decision makers not only to deal comprehensively with security issues but also foment nationwide economic and social improvements.

6.13 Indicator: Enabling Policy Frameworks and Mechanisms ('Soft Infrastructure')

6.13.1 Financial Mechanisms (Institutions and Financing Types)

In the words of Dada (2018, June 13), CEO of the Standard Chartered Bank (Pakistan), 'BRI and CPEC initiatives will be dependent on the creation of a robust and sustainable financial system that embodies strong risk management, innovative models of investment and financing and acts as a bridge between government and private capital'. Nevertheless, CPEC finances remain one of the most mysterious and opaque aspects of the whole endeavour. Most of the negotiations and agreed modes of financing are not made public and the few that are provided but brief data and rather contribute to the confusion instead of clarifying the essential details of CPEC

projects. For example, the Ministry of Finance and Development attempted to critics of CPEC funding methods in the following way:

'It must be clarified that CPEC projects are financed through a composite financing package comprising long-term government-to-government concessional and preferential loans, as well as grants from the government of China. Repayments on these loans would not commence in the immediate future'. . . 'Chinese companies are investing in the energy sector in IPP [Independent Power Producer] mode and have raised funds from Chinese banks and investors. These do not constitute any debt obligation on the government of Pakistan'⁷⁴ 'It is because of the favourable financing arrangements that Pakistan opted for Chinese investment under CPEC' (Abrar, 2018, August 7).

These statements give only a vague idea about concrete 'financial arrangements', failing to reflect the broad spectrum of facts involved. Furthermore, they ignore the critical financial risks related to the CPEC and their implications for the citizens of Pakistan.

6.13.1.1 Types of Funding

CPEC financing falls largely under the umbrella of the BRI. Financial cooperation and assistance by Beijing for BRI participating states and organisations involved numerous institutions and mechanisms (Dada, 2018, June 13). Regarding the Long-Term-Plan for the CPEC, 'the two countries should reasonably determine the investment and financing modes based on the nature of projects and the status of cash flows' (LTP, 2017, p. 24). Basically, the following types of financing are recognised by the CPEC scheme: foreign direct investment (FDI), (government-to-government) concessional loans, commercial loans, and grants (including interest-free loans). FDI (64%) and concessional loans (24%) are the most common forms of financing. Grants account for only 1% of the available financial resources for the CPEC,⁷⁵ whereas commercial loans account for around 6% (Rafiq, 2017, p. 10). Concessional loans are mainly used for infrastructure development projects such as roads, railroads and port expansions. These are also utilised in energy-related projects (Business Recorder, 2017a, December 18). Energy projects are executed in the Independent Power Producer (IPP) mode, in which the investors are granted an upfront tariff based on debt-equity structures. Chinese investors are receiving most their financing from Chinese banks, a fact hidden in official balance sheets (Husain, 2017a, February 11). They would be entitled to a 17% return on their equity shares (not on the entire project costs) in US dollar terms—excepting in the case of coal and

⁷⁴As Ahsan Iqbal, Federal Minister for Planning, Development and Reform points out, 'CPEC has 75pc of investment in IPP mode. All energy investment is private investment; not a single dollar of loan to Pakistan' (Iqbal, 2018a, May 30).

⁷⁵One of the most prominent examples is the \$230 million Chinese government grant to build an international airport.

renewables where the rate is much higher—which they can repatriate as profits back to China. The concrete terms of financing are negotiated between Chinese companies and their lenders (Hussain, 2018, June 6).

It is interesting to note that the CPEC Joint Coordination Committee (JCC) reviewed the funding modus of CPEC-related projects during its seventh meeting in November 2017. Cited by the International Crisis Group report, ‘the committee’s discussions reportedly suggest a potential shift from concessional loans for energy and infrastructure projects to commercially viable projects that would not qualify for concessional loans’ (ICG, 2018, June 29, p. 10). The share of commercial loans is therefore expected to grow in upcoming years due to a change of financing types for several energy projects. Though most energy-related projects are already based on commercial contracts, due to revision in project financial managements there is a tendency⁷⁶ to transform remaining concessional loan-based arrangements into commercial dispositions (Business Recorder, 2017a, December 18; ICG, 2018, June 29; p. 10). This is important since most proposed spending (around two-thirds) is dedicated to generating and distributing electric power (Rafiq, 2017, p. 10). It also might have negative ramifications for energy prices in Pakistan since the interest rates for commercial loans (when the projects are executed by Chinese enterprises) is—at 5%—significantly higher than that—at 2%—required for concessional loans (Business Recorder, 2017a, December 18).

Considering the complexity of CPEC projects and the immense need for capital, larger projects are not based on only one type of financing but rather on a combination of mechanisms. The KKH section between Raikot to Thakot in KPK, for instance, is financed by both grants and a concessional loan; the repairing of the N-50 highway is co-financed by China (via CPEC) and ADB (Rafiq, 2017, p. 10). As we shall see, in order to understand CPEC finances and assess potential implications, it is crucial to identify both the funding mechanisms (e.g., IPP mode for energy projects) and the actors involved in the financing.

6.13.1.2 Sources of Funding

The CPEC benefits from several types of financial sources: (1) Chinese governmental funding for CPEC projects (via loans and grants), Chinese enterprises, private sectors and private sector funds from other economic entities (via FDI); (2) Chinese-funding of CPEC-related projects; (3) Foreign non-Chinese funding for CPEC-related (supporting) projects via international agencies and lenders (international development financial institutions); (4) Pakistani funding for both the CPEC and related projects via both government, public and private actors; (5) domestic and international capital markets.

⁷⁶This tendency is much more prevalent in infrastructure projects of CPEC which receives most of the concessional loans.

In order to assess the realisation of Chinese commitments regarding promised funding and the efficient use of provided financial resources it is crucial to recognise that several essential infrastructure projects in Pakistan neither belong to the CPEC scheme nor have Chinese funding. For example, some road projects⁷⁷ are funded by the Asian Development Bank (ADB), the Islamic Development Bank (IsDB), the US Agency for International Development (USAID), the British Department for International Development, and the World Bank (Rafiq, 2018, pp. 11, 13; Rogers, 2017, February 7). Most of these international lending agencies have a specific regional, multi-national programme intended to promote economic development and connectivity—for instance the ADB's Central Asia Regional Economic Cooperation (CAREC) program. These foreign, non-Chinese-funded projects lay outside the CPEC scheme yet involve crucial segments of the corridor's infrastructure.

The CPEC itself and other supporting projects lack foreign financial assistance. Several CPEC-related measures are covered by the Public Sector Development Program (PSDP), Pakistan's most important fiscal policy tool and the main national financial source for development projects. The PSDP for 2018–2019 recognises 41 funding schemes directly related to the CPEC (PSDP, 2018).⁷⁸ Two points must be made: first, many CPEC 'goodwill' projects are funded by Pakistan, not China (some are co-financed with foreign assistance)⁷⁹; second, the PSDP funds various security schemes for the CPEC⁸⁰ in addition to the Security Enhancement scheme (Special Programmes) comprising a budget of 45 billion Rupees for 2018–19 (PSDP, 2018). This determines a redirection of money—supposed to be invested in developmental endeavours—towards the security sector.

There are also projects involving private or semi-private Pakistani sources; the upgrading of the Hyderabad-Karachi highway for instance is funded by a consortium of Pakistani banks (Rafiq, 2017, p. 13). The CPEC recognises the issuing of financial bonds in both domestic and foreign capital markets as additional sources of financing (LTP, 2017, p. 24). Both Beijing and Islamabad hope that Public-Private

⁷⁷For example, the Faisalabad-Multan Motorway 4 is co-financed by ADB, AIIB, Islamic Development Bank, and the British government, segments of the N-25 highway was funded by the USAID (Rafiq, 2017, p. 13).

⁷⁸Out of the 41 PSDP funding schemes for the CPEC 20 were approved, 18 are currently unapproved, 3 have their approval under process or no clear information available. Approved projects include: KKH Phase-II Havelian-Thakot (118.057 km); Karachi-Lahore Motorway (Land Acquisition) Sukkur-Hyderabad, Land Acquisition and Resettlement for the CPEC; the Islamabad-Raikot Section (Phase-I), the Havelian-Thakot (120.12 km), the Improvement and widening of Chitral-Booni-Mastuj-Shandur; the Construction/Black Topping of Access Road from Makran Coastal Highway to New Gwadar International Airport (PSDP, 2018).

⁷⁹For example, necessary Facilities of Fresh Water Treatment, Water Supply and Distribution in Gwadar; Gwadar Smart Environmental and Sanitation System and Landfill; Pak-China Technical & Vocational Institute at Gwadar (co-financed; foreign assistance) (PSDP, 2018).

⁸⁰For example, the provision for CPEC-Related Security Projects (2000.000 Million in Rupees); the construction of Offices for Intelligence Bureau along with the CPEC (473.556 Million in Rupees). The scheme for the Construction/Development of the fifth Pakistan Coast Guards Battalion Omara for the CPEC (954.935 Million Rupees) is unapproved for 2018–19 (PSDP, 2018).

Partnerships (PPP) will mobilise additional private capital so as to bridge financial shortcomings (Rogers, 2017, February 7). Pakistan's National Highway Authority (NHA) plans to finance major infrastructure development projects via PPP. In order, The NHA focuses on the Build-Operate-Transfer (BOT)⁸¹ as a means to involve the private sector.

As an investment opportunity for foreign investors, both BRI and CPEC are only interesting in a long-term perspective. At the moment, initiatives appear too risky (Carrai, 2017, p. 8). The common perception among finance market professionals seems to be that BRI-related projects are guided by geostrategic rather than commercial purposes; this of course makes private investors even more hesitant (Rogers, 2017, February 7). As Kaho Yu points out, 'Chinese state-backed enterprises are targeting countries where Western companies find it difficult to invest', referring to Pakistan's Minister for Planning, Development and Reform Ahsan Iqbal's argument: 'China took a bet on Pakistan when others were shy' and 'were just looking at the political risk' (Yu, 2017, p. 36).

6.13.1.3 Financial Institutions

Considering the vast dimensions of the 'Chinese dream', there is a common understanding among analysts that current financing and investment patterns are insufficient in addressing the BRI's tremendous financial needs. Neither the traditional Multilateral Development Banks (MDBs) such as the World Bank and the IMF, nor private international capital flows are able to fill the investment gap (Carrai, 2017, p. 5). It is estimated that the BRI will need between four and eight trillion US dollars so as to cover the immense expenses (Rogers, 2017, February 7). The initiative will require more than two trillion US dollars over the next decade so as to cover but its Asian section⁸² (Huang, 2017, June 30). Beijing created a financial architecture for the BRI, various sorts of unilateral (national) and multilateral institutions. These institutions complement and support each other, acting individually as well as collectively so as to manage the monetary aspects of China's development vision. However Beijing does recognise that it cannot cover all investments—even with support by governments of the BRI projects' host countries. China is thus very interested in cooperating with existing MDBs in order to receive additional support for the BRI's realisation. Apart from attempts to stimulate both Chinese and

⁸¹The Build-Operate-Transfer (BOT) is a project financing and operating model or structure wherein a private entity receives a concession from either the private or public sector to finance, design, construct, and operate an infrastructure component of facilities stated in the concession contract—which varies usually from 20 to 30 years (PCQ, n.n.).

⁸²Developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change (climate-adjusted estimate). Without climate change mitigation and adaptation costs, \$22.6 trillion will be needed, or \$1.5 trillion per year (baseline estimate)' (ADB, 2017b, p. xi).

non-Chinese investors,⁸³ Beijing relies on traditional financing modes and institutions, using the country's foreign exchange reserves as well as Chinese tax payers' money to finance China's development projects (Carrai, 2017, p. 8). Chinese and Chinese-initiated financial entities dedicated to the BRI can be divided into three categories: (I) Chinese policy banks (including commercial banks); (II) Chinese-initiated international developmental financing institutions (IDFIs); and (III) China's international project insurance via Sinosure.

(I) China Policy Banks: Engaging and Empowering Existing Capacities

The already existing Chinese international development financing institutions (IDFIs) consist of three policy banks which are the BRI's main contributors (Carrai, 2017, p. 5): the China Development Bank (CDB), the Agricultural Development Bank of China (ADBC), and the Export-Import Bank of China (EXIM). Essentially, these financial institutions are responsible for financing state-invested projects and function as the 'engines' of the country's economic and trade development policies. Occasionally policy banks collaborate with the country's commercial banks so as to implement project financing. This is how the BRI receives additional capital injections—for instance from the China Construction Bank Corporation (CCB), one of the 'big four' state-owned commercial banks in China. Although the banks' goals tend to overlap, each focuses on a specific area. The ADBC provides funds for agricultural development initiatives in rural areas. The ADBC is to engage in CPEC projects related to agriculture⁸⁴ and cooperate with specialised Pakistani banks such as the Zarai Taraqiati Bank Limited (ZTBL), the country's leading agricultural business bank.⁸⁵ The EXIM promotes economic growth and structural adjustment, supporting foreign trade while implementing the 'going global' strategy, especially regarding the financing of development projects abroad.⁸⁶ The CDB is focused on infrastructure projects, performing crucial functions for both BRI and CPEC; founded in 1994 as a policy financial institution, the CDB is completely owned by the state and, together with the ADBC and the EXIM, is under direct guidance by the State Council. The CDB functions as a development finance institution since March 2015. Today it is the world's largest development finance institution (surpassing the World Bank) and the largest Chinese bank for foreign investments and financing

⁸³For example, President Xi announced that the CDB and the EXIM will set up special lending schemes, respectively worth RMB 250 billion (about US\$36.2 billion) and RMB 130 billion (US\$ 18.8), so as to support Belt and Road cooperation on infrastructure, industrial capacity and financing (Lei, 2017a, May 14).

⁸⁴Cooperation specially regarding the modernisation of Pakistan's agricultural sector and the development of 'future growth strategy for livestock, dairy & crops and value chain financing plans' (ZBTL, 2017, October 26).

⁸⁵For more information on Zarai Taraqiati Bank Limited, see: <https://www.ztbl.com.pk/>

⁸⁶Several BRI related projects financed by the EXIM were located in Pakistan: the 2016 Karot Hydropower Station Project (together with the SRF); the Havelian-Thakot section of the Karakoram Highway/KKH; the Port Qasim Coal-fired Power Project, or the 900 MW Photovoltaic Power Station in Punjab (Carrai, 2017, p. 8). For more information on The Export-Import Bank of China, see <http://english.eximbank.gov.cn/en/>

cooperation, including long-term lending and bond issuance. The CDB serves Beijing's major long-term economic and social development strategies, both domestically and internationally.⁸⁷

In order to improve the banks' operationality for both the BRI and the CPEC, policy banks were provided with financial resources (48 billion to CDB and 45 billion US dollars to EXIM) from China's foreign exchange reserves. These were channelled via the People's Bank of China, the central bank of China (Xinhua Finance, 2015b, August 19). The ADBC was allocated a share from the Chinese Ministry of Finance, and in 2015 the CDB 'took charge of planning and promoting the BRI initiative along the China-Pakistan economic corridor' (CDB, 2015, p. 35). In the same year, focusing on supporting development and facilitating cooperation in the sectors of energy and resources, infrastructure, telecommunication, industrial capacities, and finance, the CDB provided massive loans to countries participating in the BRI (CDB, 2016, p. 11). In 2016, the BRI became the CDB's top priority. The CDB cooperated in CPEC projects by providing planning and intellectual guidance. The bank played an active role in building consensus among international partners, facilitating negotiations, signing cooperation agreements and planning cooperation projects (CDB, 2016, p. 52). Policy banks such as the CDB act either individually or engage together in a consortium⁸⁸ so as to finance CPEC-related projects; an example of such a project⁸⁹ was the Zonergy's Quaid-e-Azam Solar Project in Pakistan (CDB, 2016, p. 54).

(II) Beijing's New IDFI: Initiating and Guiding New Capacities

In addition to guiding policy and involving commercial banks, Beijing created new IDFI to support the realisation of the BRI. China launched the Silk Road Fund (SRF)⁹⁰ and initiated or at least substantially contributed to the creation of the Asian Infrastructure Investment Bank (AIIB), the BRICS's New Development Bank (NDB), and the Shanghai Organisation Cooperation (SCO). Contrary to the SRF, the initial purpose of the AIIB, the NDB and the SCO was not financing the BRI; however each institution's missions and objectives fall within its scope. Today they are crucial partners of the BRI, providing financial, managerial, administrative, technical, and logistical assistance. The fact that China is a major shareholder in the AIIB (26.06%) and NDB (20%) defines the direction of investments. The AIIB and other IDFI can be seen as a challenge or as an alternative to Western multilateral lenders, in particular the World Bank, the IMF, and the ADB (Reuters, 2014b, November 8). Some perceive China's initiatives as a threat to the Bretton Woods

⁸⁷In this backdrop, the bank aims 'to promote international exchange and cooperation, actively take part in international economic and financial governance, and promote win-win cooperation and common development, showcasing the strengths of Chinese financial institutions on the international stage'. For more information on the CDB, see: <http://www.cdb.com.cn/English/>

⁸⁸For example, the CDB led a consortium along with the EXIM bank to finance a US\$1.5 billion power plant and wharf deal in the city of Hub in Balochistan (Gopalan & Ren, 2017, November 27).

⁸⁹CDB contributed US\$62.6 million to the US\$160 total investment volume.

⁹⁰Also known as the Silk Road Infrastructure Fund or Silk Road Development Fund.

System⁹¹ and to the liberal order (Carrai, 2017, p. 4; Guidetti, 2017, January 19). According to China's rationale, however, the slow process of reform and funding from the IMF's, World Bank's, and ADB's side, prevent China from playing a greater role in international political economy; some states who seek financial assistance from the IMF or World Bank are faced with obstacles such as the 'intrusiveness of the policy conditionality' (Carrai, 2017, p. 12). Consequently, as we shall see, Beijing is involved in numerous IDFI that are to above all serve the BRI.

(a) Asian Infrastructure Investment Bank (AIIB)

Founded in October 2014 and having commenced operations in January 2016, the AIIB aspires to become a global development institution. It counts 21 Asian member countries (87 members world-wide) and a registered capital of US\$100 billion. Besides not being an official part of the BRI, the AIIB takes on a crucial function in China's economic corridor projects through the many loans it provides⁹² (Dada, 2018, June 13). Today, the AIIB focuses on equity investment in infrastructure, energy development, industry cooperation, and financial cooperation. The bank was designed to support Chinese outbound investments in BRI countries, particularly companies exporting high-tech and high-quality products (Ahmad, 2018b, p. 42). According to experts, the establishment of the AIIB will provide substantial financial support for implementing the BRI, especially as regards the build-up of Asian infrastructure. This determines the structure through which the AIIB will serve the BRI as a financing platform. It is to help resolve the issue of resource mismatches in Asia and achieve an efficient allocation of Asian savings and investments (Jianxun, 2017, p. 162).

(b) Silk Road Infrastructure Fund

The Silk Road Infrastructure Fund or Silk Road Fund (SRF) is another crucial institution for the management of Chinese investments.⁹³ Launched in February 2014, the China-led US\$40 billion Silk Road Infrastructure Fund will directly support the BRI vision (Ahmad, 2018a, p. 55). In more general terms it aims to break the 'connectivity bottleneck' in Asia (Reuters, 2014b, November 8). The fund is capitalised mainly by China's foreign exchange reserves and is backed by the

⁹¹The Bretton Woods system of monetary management established for the first time the rules for commercial and financial relations among independent states. The 1944 Bretton Woods Agreement was signed by 44 countries including the United States, Canada, Western European states, Australia, and Japan. Although the original arrangements were not sustainable (the system was based on a fixed exchange rate which collapsed in the 1970s), the Bretton Woods system set-up the core institutional framework (foremost the World Bank and the International Monetary Fund/IMF) supposed to help western states provide a new regulatory framework to the global economy after the second world war. Most contemporary international financial institutions, regimes, and contracts can be traced back to the Bretton Woods agreement (Carrai, 2017, pp. 11–12).

⁹²For example, AIIB president Jin Liqun announced that the bank plans to invest \$3 to \$5 billion in infrastructure in 2017 and \$10 billion in 2018, a large part of which will be earmarked for BRI-related projects (Rogers, 2017, February 7).

⁹³For more information on the Silk Road Fund, see: <http://www.silkroadfund.com.cn/enweb/23775/23767/index.html>

Chinese policy banks China Development Bank (CDB), the Export-Import Bank of China (EXIM), and the China Investment Corporation (China's sovereign wealth fund); the Chinese State Administration is also involved. The main task of the SRF—in cooperation with the EXIM—is to finance infrastructure projects (railways, roads, ports), transportation, energy, exploitation and use of (natural) resources, energy and financial co-operation projects (Ahmad, 2018b, p. 42). The SRF's first investment was the US\$1.65-billion Karot Hydropower Project in Pakistan (Xinhua, 2015a, April 21). In 2017, President Xi announced an increase in the SRF's financial resources of US\$14.5 billion (Lei, 2017a, May 14).

(c) The New Development Bank (NDB)

Located in Shanghai, the New Development Bank (NDB) aims to mobilise resources for infrastructure and sustainable development projects in the BRICS and other emerging economies, as well as in developing countries.⁹⁴ The NDB is to 'strengthen cooperation among BRICS and supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth'.⁹⁵ The New Development Bank combines the savings of states with high savings rates such as China with other states' potential infrastructure needs so as to develop profitable investment opportunities and support projects in developing economies (Jianxun, 2017, p. 162). Yet while the SRF was established in close connection to the BRI, the NDB is a financial body envisioned to promote broader sustainable development goals in Asia (Carrai, 2017, p. 10). The mission of the NDB per se is consistent with the vision of the BRI—which the bank strongly supports.

(d) Further IDFI and Support for International Organisations

In addition to the above-mentioned IDFI, Beijing created further financial instruments—for example the China-Eurasia Economic Cooperation Fund (CEECE), a Chinese state-backed investment fund created in 2015 to finance projects in BRI countries. Government-level funding bodies such as the China-CEE Investment Cooperation Fund and the China-ASEAN Maritime Cooperation Fund were also created. Finally the China South-South Cooperation Assistance Fund (SSCAF) aims to strengthen China's aid and development activities in the context of the South-South cooperation, which is perceived as a crucial pillar of the BRI. China promised to contribute with billion US dollars to the latter fund between 2017 and 2020 (Lei, 2017a, May 14). Beijing plans to further promote economic development and cooperation in trade, energy, and finances via the SCO. The SCO was labelled as a platform for political and security-related collaboration from the very beginning;

⁹⁴The NDB is a BRICS-led multilateral initiative. The BRICS is a collaborative platform made up of the five major emerging economies of Brazil, Russia, India, China and South Africa. According to the 'Fortaleza Declaration' of 2014 in Brazil, 'The Bank shall have an initial authorized capital of US\$100 billion. The initial subscribed capital shall be US\$50 billion, equally shared among founding members'. For more information on the New Development Bank, see: <https://www.ndb.int/>

⁹⁵New Development Bank: <https://www.ndb.int/about-us/essence/history/>

however a more recent shift towards economic matters has occurred and the latest proposals aim at the creation of an SCO Development Bank and an SCO Development Fund so as to promote regional cooperation for economic and investment purposes (Mingwen, 2018, August 10).

(III) Sinosure: Chinese International Project Insurance

Chinese financing for international development projects is increasingly conditional. This is particularly true regarding project insurance (Miller, 2017, June 5, p. 17) conducted by the China Export & Credit Insurance Corporation, also known as Sinosure. Established in 2001, Sinosure is a state-funded policy-oriented insurance company aiming to promote foreign trade, development and cooperation.⁹⁶ As a major state-owned enterprise (SOE), Sinosure operates under the guidance of China's Ministry of Foreign Affairs and serves as the country's main provider of export credit insurance, covering in particular the export of high-value added goods. It runs the Overseas Investment Insurance Program 'designed to support and encourage Chinese enterprises and financial organisations to make investments overseas' (Deloitte, 2018, p. 10), which provides export financing and protection against political, commercial and credit risks for China's SOE's and other large firms operating or exporting abroad (Miller, 2017, p. 22). Such risks include currency and remittance restrictions, sovereign breaches of contract, expropriation and nationalisation, or war. Sinosure improved the BRI's implementation by 'promoting international capacity cooperation, cultivating international economic cooperation and new competitive advantages, and accelerating the optimization of economic structure'.⁹⁷ Sinosure plays a pivotal role in driving CPEC initiatives between China and Pakistan and is an integral part of all CPEC-related investments in Pakistan (Business Recorder, 2017b, May 21).

However, several issues appeared in connection to Sinosure insurance guarantees, especially regarding new energy and infrastructure projects related to the CPEC. First of all, Sinosure insurance coverage is mandatory for all Chinese loans and investments; it is required for anyone outside China who wants access to this type of capital (Miller, 2017, June 5, p. 22). Being the only insurance provider accepted by Chinese lenders, Sinosure holds the monopoly over China's development project insurances in both BRI and CPEC. Comprehensive contractual arrangements with the recipient as well as full support from the host country are key conditions required by the company (Deloitte, 2018, p. 10). Miller (2017, June 5) argues that the introduction of mandatory Chinese project insurance—which he clearly links to the CPEC—leads to substantial institutional shifts in Pakistan which affect the regulatory process, especially in the energy sector. Such changes 'represent a substantial loss of agency and sovereignty over energy infrastructure by the government of Pakistan', for the Pakistani government is forced to cede 'control over regulatory decision-making regarding its own critical energy and infrastructure spending' (p. 1). This determines the beginning of a regulatory and procurement

⁹⁶For more information on Sinosure, see: <http://www.sinosure.com.cn/en/>

⁹⁷<http://www.sinosure.com.cn/en/Sinosure/Profile/index.shtml>

process capture which will estrange Pakistan from open and competitive international development standards, leading to prioritisation of development systems that benefit China and Chinese firms. In brief, contractual arrangements for development projects will move from more open/optional to closed/mandatory forms (Miller, 2017, June 5, p. 8).

By making project insurance via Sinosure mandatory for all Chinese funding, China pressures Islamabad via potential funding recipients. The Pakistani government was represented in this issue by the National Electric Power Regulatory Authority (NEPRA), the country's energy regulatory agency. In response to the initial (pre-CPEC) rejection of Sinosure, fees in the form of costs for energy projects (via the allowance of a 'pass through tariff') as well as a highly coordinated petition campaign by recipients (i.e., Chinese SOEs, policy banks, Pakistani companies, etc) took place. In order not to halt financing for energy projects, the NEPRA was forced to change its position after the launch of the CPEC.⁹⁸ Sinosure fees for project insurance are now going to be bundled into power tariffs and passed on to the consumers. This additional financial burden for Pakistani citizens can be identified as not in line with the NEPRA's mission:

We shall strive to develop and pursue a Regulatory Framework, which ensures the provision of safe, reliable, efficient and affordable electric power to the electricity consumers of Pakistan; we shall facilitate the transition from a protected monopoly service structure to a competitive environment where several power sector entities function in an efficiency oriented or market driven environment and shall maintain a balance between the interests of the consumers and service providers in unison with broad economic and social policy objectives of the Government of Pakistan (NEPRA, n.d.).

The NEPRA is challenged by CPEC energy projects in several ways. First, the electricity generated by CPEC energy projects will be very expensive—not only because of Sinosure fees but also because a substantial amount of CPEC-related security costs will be added to energy tariffs (Husain, 2016, September 29), thus making energy prices unaffordable for most Pakistanis. Second, the mandatory financial insurance arrangements are monopolistic and thus limit competitiveness. Third, the acceptance of Sinosure's conditions and the ongoing revisions of funding mechanisms for CPEC energy projects (e.g., a greater use of commercial contracts linked to more Sinosure fees and higher prices) do not favour the interests of either energy consumers or the Pakistani government.

Project insurance for international development initiatives is a relatively common phenomenon. However forcing recipients to accept a monopolistic insurer owned and directed by a foreign government and which charges higher fees,⁹⁹ does not

⁹⁸For more information, see the detailed case study by Miller (2017, June 5).

⁹⁹Generally, the international norm for debt-related interest rates might be at maximum 5.5% (Miller, 2017, June 5, p. 26). Yet according to Dawn, Sinosure is charging a fee of 7% for debt servicing, which will be added to the capital cost of a project. For instance, the capital cost of a 660 MW project at Port Qasim is US\$767.9 million, yet it goes up to \$956.1 million by adding Sinosure's fee of US\$63.9 million, its financing fee and charges of US\$21 million, and interests during construction of US\$72.8 million (Siddiqui 2015, July 13).

conform with international norms and practices. Miller (2017, June 5) contrasts this with German companies receiving public development funds for foreign project financing. The granting of German development funds is also bonded to project insurance. However, unlike Sinosure, the studied Euler Hermes, a French-based insurer affiliated with the Allianz group,¹⁰⁰ is a publicly traded—not state-capitalised—company. In order to receive Chinese capital, Pakistan is obviously willing to accept new standards and requirements for project developments dictated by Beijing, losing significant decision-making powers and undermining an already fragile regulatory capacity.

The debate on 'Chinese debt trap diplomacy' and the threat of future financial burdens is vital, yet it fails to reflect the complexities linked to Chinese funding of development projects. Proponents of the CPEC (Pakistani officials) argue that the Government of Pakistan does not bear any debt servicing obligation on loans for energy and infrastructure projects, since the companies operate in IPP or BOT modes.¹⁰¹ This is a naïve fallacy. It might be true that the CPEC does 'not impose any immediate debt burden on the government of Pakistan' (Nation, 2018, August 8), yet it determines a significant financial burden for the Pakistani people and thus for the state. Furthermore, most revenue generation will be skimmed off and flow abroad—not to be re-invested in Pakistan. Experts are concerned that Pakistan 'could be in serious financial trouble due to the outflow of loan payments along with payable interests and profit remittances to Chinese companies' (Ali, 2018, p. 19).

6.13.1.4 Financial Integration

Besides the provision of large investments in the form of grants and loans intended to build-up physical infrastructure for trade and transport, Pakistan needs to gain sufficient technical and administrative capacities to meet the challenges of international trade. The success of the CPEC and Pakistan's positive contribution to the BRI largely depends on 'Pakistan's banking and financial sector's readiness in adjusting to the new trade environment' (Dada, 2018, June 13). In order to increase Pakistan's capability, Beijing and Islamabad cooperate so as to improve 'financial integration' in the following ways.

First, China and Pakistan encourage cooperation between their banks: Pakistani banks such as the United Bank Limited (UBL), the Habib Bank Limited (HBL), and the National Bank of Pakistan (NBP)—which together hold more than 40% of domestic market share—attempt to set up full-fledged branches in China and engage

¹⁰⁰Euler Hermes describes itself as the World's leading provider of trade-related credit insurance solutions and is backed by Allianz, one of the leading financial services providers worldwide. For more information, see: <http://www.eulerhermes.com/Pages/default.aspx>

¹⁰¹Which means the firms working in IPP mode cover debts from they own earnings and are not supposed to be paid by the Pakistani state (2018, June 6; Husain, 2017a, February 11).

with Chinese counter parts (e.g., policy banks) in order to establish strategic partner banks and support project finance requirements arising from the CPEC (Zaidi, 2016, August 3). These partnerships will improve banking activities such as advising clients regarding investment models, providing cash management, working capital and employee banking solutions linked to complex banking needs such as strategic financing (e.g., foreign exchange hedging solutions, project and export finance, etc.) as well as assisting with mergers and acquisitions (Dada, 2018, June 13). This is how the basic infrastructure for economic and trade cooperation between China and Pakistan is being created, providing the necessary financial instruments to realise the industrialisation related to the CPEC and beyond.

Secondly, China and Pakistan both support the internationalisation of the Renminbi/RMB (the official currency of the People's Republic of China) process, which is identified as 'one of the keys to cost-efficient economic growth for both countries' (Dada, 2018, June 13). A major step was achieved when the State Bank of Pakistan (SBP) 'announced' in January 2018 that the current foreign exchange regulations recognise the Chinese Yuan (CNY) as an approved foreign currency for denominating foreign currency transactions in Pakistan (SBP, 2018, January 2). As such, the SBP allowed both Pakistani and Chinese public and private sector enterprises to use the RMB (Chinese Yuan) in bilateral trade and investment activities. Pakistan followed the Chinese proposal to use the CNY instead of the US dollar for payments in all bilateral trade. The SBP eventually signed the Currency Swap Agreement (CSA) with the People's Bank of China (PBoC). The two parties could draw on an earlier agreement from 2011, the first CSA between China and Pakistan,¹⁰² valid for a period of three years (Reuters, 2011, December 11). With the use of CSAs, Islamabad and Beijing aim to promote bilateral trade and investment, the usage of local currencies, bilateral financial cooperation, as well as the protection against currency shocks (SBP, 2018, January 2; Siddiqui, 2018b, May 25). However, the 2011 CSA never really took off due to a lack of interest from the Chinese business community, which refused to use the Pakistani currency in its trade and investment activities with Pakistan (Dutta, January 6). Instead, Chinese business circles demanded the introduction of the CNY as a legal tender in the Gwadar Free Trade Zone—a proposal which was rejected by the Pakistani government. The Ministry of Finance and the SBP both refused to use the CNY inside Pakistan¹⁰³ as they considered the action 'an infringement of sovereignty' (Kartha, 2018, January 6). Although the 'January announcement' by the SBP did not innovate much, it did signal that the use of the CNY in the bilateral engagements between

¹⁰²The 2011 CSA was of 10 billion Chinese yuan (\$1.58 billion) or 140 billion Pakistani rupees (\$1.57 billion) (Reuters, 2011, December 11). The latest CSA has increased currency swap amounts from the initial 10 billion CNY to 20 billion CNY and from Rs165 billion to Rs351 billion (Siddiqui, 2018b, May 25).

¹⁰³It is interesting to note that the only country so far known which accepted the Yuan as legal tender is Zimbabwe, which took the decision after experiencing a hyperinflation and the abandonment of its own currency (Zimbabwean dollar) in 2009. Beijing's offer to cancel a \$40 million debt was a strong incentive for the introduction of the Yuan (AFP, 2015, December 22).

China and Pakistan could be brought to the table again. The SBP has taken comprehensive policy measures so as to establish a regulatory framework, ensuring that imports, exports and financing transactions can all be denominated in yuan. Pakistani banks can now accept CNY deposits and give trade loans in CNY¹⁰⁴ (PTI, 2018, January 3; SBP, 2018, January 2). In order to support these activities, the Chinese PBoC is 'relaxing rules around RMB liquidity management to facilitate cross-border usage' (Dada, 2018, June 13).

The drive towards financial integration between China and Pakistan through bilateral CSAs is not a new phenomenon, yet it still stands apart from the norm—no less. Because of the overbearing Chinese economic and political influence in Pakistan. Beijing also has other active CSAs, including one between the European Central Bank (ECB) and the PBoC (worth 350 CNY or 45 billion euros (Reuters, 2013, October 10). Pakistan's economic performance is weak and unstable by any international standard. Considering the tremendous economic asymmetries between China and Pakistan, there is a threat that mechanisms such as the CSA lead Islamabad to loose economic sovereignty. Pakistani officials themselves admit that the China-Pakistan CSA not only promotes the CNY in bilateral trade and investment activities, but it is also part of a larger strategy to internationalise the RMB (Dada, 2018, June 13). Initiated by Beijing, the CSAs also have political connotations: instead of preventing international financial crisis, they are meant to affirm the Chinese national identity and increase its international status (Ziauddin, 2018, January 10; Kartha, 2018, June 6). With regard to Pakistan's foreign exchange regulations, the 'CNY is at par with other international currencies such as USD, Euro and JPY, etc' (SBP, 2018, January 2). However it seems that through the CSA Islamabad seeks to decrease its dependence on Washington and the US dollar—Beijing is to replace the US currency. Two CSAs were announced during periods of strong deterioration of US-Pakistan relations—one following a US military operation in 2011 during which the al Qaeda leader Osama bin Laden was killed in Pakistan (Reuters, 2011, December 11) and one after US President Donald Trump accused Pakistan of 'lies and deceit' in his 2018 'new year tweet' (Firstpost, 2018, January 2). Given the timing of CSA announcements and the insistence that the CSA is an integral part of the CPEC's Long-Term Plan (LTP, 2017), it is obvious that Islamabad is sending a political signal to Washington.

Beijing's efforts to establish the RMB as the leading currency in international financial relations are not the first attempt to replace the US dollar. Following the Asian financial crisis (1997–98), Japan tried to establish the Yen as the internationally dominant currency (Katada, 2018, January 1). It but failed despite its economic potential and the credibility of the currency in question, showing that Asian countries were not ready to replace the US dollar (Ziauddin, 2018, January 10). This replacement is in fact yet to materialise. One must consider Japan's careful approach

¹⁰⁴ Actually most of these instruments were already introduced several years earlier (SBP, 2013, May 7; 2012, September 4), but Chinese as well as Pakistani entrepreneurs did not made use of them.

towards the RMB, tensions between Washington and Beijing, and China's growing concerns about domestic economic stability and levels of international financial assistance. The reduction in China's foreign exchange reserves and the BRI's new financial arrangements forced Beijing to turn towards more stringent interventions in foreign exchange markets and to tighter capital controls. This slowed down the process of internationalisation of the RMB, at least temporarily (Otero-Iglesias, 2018, July 4). Although China-Pakistan CSAs might ease trade and economic cooperation, the large-scale financial integration in the context of the CPEC at the expense of the US dollar-based financial transactions will have both economic and political implications for Pakistan. As outlined in the Long-Term Plan, the CPEC aims to penetrate all spheres of economy and society in Pakistan, including the country's access to the internet as well as to space. Given these factors and the Chinese attempts to introduce both the Yuan and an RMB banking centre in Gwadar (Tarin, 2018, June 7), it seems that the currency in Pakistan—which was so far carefully protected by the authorities—(Kartha, 2018, January 6) is now threatened.

6.13.2 Transparency and Accountability Programmes and Institutions

Corruption, nepotism, and cronyism infest all levels of Pakistani society. Apart from some small steps toward transparency as well as high-profile scandals that attract national attention, anti-corruption policies in Pakistan remain weak and politicised (BTI Pakistan, 2018, pp. 9, 24, 34). Responsible institutions such as the National Accountability Bureau (NAB)¹⁰⁵ as well as corruption charges have traditionally been used as an instrument to blackmail politicians and oust them from office (Waraich, 2017, July 28). It does not come by surprise that Pakistan is perceived as a country with 'minimum transparency' (Sethna, 2013, June 13). There are concerns that the CPEC will counter corruption and eventually widen the transparency and accountability gaps in Pakistan. Decision-making processes and access to information constitute the major points of concern—especially as regards the selection, design, costs and overall contracting of the projects (Ahmad, 2018a, p. 61; Hussain, 2017a, June, p. 3). Apart from some vague figures, there is no sufficient data regarding how much of the agreed financial modes involve debt, soft loans, grants or investments (Ali, 2018, p. 15). Moreover, there lacks data regarding not only open public bidding and tenders but also the very announcement of projects, particularly those belonging to the initial phase such as the EHP. This is worrisome because of sovereign obligations and debt burdens, in addition to concerns about

¹⁰⁵The NAB is the country's main body dedicated to investigating corruption allegations. However, since its formation in 1999, there are claims (a very outspoken actor was former Prime Minister Nawaz Sharif) that the institution is 'using its powers selectively to settle political scores, taking directives from other power centers' (BTI Pakistan, 2018, pp. 34, 40).

cost efficiency, economic feasibility, and environmental risks related to CPEC projects (Devasher, 2017, February 5; Rafiq, 2017, p. 44). The World Bank warned about sovereign guarantees associated with the CPEC that could 'pose substantial fiscal risks over the medium term' (World Bank, 2016, January, p. 143). The Centre for Global Development ranks Pakistan among eight countries with high vulnerability to debt distress due to BRI-related financing (Hurley, Morris, & Portelance, 2018, p. 16).

Critical voices are present in both print and online media, stating that the CPEC's overall financial mechanisms are opaque. The main critique regards the fact that the government has never shared any relevant policy document informing the public about projects financed by the CPEC (Ali, 2018, p. 25). The CPEC's Long Term Plan (2017–2030) supposed to address the information gap was only published in 2017 (LTP, 2017)—that is several years after decisions were made. Furthermore, the LTP hardly shares details on 'how the goals of CPEC will be achieved, how the bidding process works, what are the terms of the projects, what are employment policies, and what measures are being taken to ensure protection of heritage, wildlife, ecology and local livelihood' (Ali, 2018, p. 25). As an analyst quoted by the International Crisis Group stated: 'the launch of the detailed CPEC plan [referring to the LTP] neither adds anything new to our understanding of the project nor helps remove concerns by critics regarding the overall impact of the project' (ICG, 2018, June 29, p. 9).

The transparency gap surrounding the negotiation process and arrangements strengthens the public perception that 'only a select few, if any in Pakistan, will benefit from the investments' (Ahmad, 2018a, p. 61), deepening the perception of an 'elitist bias in economic policy-making' (BTI Pakistan, 2018, p. 40). Government authorities reject such claims, emphasising that 'everything [concerning the CPEC] is transparent, and no information has been kept secret' (Ali, 2018, p. 26). The government made some efforts to address the issue of transparency by creating basic information-sharing mechanisms, for instance in the form of the Pakistani CPEC secretariat website or the CPEC Portal—both of which provide general details and information.¹⁰⁶ Ahsan Iqbal, Minister of Planning, Development and Reform (MoPDR), who is responsible for the portal, argues that thanks to the website, the CPEC is the 'most transparent project of Pakistan' (Pakistan Today, 2017c, May 17). Besides the CPEC's online presence, there are several other initiatives intended to prove and ensure transparency and accountability, for example the Parliamentary Committee on the CPEC and the Special Committee of the Senate of Pakistan on the CPEC—both of which aim to play a monitoring role (Rafiq, 2017, p. 33). Yet it seems that these Committees' oversight activities are pushed by individual members rather than by the institutions as such. These individual activities mostly focused on questioning the inequitable distribution of projects, resources, and security provisions of the CPEC; matters of transparency and accountability seem to constitute a less significant issue (FAFEN, 2018, June, pp. 15–16). The International Crisis

¹⁰⁶For more information on the CPEC Portal, see: <http://www.cpecinfo.com/home>; for the CPEC secretariat (Pakistan), see: <http://cpec.gov.pk/>

Group states that the major oppositional parties ‘are reluctant to discuss it [the CPEC] in the parliament’ and that the ‘Committee chairs and ranking members have failed to promote an open debate or exercise oversight’ (ICG, 2018, June 29, p. 10). It is interesting to note that there is an obvious discrepancy between the monitoring activities of the Parliamentary Committee and those of the Senate Committee. It appears that the Senate Committee exercises an active oversight, producing several reports on the CPEC. Some senators even developed a rather critical stand on the CPEC, questioning the secrecy around its decisions; they ‘requested that agreements made at the JCC [Joint Coordination Committee] as well as the minutes of its meetings be shared with the [Senate] committee’ (Rafiq, 2017, p. 33). By contrast, the Parliamentary Committee remained rather inactive.¹⁰⁷

Some expect that the new government under Imran Khan might strengthen the parliament’s role within the CPEC monitoring process (Ali, 2018b, August 15). Yet the parliament continues to be perceived as the ‘weakest state institution’ (BTI Pakistan, 2016, p. 8). Observing the role of the National Assembly during the last tenure, one wonders whether the parliamentarians have the necessary capacities, expertise and access to data so as to take a more decisive role in the corridor’s implementation. So far, scepticism about transparency and accountability remains. The major reason seems to be that Islamabad (along with Beijing¹⁰⁸) refuses to provide information on the Pakistan-China MoUs as well as regarding the overall terms and conditions of CPEC development projects (Ali, 2018, p. 26). The ‘confidential nature’ of the CPEC agreements (MoUs) or government-to-government contracts not subjected to the Right for Information Act (Ali, 2018, p. 26) is the cited reason. There is a perception that Pakistani officials responsible for CPEC planning are not willing to share details regarding the terms and conditions of Chinese development finances in Pakistan.¹⁰⁹ This is important since there is an increasing number of complaints and investigations.¹¹⁰ It is apparent that corruption and lack of transparency are adding much to the costs of CPEC projects—and create

¹⁰⁷In its report on the ‘14th National Assembly’s Contributions to Foreign Affairs, Anti-Terrorism and CPEC’, the FAFEN points out that the National Assembly’s document included only one CAN (Calling Attention Notices) and 116 questions—which accounts for roughly 1% of the total questions (13,912) asked during the Assembly’s 5-year term concluded on May 31, 2018 (FAFEN, 2018, June, pp. 3, 15).

¹⁰⁸Experts point out that there is no clear data available from China on the actual size of its aid and international development programs. China’s aid system is run by various government entities; there is there is no clear distinction between aid, trade and investment (De Haan, 2010). Beijing started to publish so-called ‘White Papers on Aid’, yet like in Pakistan there was no disclosure of official documents pertaining to contractual details or formal evaluations of projects undertaken with Chinese financial assistance (Ali, 2017, p. 7; Li et al., 2014, p. 28).

¹⁰⁹Critics argue that ‘all prior development and economic investment documents in Pakistan, such as national 5-year plans and IMF agreements have remained open for public viewing’, and CPEC projects cannot be an exception (Ijaz, 2018, June 13).

¹¹⁰For example, in February 2018, the National Highway Authority (NHA) admitted to irregularities in the award of a US\$2.9-billion contract to a Chinese company for the construction of a motorway under CPEC’ (Rana, 2018c, February 28). See also the complaint by Transparency

inefficiencies such as delays. Corruption levels regarding CPEC projects seem to be 'quite disturbing' to the Chinese—in fact Beijing 'temporarily halted the release of funds for the corridor'¹¹¹ (Raza, 2017, December 5). There is an urgent need to reduce corruption and make procurement and public tender processes more transparent. At the moment, the lack of programs and institutions dedicated to enhancing transparency and accountability creates the threat that net benefits from the CPEC turn out to be 'meagre or even negative' (Shaikh, 2018, July 2).

Perhaps it is still too early to assess the efficacy of existing monitoring mechanisms. Yet given the institutional weaknesses and the rapid pace of CPEC-related decision-making, the implementation of the corridor will most likely further undermine transparency and accountability in Pakistan. This would be an unfortunate trajectory. Islamabad currently seeks a bailout from the IMF, who is likely to demand greater transparency and accountability in CPEC finances so as to identify correlations between Chinese modes of financing and Pakistan's potential balance of payment crisis.¹¹²

6.13.3 Harmonised Rules, Regulations, and Standards

Despite lacking institutional capacities and skills, Pakistan made efforts to establish mechanisms that stimulate investments such as 'one window' or 'one stop shop' facilities. According to this concept, Pakistan's Board of Investment (BOI) would act as an administrative broker between foreign investors and domestic authorities. It would be entitled to take up investors' requests for permits, licenses, provision of utilities, and obtain decisions by authorities engaged in the inter-agency administrative process. In other words, the BOI would provide administrative services (e.g., the issuance of visas, work permits, and security clearances) and support foreign investors establishing their representative offices in Pakistan (BOI, 2012a, p. 25).

To make the CPEC effective, both Islamabad and Beijing need to develop the political will and establish harmonised rules, regulations, and standards. At the moment, there are imbalances not in line with the Belt and Road's rhetoric of 'mutual benefits' and 'win-win cooperation'. On the Chinese side there are significant hurdles for foreigners—especially for Pakistanis—which hamper trade with

International Pakistan towards NHA on severe irregularities in contracting road infrastructure projects, worth of US\$4 billion (TI, 2017, October 20).

¹¹¹Later it was stated by the Chinese that the hold on payments was due to the introduction of 'new guidelines' and a 'new modus operandi' for the release of funds. Earlier procedures for funding were meant for the management of the Early Harvest Projects (EHP) only—future projects will be under new regulations (Sweet, 2017, December 6). Furthermore, the hold on funding was also caused by a restructuring of foreign aid and international development systems. For more details, see Sect. 6.14.

¹¹²For more details on the likelihood of a balance of payment crisis and Pakistan's potential need for IMF support, see Rana (2018b, June 5).

and business within China (Mustafa et al., 2017, pp. 1–3). Beijing continues to impose obstacles for Pakistani companies, making it difficult for these to export their products to China. Foremost among such measures are the so-called technical barriers to trade (TBTs) and non-tariff barriers (NTBs) that include import quotas, prohibitions, import licensing or product certification requirements, customs procedures, duplicate health certificates, quarantine regulations, administration fees, and distribution restrictions (Mustafa et al., 2017, pp. 1–3; Staiger 2012, p. 2). Trade barriers often cause delays and hurdles in processing; Pakistani export attempts are especially hampered by non-tariff measures such as technical, health, product, labour, and environmental standards, internal taxes or charges, and domestic subsidies (Staiger, 2012, p. 2). Although Pakistani enterprises are not excluded from the Chinese market, export costs are rising tremendously, making Pakistani firms less competitive (Kayani & Shah, 2014, p. 1). Pakistan therefore calls for the review of export conditions, as evidenced by the ongoing re-negotiation of the ‘China Pakistan Free Trade Agreement’ (CPFTA). After experiencing several disadvantages during the first phase of the CPFTA, Pakistan now seeks to improve export conditions so as to protect its economy.¹¹³ Particular concerns include weak safeguard measures (i.e., protection of local industries), imports from China, and difficulties in the balance of payments. Furthermore, it is argued that FTA regulations are responsible for the export decline due to the preference erosion (Amin, 2018, August 8). Some Pakistani business representatives claim that the FTA with China has destroyed their businesses (Pakistan Today, 2018b, March 26). Other problems related to the growing trade gap¹¹⁴ between China and Pakistan include under-invoicing and the absence of an Electronic Data Exchange (EDE) system (Amin, 2018, August 8). Some argue that ‘Pakistan’s value-added exports have not benefited under the FTA agreements and there are concerns regarding the promotion of local industry’ (Guramani, 2017, November 24). Pakistan’s Commerce Secretary Mohammad Younus Dagher admitted that the country is confronted with a ‘twin deficit’, meaning both a fiscal and a foreign exchange deficit (Amin, 2018, August 8). In order to break the impasse, Islamabad and Beijing held ten rounds of negotiations within the Phase-II of the CPFTA. Earlier in 2018, it seemed that Beijing was willing to accommodate the concerns and demands raised by Islamabad (Andy, 2018, February 9). However no conclusion was achieved¹¹⁵ yet; it remains to be seen how successful PM Imran Khan’s new administration will be in handling the negotiations. It seems that China

¹¹³Pakistan and China are negotiating the CPFTA’s second phase since 2011; yet due to differing views on bilateral trade relations the talks were either delayed or temporarily halted (Muhammad 2016, June 26).

¹¹⁴The Sino-Pakistan bilateral trade gap has further widened to \$14 billion in 2017–18 compared to \$12.67 billion in 2016–17 to the disadvantage of Islamabad (Amin, 2018, August 8; Haider & Dilawar, 2017, June 28).

¹¹⁵Some achievements were made, for example both sides already agreed on the Electronic Data Exchange (EDE) system starting on 30th April 2018, which will help reduce the chances of under invoicing which was a major concern of the Pakistani industry (Amin, 2018, August 8; Andy, 2018, February 9).

is not willing to concede much. Otherwise, Beijing would have accepted Islamabad's demands to lower tariffs and other issues already negotiated during the first phase (Shabbir, 2018, April 24). China is reluctant to grant Pakistan the same trade concessions offered to other trading partners such as ASEAN members (Andy, 2018, February 9).

As part of a joint task force within the SCO, China will need to 'address streamlined customs and harmonized border control, inspection, quarantine as well as certification and accreditation' (Lewis, 2016, November 7). Since Pakistan is also a member of the SCO, the task force membership might have some positive ramifications for trade between Pakistan and China. Nonetheless, it is imperative that Islamabad also improves regulatory frameworks shared with other neighbours, namely India, Afghanistan, and Iran. As the United Nations Economic and Social Committee for Asia and Pacific points out,

Pakistan is largely characterized by limited operational connectivity, including inefficient cross-border arrangements. There are no bilateral agreements specifically addressing transport between those countries, and they lack mutual recognition of permissible weights and dimensions standards, vehicle inspection certificates and rules of origin, permits and licence requirements among others (UNESCAP, 2017, p. 84).

Last but not least, in order to increase international competitiveness and become a part of the global value chain production—which alone attracts foreign investors committed to social responsibility and long term engagements—Pakistan's economy has to comply with international standards and conventions¹¹⁶ (Shaikh, 2018, July 2). If Islamabad does not establish these harmonized rules and standards so as to improve trade conditions with China, the implementation of both the CPEC and the CPFTA will function as a catalyst for Pakistan's fiscal and foreign exchange deficits, contributing to the ballooning of external debts.

6.13.4 'Smart' Economic Policies

In order to address supply constraints present in Pakistan's economy, the government needs to support the creation of a new infrastructure for trade and transit, establish special economic and free trade zones, and boost electricity generation by initiating energy projects. The CPEC is expected to impact Pakistan's economy significantly, hence the implementation of the corridor's physical components must be

¹¹⁶For example: the Convention concerning the Abolition of Forced Labour (no 105, 1957), the International Covenant on Civil and Political Rights (1966), the International Covenant on Economic Social and Cultural Rights (1966), the Convention concerning Forced or Compulsory Labour, No 29 (1930), the Convention on the Rights of the Child (1989), the Convention concerning Minimum Age for Admission to Employment, No 138 (1973), the Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, No 182 (1999), the Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973) and the United Nations Convention against Corruption (2004).

accompanied by ‘smart’ economic policies to support the creation of a business climate open to both local and foreign investors. Such policy measures would address the multitude of challenges related to the CPEC itself but also and more generally the deeply entrenched, inherent problems of Pakistan’s economy.

Back in the 1960s—during the ‘Great Decade’¹¹⁷—Pakistan was described by international economic experts as a ‘model’ for the developing world. Yet but a few years later the country entered a vicious cycle of perennial economic and political crises (Feldmann, 1972). Apart from some vaguely promising macroeconomic indicators, at the eve of the CPEC’s launch the Pakistani state found itself unable to perform basic functions without foreign assistance. Since 1980 the Paris Club had to bailout Islamabad seven times and the IMF fourteen times¹¹⁸ (Hurley et al., 2018, p. 19)¹¹⁹; Pakistan’s central bank had to devalue the national currency four times in nine months (Mangi, 2018, July 16). The causes of Pakistan’s economic ills must be identified and addressed before any large-scale development initiatives such as the CPEC are launched. The inflow of Chinese capital can perhaps handle some of the consequences of Pakistan’s dysfunctions, yet it certainly cannot affect its structural causes (e.g. energy crises and infrastructure problems).

The CPEC cannot be sustainable or economically efficient unless Pakistan addresses the systemic malfunctions within the country’s political-administrative and economic-regulatory subsystems. The country risks additional financial burdens, especially in sectors where the state guaranteed investors a fixed return on their equity shares, particularly in energy projects operated within the so-called IPP mode. These are described by Islamabad as advantageous due to financing conditions estimated as very favourable; however such estimation is questionable. Non-compliance to commercial contract rules regarding energy projects will increase payments related to Chinese concessional loans—thus add to the already existent financial obligations to non-Chinese IDFI and widen the fiscal deficit.

Pakistan also promised to meet the needs of the job market through a modernisation of the country’s industrial basis; however this is hardly possible without economic policies capable of supporting economic growth. The new special economic zones, industrial parks, and connectivity projects all risk turning into white elephants: some BRI-related projects already turned out to constitute ‘non-

¹¹⁷The ‘Great Decade’ is associated with the rule of Field Marshal Ayub Khan. During his tenure there was a strong focus on Pakistan’s economy and infrastructure. For example, the Karakorum Highway (KKH) was constructed—after he initiated a closer relationship with China—and the industrialisation of the country as well as free-market policies were promoted, producing a GNP growth by 45%. However, Khan’s military adventurism and later socialist trends led not only to his ousting but also deeply affected the country’s economy (Pillalamarri, 2015a, May 1).

¹¹⁸Including a \$6.7 billion 3-year loan programme in 2013 (Reuters, 2018a, July 30).

¹¹⁹The Paris Club’s claim towards Pakistan as of 31 December 2017 (excluding late interests) was in USD million: 11.252. As such, Islamabad is the eighth largest debtor to this organisation (Paris Club, 2018, June 21). The Paris Club is a group of creditor countries (currently 22 permanent members) whose role is to find coordinated and sustainable solutions to payment difficulties experienced by debtor countries. For more information, see: <http://www.clubdeparis.org/en/communications/page/permanent-members>

productive infrastructure' as they are 'not regularly maintained or used to full capacity' (SCMP, 2018, January 10). An unfortunate example is the Sri Lankan Port Hambantota built with Chinese assistance, which remains out of business eight years after its construction (Marlow, 2018, April 18). If Islamabad does not develop new and 'smart' economic policies, the CPEC can face a 'worst-case scenario' affecting national finances and provincial budgets, the development sector, domestic entrepreneurship and tax payers, as well as citizens at large. In order to avoid this, Pakistan needs to reform its economic and trade policy frameworks—perhaps the number one reason for the country's dependency on foreign funding. Pakistan must reduce the existing trade policy bias so harming domestic industries by engaging in an inclusive and comprehensive dialogue with the Pakistani economic and business circles and addressing their concerns. Current tax and trade policies are perceived as discriminating against the country's entrepreneurs (Jamal, 2017b, May 22). Critics claim that the government's approach towards trade and economic development favours Chinese firms at the disadvantage of local industries.¹²⁰ Islamabad is deemed too generous to foreign (especially Chinese) companies so as to attract FDI (ICG, 2018, June 29). China greatly benefits most the FTA with Pakistan since free imports of Chinese goods would give a strong advantage to Chinese firms over domestic producers. Furthermore, these trade arrangements do not oblige Chinese companies to buy (raw) materials or indeed any equipment for CPEC projects from Pakistan. The competitiveness of Pakistani companies is also harmed by the country's tax system: while Chinese firms enjoy generous tax reliefs on their imports, local producers in Pakistan struggle because of high costs for domestic raw materials—these augmented dramatically since the government decided to increase taxes and add regulatory duties on raw materials (Jamal, 2017a, October 30). Tax exemptions for Chinese businesses can demotivate Pakistanis to invest in new, modernised production units, especially in the manufacturing sector. New economic policies should strengthen institutional capacities and mechanisms in both Pakistan and China so as to 'ensure a checks and balances on trade practices so that no unfair or illegal trade takes place' (Khan, 2016c, December 14). Pakistani entrepreneurs must have equal access to the Chinese market, otherwise their production capacities will remain under-utilised, reducing financial resources and incentives to invest. Moreover, Pakistani firms will not be able to climb the industrial ladder from 'low-productivity firms producing and exporting low value-added goods to China' to 'higher productivity firms producing and exporting higher value-added goods' (Haq, 2017, August 26).

Economic policy regarding the CPEC must find the right balance between economic liberalisation and protectionism. The former government's attempts to balance out haven't led to sustainable economic growth and the situation remains problematic. Some advocate that the promotion of domestic industries would

¹²⁰Besides unfavourable conditions for Pakistan's entrepreneurs, few sectors benefit from the CPEC's implementation. For example, steel factories and chemical manufacturers produce for Chinese companies since these use local materials instead of importing them (Jamal, 2017a, October 30).

encourage investments in local manufacturing focused on value-added exports (Malik, 2018b, May 20). This would require a change in taxation and trade tariff policies: the entire production supply chain should be taxed; selective taxation (Jamal, 2017b, May 22) is perceived as a punitive measure and an economic distortion. There is much room to modify tax advantages conceded to Chinese importers and protect local industries in Pakistan; however this is very unlikely given Islamabad's financial dependence on Beijing. On the other hand, overstretched protectionism would undermine the FTA with China as well as other potential trade agreements with Pakistan's neighbours. Moreover, it would contradict a multilateral economic corridor's aims, especially that of regional cooperation.

Import substitution strategies could meet some demands by local industries, as well as the need to attract foreign investments and adjust the diverging interests by Pakistani and Chinese companies. The use of import substitution policies is not new in Pakistan—it can be traced back to the 1950s and 1960s (Ahmed, 1980). Earlier, however, import substitution found expression in large-scale state interventions via quotas, tariff controls, depreciation, and interest rates (Nigar, 2017, March 16). In the 1980s import substitution policies were replaced by export-oriented industrialisation—turning Pakistan into an import-oriented economy (Khan, 2017f, March 13). Neither 'import substitution' nor 'export promotion' policy approaches helped Pakistan build a sustainable industrial base. Now, confronted by fiscal and trade deficits, shrinking foreign exchange reserves, and increasing Chinese imports, the concept of 'Import Substitution Industrialization' seems to experience a remarkable revival. Pakistan's decision-makers view 'Import Substitution Industrialization' as an essential tool to encourage local consumption and imports replacement. It is especially hoped that the import of selected non-essential items (i.e., consumer goods) from China can be reduced. Yet the import of goods considered essential for the CPEC's development such as machinery and technology (i.e. capital goods) continues (Xinhua, 2017b, May 27). CPEC planners expect that the import substitution policy, combined with lucrative incentive packages, will attract foreign industries—especially Chinese producers of consumer goods—to invest in and/or relocate their industrial units towards the newly established SEZs in Pakistan (Khan, 2017f, March 13). Import substitution is supposed to reduce external vulnerability, tackle the trade deficit with China and subsequent chronic balance of payments problem, push industrialization in Pakistan, give the CPEC's SEZs an 'initial ignition', stimulate innovation, and generate employment for the local workforce.

The black market ('undocumented economy') and smuggling must be addressed, too. For Pakistan to properly benefit from the CPEC, the country's shadow or informal economy needs to be tackled (Jamal, 2017b, May 22). This is essential for the improvement of Domestic Resource Mobilisation (DRM), especially as regards broadening the tax base and improving working conditions (e.g. contract-based work, respect of labour rights, work insurance). Security measures need to be conducted so as to make the CPEC a 'smuggling-free corridor' and monitor trade so as to avoid the under-invoicing of items (Dawn, 2017c, July 21). The massive influx of smuggled goods does immense harm to Pakistani manufacturing and industrial units.

In addition, economic policies related to the CPEC need to foment labour, for example by stipulating a minimum level of domestic labour involved in all new

CPEC projects, including industrial and manufacturing initiatives. This could increase the employment of domestic skilled-labour, creating more opportunities for the country's educated youth and reducing the brain drain. Furthermore, it is imperative that new or re-negotiated contract arrangements contemplate international labour rights and working conditions' standards. The expected results include increased productivity and the implementation of international commitments. Any new trade agreement should assess Pakistan's concessions to FDI, implementing those with positive impacts on domestic employment alone (Malik, 2018b, May 20).

It seems that the formulation and implementation of 'smart' economic policies in Pakistan is hampered by a lack of political consensus, qualified human resources, technical equipment and administrative support, including a lack in parliamentary and ministerial research capacities. The fact that the new government of Imran Khan relies on support by various small parties—moreover providing but a 'razor-thin' majority—complicates decision making and legislative processes (Sayeed & Jorgic, 2018, August 19). The opposition perceives Imran Khan as a 'puppet' of the country's military. It controls the Senate and threatens to form a 'grand coalition' against his government (Sayeed & Jorgic, 2018, August 19). Considering the country's diverse but powerful interest groups, any realistic economic would demand major compromises. Khan is also likely to struggle so as to acquire external financial assistance—either another bailout from the IMF,¹²¹ more loans from China, or perhaps both. Any new funds provided so as to handle the fiscal deficit will likely be highly conditional—demanding more transparency, accountability, and particularly more budget and spending cuts. Taken into account Chinese concerns regarding investment security and reliability, especially with regard to fulfilment of financial obligations and threats of political instability, one can expect Beijing to become as stringent as the IMF. Since sanctions on budget allocations for national defence (Pakistan's greatest expense) and security will be blocked by the military, the cuts will above all affect welfare and development budgets. This provides almost no financial leverage so as to create sustainable incentives to attract FDIs, improve socio-economic conditions or invest in education and health. Structural change in Pakistan's economic and trade policy is not to be expected. Instead, PM Khan will be forced to take on a more reactive attitude regarding the country's economic policies. To conclude, Pakistan launched the CPEC without creating the necessary economic policies; in a more figurative language: the country's leadership is building the roof before it set the basement for 'Naya Pakistan'.

¹²¹It is reported that senior Pakistani finance officials were drawing up options for PM Khan to seek an IMF bailout of up to \$12 billion (Reuters, 2018a, July 30).

6.13.5 *Effective Systems of Domestic Resource Mobilisation*

Effective systems of domestic resource mobilisation or domestic revenue mobilisation (DRM) from both tax and non-tax sources is essential to create an enabling environment for the CPEC and make individual projects sustainable. Without strong improvement in the mechanisms for generating domestic capital, Islamabad is unlikely to fulfil its financial obligations, provide sufficient resources for maintenance, or regain ownership from private contractors. Ownership of both the CPEC and CPEC related projects is at risk if domestic financial shortages continue. Growing external debts and a strong dependence on foreign financial assistance, combined with extremely low domestic saving rates—which reached a record low of 5.5% of GDP in June 2018¹²²—constrain further investments and increases the need for DRM.

DRM in Pakistan is not very successful at the moment. In fact the 2017 Financial Year's (FY) unusually high deficit was not only caused by an increase in total expenditure and fiscal incentives¹²³ but also by a remarkable slow-down in revenue collection. As the State Bank of Pakistan reported, revenue collection during the FY 2017 grew by only 11%, compared to 13% in the FY 16 (SBP, 2017a, p. 5). In its Annual Report for the FY 2016–2017, the Bank pointed out that the slowdown in overall revenue collection was witnessed despite a recent recovery in non-tax revenue¹²⁴ (SBP, 2017a, p. 5). Yet the statistics for the last four years show a grim vision of non-tax related revenue collection too. Federal non-tax revenue decreased from 1.072 billion rupees in the FY 2014 to 967 billion rupees [provisional] in the FY 2017—a drop of 9.8%. This trend is also present at the provincial level (after a strong increase between FY 14 and FY 16 of 88.9%). Non-tax revenue of 93.3 in the FY 2016 was reduced to 79.5 billion rupees [provisional] in the FY 2017, a reduction of 14.8% (SBP, 2017b, p. 26). With high degrees of volatility, non-tax revenues are perceived as a 'constant source of uncertainty in achieving the overall revenue target' (SBP, 2017a, p. 54). The need to diversify revenue resources for non-tax collection is increasingly obvious (SBP, 2017a, p. 54).

The pace of tax collection also slowed down considerably from the original 21.3% in FY16 to only 8.4% in FY 2017 (SBP, 2017a, p. 6). According to experts,

¹²²Pakistan's Gross Savings Rate between from June 2000 to June 2018 had an average rate of 10% of GDP. These low saving rates constitute an important reason for low investment levels reducing Pakistan's growth potential tremendously, a phenomenon which is also known as 'low-savings-low-investment trap' (Waheed & Armas, 2015, June 11). For further information regarding the Gross Savings Rate, see CEIC database: <https://www.ceicdata.com/en/indicator/pakistan/gross-savings-rate>

¹²³These tax incentives were intended to support exporting industries, agriculture and private investments (SBP, 2017a, p. 1).

¹²⁴Non-tax revenues are generated from Mark-up (PSEs & others), dividends, State Bank of Pakistan profits, defense (including CSF/Coalition Support Fund), Profits from post office/PTA (3G), Royalties on gas & oil, Passport & other fees, discounts retained on crude oil, windfall levies against crude oil, etc. (SBP, 2017a, p. 54).

Pakistan's miserable performance in DRM is mainly due to an inefficient tax system—hampered by institutional weakness, corruption, the absence of a consistent tax policy, and arbitrariness in taxation, among other factors.

The core problem however lies in the tax base, which is considerably narrower than that of other countries (Khan, 2017g, October 2). It is reported that among the around ten million people registered to pay taxes only 1.9 million actually do. This is less than 1% of the country's total population. And yet official statistics reported in 2017 that over 57.5 million people were legally employed (Mehmood, 2017, September 18). Islamabad must urgently improve its bureaucracy and broaden the tax base (Ali, 2017, p. 24). However such ambition is constrained by several factors, including large-scale tax exemptions, tax aversion and evasion, and a massive informal sector including great numbers of small and undocumented companies. Some argue that the sheer size of the informal sector makes broad-tax inclusion nearly impossible. The World Bank measured Pakistan's tax-to-GDP ratio at 12.4% in April 2018—one of the lowest worldwide and probably an overly optimistic number (World Bank, 2018, April 17). The country clearly needs new approaches so as to push registration of both companies and individuals employed in these 'hard-to-tax' sectors, namely small companies and the informal economy (Chaudhry & Munir, 2010, pp. 449–450). An effective bureaucracy is essential for a functioning tax system.

The government has so far failed to provide incentives for companies and individuals to register their economic activities. Entities willing to register face tremendous administrative burdens¹²⁵ imposed by different tax-related institutions—as well as extraordinary levels of overtaxing due to a narrow tax base, double taxation, and over-dependence on indirect taxes. Other sectors such as agriculture are fully exempt from income taxation—which in turn creates economic distortions¹²⁶ and reduces citizen trust. Low citizen trust by itself greatly reduces compliance to taxation norms. Yet the situation is much worsened still by political inability to widen the tax base (BTI Pakistan, 2018, p 35), weak institutional capacity, lack of checks and balances, and rampant corruption as well as tax scandals involving a remarkable number of 'high-level politicians, government figures, their families and associates, and even a member of the judiciary' (BTI Pakistan, 2018, p. 13).

¹²⁵In a Working Paper published by the World Bank, it is stated that in Pakistan, the administrative burden of tax compliance is hardest in South Asia (and harder than in many other states worldwide) 'where firms have to make 47 payments and spend 594 hours or vs. 12 payments and 175 hours in high income OECD countries (Reva, 2015, p. 20).

¹²⁶'Exempting agriculture' from taxation imposes a heavy burden on the rest of the economy, especially the industrial sector those manufacturing firms which are registered and easy to tax. However, 'exempting' is partly a misnomer, since the option of income taxation in the agricultural sector does exist but wasn't implemented yet. In theory, all provinces in Pakistan tax agricultural income. Yet in practice the implementation of income taxes actually functions as a land tax paid by large landholders based on the acreage of owned land (Reva, 2015, p. 6). The land tax is levied at fixed rates per acre—unchanged since 2002–2003. This is a major reason why the agricultural sector is one of the most undertaxed sectors of Pakistan's economy (Azhar, 2015, July 21).

Despite its narrow tax base, Islamabad continues to give tax incentives to certain privileged firms (Express Tribune, 2017b, March 12). This of course worsens the overall investment climate since tax burdens fall disproportionately on a small number of (non-privileged) industries and firms. Most business entities and individuals are highly tax averse and continue to function outside the tax regime, further increasing pressure on existing tax payers. Pakistan’s taxation system is also regressive, meaning that taxes are ‘imposed uniformly to everyone regardless of individual income’ (Khan, 2017g, October 2). In practice regressive taxation ‘shifts the burden of taxes to the lower income group’ (Azhar, 2015, July 21) as well as to individuals and companies who either do not enjoy tax exemptions, lack financial opportunities, and/or are not willing to pay bribes so as to get ‘undertaxed’. The government’s tax-based DRM seems to rely on measures ‘which further squeeze the taxpayer base’ rather than ‘broadening the tax net’.

In sum, despite some efforts by the government and its international partners, Pakistan still lacks an effective system of DRM. The shortage of proper institutions, the omnipresent corruption and bad governance all constrain significantly the mobilisation of domestic resources. The subsequent domestic capital contributes to investment constraints in new development projects. Financial shortages will make it difficult to both finish the ongoing and maintain the completed initiatives. Islamabad’s dependence on external financial assistance is moreover expected to increase. The lack of domestic financial resources weakens both political stability and governmental capacity—making it nearly impossible to improve living conditions, for instance in the fields of education or health care. The CPEC is expected to help Pakistan generate significant tax revenue (Naqvi, 2018, April 23). Given the lack of information and the fact that many CPEC projects are implemented in IPP/BOT, it is difficult to evaluate the role of CPEC projects in DRM. In fact most revenue generation from these projects will flow out of the country, making any assessment even more difficult. Some experts however do expect considerable amounts of non-tax revenues—for example through tolls and transit fees. The extent to which economic activities in the new SEZs will contribute to the tax base largely depends on the sustainability of development initiatives. Nevertheless incentives for potential investors will limit the scope of tax-related revenue generation.

6.14 Indicator: Enabling Institutional Structures and Mechanisms (‘Hard Infrastructure’)

6.14.1 Institutional Capacities

Available information on the institutions dedicated to BRI and CPEC planning and implementation is rather rudimentary. Some explain this lack of transparency by referring to the newness of the ‘Belt and Road’ endeavour, arguing that the BRI clearly diverges from traditional large-scale and rule-based development projects. Although the BRI has neither a formal nor a legal institutional structure (Carrai,

2017, p. 3), some observations can be made. The Chinese government proposed an institutional-administrative structure for the BRI (and the CPEC), designating the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MOFA), and the Ministry of Commerce (MOFCOM) to realise this vision.

The NDRC formed the 'Leading Group for Advancing the Development of One Belt One Road', which became operational in February 2015. Running the Leading Group Office, the NDRC plays the main coordinating role between government authorities such as the MOFA and the MOFCOM. Several subgroups were formed under the Leading Group Office, including the Comprehensive Coordination Group, the Silk Road Group, the Maritime Silk Road Group and the Foreign Cooperation Group (Lei, 2018, p. 204). Although the NDRC was officially in charge of coordinating the BRI, centralised decision-making was implemented by the offices of the Central Leading Group for Comprehensive Deepening Reforms, the Central Leading Group for Financial and Economic Affairs, and the Central Leading Group for Foreign Affairs (Lei, 2018, p. 204). These three 'super offices' will play an essential executive role in the BRI. Their respective heads became part of the Leading Group, which became a steering committee of the BRI—providing overall guidance and coordination. The fact that the Leading Group's first chair was Zhang Gaoli, the then Vice Premier and member of the Politburo Standing Committee (the Communist Party of China's top leadership) reveals the importance of this organ. The NDRC was until recently involved in almost all significant matters related to the BRI—approving docking schemes for all sectors of government and local authorities as well as offering various support in aligning each institution's agendas with the BRI (Lei, 2018, p. 204). However, as the BRI gathered momentum, Chinese ministries created various new international agencies; overall coordination became very complex. The multitude of governmental entities involved in granting economic aid and implementing projects scattered power and led to the fragmentation of China's foreign aid structure.

Despite this initial institutional framework, an institutional gap remains. There lacks permanent institutions solely dedicated to the coordination of the BRI such as a specialised central secretariat or council (Ahmad, 2018b, p. 43). Existing structures do not possess sufficient oversight capabilities or the necessary qualified staff¹²⁷ so as to manage tasks related to China's international activities linked to the BRI.¹²⁸

¹²⁷Marina Rudyak emphasises this lack of qualified aid specialists in China and gives the example that in 2014 the Department of Foreign Aid (DFA), responsible for aid within MOFCOM, had consisted of around 100 staff, only 70 of which were aid specialists. In comparison, in that same year the Ministry of Economic Cooperation and Development of Germany, with more than 1000 staff, managed an aid budget of around US\$8 billion (Rudyak, 2018, April 20).

¹²⁸AidData, a US-based institution seeking to make development finance more transparent, accountable, and effective—and which tracks contributions to more than 5000 projects in 140 countries—found that Beijing gave almost US\$354.4 billion in aid and other forms of support between 2000 and 2014 (Washington spent US\$394.6 billion). However, only in 2009 has Chinese aid started to take off, transforming the country from an aid recipient into a donor. It is interesting to note that still in 2008 China received US\$2.5 billion in foreign aid from Japan (around 50%), Germany, France and Britain (Lo, 2018, March 13).

There is a need to enhance coordination both between different governmental entities and between the policies and regulations by different provinces and regions. On an international level a coordinating body for the BRI could strengthen relations with the Chinese-initiated IDFI—*the New Silk Road Infrastructure Fund (SRF), the Asian Investment Infrastructure Bank (AIIB), the New Development Bank (NDB), the Chinese policy banks, but also the World Bank the International Monetary Fund (IMF), and the Asian Development Bank (ADB).* Both BRI-related and ‘Western’ international lending agencies (i.e., World Bank, IMF, ADB, USAID), as well as others such as the Islamic Development Bank (IsDB) all support initiatives which are complementary to BRI projects.

Economic corridor planners in both Islamabad and Beijing are leveraging non-CPEC and non-Chinese-funded projects into CPEC and BRI schemes. It is crucial that the connectivity and efficiency of projects are ensured through intense collaboration. Besides infrastructure, there are ample opportunities to synchronise development efforts, especially in the areas of trade integration, human resources, and administrative capacities. It is interesting to note that Islamabad was relatively successful in acquiring non-Chinese funding during the last few years as well as able to create functional working relationships with international lending agencies such as the World Bank and the ADB. When it comes to managing and coordinating CPEC projects, one shall assess how can Pakistan profit from past experiences with non-CPEC development projects. Advanced international coordination capacities will be crucial when BRI countries start facing severe financial troubles or a debt trap. There is an increasing number of BRI countries (e.g., Sri Lanka¹²⁹) already facing difficulties with Chinese-funded projects due to an inability to repay loans and interests.

Increasing concerns in China are reported regarding Pakistan—not only concerning policy uncertainty but also potential non-fulfilment of contractual obligations and non-payment to Chinese companies (Ghumman, 2018, July 14). For example, it is reported that due to a financial crisis in the National Highway Authority (NHA), some CPEC projects are ‘in doldrums’ (Raza, 2018, July 23). Several contractors, including Chinese firms, ‘have stopped working on CPEC projects after cheques worth over \$38.7 million (Rs5 billion) had bounced’ (GCR, 2018, July 25). Such cases can affect the credibility of the project recipient as well as that of the Pakistani government itself, leading to future difficulties in seeking Chinese pledges (Ghumman, 2018, July 14). In order to bridge illiquidity, these states are likely to depend on the traditional IDFI (e.g., IMF or World Bank bailouts). As McDowell (2018, August 14) concludes, the BRI is ‘raising fears of debt crises in the developing world, and the IMF may be called in to clean up the mess’. This option, however, may face some limitations. It appears that ‘the US is

¹²⁹Sri Lanka handed over its southern port of Hambantota to China on a 99-year lease. Colombo made the decision to forgo control of its strategically important port in exchange for debt relief after it failed to fulfil its payment obligations towards China (Aamir, 2017, December 31; McDowell, 2018, August 14).

poised to oppose any IMF deal providing funds that would ultimately go to pay off Belt and Road-related tabs' (McDowell, 2018, August 14). Much depends on how the IMF handles competing Chinese and US interests in international development financing. Washington is critical of IMF cooperation with Beijing, especially as regards the set-up of a training centres for Chinese development professionals (Clover, 2018, April 12).

China's leadership seems to have realised the institutional challenges involved in development activities in general and in the BRI in particular. At the 13th National People's Congress (NPC) in March 2018, the Chinese leadership unveiled 'a massive cabinet restructuring plan to make the government better structured, more efficient, and service-oriented' (Xinhua, 2018, March 14). The plan intended to address issues such as unclear responsibilities, cross-regulation, and absence of supervision. These problems have had great impacts on the country's international development initiatives. Chinese companies have implemented projects which were not adequately qualified, contained irregularities in project approvals and tender processes, and were harmed by ex-post budget adjustments and illegal spending (Rudyak, 2018, April 20). New reforms changed existing regulatory bodies and created new governmental entities so as to improve administration (Xinhua, 2018, March 14).

A newly created institution is the International Development Cooperation Agency (IDCA) which is to take over all aid-related work—in a push to strengthen strategic planning and coordination, and consolidate management (Lo, 2018, March 13). The IDCA's major task will be to clarify and consolidate the roles and responsibilities of different government entities, especially as concerns the MOFA and MOFCOM. The IDCA will be entrusted with wide-ranging powers as well as strategic responsibilities—such as drafting policies, overall planning, and project supervision and evaluation (Rudyak, 2018, April 20). IDCA is to focus on planning and implementing the BRI (Lo, 2018, March 13). According to the reform plan, the new agency will *not* be in charge of technical groundwork or administrative project implementation.

Provided with the political rank of a Vice Ministry, IDCA will report directly to the State Council. Rudyak (2018, April 20) points out that 'IDCA's orders will be binding only for organisational units below the vice-ministerial level'. This may prove a challenge when navigating conflicting interests between different government entities, especially the ministries. It will also not help to disentangle relationships between the BRI's Leading Group Office, the subgroups, and the powerful central leading groups. Another question concerns how will the IDCA manage its external relations, especially with the donor country—this was until now part of MOFCOM's Economic and Commercial Councillors at China's diplomatic missions. The lack of communication between donors and recipients due to the latest administrative restructurings created additional and misunderstandings regarding implementation. For example, the transferring the management of concessional loans from the MOFCOM to the IDCA created delays in several CPEC projects as well as some confusion in Pakistan about Chinese intentions (Haider, 2018a, May

22). How will IDCA be able to preserve prerogatives and reserved domains by various Chinese entities while improving the BRI's efficiency remains to be seen.

The Joint Cooperation Committee (JCC) lies at the top bilateral level of CPEC planning. It is co-chaired by the Pakistani Minister of Planning, Development and Reform (MoPDR) and by the Chinese Vice Chairman of the National Development and Reform Commission (NDRC). The JCC is the highest body through which all projects are discussed, reviewed and approved in annual meetings.¹³⁰ It comprises both political figures and administrative officials as well as experts from various fields (Ali, 2018, p. 16). The Committee is supported by two national JCC secretariats, the MoPDR in Pakistan and its counterpart the NDRC in China. CPEC secretariats are responsible for general coordination of all CPEC-related activities. There are five Joint Working Groups (JWGs) under the JCC, each specialized in a specific area: Planning, Transport Infrastructure, Energy, the Gwadar Port, and Industrial Parks (Economic Zones). These working groups comprise experts from government agencies as well as senior officials of both countries who identify and discuss potential projects before sending them to the JCC for final approval (Ali, 2018, p. 26). Crucial decision-making is thus concentrated in the JCC and JWGs—the JCC is responsible overall planning, coordination and final approval of CPEC projects while the JWGs is in charge of identification, project proposals, and planning and implementation of projects.

Within Pakistan a number of stakeholders are involved. The Planning Commission of Pakistan is the CPEC's chief coordinating body in the country. The Commission works directly under the MoPDR and is responsible for the overall identification, prioritisation, and recommendation of projects. The Planning Commission, in conjunction with China's NDRC, decides which projects are to be included in the CPEC portfolio (Rafiq, 2018, May 4). Nevertheless, there are several other governmental bodies involved in the identification and recommendation of projects to the JWGs or JCC, in particular the Economic Coordination Committee (ECC), the Executive Committee of the National Economic Council (ECNEC), the Central Development Working Party (CDWP), and the CPEC Cabinet Committee headed by the Prime Minister—which comprises several ministers, secretaries and heads of key ministries engaged in CPEC-related projects (Ali, 2018, p. 16).

Besides the above-listed decision-making bodies and ministries, there are various committees engaged in the review process. For example the Parliamentary Committee on the CPEC—which comprises members from the ruling party as well as various opposition parties with representation in Parliament—and the Special Committee of the Pakistani Senate on the CPEC. Some wonder why the Parliamentary Committee on the CPEC was set up despite the previous existence of a Senate

¹³⁰7 meetings were held so far: The first JCC meeting of the CPEC in Islamabad, Pakistan on 27th August 2013; second JCC meeting of the CPEC in Beijing, China on 19th February, 2014; third JCC meeting of the CPEC in Beijing, China on 27th August 2014; fourth JCC meeting of the CPEC in Beijing, China on 25th March 2015; fifth JCC meeting of the CPEC in Karachi, Pakistan on 12th November, 2015; sixth JCC Meeting of the CPEC in Beijing, China on 29th December 2016; and the seventh JCC Meeting of the CPEC in Islamabad, Pakistan on 21st November 2017.

Committee—both committees are to provide oversight and distinctions between them are unclear (Rafiq, 2017, p. 33).

Last but not least, various agencies are to handle the operational level. It is reported that each CPEC project has a responsible agency, a supervising agency, and an executing agency (Ahmad, 2017, p. 56)—however there is little information regarding concrete functions, selection processes, or actual oversight capabilities. It seems that these agencies are to provide CPEC-related decision-making and implementation processes a semblance of ‘bottom-up and project-based approach’. CPEC projects are not to appear as solely relying on top-down (meaning federal) instructions.

Besides these agencies, there are the so-called ‘Apex Committees’—civil-military hybrid institutions officially responsible for coordinating security aspects relating to the CPEC. It seems that these ‘Apex Committees’ are far exceeding their initial tasks.¹³¹ Some demand the establishment of a central CPEC institution with full authority over all corridor projects within Pakistan. It is reported that Pakistani institutions, especially the Planning Commission dealing with the CPEC, are understaffed and overwhelmed, facing difficulties to fill vacancies (Rafiq, 2017, p. 50; 2018, May 4). Yet the demand to create a new ‘CPEC authority’ is strongly advocated by the military and related circles. Lieutenant General (R) Naeem Khalid Lodhi proposed the creation of a ‘powerful and competent coordination body for overseeing the project and underscored the need for protecting Pakistan’s interests in the project while keeping it safe from external threats’ (Express Tribune, 2017a, May 2). A new ‘CPEC authority’ would serve several functions, particularly consensus-building between the federal government and provinces, interagency coordination, capacity building, and project facilitation (Rafiq, 2017, p. 50; 2018, May 4). Until now the civilian government rejected such proposals.¹³² Strong inter-governmental mechanisms (JCC and JWG) and the engagement of numerous centralised national entities in the CPEC process stand in sharp contrast with so far existing collaboration between central government and provinces (along with other regions under Pakistani administration). In January 2016 Prime Minister Sharif did agree to head a steering committee on the CPEC to include chief ministers from all four provinces as well as Gilgit-Baltistan; however the committee was never to meet again (Rafiq, 2017, p. 50) and future perspectives are unclear. It is obvious that Islamabad sees CPEC projects as demand-driven and as a matter of national priority (Ali, 2018, p. 18). The CPEC is thus largely perceived as a national, centralised responsibility. Governmental institutions responsible for CPEC implementation in Pakistan, especially the MoDPR and the ECC, gained power ‘without effective parliamentary oversight or normal bureaucratic filtration’. This, in addition to a great lack in transparency, further enfeebled the provinces (BTI Pakistan, 2018, p. 20).

¹³¹For more information on the role of the Pakistani military within the CPEC, see Chap. 9.

¹³²For more information on the role of the Pakistani military within the CPEC, see Chap. 9.

6.14.2 *Reform Abilities*

There is a common understanding among Pakistan's decision-makers and business communities that current policies are not effective (Amin, 2018, August 8). Yet the Pakistani government has been unable to build 'consensus on the structural reforms that are necessary to uplift the economy' (BTI Pakistan, 2018, p. 35). In fact Pakistan has very limited capacity or leverage to implement reforms. When the country's decision-makers act, their reforms always seem 'hasty' and 'flawed'—as well as 'with limited local buy-in'. Moreover reforms always seem to miss core problems, instead aggravating 'longstanding grievances' (ICG, 2018, June 29, p. 16).

There are several reasons for this. First, there is a lack of political consensus. All governments seem clearly aware that corruption and mismanagement are the main causes of Pakistan's economic ills. However, no administration was so far able to build consensus and develop adequate legislation. A major problem is that politicians in charge of conducting economic reforms are themselves deeply involved in economic activities—and profiting from existing regulations. There never seems to be not much 'enthusiasm' for reforms. The Bertelsmann Transformation Index reports that 'pervasive elitism has dominated Pakistani politics, instead of a broad social coalition representing the economic interests of the majority' (BTI Pakistan, 2018, p. 35). Second, there is a lack of policy coordination among different interest groups. According to observers, the absence of effective policy coordination affecting almost all spheres of state and society is a major feature of 'Pakistani politics and a major cause of policy failure' (BTI Pakistan, 2018, p.33). Some analysts identify the country's coalition politics and the absence of 'truly integrative national political parties' (BTI Pakistan, 2018, p. 33) as additional factors. The third reason lies in the persistent undermining of the institutional-administrative structure by the government itself. Instead of working with existing institutions, as soon as a new government comes into power it creates its own institutions so as 'to get credit for them' (BTI Pakistan, 2016, p. 25). This lack of continuity further weakens institutions, hampering any capacity to reform. In addition, there is a general discrepancy in 'institution-building' between actions at the national level and local efforts. The national government hardly takes any step to reform district administration or 'provide it with sufficient funds to upgrade health, education and other basic facilities' (BTI Pakistan, 2016, p. 6). Local administrative capacities are insufficient in all areas—from planning to assessment and delivery (BTI Pakistan, 2018, p. 32). There lacks cooperation between the central government and the provinces. Regional and local communities are simply not incorporated in CPEC decision-making processes. This is crucial since most intra-state tensions remain unresolved, particularly those regarding the distribution of financial assets between Islamabad and the various provinces. Thus the allocation of CPEC-related projects as well as the distribution of costs and revenues continue to spark criticisms. It is revealing of the condition of Pakistan's institutional framework that the two main responsible bodies, the Ministry of Inter-Provincial Coordination and the Council of Common Interests, neither engage in settling centre-region conflicts nor are supported by the national government. Lastly, there are issues regarding policy implementation. It is reported that 'unclear

or ambitious policy goals, a lack of political commitment, bureaucratic hurdles and the governance structure' seriously hamper effective policy implementation. The implementation of reforms is hardly feasible even in the presence of effective decision-making due to administrative inefficiency and an enormous the lack in financial, technical and human resources (BTI Pakistan, 2016, p. 24).

Pakistan's capacity for structural reforms is very weak. When reforms are conducted, they are always 'too little, too late'. The challenges to improve tax systems, push privatisation, reform the energy sector, achieve transparency and accountability mechanisms so as to combat corruption are yet to be addressed. Furthermore, entrenched policy-making routines hamper innovative approaches (BTI Pakistan, 2018, p. 31). The CPEC may reinforce ad hoc governance trends instead of fomenting structural mechanisms. Bypassing institutions seems to be perceived by Pakistan's power brokers as more effective in ensuring partisan interests. Apparently, 'political incentives are toward narrow benefits for elites rather than inclusive growth or the longer-term collective benefit' (BTI Pakistan, 2018, p. 40).

6.14.3 Human Resources and Management Capacities

Pakistan has a dark record regarding major development projects¹³³ and there are fears that the CPEC may meet a similar fate (Fazil, 2016, February 15). Pakistani authorities already admitted that some projects might not be ready in time and might cost more than planned. Both officials and observers cite a plethora of problems. On a more general level, incompetence, corruption, and a strong lack of transparency or internal 'political bickering' (BBC, 2015b, April 22; Fazil, 2016, February 15) are blamed for delays. This, however, needs to be seen in the context of an equally strong lack in human and financial resources, insufficient managing capacities, and technical equipment. A major problem regards a shortage of specialists in both China and Pakistan. Entities such as the Pakistan secretariat for the CPEC, are in need of skilled labour (Abbasi, 2017, April 13). In fact Pakistan's Planning, Development and Reform Division did not manage to spend 75% (Rs 12.6 billion) of the allocated budget (Rs16.8 billion) during the last fiscal year (Dawn, 2018c, April 28).

As stated by numerous civil servants, major difficulties include both a general lack in domestic skilled forces and an unwillingness by the government to provide the finances necessary to attract experts from the private sector (Abbasi, 2017, April 13). A major reason behind the lack of qualified human resources is the high fragmentation of Pakistan's educational system. Said system is divided into Urdu and English mediums; however English-provided education is strictly reserved for elite members and the upper middle class (BTI Pakistan, 2018, p. 28). Educational

¹³³For example, the Kalabagh Dam project or the motorway alignment (Dawn 2015a, October 16; Malik 2015, February 20; Shahzad, 2015, February 15).

segregation is reflected in the available workforce. There is also a flourishing Madrasa education system, most of which is dedicated to religious teaching rather than to qualifications needed for higher education and/or highly qualified employment. These religious schools also reinforce sectarianism and violent conflict, not only leading to tremendous human and material losses but also undermining the efforts of Domestic Resources Mobilization (DRM). Socio-religious tensions and conflicts enflamed by the Madrasas also add to Pakistan's poor international image, hampering the country's efforts to attract FDIs and contributing to the brain drain— itself a critical national issue yet to be tackled. Actually it seems that the outflow of skilled people is being accelerated by the CPEC. Pakistan appears to be dealing with a 'twin-brain drain'. On one hand the country faces traditional economic migration trends towards the US and UK as well as some other European countries such as Germany. The massive drop in migration to the US (40% drop in the number of US visas for Pakistani citizens¹³⁴) is not due to new jobs created by the CPEC but to contemporary tensions between Washington and Islamabad—which have led to a reduction in programmes, scholarships, and job opportunities as well as a modification in VISA policies.¹³⁵ A prominent example of this phenomenon is the US government's International Military Education and Training (IMET) programme for military officers (Ali & Stewart, 2018, August 10), which was perceived during the last decade as a 'a staple of bilateral relations'.¹³⁶ On the other hand, there are new educational and economic migration trends towards China. Rising numbers of Pakistani students migrate to China in order to access higher education¹³⁷ (Jacob, 2017, August 22). Beijing now funds large-scale educational and training programmes specifically intended for Pakistanis wishing to study or receive training in China. Numerous educational and cultural institutions dedicated to the study of Chinese culture, language, politics, economy, and history are also being established in Pakistan (Times of Islamabad, 2018a, July 2; Khunshan, 2018, July 3).¹³⁸ This 'new Chinese educated generation' of course expects to find CPEC-related

¹³⁴This drop refers to the whole tenure of Trump's administration so far. Interestingly, the number of granted VISA for Indian nationals in March and April increased by 28% (Economic Times, 2017, May 29).

¹³⁵For example, the US administration plans to modify the H-1B visa, the legal option for US universities to hire international staff so as to fill tenure track positions. Concretely, a special regulation was removed which granted depended spouses of H-1B visa holders the eligibility to work in the US (Vijayakumar, 2018, July 15). All this makes the US academic job market less attractive for foreigners.

¹³⁶IMET cancellations were valued at \$2.41 million so far. According to a Reuters report, apart from the IMET two other programs are affected.

¹³⁷In 2016 alone 3500 Pakistani students were sponsored by Chinese government scholarships so as to study in China, making Pakistan the country with the largest number of students learning in China with Chinese scholarships. Pakistani students of 2016 rose to the total number in China to over 18,000 (Embassy of PR China, Pakistan, 2017, May 12).

¹³⁸By mid-2017, China sponsored at least five China-related Research Centers in Pakistani Universities and Think-tanks. It also established four Confucius Institutes in Pakistan (Embassy of PR China, Pakistan, 2017, May 12).

employment, especially in Pakistan. Some Pakistanis trained in China were already offered positions CPEC-related projects.¹³⁹ As domestic employment opportunities are likely to be limited however, many ‘sinophile’ Pakistanis are expected to look for qualified jobs either in China or in other BRI countries.

Shortage in human resources and planning capacities may not block CPEC implementation, yet they are likely to hamper progress through multiple delays, additional costs¹⁴⁰ and strong domestic criticisms. Much criticism is centred around an apparent lack of domestic negotiation skills and poor preparation of proposals for agreements with China. It is argued that Pakistan—and Pakistani firms—were not so far able to negotiate appropriate terms with Chinese officials and have deeply harmed profits (Hussain, 2017a, June, p. 3). Most commonly cited examples of insufficient negotiations skills include the financial and management arrangements for the Gwadar Port project. It is reported that the Chinese company tasked with handling port facilities will receive 91% of total profits, whereas the Gwadar Port Authority—controlled by the federal government—will receive only 9% of the revenue. According to the contract, which is valid until 2048, the province of Baluchistan itself is not to receive any share at all (Aamir, 2017, December 31). Another case concerns the agreed conditions for CPEC energy projects, particularly regarding tariffs. It is argued here that agreed energy tariffs are ‘overly generous to foreign investors and reflect rising expenditure on security for CPEC projects and personnel’ (ICG, 2018, June 29, p. 11). Thus, although the country will most likely (as promised by authorities) be able to meet the domestic energetic demand by 2020, ‘it may be too costly, especially relative to regional states and economic competitors’ (Rafiq, 2017, p. 45). Furthermore, most economic and entrepreneurial risks are supported by Pakistan. Pakistan is obligated to make up for any payment shortfall by purchasing power from Chinese independent power producers (Rafiq, 2017, p. 45). This is important because Pakistan did not carry out the necessary reforms so as to handle the country’s energy crisis. Most noteworthy are the challenges regarding electricity theft, leakages, inefficiencies, line losses over overdue restructuring, and reforms of distribution companies (Husain, 2018, June 6).

Current institutional capacities and available human resources in Pakistan are insufficient to handle a mega-development project such as the CPEC—at least are regards overall efficient and sustainable results. According to Arif Rafiq, ‘neither the Pakistani military nor the civilian bureaucracy have the economic and political aptitude to steward the project to success’ (Rafiq, 2018, p. 3). Political leadership

¹³⁹For instance, it is reported that 190 Pakistani engineers trained in China are now employed in the Sahiwal power plant (Pakistan Today, 2017b, May 28) and 104 on the Port Qasim power plants. All these engineers received a 5-month training programme in China. For more information, see: <http://www.cpecinfo.com/cpec-news-detail?id=MTYxOA>

¹⁴⁰For example, ‘that delays in various projects related to Gwadar had increased their costs from Rs8 billion (around \$79 million) to Rs 100 billion (around \$992 million) in 6 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 by the Civil Aviation Authority (CAA) to acquire land for connecting roads to the airport (CFI 2015, April 21; Khan, 2014, June).

seems to have limited economic, technical and managerial resources to efficiently conduct such large-scale economic initiatives. In order to tackle these problems, Beijing and Islamabad created new specialist think tanks, research institutes and university departments intended to study the CPEC. Furthermore, China managed to gain IMF assistance so as to set up a new training facility (the China-IMF Capacity Development Centre started in March 2018) for its development officials to work abroad (Clover, 2018, April 12). These measures, however, will most likely bridge gaps in qualified human resources and management capacities only in the long run.

6.15 Indicator: Enabling and Favourable (Safe) Environment

6.15.1 Zoning Security: A Comprehensive Security Concept

A safe environment within the geographical framework of the CPEC is challenged by several factors—foremost jihadism, domestic and international terrorism, militancy, separatism, and political violence. China and Pakistan took several steps so as to address these multi-dimensional security threats. The consequences of these measures are visible in all five functional zones.

Militarisation and securitisation in CPEC areas is on the rise. China and Pakistan, are both encouraging the deployment of security forces, especially the army and navy.¹⁴¹ Pakistan is also boosting police capacity, an area usually controlled by the

¹⁴¹During the last couple of years Pakistan started to invest in its security apparatus and created several new armed forces within the military as well as police domains. Two of these new forces are most remarkable: The Special Security Division (SSD) and the Task Force-88' (TF-88). The SSD is responsible for the protection of the CPEC's Pakistani alignments, especially sections that cross Balochistan. The SSD is to consist of 9000 army soldiers and 6000 paramilitary forces personnel—organised in nine army battalions and six wings of 'Civil Armed Forces' (CAF) commanded by a major general. The CAF are federal paramilitary forces within the Ministry of Interior. They are composed of Rangers and Frontier Corps (FC) units. The Pakistani Rangers are usually deployed in the Sindh and Punjab provinces so as to perform border security duties at the borders shared with India. They are also engaged in internal security missions wherein they provide assistance to the local police. The Frontier Corps (FC) operate in the border areas of North and West-Pakistan, namely in the Federally Administered Tribal Areas (FATA), KPK, and Baluchistan. With approximately 80,000 in personnel, the FC is responsible for assisting local law enforcement agencies. Furthermore, they are deployed so as to protect the borders as well as combat criminals, insurgents and militants/terrorists in Baluchistan, FATA and KPK (Abbas, 2007, March 29). Islamabad also raised 28 new CAF units in accordance with the National Action Plan/NAP (Usman, 2016, September 3). Besides the army, also the Pakistani Navy has assembled new forces for the CPEC's protection—the 'Task Force-88' (TF-88) for the seaward security of the Gwadar port and protection of associated sea lanes against both conventional and non-traditional threats. The navy also raised a Coastal Security and Harbour Defence Force to tackle security threats along the coast and stationed a Force Protection Battalion at Gwadar for the protection of Chinese companies and workers." (Dawn, 2016a, December 12).

provincial governments. The efficiency of the Pakistani police is often questioned as it is considered to be understaffed, under-equipped, abusive, corrupt, and highly politicised¹⁴² (Mitra, Wolf, & Schöttli, 2006, p. 301). Moreover, although the government of Pakistan frequently investigates police officials for alleged crimes, actual prosecution is rare.¹⁴³

Due to a lack in capacities (weapons) and skills (anti-terrorism units), established police forces were unable to comprehensively address the issue of terrorism (Niaz, 2016, November 26). Nor were they able to deal with major situations such as violent mass protests. Despite the use of a massive coercive force during the blockade of Islamabad by a fundamentalist Islamist protest movement in 2017, the Pakistani police failed to restore law and order in the country. In order to improve the state of the police forces, the central government decided to form new units and improve both training and equipment of existing ones.¹⁴⁴ Most these police forces are dedicated to maintaining the CPEC security.

¹⁴²Since its inception, Pakistan's police have been working under the colonial Police Act of 1861. This imperial-era piece of legislation was primarily designed so as to keep subjects under control rather than making the police a politically neutral body. Under President Pervez Musharraf, the military government promulgated the Police Ordinance (2002) with the objective of improving professionalism in police services, making them operationally neutral, functionally cohesive and organisationally responsible. However police forces remain to this day in the orbit of politically motivated partisan interests (Mitra et al., 2006, p. 301).

¹⁴³Furthermore, the effectivity of the country's police forces was severely diminished by numerous factors such as intra- and inter organisational rivalries, difficult working conditions, a lack of forensic services, inadequate training, and weaknesses in the judicial sphere. Grossly insufficient remuneration is also cited as a main cause of poor performance (Mitra et al., 2006, p. 301). Communication and coordination gaps between the multitude of Pakistan's policing and intelligence organisations are additional challenges making a 'collective strategizing' and respective action difficult, even impossible (Abbas, 2011, February, p. 1).

¹⁴⁴For example, the Government of Punjab created on 23 November 2014 the Special Protection Unit (SPU) (GoPu, 2017) responsible for the security of foreigners working on different projects of national importance in the Punjab Province (GoPu, 2017)—especially Chinese workers. According to official statistical data from February 2017, the SPU consists of 3794 personnel. Besides the fact that most police forces are civil personal (3543), a significant amount of staff (244) are retired army personnel. Furthermore, many among these former soldiers hold leading positions in the SPU—giving the military tremendous leverage within the civil sphere of Pakistan's security. In order to protect the CPEC, the roughly 3800 forces (officers and rank and files) employed by the government of Punjab are supported by around 2550 security personnel from the districts (GoPu, 2017). This 'regular' police force receives further assistance from private security contractors employed by the companies involved in the projects. This means that each of the around 7500 Chinese workers in the Punjab province are protected ('full-proof security day and night') by at least one to two security personal on average. Also all other provinces decided (or were 'persuaded') to build-up additional security forces for the protection of CPEC-related Chinese workers and companies. The KPK deployed 4200 and Sindh 2000 new additional police forces. Sindh also decided to create a new 'anti-riot force' (Usman, 2016, September 3). In the Islamabad Capital Territory, a proposed 1000-strong Rapid Response Force (RRF) will be created (APP, 2017b, October 15; Niaz, 2016, November 26; Usman, 2016, September 3). The RRF focuses exclusively on counter-terrorism and maintenance of law and order in the capital—especially to safeguard public places, important installations, schools, and workplaces (Niaz, 2016, November 26). As such, the RRF aims to support the Islamabad Capital Territory Police

Government security agents are also supported by private security contractors. Activities ensuring a safe environment for the CPEC might involve an increased presence by Chinese security personnel, which would further contribute to militarisation and securitisation trends. Apart from a few exceptions,¹⁴⁵ this does not mean the deployment of members by the People's Liberation Army (PLA) or the People's Armed Police (PAP). Yet there are reports regarding Beijing's plans to strengthen its oversea security presence via the engagement of Chinese private security contractors, especially in BRI member states. Even though Pakistan has a strict regulation barring foreign Private Security Companies (PSCs) from operating in Pakistan, the ban contains loopholes resulting in a 'legal grey-zone for joint ventures between Pakistani and foreign private security firms' (Legarda & Nouwens, 2018, August 16, pp. 11–12). Despite the difficulty to access reliable information on Chinese PSCs' presence and activities in Pakistan, some PSCs such as the Frontier Services Group and the China Overseas Security Group (COSG) do claim to operate in the country (Leng et al., 2017, July 23). There is no single, binding international law or human rights treaty that specifically regulates private security contractors—initiatives covering the private security sector are all voluntary and non-binding. Furthermore, experts point out that due to the absence of clear oversight and monitoring mechanisms, the PSCs feel encouraged to take on functions until recently considered as inherent to sovereign state firms (Legarda & Nouwens, 2018, August 16, p. 9).

Militarisation and securitisation will further increase the presence of security forces in the public sphere; this could result in negative socio-economic ramifications for local communities as well as human rights violations¹⁴⁶ (Sadaqat, 2017b, January 1)—in addition to other potential forms of violations, such as intimidation, harassments, crackdowns of protests, and restrictions on free movement (ICG, 2018, June 29, pp. ii, 25–26). Personal links between Chinese PSCs and the former US private security company Blackwater, which was accused of and partly convicted for numerous crimes and human rights violations (for example for manslaughter after firing on civilians in Baghdad in 2007), causes some concern.¹⁴⁷

Both Beijing and Islamabad also enacted legislations entrusting their security forces with further powers so as to counter terrorism. The government of Pakistan

(ICT). Furthermore, the main coordinating agencies at both federal and provincial levels were strengthened, especially the National Counter Terrorism Authority (NACTA) or the provincial Counter Terrorism Departments (CTDs) and Counter Terrorism Cells (CTCs).

¹⁴⁵Beijing is reportedly planning to deploy Marines in Gwadar so as to protect its interests and ensure safety for its assets (MAREX, 2017, March 17).

¹⁴⁶For example, the Human Development Organization, a human rights organisation working against custodial abuses and rehabilitation of victims of torture in the KPK province, stated that there were 73 reported cases of police excesses from Hazara—including at least three cases of custodial deaths—in six districts of the Hazara division in 2016 (Sadaqat, 2017b, January 1).

¹⁴⁷For example, the former founder and CEO of Blackwater Erik D. Prince is now chairing a Hong-Kong listed Frontier Services Group focusing on the BRI (Legarda & Nouwens, 2018, August 16, p. 6; Leng et al., 2017, July 23).

formulated the National Action Plan (NAP)¹⁴⁸ in January 2015 with this objective. In order to implement the NAP, Pakistan enacted the 21st constitutional amendment and the Pakistan Army Amendment Bill of 2015—along with other legal measures.¹⁴⁹ These legislative acts led to new institutional arrangements granting special powers to armed forces. Importantly, the established military courts provide constitutional cover so as to bring civilians under army jurisdiction (Dawn, 2016, January 6; Wolf, 2015c, May 14). Besides the military, also paramilitary and special police forces are entrusted with special powers (at least temporarily) by both the national and provincial governments so as to conduct special operations¹⁵⁰ and deal with emergency situations, especially in relation to terrorist attacks (Dawn, 2015c, March 1).

China also strengthens its domestic counter-terrorism capacities by passing and implementing new legal mechanisms (Sandhu, 2017, March 20). New forces and institutional assets were established, for example a counter-terrorism agency and a national intelligence centre (BBC, 2015a, December 28). In July 2015, Beijing enacted the new National Security Law, followed by the country's first Anti-Terrorism Law in December 2015. One of the most important provisions of this new legislation is that it allowed Chinese troops to operate abroad in the context of counter-terrorism. China used to keep a limited profile regarding its security presence abroad; however, this seems to be changing—despite China's official principle of non-interference and non-intervention (Murphy, 2017, September, p. 3) and despite traditional Chinese resentments regarding the deployment of soldiers on foreign soil (Pages, 2016, November 15). Some recent examples of the new Chinese attitude include: the build-up of its first overseas military base in Djibouti (Fei, 2017, December 22), the support for a military training camp for Afghan armed forces in Afghanistan (Chan, 2018, August 28), and an increased deployment of Chinese PSCs.

With the launch of the BRI, the number of Chinese entrepreneurs, workers, commercial assets, and tourists abroad started to rise sharply. Many of China's overseas investments are located in unstable countries such as Pakistan, facing civil unrest, terrorism, militancy and sharply rising anti-Chinese sentiments. The new legislation greatly empowers security agents, providing them with higher budgets and equipment to be used against dissidents and religious minorities (BBC, 2015a, December 28). 'Discretionary powers' applied by state authorities and security agencies in CPEC areas may provoke radicalisation and militant reactions not only the security forces themselves but also against Chinese workers and companies. It is in any case clear that these new special powers are being used excessively (Arshad,

¹⁴⁸For more information on the National Action Plan (NAP), see <https://nacta.gov.pk/nap-2014/>

¹⁴⁹For more details on the legislation transferring special powers towards security forces in Pakistan see Chap. 9.

¹⁵⁰For example, the government of Sindh authorized the Rangers 'to arrest a suspect and keep him in custody for 90 days investigation purposes' and 'shoot criminals on resistance' (DN, 2013, November 10).

2018, April 21)—for example in the Operation Nisar in Karachi,¹⁵¹ the military campaign Zarb-e-Azb,¹⁵² and Operation Radd-ul-Fasaad, all of which were associated with multiple human rights violations.

Another concern regards activities by Pakistan's security sector agents linked with enforced disappearances, tortures and extrajudicial killings. This phenomenon did not appear due to the CPEC; it goes back to a few decades ago. However it is clear that the situation worsened with the inception of the CPEC (Kaleem, 2017, November 13). The Pakistani Commission of Inquiry on Enforced Disappearances confirmed that it received 5177 cases of alleged enforced disappearances since 2011 (Siddique, 2018, June 1), adding that many of these cases are still pending (Bhatti, 2018, January 9). The Commission's statistics contrast with numbers released by local human rights organisations, which are significantly higher¹⁵³: among those missing are included human rights and peace activists, journalists, bloggers, academics and other intellectuals criticising Pakistan's security sector agents. Representatives of human rights and socio-political movements in Pakistan accuse the country's military, intelligence agencies and police for being behind these disappearances (Samoon, 2017, August 8). The number of CPEC opponents among the victims is thus on the rise (Kaleem, 2017, November 13)—and, perhaps ironically, Pakistani authorities use these disappearances as a tool to undermine the opposition (Dawn, 2017b, August 8).

As we shall see, the CPEC is involved in enforced displacements both directly and indirectly: (a) by allocating land for CPEC projects, e.g. in Gwadar (directly) (ICG, 2018, June 29, pp. 19–20) and (b) by conducting military operations so as to secure the CPEC, including the destruction of households and displacement of local communities—particularly in FATA and Baluchistan¹⁵⁴ (Ebrahim, 2016b, May 12). There is no adequate compensation for affected people, either because of the lack of money or because of faulty allocation of resources¹⁵⁵ (TNN, 2017, November 9). The Human Rights Commission of Pakistan (HRCP) states that

¹⁵¹Not only the Pakistani military but also paramilitary federal police forces received special powers (at least temporarily) so as to deal with emergency situations, especially after major terrorist attacks (Dawn, 2015c, March 1), or to conduct special operations. An example concerns the special powers conceded to the Sind Rangers in the context of Operation Nisar. Here, the Government of Sind authorised Rangers to arrest a suspect (keeping him in custody for 90 days for investigation) and to shoot criminals on resistance (DN, 2013, November 10).

¹⁵²It is reported that the Zarb-e-Azb operation, which has launched in 2014 and included more than 30,000 security personnel, led to the displacement of around one million people belonging to roughly 80,000 families (Express Tribune, 2014, July 14).

¹⁵³Especially local human rights organisations from Balochistan and Sindh provinces.

¹⁵⁴According to Baloch human rights activists, more than 2500 families were forcefully displaced so as to make way for CPEC.

¹⁵⁵China pledged USD129 billion so as to ensure a successful repatriation of those displaced back to their homes in FATA and to build up facilities so as to improve social and economic conditions (NAS, 2016, September); however the money was not used efficiently.

The continuing plight of internally displaced persons in the country has been all but forgotten. No efforts have been made to adopt a proactive policy or a long-term strategy to address the challenges associated with internal displacement (HRCP, 2016, April 3).

Others point out that destroyed local businesses (e.g., Miran Shah Bazaar, Mir Ali Bazaar, Bara Bazaar) and lands are taken over by military subsidiaries or their relatives (Arshad, 2018, April 21). Also, numerous contracts for reconstructions were given—without bids—to army-owned companies such as the Frontier Works Organisation (FWO) and the National Logistics Cell (NLC) (Ali, 2017a, September 20). Neither civilians nor local entrepreneurs had any opportunity to win over governmental contracts.

Guided trends of both internal and external migration are emerging in the context of enforced displacements in Pakistan. Two internal migration strategies should be highlighted. The first is conducted by the central government of Pakistan and consists of two components: encouraging companies and workers from Punjab or Sindh to settle down in non-Punjabi areas such as Baluchistan (SMEDA, 2009); and deploying non-locals in these regions' administrative and political structures (Ghumman, 2009, July 6). This process is supported by military-run companies such as the Frontier Works Organization (FWO) which carry out most CPEC-related infrastructure projects in Baluchistan and elsewhere by using labour forces from central and northern Punjab (ICG, 2018, June 29, p. 20). Another internal migration strategy can be observed in China—the government encourages the Han Chinese majority to move to Xinjiang (Bovingdon, 2010, pp. 54–59), a province home to many ethnic groups, especially the Muslim Turkic Uyghur community. The Chinese government also enforces a 'guided external migration'. It becomes obvious that China's objective is not only to create Chinese -controlled (and owned) special economic zones but also to enlarge the 'colonies' by Chinese citizens abroad (Brewster, 2018, January 30). These 'colonies' usually appear in the form of 'gated communities' and their establishment poses many disadvantages to the locals. The enforced displacement of Gwadar residents is a remarkable example of how local communities are forced to leave their homes so as to provide space for Chinese initiated projects. Beijing is promoting the build-up of Chinese settlements in all BRI countries while trying to gain more influence over established Chinese diaspora communities to achieve political and economic goals. These guided migrations all marginalise local communities, cause economic distortions, and affect social dynamics in all concerned areas (Grace, 2018, October 4; Tiezzi, 2018, June 27).

There are growing international concerns about the human rights situation in the province of Xinjiang, especially considering extra-legal internment camps set up for Uyghur Muslims. The UN reports China to hold around one million Uyghur Muslims in 're-education camps' (Bloomberg, 2018, August 31). Several journalists and scholars documented a systematic campaign to detain and 're-educate' various ethnic religious minorities in the country. International attention regarding Xinjiang is generally low to non-existent—the scale and apparent intent of internment campaigns targeting the Uyghur identity tends to go unnoticed. Findings by the UN Committee on the Elimination of Racial Discrimination pointed out that it was

alarmed by the ‘Numerous reports of detention of large numbers of ethnic Uyghurs and other Muslim minorities held incommunicado and often for long periods, without being charged or tried, under the pretext of countering terrorism and religious extremism’ (Nebehay, 2018, August 30). Camps are reported to indoctrinate Muslims so as to ‘renounce Islam, criticise their own Islamic beliefs and those of fellow inmates’. It is stated that inmates are forced to break with religious-based social customs, for example regarding their diet (Samuel, 2018, August 28). There are also accusations of torture and death in the camps. The US Congressional-Executive Commission on China described the phenomenon as the ‘largest mass incarceration of a minority population in the world today’ (Denyer, 2018, August 5). Chinese officials of course deny arbitrary, mass-scale detentions—internment facilities were described as schools or hospitals.

The state of surveillance surrounding the CPEC is also worrisome. One of the most overlooked parts of the BRI is its digital component, namely the Digital Silk Road promoting digital connectivity. China wants to create a network of both land-based and undersea fibre optic cables to span all BRI countries. Beijing also intends to set up a ‘Space and Information Corridor’. One of the major goals is to establish a local coverage for China’s Global Navigation Satellite System (BDS) so as to make the BRI countries independent from the US-controlled Global Positioning System/GPS (Kelkar, 2018, August 8). China and Pakistan established a 820-kilometre underground fibre optic cable linking Rawalpindi with the Chinese border at Khunjerab Pass. It is backed up by a 172-kilometre aerial cable (Dorsey, 2018, July 19). A second phase of the project aims at the extension of this cable to Gwadar. In order to improve infrastructure for information communication technology, China further launched two satellites for Pakistan (Barbosa, 2018, July 9).

The fact that new digital connectivity between China and BRI countries involves the control of data transfer and large-scale surveillance raises concerns not only about data security but also about personal freedoms and privacy. Pakistan in particular faces a rapidly shrinking right to privacy in all spheres of life. The Pakistani government enforced a strict control and regulation of the internet. The report on the Freedom of Net published by Freedom House, which ranks Pakistan as ‘fairly repressive’ and ‘not free’ (FH, 2017c), was banned in the country (Pakistan Today, 2017a, November 16). Reports state that law enforcement and intelligence agencies in Pakistan are actively expanding their surveillance capabilities, ostensibly to counter terrorism and maintain law and order under the mandate given to them by the larger framework of the NAP (DRF, 2018). There is clear evidence that these measures often come at the cost of civil liberties and rights (e.g., the right to privacy) as both individuals and organisations are targeted. Digital surveillance of journalists, human rights activists, and ordinary citizens is increasingly common. As Pakistan lacks proper democratic checks and balances, the new digital connectivity risks to reinforce attacks on political rights and freedoms in general and on free journalism in particular. The military is shutting down media channels (e.g. airtime of

broadcasting companies¹⁵⁶) so as to force them into self-censorship (Zahra-Malik, 2018, April 23).

6.15.2 Geographic Stability: Good Governance

The CPEC's major challenge consists in a lack of good governance in Pakistan. Truncated political rights, freedom of press and opinion as well as academic freedom are but a part of the problem. The official rhetoric regarding the CPEC is being overshadowed criticisms and reports about a number of shortcomings. We witness a growing number of complaints about land acquisition, forced displacement of people, guided/forced migrations, resource exploitation, environmental problems (e.g., pollution, deforestation), and especially human rights violations. People are deprived of the opportunity to express their concerns. They are often silenced through coercive force, harassment and intimidation—including illegitimate law enforcement and security agencies used against opponents to the CPEC, from politicians and activists to academics and the media. The situation worsened at the beginning of 2018. Regions perceived by the national leadership as restive and/or are known as sceptical towards the CPEC are particularly affected. Besides plain censorship it now appears that the Pakistani establishment plans to use sceptics and critics—especially those belonging to religious and ethnic minorities—as scapegoats for failures in the CPEC-related developments. State authorities question the loyalty of minorities towards the Pakistani state, particularly when these communities are majoritarian in sensitive locations at the country's borders¹⁵⁷ (ICG, 2018, p. 25). Claims are constructed accusing hostile foreign forces of instrumentalizing minorities so as to sabotage Pakistan's development (SADF, 2018, July 11). It is important to point out that this repressive mind-set is shared not only by the military leadership, but also by civilians. The Human Rights Commission of Pakistan (HRCPC) warned of this problem in 2016:

Freedom of speech and media, protest, movement and assembly are being violated and curbed on the pretext of “national security” or “national interest”. Even expression of genuine apprehensions over development plans or commitments made by the government are being rubbished as being against “national interest”. (HRCPC, 2016, April 3).

A remarkable example is a statement by Ahsan Iqbal, Pakistan's Federal Minister for Planning, Development and Reform during the 2018 CPEC Summit:

Despite the positive news and outlook of CPEC, there are still naysayers who continue to undermine the Government's unflinching efforts for making CPEC a successful reality. One of the most recent attempts is this new norm by many critics to term the CPEC as a debt-trap,

¹⁵⁶One of the most noteworthy case was the shut-down of Geo TV (Zahra-Malik, 2018, April 23).

¹⁵⁷For example, Tharparkar is one of the few regions in Pakistan with a Hindu majority. It borders India.

a carefully chosen term coined by those looking to sabotage the initiative (Iqbal, 2018a, May 30).

Punjab's Chief Minister Shahbaz Sharif went a step further by stating:

Some say that with CPEC Pakistan will become a colony of China or China will be like the East India Company. Those who say such things are enemies of Pakistan (Ghori & Hasan, 2018, April 24).

The above-cited political leaders claim that criticising CPEC is equivalent to 'high treason'. And indeed oppositional parties in both the national parliament and provincial assemblies remain reluctant to discuss the CPEC. There were no incentives by either the government, committee chairs or other decision-makers so as to promote an open debate—a general lack of transparency and oversight affects the CPEC (Rumi, 2017, November 5). The indifference towards human rights abuses among the BRI countries, especially Muslim-majority nations, is well-known. Moreover Beijing benefits from its position as key trading partner, aid provider and investor, as well as from its longstanding policy of non-interference in other countries' internal affairs of (Bloomberg, 2018, August 31). For all these reasons, media elf-censorship in Pakistan is the norm rather than the exception. Both Pakistani and Chinese security forces remain immune and unaccountable.

Both Islamabad and Beijing desire to ensure a smooth implementation for the CPEC, yet their activities along the corridor pose a threat to human and political rights. Therefore, one can expect the CPEC to further challenge an already fragile social and political stability, further affecting good governance in Pakistan. In the words of the HRCP, the 'ubiquitous militarisation of all sectors of civilian authority is damaging the democratic system and adversely affecting human rights and fundamental freedoms, which are being restricted in the name of security' (HRCP, 2016, April 3). On the other hand, however, the 'stifling democratic debate could result in anti-CPEC sentiments assuming a far more hostile form in the future' (ICG, 2018, June 29, p. 26).

6.15.3 Positive Image

Pakistan's reputation suffered greatly due to terrorism and religious fundamentalism, in addition to corruption, weak administrative-institutional framework, and poor governance. The ever deteriorating human rights situation in the country (USDS, 2016b, p. 1) enforced by both religious fanaticism and a number of state agencies is a matter of severe international concern. Pakistan is demanded to cease its support for cross-border terrorism (Wolf, 2017a), yet this it is clearly reluctant to do. A particular point of concern is the presence of jihadist organisations¹⁵⁸ in the

¹⁵⁸For example, these fronts include two newly formed Islamist groups, the Barelvi Tehreek-i-Labaik Ya Rasool Allah (TLY or Labaik) and the Milli Muslim League, a political front for the

country's politics (Jamal, 2018, August 8). The activities of these parties not only trigger anti-minority agendas in political discourse but also push the perception that foreign elements—such as Chinese workers and companies—are anti-Islam.

Pakistan's ongoing support for jihadists not only further isolates the country on the international stage but weakens China's diplomatic backing. Beijing supported an international proposal initiated by Washington to add Pakistan on the 'grey-list' of the Financial Action Task Force (FATF)¹⁵⁹ in 2018 (Dawn, 2018a, June 28). At the BRICS¹⁶⁰ summit in September 2017, China joined a statement which expressed growing concerns over 'the security situation in the region and violence' by Pakistan-based militant groups (Martina, 2017, September 4). Pakistan's image decreases the country's chances to attract foreign investors. In order to combat terrorism and undermine opposition to the CPEC, Pakistan will strengthen the militarisation and securitisation of provinces—such as Baluchistan and Gilgit-Baltistan—crucial for the CPEC's implementation. In quantitative terms (i.e. number of terror attacks) it seems that counter-terrorism efforts by combined forces of regular military, paramilitary and national intelligence were successful in several areas—especially in Baluchistan, Karachi and FATA/KPK. Yet the evidence shows that terrorists are still able to challenge Pakistan's stability. This makes it difficult for Islamabad to prove to Beijing that the country can become 'terror free' and ensure safe conditions for Chinese investments (Wolf, 2016c, September 30).

The security situation in Pakistan is also challenged by growing anti-Chinese sentiments. Chinese workers seem frustrated regarding security restrictions as many have to reside in a heavily guarded compounds and are subjected to strict security regulations, which they perceive as 'overprotective' (Jorgic & Goh, 2017, August 28; Hussain, 2018, April 8). The first clashes between Chinese workers and Pakistani security forces added to the growing hatred against Chinese presence in Pakistan (Shah, 2018b, April 4). China also started to question Pakistan's capacity to protect Chinese workers and companies (Rehman, 2017a, June 24; Shah 2017, June 9). As Chinese presence in Pakistan¹⁶¹ (both workers and tourists) continues to grow, we can expect a 'clash of cultures'. In fact, China and Pakistan do not have much in common in terms of culture and religion -and Chinese habits clash with local customs (Jorgic & Goh, 2017, August 28). Lack of knowledge and understanding of non-Chinese cultures and values among many Chinese leads to violations of

anti-India Lashkar-e-Tayyaba/Jamaat-ud-Dawa; both contested 2017 by-elections in Peshawar and Lahore (Hussain, 2017, October 29).

¹⁵⁹For more details, see Sect. 5.2.4.

¹⁶⁰Major emerging economies of Brazil, Russia, India, China and South Africa.

¹⁶¹This is important due to increasing numbers of Chinese nationals living and working in Pakistan. There are estimations that around 30,000 Chinese are currently in the country. Of these approximately 10,000 are working in CPEC projects and 9000 are deployed in other projects (Economist, 2017, September 8; Jorgic & Goh, 2017, August 28; ICG, 2018, June 29, p. 7). According to Mushahid Hussain Syed, chairman of Pakistan-China Institute, about 19,581 Chinese experts were working on CPEC projects and 20,000 on non-CPEC projects (Ghori, & Hasan, 2018, April 24); however, concrete and confirmed data on Chinese work force in Pakistan is not publicly available.

social and cultural norms. International terror groups such as the Islamic State (IS) and Al-Qaeda ‘declared jihad’ against the People’s Republic of China due to Beijing policies in Xinjiang, which are considered anti-Muslim. The CPEC may become the number one target for terrorists fighting against China. As Aamir (2018b, July 25) points out, ‘Chinese projects and the people working on them are also potential targets for Islamic fundamentalists, partly because China is led by the atheist Communist party’. Besides international threats, there are also multiple domestic issues which could intensify political conflicts in Pakistan in the context of China-Pakistan cooperation in general and of the CPEC development in particular. As more Chinese firms enter Pakistan, any attacks will be used to justify an even greater security presence (ICG, 2018, June 29, p. 22)—which, in turn, may ignite further jihadism and militancy.

The local population in Pakistan fears that an increased Chinese presence in the public sphere (e.g., in Lahore) will lead to cultural and economic domination, namely through the takeover of domestic businesses. This, combined with perceptions that CPEC-related projects undermine the interests of key national stakeholders, could further aggravate anti-Chinese sentiments (ICG, 2018, June 29, p. ii). Reports of malpractices in handling Chinese immigration adds to the growing anger among many Pakistanis. For instance, imbalances in Pakistani and Chinese VISA policies are observed, particularly the undermining of VISA rules by Chinese citizens. It is reported that more than 71,000 Chinese visited Pakistan in 2016, mostly for short periods (tourist visa); yet in that year over 27,000 Visa were extended—41% more than in 2015 (Jorgic & Goh, 2017, August 28). Many Chinese nationals enter Pakistan with a tourist VISA so as to bypass the bureaucratic challenges attached to a business visa. Chinese nationals are also sometimes involved in criminal offences and organised crime in Pakistan.¹⁶²

The privileges granted to Chinese companies, a treatment of Pakistani entrepreneurs vis-à-vis Chinese competition perceived as unfair, indifference to the Pakistani labour force by Chinese companies, and reports of inappropriate treatment of local workforces by Chinese companies in other BRI countries are all likely to increase anti-Chinese sentiments. In Africa, for example, there are reported cases of hostile attitudes by Chinese employers towards trade unions, violation of workers’ rights, poor working conditions, and unfair labour practices (Ahmad, 2017a, September 18). Pakistani observers wonder whether Chinese firms will apply their own standards or adopt those of Pakistan—which, at least in theory, grant better conditions for national workers.¹⁶³

The presence of Chinese security personnel in Pakistan traces back to 2007. Beijing’s security detachments collaborated with Chinese companies in Pakistan so

¹⁶²There are reports about Chinese involved in fighting, fraud, ATM skimming rackets, forgery, falsification of documents, over-drinking and related public misbehaviour (especially towards security forces), among other minor offences (Asghar, 2017, December 12; Yasir, 2018).

¹⁶³For instance as regards ‘overtime pay’ the Chinese rate is 150% of the normal wage rate, while in Pakistan it is 200% (Ahmad, 2017, September 18).

as ‘to make sure there are no misunderstandings about the need for tight security’ (SP, 2007, August 14) and ensure safety for its citizens abroad. Chinese security detachments also ‘advised the Pakistanis on Chinese security needs, and helped acquire needed technical equipment brought in from China’ (SP, 2007, August 14). Both the growing Sino-Pakistani security cooperation and Beijing’s increasing security engagement in Pakistan could be interpreted as a provocation by Islamists as well as by anti-CPEC forces.

If China continues to insist on its tough monetary regulations and far-reaching demands for large-scale or even full ownership of major CPEC projects, it can be anticipated that Pakistan will reassess these projects so as to safeguard its national interests. As summarised by Michael Kugelman,

A one-off incident of Pakistan backing away is not so serious, but if we start to see multiple cases of Pakistan walking away, then the very viability of CPEC could come into question. Given the astronomical level of importance that Pakistan and China have placed in CPEC, any suggestion that the project may not see itself through is cause for alarm (in Jamal, 2018, January 11).

Tensions over the conditions and implementation of the CPEC projects between Islamabad and Beijing could even result in aggression against Chinese investments in Pakistan.

There are natural links between bordering regions shared by China and Pakistan. Traditional links between the Pakistani province of Gilgit Baltistan and the Xinjiang province include not only intensive economic and trade relations but also cultural as well as people-to-people bonds, as evidenced by marriages between Muslim communities in China (Uyghurs) and Pakistan. These ‘cross-border families’, however, have been facing oppression by the Chinese state. Many Uyghur women who now live in Gilgit-Baltistan were arrested by Chinese authorities during their visits to Xinjiang—because of ‘suspicion of their alleged association to Islamist extremists’ (Khan, 2018b, March 12).

Anti-Chinese sentiments are growing in Baluchistan. Pakistan’s rule over the region has disastrous economic and social impacts. Both military and civilian authorities continue to rely on a coercive state apparatus so as to suppress not only armed resistance but also any demands for fundamental reforms. Baloch insurgents perceive the CPEC as an instrument of exploitation and foreign occupation of their homeland as well as an attempt to further marginalise the native Baloch people in the name of economic development (Baloch, 2016, February 13). The CPEC is also perceived as Punjabi expansionism and as a strategy by the central government so as to strengthen its grip on Baloch’s resources. Fears that the project will only benefit Islamabad and Beijing, offering little in return to the Baloch, are rising (Baloch, 2015, September 28).

Pakistan is responsible for providing security to Chinese projects and workers, but also for covering costs (Husain, 2016, September 29). Pakistan is forced to build-up new security forces on a large scale, by itself an additional financial burden for the already heavily indebted country. Only a very limited amount of security expenditures is actually recognised by CPEC-related financial schemes. The added budget constraints have enormous implications for citizens since many costs must be accommodated by cuts in non-security related sectors, especially social welfare

and non-CPEC-related infrastructure. Furthermore, some security costs will be channelled via electricity billing—they are to be bundled into power tariffs and passed on to consumers (Husain, 2016, September 29). Conditions for a successful development of the CPEC remain largely insufficient.

6.16 Indicator: Effective Diplomacy

Effective diplomacy, which also includes public diplomacy, is essential for the success of both BRI and CPEC. Public diplomacy communicates the BRI's vision, including information about its realisation, for example through the Long-Term Plan for CPEC. Efficient public diplomacy could increase accountability and transparency both in planning and implementation, thus improving the understanding of and support for the CPEC. Understanding public diplomacy goes beyond the traditional view that 'diplomacy' is only conducted by diplomats (Henrikson, 2006, p. 7). In the context of CPEC and BRI, all major stakeholders and affected communities should be considered as part of the 'diplomatic community'. The success of public diplomacy would thus depend on the involvement of all key players from various spheres of state and society in crucial planning and implementation processes. Grandiose bilateral development projects such as the CPEC are an extraordinary example of the intermixture of foreign policy and domestic policy, emphasising the crucial role of public diplomacy. Domestic public diplomacy can provide both the necessary government-to-government links and the connection between vertical and horizontal state layers. This is important since the flow of information and opportunities for participation in a strict hierarchical governance such as that of Pakistan is usually very limited. Public diplomacy has a key function in transforming a state political decision into a comprehensive national consensus. Diplomacy can be crucial in conflict negotiations between BRI and non-BRI countries, but also within individual BRI countries such as Pakistan—which has one of the highest conflict intensities worldwide (HIIK, 2018). Functional public diplomacy is also critical in terms of political and geostrategic motivations. It helps countries become more international, gain financial assistance, attract foreign direct investments, and improve relations with neighbouring countries so as to increase the CPEC's connectivity. China could benefit from public diplomacy through (a) demonstrating its 'new' role in global governance and (b) deepening ties with other countries. This should help China explore trade and business relations and penetrate new markets. Considering Beijing's goal to become a leader in global technological and engineering standards and a dominant producer of advanced technological products,¹⁶⁴ one should expect China to target not only the penetration of new markets but also the containment or even expulsion of non-Chinese high-tech companies. People-to-people contacts are key in achieving these objectives—and China has 'placed great emphasis on

¹⁶⁴For more information, see Chap. 3.

improving official diplomacy through people-to-people diplomacy’ (Zhao, 2015, p. 17). It is hoped that people-to-people diplomacy and people-to-people contacts will mutually reinforce one another. Here it is important to note that regarding Common Chinese people have a crucial function in China’s foreign policy. The common citizen is expected to forge people-to-people contacts so crucial for operationalising diplomatic strategies (Zhao, 2015, p. 2). Beijing launched numerous public diplomacy campaigns and programmes so as to strengthen human ties within the CPEC’s geographical framework.

Not only China but also Pakistan initiated several public diplomacy measures. Pakistan’s Ministry of Commerce launched the nation-branding ‘Emerging Pakistan’ in 2017 (APP, 2017c, January 21).¹⁶⁵ A remarkable element of this campaign was the advertisement of double-decker buses in London as part of the 70th Independence Anniversary celebrations called ‘Emerging Pakistan. Land of Beautiful Faces’, promoting tourism and hoping to reduce the nation’s negative international image (Tellis, 2017b, July 19). This was followed by a similar campaign ‘Gwadar: The Gateway to Emerging Pakistan’, which was funded by China to attract and promote investments in the port city (Rehman, 2018, March 4). Within Pakistan, the government organised an All-Party Conference so as to increase the number of stakeholders within the CPEC (Manan, 2015, May 14).

In contrast with New Delhi’s successful ‘Incredible India’ campaign or the ‘Malaysia Truly Asia’ branding strategy, Pakistani efforts have not achieved much success (Paracha, 2018, April 29). In fact if you search for the word ‘Pakistan’ online, ‘over 80% of the images that appear are of wild clerics, suicide bomb attacks, riots and burqa-clad women’ (Paracha, 2018, April 29). Pakistan’s public diplomacy lacks sufficient reflective mechanisms and is featured by cognitive gaps. Pakistan is sometimes portrayed as pursuing a ‘hostile diplomacy’ aiming at ‘sabotaging the CPEC’ (Sikander, 2017, January 4)—and domestic critics are perceived as enemies of the country (Abbasi, 2017, April 13). This cognitive gap sparks international critiques of the CPEC, which is presented as ideologically-based political propaganda. Using such a cognitive lens acts as a tool to protect the image of the country in general and that of the CPEC in particular. However, it limits constructive debate on potential aberrations and shortcomings in corridor developments. It also obscures reasonable alternative views and reasoned dialogue from CPEC-related decision-making processes. CPEC processes are made less inclusive by undermining deliberations with concerned stakeholders.

Both the BRI and CPEC lack transparency¹⁶⁶ and inclusiveness in all areas of decision-making (Dawn, 2015b, May 16; Kazmi, 2015, April 22). India is not the only country puzzled about the sheer magnitude of both BRI and CPEC. Even

¹⁶⁵This nation branding campaign consists of a three-stage communication and image building strategy which will work on branding Pakistan (i.e., image building), ‘Made in Pakistan and Make in Pakistan’ (investment) (APP, 2017, January 21).

¹⁶⁶As earlier indicated, the available information on CPEC arrangements is very rudimentary. However, the official website of the Ministry of Planning Development and Reforms (MoPDR) provides basic deals on the status of various CPEC projects. For more, see: <https://www.pc.gov.pk/web/cpec>

though Beijing emphasised that all its foreign investments are based on mutual benefits and not designed to create a hegemonic position, the way the BRI carries out its projects does not help answer international concerns. Besides a lack of transparency in decision making, the profitability of several projects within the CPEC scheme is questionable. All these aspects are now accentuating international scepticism about the BRI. China also refuses to negotiate the BRI in multilateral arrangements. China's preference for bilateralism is evidenced through CPEC-related decision-making processes. Instead of engaging with provinces and local communities, major decisions regarding all kinds of projects were done by both Beijing's and Pakistan's national leaderships. This secretive approach created distrust and resistance within Pakistan's regions (Zaman, 2015, May 12).

Both China and Pakistan need to engage with regions and local voices in order to achieve a harmonious functioning of the CPEC. Large-scale projects are dialogic and multi-logical by nature. Beijing and Islamabad must realise the importance of cooperation and good relations among their countries and local communities. Yet until now there is little room for divergence or for contrasting opinions based on different philosophies, cultures, or outlooks.

6.17 Indicator: Sustainability and Environmental Awareness

Environmental awareness is key for the sustainability of any development initiative. Sustainable development is one of the priorities outlined in the Long-Term Plan for CPEC (LTP, 2017). According to the then Prime Minister of Pakistan Shahid Khaqan Abbasi, 'the projects under CPEC are built on two basic principles. The first principle is economic viability and the second principle is environmental sustainability. That is the key on which we operate' (Abbasi, 2018, May 24). However there is an increasing debate about the environmental and ecological impacts of the corridor in Pakistan (ANI, 2017, December 17)—both seem to be neglected by both Beijing and Islamabad. This is surprising since Pakistan loses around \$3.3 billion annually due to environmental degradation issues (Ramay, 2018; Ijaz, 2018, June 13). Many are concerned that the CPEC will worsen overall environmental conditions (Baloch, 2018b, April 18; Daily Times, 2017, November 9; Sarwar, 2016, July 20). Pollution caused by traffic is immense as it is (Khan, 2018c, January 1). CPEC infrastructure crosses ecologically sensitive areas such as the KKH—which spans the mountainous terrain of Gilgit-Baltistan (Ebrahim, 2017, June 23). Traffic will increase dramatically with the CPEC¹⁶⁷—which will naturally impact the environment (Nabi et al., 2018; Qazilbash, 2017, March 30), for

¹⁶⁷It is estimated that 7000 trucks would generate up to 36.5 million tons of CO₂ emissions on the way to Gwadar from Kashgar (Qazilbash, 2017, March 30; Nabi et al., 2018).

instance by producing dark fumes affecting glaciers,¹⁶⁸ the vital source of river water (Bolch et al., 2012). Extreme flooding due to the melting of glaciers would be another major consequence (Daily Times, November 9; Laghari, 2013; Khan, 2018c, January 1). Masses of new workers, transit passengers and tourists vastly increase waste disposal (Khan, 2017e, December 12). Noise pollution is also increasing due to construction activities (Sarwar, 2016, July 20).¹⁶⁹ Most envisaged energy projects (about three-quarters) will be based on coal (Baloch, 2018b, April 18; Khan, 2018c, January 1; Shaikh & Tunio, 2017, May 3); renewable energies¹⁷⁰ are not a priority (APP, 2017a, November 3)—perhaps paradoxically, as China is the world’s top producer of solar panels and clean energy technologies (Darby, 2017, May 15). The ADB expressed concerns over the potential environmental impacts of coal-fired units (Ahmed, 2018, February 4), yet these were dismissed by both Chinese and Pakistani authorities. It is stated that plants are using ‘environmentally friendly technology’ (APP, 2017a, November 3).

Some argue that the coal¹⁷¹ used for energy generation in Pakistan is lignite, one of the most polluting fuels in terms of greenhouse gases and ashes emission (IUCN, 2016, December 14). There are various environmental impacts related to coal-fired power plants. Air pollution will affect both the environment and health of those living near power plants (Khan, 2018c, January 1). Furthermore, coal power plants will increase demand for water in already water scarce regions.¹⁷² Besides, the plants will affect the overall landscape, traditional infrastructure and livelihoods (ICG, 2018, June 29, p. ii, p. 25). Emissions of carbon dioxide (CO₂) will enhance global warming and foster climate change (Zaheer, 2017, January 8).

Although technology able to mitigate these environmental hazards¹⁷³ exists, it is usually too expensive. It is possible that Pakistan will opt for a subcritical

¹⁶⁸Gilgit-Baltistan is not only home to three out of seven of the world’s largest glaciers, but also to approximately 5218 smaller glaciers—spread over an area of about 15,040 km² and determining an ice reserves of 2738 km³ (Gilany & Iqbal, 2016).

¹⁶⁹According to experts, noise seems to be one of the biggest challenges related to road construction (Khwaja, 2018, March 29). As the second phase of the CPEC implementation (focus on industrialization and establishment of SEZs) advances one must expect an additional, exponential deterioration of noise levels since a drastic increase increased industrial activity and vehicular traffic are expected (Sadaqat, 2017a, May 4).

¹⁷⁰There are few examples of clean energy projects within CPEC schemes—for example the Quaid-e-Azam Solar Park in Punjab, which is the world’s largest solar park, or the windmills projects in Sindh (Ebrahim, 2015, September 8; Ramay, 2018, January 15). It is estimated that within the CPEC renewable energy portfolio, 20% will be hydro, 7% solar, and 3% wind (Oh, 2018, June 29).

¹⁷¹Pakistan has a huge amount of untapped coal reserves. Most remarkable are the lignite deposits in the Thar region of Sindh (Khan, 2018, January 1; Rafiq, 2017, p. 20).

¹⁷²Ash handling and disposal problems will also exacerbate negative impacts on the local environment (Ahmed, 2018, February 4).

¹⁷³For instance, there is a technology for flue gas cleaning systems that eliminates dangerous pollutants, mechanisms for optimised combustion for safe re-usability of ash, and water treatment systems for zero waste discharge in water (Zaheer, 2017, January 8).

technology¹⁷⁴ which is cheaper—and less efficient (Reynolds, Stout, & Wang, 2018, April 23, p. 25). However, CPEC coal power plants will need more coal inputs so as to generate the required amount of energy output (Reynolds et al., 2018, April 23, p. 25). In addition, most of the coal must be imported; the import of coal increased from 3.42 million tons in 2013 to 11.2 million tons in 2017, and it is forecasted to reach 40 million tons per year by 2025 (Reuters, 2018b, February 6). Although Pakistan will thus be able to reduce its oil imports (Abbasi, 2018, May 24), massive imports of coal will lead to further trade deficits and pressures on the domestic currency.¹⁷⁵ Coal imports also require special infrastructure—such as Pakistan’s first coal-dedicated import terminal at Port Qasim (Siddiqui, 2017, July 5) as well as additional, specific train cargo capacities and vehicles—which requires further investments and/or subsidies (News, 2015, October 15).

The quality of imported coal varies—from higher quality coal from South Africa to lower-quality coal from Indonesia. There are concerns that South Africa might not be able to match Pakistan’s demands for coal due to lack of domestic infrastructure. Pakistan would have to rely on lower-quality Indonesian coal.¹⁷⁶ In this context one must point out that Pakistan’s biggest coal deposit, the Thar coal, is of lower-quality than Indonesian coal since it contains more Sulphur. Sulphur dioxide emissions, which arise during the process of energy generation, contribute to environmental and health issues (Reynolds et al., 2018, April 23, p. 25). In addition to imported coal, Pakistan also must transfer domestic coal resources from mines to plants, contributing to health and environmental issues (Baloch, 2018b, April 18). CPEC decision-makers, however, are not willing to share details on the technology used to mitigate environmental damages resulting from energy production (Ijiaz, 2018, June 13). Information also lacks regarding the quality of coal used to fire power plants. The use of low-quality coal would undermine the climate change mitigation efforts and

¹⁷⁴For more details, see the debate on subcritical, supercritical, and ultra-supercritical technologies (Myllyvirta, 2017, June 28).

¹⁷⁵Kaiser Bengali in an interview with Shahzada Irfan Ahmed (2017c, September 3).

¹⁷⁶Another problem is that energy firms in Pakistan are importing crushed coal instead of broken coal, especially from Indonesia and Australia. This creates specific problems regarding the transportation to their final destinations. Crushed coal produces more coal ashes (than broken coal) during its transport, which can be a source for several diseases after mixing with the air, affecting the health of the population living on the transit routes to the power plants, particularly during the monsoon seasons (Siddiqui, 2017, July 5) in form of acid rain. Due to the issue that Pakistan does not possess an effective railway system, much of the coal will be transferred via environmental harmful road haulage through technically outmoded trucks (Baloch, 2018b, April 18). However, both, cargo trains and trucks, transporting the coal (including processes of loading and unloading) via open wagons leading to dust emission—especially at sunny dry and windy conditions—and deterioration of coal through combustion causing even more health risks (Baruya, 2012, pp. 43–44). Here, the experts are also stressing that due to the outdated transport capacities and the weather conditions in Pakistan leading to a remarkable loss of coal (imported and own coal) during its domestic transit (Baruya, 2012, pp. 43–44). Against this backdrop, Pakistan’s own coal deposits might have the potential to satisfy the country’s coal consumption, but adequate information are not publicly available.

tarnish Pakistan's image as one of the lowest-carbon emitters worldwide (Baloch, 2018b, April 18; Shaikh & Tunio, 2017, May 3).

Beijing has an ambiguous attitude regarding the use of coal for energy generation. It seems that China's domestic approach differs drastically from its international development policies. While China applies the so-called 'Green Belt and Road'¹⁷⁷ strategy at home (Shengxia & Sheng, 2017, May 10), takes the opposite stance in BRI countries such as Pakistan.¹⁷⁸ Additionally, China exports outdated coal-power plant technology to Pakistan and other states—in fact the country is the biggest promoter of and investor in coal power development overseas, even as it pledges 'to deliver clean energy and low carbon infrastructure for developing countries' (Walker, 2016, September 23). The new legislation regarding the use of modern technological standards for domestic plants does not apply to exports (Walker, 2016, September 23). Through these double-standards regarding the use of fossil energy resources, China fills the gap left by western institutions (e.g. the World Bank) which limited their support for coal energy in order to fulfil the 2015 UN Paris climate deal (Darby, 2017, May 15; Gupta et al., 2015, December 12). Contrary to official rhetoric,¹⁷⁹ the country is undercutting international efforts intended to initiate a global shift towards clean energy in numerous BRI countries (Walker, 2016, September 23). These states' growing dependence on coal will increase their vulnerability to environmental damages (Ali, 2018, p. 17).

Deforestation is another consequence of the CPEC. CPEC infrastructure crosses through Pakistan's wild nature, hampering the country's potential for tourism and extraction of renewable raw materials (Sadaqat, 2017a, May 4; Sarwar, 2016, July 30). Deforestation is also worsened through the extraction of forests' resources (Ramay, 2018, January 1). Increasing health problems, species extinctions, depletion of water resources, soil erosion, avalanches, landslides and floods are among the most common ramifications of deforestation; the CPEC will worsen stress caused to fauna and flora in the mountainous areas of northern Pakistan (Khan, 2016d, April 18; Khan, 2018c, January 1).

¹⁷⁷In order to execute the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, to implement the notion of an ecological civilisation in the 'Belt and Road' Initiative, promote green development, strengthen environmental protection, and jointly build a green silk road, four Chinese ministries (including the Ministry of Environmental Protection and Ministry of Foreign Affairs) jointly formulated guidelines for the 'Green Belt and Road'. For more information, see <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydyilgw/201705/201705161104041.pdf>

¹⁷⁸China is involved in 240 coal-fired projects totaling 251GW across the BRI countries (Darby, 2017, May 15; Peng, Chang, & Liwen, 2017, May).

¹⁷⁹For example, one of China's international developmental financing institutions, the Export-Import Bank of China (EXIM), formulated the '2016 White Paper on Green Finance' and issued 'green bonds' to push the notion for balanced and sustainable development through the mechanism of 'finance'—which links the provision of finances with environmental standards in projects and the improvement of environmental risk management (Carrai, 2017, pp. 7–8). For more details on the '2016 White Paper on Green Finance', see: <http://cms.eximbank.gov.cn/upload/accessory/20172/20172201624516937087.pdf>

Degradation of agricultural land in Pakistan too is linked with the CPEC, which will affect fertile areas in the mountains of north-western Pakistan (Ebrahim, 2017, June 23; UNESCAP, 2017, p. 10). New road and train networks will result in deforestation and agricultural land degradation (Ali, 2018, p. 17; Sadaqat, 2017a, May 4). New dam projects, on the other hand, may trigger erosions and soil salinization in riparian territories, especially in rural Sindh. Both dam projects and coal energy generating measures such as the Port Qasim Power Project already affected some riverbank forests and mangroves in the coastal areas of Sindh and Baluchistan (APP, 2015, December 28; Nazar, 2016, March 4; Saif, 2017a, September 7). Environment threatening technologies used by Chinese and Pakistani companies are also worth considering (Ebrahim, 2017, June 23). While the creation of tunnels could reduce emissions by shortening the length of roads, it could also cause erosions and landslides (Khwaja, 2018, March 29).

Water consuming construction works and poor water management¹⁸⁰ will further intensify water issues in Pakistan (Domínguez, 2015a, July 2; Ebrahim, 2017, June 23).¹⁸¹ It is worth mentioning that Pakistan has one of the world's highest water consumption rates, i.e., the number of cubic meters used per unit of GDP. Massive use of water resources for the construction of infrastructure as well as coal-power plants results in additional water stress (Khwaja, 2018, March 29). Some even predict¹⁸² that Pakistan will face a water famine by 2025 (Qazilbash, 2017) or 2040 (Baloch, 2018a, June 7).

According to the 2017 Global Climate Risk Index, Pakistan is among the ten states most affected by climate change (Kreft, Eckstein, & Melchior, 2017). The country's paradigm shift towards coal-fired power plants will not improve the situation (Ali, 2018, p. 17). Natural resource extraction through mining and other anthropogenic activities will further pollute the environment (Sarwar, 2016, July 30). Many mineral resources are being exploited in resource-rich Baluchistan, where minerals are often extracted illegally, violating international labour standards and creating conflicts between stakeholders and interest groups.¹⁸³ The activities of Chinese mining companies and Pakistani military firms could change the nature of Pakistan's mining sector and intensify environmental and human impacts. Several

¹⁸⁰Michael Kugelman said in an interview that people in Pakistan usually don't have to pay for water. Furthermore, water is underpriced and untaxed, especially in the agricultural sector. In consequence, there are no incentives and little awareness for the need for water conservation (Domínguez, 2015a, July 2).

¹⁸¹The surface-water and groundwater interact with each other in numerous ways: the former gains water and solutes from the latter and vice versa (Winter et al., 1998, p. iii). Pakistan is facing a threat of surface-water scarcity, but is also confronted with the groundwater depletion (Domínguez, 2015a, July 2).

¹⁸²For example, there are reports by the United Nations Development Programme (UNDP) and the Pakistan Council of Research in Water Resources (PCRWR) alerting that Pakistan will reach absolute water scarcity by 2025 (Baloch, 2018a, June 7).

¹⁸³For more information on mining in Pakistan, see Geological Survey of Pakistan.

species not be able to adapt to the new environmental conditions will be expelled from their original habitat.

Despite some efforts and programmes¹⁸⁴ to halt environmental degradation, the quality of the environment in Pakistan continues to deteriorate (EEAS, 2017, p. 13)—no less because its main causes are systematically ignored. For instance, Pakistani authorities failed to assess the environmental impacts of CPEC projects in a comprehensive manner. They haven't conducted any economic cost-benefit analysis or any Environmental Impact Analysis (EIA)¹⁸⁵ regarding environmentally unfriendly projects such as coal power plants (Baloch, 2018b, April 18). Both Chinese and Pakistani governments try to downplay the risks involved, emphasising that projects are in line with the principles of environmental sustainability. Resource exploitation lies under federal authority, while the management of environmental impacts is in the hands of the provincial administrations. The central government, however, is indifferent to the protection of the natural environment and doesn't provide the regions any funds so as to build the technical capacities needed to conduct an impact analysis (Ebrahim, 2017, June 23).

Cooperation between Islamabad and Beijing regarding the incorporation of environmental aspects into the CPEC's planning, especially regarding the conservation biodiversity, is rather vague. In fact Pakistan doesn't even have sufficient environmental legislation (Khwaja, 2018, March 29):

Environmental legislation in Pakistan is fairly well developed.¹⁸⁶ However, implementation on the ground remains extremely weak as the institutional set-up is inefficient and essential human, administrative, technical and financial resources are not available (EEAS, 2007, p. 13).

CPEC decision-makers in Pakistan undermine the country's environmental legislation. Numerous CPEC projects lack an Environment Impact Assessment (EIA) or the so-called No Objection Certificate (NOC). When an assessment is done, the

¹⁸⁴A 'Billion Tree Tsunami Afforestation Project' was launched in 2014 by the KPK government as a response to global warming (Hutt, 2018, July 2). The programme can help mitigate negative impacts of deforestation. Similar measures include the 'Pakistan Navy Mangroves Plantation Campaign 2018' aiming at the afforestation of two million mangroves, raising environmental awareness and supporting 'Green Pakistan' (APP, 2018, May 4).

¹⁸⁵Kaiser Bengali in an interview with Shahzada Irfan Ahmed (2017c, September 3) even states that no EIA was done so as to assess the environmental costs of CPEC projects.

¹⁸⁶The Section 12 of the Environmental Protection Act 1997 demands an Environmental Impact Assessment (EIA) (Khalid, 2017, December 26). In 2005, the National Environmental Policy (NEP) was finalised as a kind of overarching strategy to achieve the UN sustainable development goals (SDGs). In order to support the NEP, the Pakistani government also formulated a Natural Disaster Management Ordinance (2006) supposed to provide the necessary structures for the country's administration to implement policies formulated under the National Disaster Management Framework (EEAS, 2007, p. 13). Additional environment-related policy measures include the Drinking Water Policy (2009), National Climate Change Policy (2012), Framework for Implementation of Climate Change Policy (2014), National Forest Policy (2016). For more information, see the Ministry of Climate Change, Government of Pakistan: <http://www.mocc.gov.pk/policiesDetails.aspx>

results are rarely made public. For example, the National Highway Authority (NHA) conducted an EIA for a road infrastructure project in the KPK, but did not share its findings with the provincial Environment Protection Agency (Khan, 2017d, June 27) Ongoing CPEC projects are most likely not in line with the Environmental Protection Act (2014) of Khyber Pakhtunkhwa.¹⁸⁷

Pakistani executive authorities usually ignore decisions by the judiciary which do not favour the CPEC. The Lahore High Court (LHC), for instance, which ordered the suspension of the Sahiwal coal plant on environmental grounds in 2015, noted that the new plant would be located in the ‘centre of Pakistan’s best agricultural fields and would affect the health of humans, animal and crops besides affecting nearby industry’ (News, 2015, October 5). Numerous CPEC coal-fired power plants projects both infringe the right to life and violate the doctrine of public trust,¹⁸⁸ which obliges the government to preserve a share of natural and cultural resources for public use (Ebrahim, 2016a, July 5). However, the judiciary’s decision was completely ignored (Walker, 2016, September 23). Also, no EIA was done in this case, although the court claimed that it was conducted in a ‘cursory manner and with undue haste without involving the concerned shareholders’. The delivered report contained ‘discrepancies and errors which are deliberately motivated to push the project through in an illegal manner’ (News, 2015a, October 5). Both Islamabad and the provincial government of Punjab ignored the court’s verdict and proceeded with the project, defending that energy projects are a matter of national interest (Walker, 2016, September 23). CPEC projects thus weaken the checks and balances system, undermining the sovereignty of Pakistan’s highest judicial benches.

The impacts of the CPEC are linked with ecological insecurity and environmental degradation as well as poverty (Ramay, 2018, January 15; Naureen, 2009). Regional conflicts within Pakistan are increasing. Growing environmental damages heighten public resentment among local populations across all four CPEC functional zones in Pakistan, threatening the implementation of the projects¹⁸⁹ (Khan, 2017d, June 27; Torwali, 2017, August 22). Islamabad and Beijing must agree on international environmental standards and implement these in a comprehensive manner. Pakistan’s executive authorities need to respect national environmental legislation as well as institutional areas of jurisdiction. Beijing, on the other hand, needs to end its double environmental standards and apply its green vision beyond national borders. Furthermore, substantial measures need to be conducted by CPEC decision-makers so as to mitigate long-term impacts on the environment (Ali,

¹⁸⁷For more details on the Khyber Pakhtunkhwa Environmental Protection Act, see Khyber Pakhtunkhwa Act No. XXXVIII of 2014: <http://www.pakp.gov.pk/2013/acts/the-khyber-pakhtunkhwa-environmental-protection-act-2014/>

¹⁸⁸The ‘public trust doctrine’ refers to the ‘principle that certain natural and cultural resources are preserved for public use, and that the government owns and must protect and maintain these resources for the public use’ (Cornell Law School, Legal Information Institute). For more information, see LII: https://www.law.cornell.edu/wex/public_trust_doctrine

¹⁸⁹For example, the construction of Hazara Expressway was temporally stopped due to local protest linking several cities from Punjab province with cities in KPK (Khan, 2017d, June 27).

2018, p. 18). Chinese and Pakistani authorities both need to consider local concerns regarding environmental protection: the ‘vulnerable ecological consequences and adverse contributions towards climate-change, cannot justify CPEC’s possible projected economic monetary benefits’ (Sternberg, 2017, December 12). And lastly, the authorities must realise that the ‘visionless faith’ in CPEC as mere propeller of economic growth can bring more harm than good by damaging the environment as well as the countries’ international image and credibility (Daily Times, 2017, November 9; Khan, 2017d, June 27).

6.18 Absence of Crucial Inhibitors (Veto-Actors and Market Distortions)

6.18.1 Healthy Civil-Military Relations

Pakistan is plagued by extremely unhealthy civil-military relations.¹⁹⁰ The country’s armed forces, especially the army, constitute the most powerful veto actor in the political arena—able to influence all crucial decision-making processes, including national budget allocations and economic policies. For example, the military is capable to exclude the defence budget from any cuts undertaken under most IMF-supported programs (IMF, 2002, p. 141). An essential share of national resources is traditionally bonded by security and defence-related portfolios, giving civilian governments only limited opportunities to invest in the long-term social and economic development of the country. Moreover, the overblown defence budget absorbs resources required for the build-up of essential facilities needed to ensure a smooth functioning of the CPEC and attract investors.

The military also dominates the country’s foreign policy. There is a strong security paradigm in Pakistan’s international relations—combined with an extraordinarily suspicious attitude towards neighbours, especially India and Afghanistan. All civilian rapprochements attempt in India-Pakistan and Afghanistan-Pakistan relations were undermined by the soldiers. Sustainable economic and trade relations are difficult if not impossible. This is terrible for the CPEC since it reduces opportunities to extend external connectivity and favours competing economic and transit corridors such as the Indian supported Iran-Afghanistan transit infrastructure projects via the Chabahar port and the Asia-Africa Growth Corridor (AAGC).

Some experts argue that the initial CPEC arrangements, which are obviously disadvantageous for Pakistan, were influenced by the army. Concretely, in order to ensure Chinese support—not only for development projects but also for security and defence related purposes—the military top brass was willing to accept deals clearly favouring Chinese interests. A Pakistani senior journalist of the International Crisis Group stated that ‘the military sees CPEC as a counterforce to a hostile U.S. and

¹⁹⁰For more details on the status of the civil-military relations in Pakistan, see Chap. 9.

India. It will latch on to China even if the deals [under CPEC] are unfair to Pakistan' (ICG, 2018, June 28, p. 4). Military influence led to a situation in which 'perceived geopolitical gains could also take precedence over economic ones' (ICG, 2018, June 28, p. ii).

Unhealthy civil-military relations in Pakistan have a tremendous negative impact on the implementation as well as the sustainability of the CPEC. Furthermore, there are clear indications of a struggle between the military top brass and the civilian leadership regarding the oversight of the CPEC (BTI Pakistan, 2018, p. 35) which leads to further deteriorating relations creating a vicious circle.

6.18.2 Absence of MILBUS

The CPEC is not only encouraging but also giving more opportunities for the military to become engaged in business activities. The phenomenon of 'military in business' (MILBUS) in Pakistan is not new (Siddiq, 2009). Over time, soldiers became so deeply entrenched in corporate affairs that the country's armed forces today are the largest actor in Pakistan's economy and run a large network of firms. Three of these military business entities, which Ayesha Siddiq (2009, pp. 114–117) categorizes as public sector organizations, are most remarkable in the context of the CPEC—namely the Frontier Works Organization (FWO), the Special Communications Organization (SCO), and the National Logistics Cell (NLC).

Established on 31 October 1966, the FWO is not only the construction and engineering wing of the Pakistani Army but also the country's largest contractor for major public sector projects focusing on construction of roads, railway lines, airfields, dams, and power projects. Its initial mission was to carry out civil engineering projects in difficult and inhospitable areas such as the construction of the Karakoram Highway—which was its first mission.¹⁹¹

The SCO was established in 1976 with a focus on the development, operation and maintenance of telecom services in the regions of AJK and Gilgit Baltistan. As an army establishment, it is jointly controlled by the signals directorate of the service (Pakistan Army Corps of Signals) and the Ministry of Information Technology (Siddiq, 2009, pp. 116–117). Today the SCO is the largest telecom network/service provider in the above-mentioned regions, providing services to both public and private sectors.¹⁹²

Founded in 1978 by the army, the NLC deals with the provision of freight services, construction of dry ports and storage infrastructure, tolling services, and even building highways and bridges. Currently the NLC is the largest transportation company in Pakistan—with one of the largest public sector transport fleets in Asia

¹⁹¹For more information, see Frontier Works Organization: <https://www.fwo.com.pk/extensions/overview>

¹⁹²For more information, see Special Communications Organization: <https://www.sco.gov.pk/aboutus>

(Siddiqi, 2009, pp. 114–115). The strategic management of the company is subordinated to the civilian Ministry of Planning and Development.¹⁹³

There are no doubts that the FWO contributed tremendously to the successful construction of new and the improvement of existing CPEC road networks, and that it achieved this at a remarkable pace. The NLC and the SCO also perform key functions in the implementation of other ‘first-phase’ (or ‘early harvest’/EHP) CPEC projects. However, their immense engagements in the corridor initiative have also tremendous ramifications for Pakistan’s economy.

Firstly, due to the strong military influence in CPEC decision-making, companies like the FWO, NLC and SCO were able to win over almost all projects not awarded to Chinese firms. The CPEC is increasing the military’s role in Pakistan’s economy. Even before the start of the corridor, companies linked to the armed forces were able to dominate numerous economic sectors such as cargo transportation, road construction, fertilizers and cereal manufacture (Siddiqi, 2009, p. 237). Military business entities will likely further strengthen and extend their monopolies into other sectors as well. Geographically restricted in its area of operations by the Telecommunications Reorganisation Act of 1996, the SCO was able to build-up a monopoly in the telecommunication sector in AJK and Gilgit-Baltistan. The SCO owns the new fibre optic cable, which was constructed as the first ‘Information and Communication Technology’ (ICT) project of the CPEC scheme. It connects China with Pakistan via the with Khunjerab Pass in ‘digital terms’, and provides the military-run telecommunication company additional market leverage (Bhutta, 2018, July 13). The PTA (Pakistan Telecommunication Authority) awarded the SCO with the right to run 3G and 4G mobile services in Gilgit-Baltistan and AJK, which was made possible through the new fibre optic cable needed for ICT infrastructure (Ali, 2018a, April 26; Mamir, 2018, August 12).

Earlier attempts by the SCO to extend their business activities beyond the areas of AJK and Gilgit-Baltistan were blocked by the civilian government (Shahid, 2017b, August 18). However, in October 2017, the National Assembly Standing Committee on Information Technology approved a proposal allowing the SCO ‘to operate commercially and compete with the private telecom operators’ (Shahid, 2017a, October 25). According to the Freedom House, ‘this move will mark the entry of a state-funded and military-run company into the telecom sector at the national level, raising concerns about the potential threat it poses to competition, as well as the privacy of users’ and ‘has also been opposed by leaders in the private sector’ (FH, 2018, November 1). These concerns seem to be confirmed by the envisaged extension of fibre optic cables to Gwadar and other destinations in the country’s for provinces—also as part of the CPEC’s digital component.

According to critics, SCO countrywide operations will have ‘an adverse impact on the growth of economy in general and the telecom sector in particular, risking millions of dollars as direct foreign investments by cellular companies’ (Shahid, 2017b, August 18). The SCO demands a free licence to run its services across the country and an amendment to ‘the law for tax exemption on its income, assets, turnover and sales and

¹⁹³For more information, see National Logistic Cell: <http://www.nlc.com.pk/>

customs duties on its imports and exports' (Shahid, 2017b, August 18). Such measure would further hamper the growth of a free telecommunication market in the country. The CPEC would provide the SCO the opportunity not only to extend its activities nationwide—which is not in line with the original rationale behind the formation of this organization—but also entrust her with undue advantages over private sector competitors, especially Small and medium-sized enterprises (SMEs).

Secondly, CPEC implementation will strengthen the public sector at the expense of private agents. Most CPEC infrastructure projects are designed so that only companies with huge technical, human, and financial assets as well as managerial and logistic capacities are able to consider their involvement. Such requirements clearly favour the vast Public Sector Companies (PuSCs), especially those controlled by the army. In other words, the CPEC allows military business entities not only to grow further but also to ensure more economic perks and prerogatives—thus limiting the 'level playing field' for private sector firms.

Thirdly, another impact of the emergence of an CPEC-MILBUS nexus is the 'militarisation of the public sector'. This should be not interpreted as a 'takeover' of the country's 'civilian' commercial and non-commercial PuSCs but rather as a process which can be called a 'military-pushed crowding out' from the market. One of the most remarkable examples is the case of the marked displacement of the Pakistani Railway in the cargo (and partly passenger) transportation. During the last decades, the competitiveness of the country's state-owned (civilian) PuSC Railway company was systematically undermined due to political influence by private interest groups, foremost road transport and bus companies. Additionally, the Pakistan Railway lost much of its cargo business to the NLC—which was most harmful since the essential revenue for a railway company comes from freight haulage. The CPEC focus on road infrastructure will further help the NLC to strengthen its position in the cargo transportation market. Despite the fact that the CPEC includes several projects aiming at the improvement of the rail network, the Pakistani Railway is unlikely to regain ground in the transportation business since it lacks investment in its outdated—and comparatively small—rolling stock of locomotives and wagons (Khawar, 2018a, March 6). Furthermore, the 'Pakistan Railway must go towards institutional and financial reforms to turn around the entity and make it profitable' (Khawar, 2018a, March 6) so as to benefit from the CPEC.

Fourthly, the CPEC allows the military to push its strategy of 'monopolizing of land'. It is a well-known fact that due to an expansionist policy in land acquisitions—both urban and rural areas (especially agricultural)—the military is today the largest landowner in the country. There are clear signs that the CPEC is used by the armed forces so as to extend their land properties. For instance, it is reported that all three branches of the armed forces—or companies controlled by them—are acquiring huge areas in Gwadar as part of the corridor project (Muhammad, 2015b, November 12). These land acquisitions will help the military gain monopoly over land and related resources but also strengthen their positions vis-à-vis other stakeholders such as the feudal-political elites and local communities. Increase in land-ownership not only leads to the accumulation of assets but also to an increasing political clout which helps the military institutionalize their economic interests and further monopolize state resources.

Fifthly, military rhetoric justifying their involvement in business activities reveals that the army top brass is instrumentalizing its role in the corridor development so as to strengthen the ‘strategic saviour paradigm’. The CPEC helps the military to enhance its image as the state’s guardian and the only national institution capable to implement initiatives of such an extraordinary magnitude. This rationale not only justifies the obtaining of disproportionate opportunities for its own economic entities (Siddiq, 2009, p. 239) but also ensures the dominance of security-orientated considerations over sustainability (especially with respect to economic cost-benefit calculations) in development projects. The dominance of the security paradigm also contributes to the complicated relations between the central government and the regions.

The successful implementation of an economic corridor requires the absence of the MILBUS. Yet Pakistan’s economy is plagued by omnipresent military business activities—combined with control over decision-making and exclusive access to state resources. The military highjacked the implementation of many CPEC. CPEC-related income will provide the military with further financial autonomy which would strengthen their political control over the state and its resources. This additional political power will provide more economic privileges, helping the military top brass gain even more leverage within governance and state administration. A phenomenon which Siddiq describes as a ‘cyclic process’ (Siddiq, 2009, p. 248). The corridor not only functions as a catalyst for MILBUS but also distorts free market rules and processes and undermines the opportunities of the government to oversee the armed forces.

6.18.3 No Economic Monopolies and Prerogatives of State-Agencies

The existence of veto actors significantly hampers Pakistan’s economic development and growth. Most noteworthy is the undermining of necessary economic reforms as well as the effectivity of domestic resource mobilisation, including tax-based as well as non-tax revenue generation. There are find numerous examples of how overall economic performance suffers due to the monopolies and prerogatives by a few selected actors in the country’s economy. Beside the strong military influence in the country’s politics and economy, Pakistan shows a serious weakness in its administrative- bureaucratic institutions, especially its law enforcing authorities. The IMF concludes that ‘widespread corruption, clientelist practices, and recruitment procedures based on patronage explain at least in part the difficulties in enforcing basic rights and duties in different areas’ (IMF, 2002, p. 141). It is further stated that ‘most ministries use the large discretionary powers that these deficits imply in order to build up their own network of patronage relationships and therefore enhance their standing in the all-embracing web of political alliances’ (IMF, 2002, p. 141). The impacts of patronage are especially crucial, when one considers the strong interest groups present in Pakistani politics.

Here, besides corporate interests by the armed forces, there are the activities of feudal elites and traditional clientelist networks (especially wealthy dynastic clans)—all of which lead to distortions of a free economic market development, and especially to reductions in business opportunities for citizens in smaller provinces and other underprivileged areas.¹⁹⁴ According to a United Nations Development Programme (UNDP) report, in Pakistan 22 families are in control of 66% of the country's industrial assets. This observation was made in 1968 by then Chief Economist of the Planning Commission of Pakistan, yet experts argue that 'it remains relevant today due to rising inequality in a country where the richest 20pc consume seven times more than the poorest 20pc' (Junaidi, 2016, July 30). Referring to experts, Michael Kugelman points out 'that about 2% of Pakistani households own nearly 50% of land' and '5% of agricultural households own nearly two thirds of Pakistan's farmland' (Kugelman, 2013, January 3).

The ownership and control over such large areas entrust the landlords, which are generally described as 'feudal elites', with tremendous influence over all spheres of public and private life. It is reported that Pakistan's 'feudals' possess social, political, legal, and religious power to such a degree that they control not only land but also the people living on it. According to experts, these feudal elites created over time 'states within the states' with influence over the police, bureaucracy and judiciary, including the maintenance of their own private armies and prisons (Dawn, 2012, November 4). Landlords act with impunity on their 'territories' and maintain a firm grip over the locals. These entirely dependent local communities often serve as vote banks for their landlords during election times.

Despite some land reforms, urbanisation and industrialisation processes, it appears that the leverage by feudal elites is still extraordinary strong—and their patronage networks still very influential (Khan, Dasti, & Khan, 2013, p. 139). Links with the military and bureaucracy so as to further influence the political sphere helped to safeguard power and interests not only at the local but on a national level. It is stated by experts that at least 75% of the Pakistani government's legislative branch is composed of landowners (Mustafa, 2014, August 21). Furthermore, due to their vast financial assets, which were partly shifted from the agricultural sector into the industrial (Khan et al., 2013, p. 135), they are also able to benefit from industrial growth as well as extend their economic patronage networks. The existence of such a feudal system has tremendous ramifications for the CPEC initiative.

Firstly, it fosters a certain mindset within Pakistan's leadership—including acceptance of impunity, corruption, and patronage as structural features of the country's political decision-making process and implementation.

¹⁹⁴For example, it is reported that cargo business from the Sost dry port in G-B will be shifted to Haveli in the Hazara district of KPK (Khan, 2017e, December 12) due to partisan interests by national elites. Sost has been a historical hub of trade and transit activities because of its close proximity to Kilik Mintaka Pass, Misgar and Chuparsan valley, serving as a gateway to China. This move will adversely affect established local businesses since economic interaction is moved out of the area—leading to the (Khan, 2017e, December 12) loss of at least 10,000 jobs in underdeveloped G.B (Muhammad, 2015a, November 16).

Secondly, it further enhances the propensity by decision-makers and respective lobby groups to value private benefits over national development.

Thirdly, these feudal elites may identify modernisation and economic development in their areas of control as weakening their power base. A successful implementation of the CPEC could offer many opportunities for the local people to escape their landlords' power.

Fourthly, some observers argue that the feudal system is partly responsible for the inadequate educational system, especially in rural areas. Inherent inequalities within the educational system reflect the 'ossified economic and social structure' and create 'less room for the country to innovate and build or use human capital' (Kristof, 2009, August 1).

Fifthly, the existence of feudalism functions as a catalyst for other maldevelopments hindering the CPEC. For instance, as feudal elites and the military share an interest in maintaining and achieving more land ownership, 'the army also contributes to and benefits from feudalism, unconsciously. One of the benefits army officers get for their service is agricultural land, which they then rent out to larger landowners' (Mustafa, 2014, August 21). Feudalism in Pakistan helps the military to safeguard their economic interests and political power.

Additionally, besides the close collaboration between powerful interest groups regarding land issues, one can identify similar processes in other economic sectors. Most remarkable is the so-called 'enhancement of cartelization', for example in the electricity¹⁹⁵ and telecommunication markets.

Considering the already entrenched tendency for cartelization in the Electric Power Market and after observing how power generating companies enforce their interests vis-à-vis the National Electric Power Regulatory Authority (NEPRA)—at the expense of consumers¹⁹⁶—in the context of the CPEC, there is the imminent threat that the corridor will lead to further cartelization and the undermining of regulatory frameworks (and agencies). It seems that the PTA is increasingly challenged. The SCO was able to file a successful petition against PTA's decision to break the monopoly of the military's telecommunication company in Gilgit-Baltistan (Ali, 2018a, April 26).

Feudal elites—with the support of corrupted and/or weak state-agencies—will be able to impede future economic and land reforms as well as development projects perceived as unfavourable. This is important because the CPEC is entering a new phase supposed to much improve the agricultural sector. It needs to be seen whether feudal elites might appear as constructive stakeholders in agricultural CPEC projects or continue to function as veto-actors in Pakistan's social and economic development.

¹⁹⁵See also Competition Commission of Pakistan (2011, May 12). Enquiry Report. In the matter of Cartelization between Electric Power Equipment Manufacturers. Pakistan Government of Pakistan. http://www.cc.gov.pk/images/Downloads/pel_et_al_enquiry_report_20_sept_2011.pdf

¹⁹⁶The power generating companies were able to force the NEPRA to enact a clause which allows to pass certain costs of the CPEC energy projects on the electricity price. Latter is contradicting the mission of NEPRA to protect the interests of the consumers. See for more information, Sect. 6.13.

Chapter 7

The GSP+ Conundrum and the CPEC's Impact on EU-Pakistan Economic and Trade Relations



7.1 The Genesis of EU-Pakistan Relations

According to official statements, the relationship between the European Union (EU) and Pakistan has evolved into an economic and developmental cooperation (EEAS, 2007).¹ The economic re-emergence of the EU on one hand, and Pakistan's need for development and industrialisation on the other, changed Islamabad's perception of Europe and uncovered the benefits of a potential partnership (Lieven, 2002). Officially, the relations between Pakistan and the then European Economic Community were established through the signing of an agreement in 1962, and were followed by the first comprehensive agreement in 1976 that further intensified trade and economic ties (Ballesteros-Peiró, 2015, May 14; DRI, 2016a, p. 6). EU-Pakistan economic relations became even closer during the 1990s with the EU's efforts to support democracy capacity-building in Pakistan. This was fostered both by economic and political reforms in Pakistan and by the EU's willingness to play a bigger role in world affairs. The so-called war on terror became a catalyst in arousing the EU's interest in South Asia.

Since 2001 Pakistan has become of crucial interest for many European countries, particularly because of the increasing threat of Islamic radicalism and the war on terror in South Asia—issues until then considered marginal. The geostrategic importance of Pakistan increased dramatically after 9/11. The involvement of European forces in Afghanistan as well as the fear of terrorist attacks placed the issue of Pakistan on the agendas of not only European defence and foreign ministers' meetings but also European leaders. However, several factors restricted the debate. First, less attention was given to Pakistan's internal situation than to either Afghanistan or other geopolitical issues in South Asia. The military operation in Afghanistan was at the centre of all attentions. Pakistan was additionally still viewed through the prism of

¹See also website of the Delegation of the European Union to Pakistan, Pakistan and the EU: https://eeas.europa.eu/delegations/pakistan_en/1327/Pakistan%20and%20the%20EU

aid policy and economic relations.² Moreover, this was also the period of disputes between the EU and the USA over the ways and means of solving the 'Iraqi crisis' (Zajackowski & Wolf, 2014, p. 140). Because Islamabad was of secondary importance at that time, issues regarding the role of Pakistan are yet to be properly addressed.

The EU's political and defence identity was solidified by establishing the European Security and Defence Policy (ESDP) bodies. It was supported by the dispatch of military and police missions, as well as by the appointment of the EU Counter Terrorism Coordinator; all these factors helped intensify the debate on the role and importance of Pakistan, both for the EU's policy in South Asia and for counter-terrorism purposes. European decision-makers decided to institutionalise relations with Pakistan and clarify EU policy in relation to Islamabad. The EU initiated several multidimensional attempts to strengthen its relationship with Pakistan. As a legal and political basis for closer ties, the EU and Pakistan signed a third Generation Cooperation Agreement (Cooperation Agreement on Partnership and Development) which entered into force in 2004 (EC, 2004).

In line with Pakistan's policy priorities, the EU's key objectives for the 2007–2013 period (as per the Strategy Paper for Pakistan) vis-à-vis Islamabad were poverty reduction, development, stability, trade, and education (EEAS, 2007), as well as integration of Pakistan into the world economy, human rights protection, and democratisation. These priorities are addressed via the Multi-Annual Indicative Programme (MIP) which provides assistance mainly in the form of financial support (EEAS, 2014). Prior to that, the EU-Pakistan 5-year Engagement Plan 2012–2017—supposed to further widen and deepen cooperation between the EU and Pakistan—was launched within the framework of the Lisbon Treaty (EEAS, 2012).³ The endorsed agreement intended to improve trade, economic cooperation and development, as well as address the issues of regional security, counter terrorism, narco-trafficking, and organised crime. Among other determinants of the 5-year plan were the strengthening of democratic institutions, civilian-administrative structures, and civil society. The signing of a Memorandum of Understanding on civilian capacity building for law enforcement took place in Pakistan in November 2010, creating the National Counter-Terrorism Authority (NACTA) as well as the support for provincial police forces in Khyber Pakhtunkhwa (KPK) and Punjab (Muzaffar, 2010, November 24; Sultana, 2013, p. 41). Earlier that year, following the 2010 floods, the EU granted an exceptional package of autonomous trade concessions to

²For the 2002–2006 period, the Commission's support focused largely human development, especially through provincial-level basic education programmes. The Sindh Province received 39 million Euros in financial support to implement its basic education policy while projects implemented by the Aga Khan Foundation to improve education delivery in Pakistan's isolated Northern Areas received a total of 30 million Euros. Pakistan also received budgetary support of 50 million Euros to develop microfinance for small and medium-sized enterprises. See for more details: http://ec.europa.eu/europeaid/where/asia/documents/pakistan_recent_assistance_en.pdf

³According to the EU Ambassador to Pakistan, Jean-Francois Cautain, the EU is now in the process of finalising the new engagement plan (Strategic Engagement Plan/SEP) (Rana 2018a, January 23).

Pakistan on humanitarian grounds (DRI, 2016a, p. 6). Furthermore, the EU-Pakistan Strategic Dialogue was established in 2012 with an aim to provide political guidance within EU-Pakistan relations.⁴

In addition to official documents, the EU started increasing its physical presence in Pakistan. The European Commission opened an office in Islamabad in 1985, which was later upgraded to a full-fledged EU Delegation monitoring trade and development cooperation the Humanitarian Aid and Civil Protection department of the European Commission (ECHO) opened its office in Islamabad in 1992.⁵ Today, besides the EU Delegation to Pakistan,⁶ another body providing further insights into existing collaboration is the EU-Pakistan Joint Commission⁷ which is complemented by a foreign and security policy dialogue at senior official level (Zajaczkowski & Wolf, 2014, p. 141). Regular expert level meetings are also held to discuss urgent matters regarding international affairs, non-proliferation, counter-terrorism, and migration issues. In May 2007, the EU and Pakistan set up working subgroups on trade (under Joint Commission), governance and human rights, as well as development cooperation (EEAS, 2016, November 24). All these initial endeavours to institutionalise the EU-Pakistan relationship culminated in the first EU-Pakistan Summit in June 2009, which discussed opportunities to broaden cooperation on a political scale.

One of the premises in the evolution of the EU approach towards Pakistan was a growing awareness amongst European decision-makers that peace in Afghanistan cannot be achieved without stability in Pakistan. Moreover, the ineffectiveness of US-led strategy under both the Bush and Obama administrations, the increasing role of the Taliban in Afghanistan since 2005, and the creeping process of the ‘Talibanisation’ of Pakistan have all compelled the EU to deepen its involvement in the region so as to prevent further growth of militant Islamic groups in the country. The EU realised that the lack of stability in Pakistan may endanger the EU and its inhabitants. As pointed out in the 2003 European Security Strategy (EES) document, the lack of strong state institutions in countries such as Afghanistan and Pakistan gives rise to terrorism and thus threatens Europe (EC, 2013). This is evidenced by terrorist attacks in Europe’s capitals, as well as by captures, murders, and attacks against Western citizens in Pakistan. According to the ‘Terrorism Situation and Trend Report 2011’, terrorism and its direct implications for Europe constitute the main rationale for the institutionalisation of relations with Pakistan (EUROPOL, 2011). The EU also underlined that previous perceptions regarding the Pakistani issue, namely a confinement to exclusively military matters, would not improve stability in the South Asian region. EU decision makers thus designed a comprehensive

⁴The EU-Pakistan Strategic Dialogue was held for the first time on 5 June 2012 in Islamabad.

⁵See for more information: https://ec.europa.eu/echo/where/asia-and-pacific/pakistan_en

⁶See for more information: https://eeas.europa.eu/delegations/pakistan_gl/1326/About%20the%20EU%20Delegation%20to%20Pakistan

⁷The EU-Pakistan Joint Commission is a group which meets at an annual basis to review the progress of the EU-Pakistan Five-year Engagement Plan.

strategy—covering social, economic, development, and political issues—as the best approach to ensure peace in the region, especially as regards combatting the growth of militant Islamic forces in Pakistan.⁸

However, the European strategy regarding Pakistan is not devoid of limitations and weaknesses. Apart from the intention to get more involved on political and strategic dimensions, decision makers did not transcend the economic paradigm which has traditionally defined Pakistan-EU ties. Neither the Cold War nor security-related developments after 9/11 changed much in this respect.

The EU used to view its relationship with Pakistan rather as a donor-recipient alliance (Abbasi, 2009, p. 3). Even after 9/11 EU-Pakistan relations remained largely constricted to trade and development cooperation.⁹ In practice, EU-Pakistan relations should not be seen through the prism of the EU's security framework—or through that of sustainable political dialogue. The EU-Pakistan Strategic Dialogue did not improve much in operational terms beyond a recognition of each other's strategic importance.

Although we observe a slight increase in security-related dialogue in EU-Pakistan relations, European perspectives on Pakistan continue to be determined by 'soft power elements'—the basis of Europe's long-term strategy (Zajackowski & Wolf, 2014, p. 131). Until recently, in order to strengthen its 'soft power', the EU relied heavily on instruments of economic and financial aid, as well as tools intended to strengthen the country's democratic process and socio-political fabric. Several attempts to improve Pakistan's political institutions were carried out. These were manifested through the deployment of election observer missions intended to strengthen the process of democratic transition (EEAS, 2013a, April 3; 2013b, March 11).¹⁰ Yet despite these 'new interests' in certain developments of Pakistan's internal affairs, one must state that bilateralism between Islamabad and Brussels is still dominated by a clear 'economization'. This happens at the expense of

⁸This was also pointed out by Alok Rashmi Mukhopadhyay (2009, June 12). In his analysis Mukhopadhyay refers to similar statements by the foreign minister of the Czech Republic (which held the EU Presidency for the first half of 2009) and by Gilles de Kerchove, the then EU Counter Terrorism Coordinator. Statements to the same effect had also already been made in December 2008 by the foreign ministers of EU Member States. Reports by special services of EU Member States in recent years also took note of increased terrorist ventures in Pakistan and in the Afghanistan-Pakistan border area. It was pointed out in the 2009 'EU Terrorism Situation and Trend Report' that 'Afghanistan and Pakistan seem to have replaced Iraq as the preferred destinations for volunteers wishing to engage in armed conflict' (EUROPOL, 2009; Mukhopadhyay, 2009, June 12).

⁹Most assistance by the European Commission, which was between 1971 and 2008 around 500 million, was spent on infrastructure and social programmes in Pakistan. Additional support was provided by individual aid schemes provided by Germany, France, and the UK (Islam, 2008, p. 3).

¹⁰The evaluation of the success of these missions lies outside the scope of this book but the usefulness regarding the achievement of the goal (strengthening the process of democratic transition) and explanatory power of the results of this mission should be viewed through a sceptical prism.

any European enthusiasm to become more involved in Pakistan's domestic affairs, especially human rights (including women's rights and labour rights), environmental protection, and the rights of religious minorities (USDS, 2016a, 2016b).

Nevertheless, perhaps because of this relative political indifference, Pakistan managed to extract several concessions beneficial for its economic and trade relations with the EU—such as preferential access to European markets (Ali, 2016a, b, c). This process peaked when Pakistan was granted the Generalised Scheme of Preferences Plus (GSP+) status. Considering the poor socio-economic and human development performance of Pakistan during the last decades—despite some latest improvements in the infrastructure and energy sector—Pakistan's need for the GSP+ status seems plausible. Proponents of this scheme believe that the GSP+ status will gradually improve Pakistan's economy, especially the textile and clothing sectors, which would most benefit from an unrestricted access to the EU's single market (Dawn, 2013, September 17; ITC, 2013, pp. 3–4). Furthermore, Islamabad perceives the GSP+ status as a matter of prestige that could help improve the country's tattered international standing (Wolf, 2014a, b, c, June 20; Malik, 2017, November 16).

The EU's imports from Pakistan have risen from \$6.90 billion in 2013 to \$8.08 billion in 2016 (EC, 2018b, April 16; 2017a, November 17). It was largely due to the benefits from GSP+ that the EU became Pakistan's most important and largest trading partner. The EU is now Pakistan's third largest import partner—imports from the group are now worth around \$4.78 billion, meaning a trade surplus for Pakistan of approximately \$2.14 billion in 2016 (EC, 2018b, April 16).

7.2 A Brief Introduction to the GSP and GSP+

Pakistan started to benefit from the Generalised Scheme of Preferences (GSP) in January 2014. The GSP scheme is a trade arrangement that allows developing countries to pay little or no duties on exports to the EU.¹¹ GSP programmes intend to help 'vulnerable'¹² countries improve their overall economic, social, and political conditions. Beneficiaries are given an opportunity to engage in international trade and earn additional revenues that can be used to reduce poverty and foster sustainable

¹¹ See for more details, European Commission (EC): http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/index_en.htm

¹² A potential beneficiary country must be 'vulnerable', meaning that the World Bank has not classified it as a high-income or upper-middle income country for three consecutive years (in other words, it is a beneficiary of the standard GSP) (DRI, 2016b, p. 1; UNCTAD, 2015, p. 6). Furthermore, a country is 'vulnerable' when its economy is not diversified—as measured by the fact that its seven largest sections of GSP-covered imports represent on average more than 75% in value of its total GSP-covered imports to the EU during the last three consecutive years. The 'Vulnerability' criteria is met when the country's GSP-covered imports to the EU represent less than 2% in value of total GSP imports as an average during the past three consecutive years (UNCTAD, 2015, p. 15).

development (DRI, 2016a, p. 4). The GSP agreement does not require beneficiary countries to grant tariff reductions or other benefits to the EU in return. The idea is to create a flexible scheme of preferences according to the individual needs of beneficiary countries.

The Generalised Scheme of Preferences Plus (GSP+) is a special component of the GSP scheme that provides additional trade incentives to developing countries already benefitting from the GSP. This component aims to provide more extensive market access than the standard GSP scheme. It provides beneficiary countries with duty free access to EU markets, covering 6400 products¹³ (DRI, 2016b, p. 1; UNCTAD, 2015, p. 9). The GSP+ is embedded in a political framework linking GSP status with a focus on the improvement of governance, democratisation, labour rights, and human rights in beneficiary countries (Wolf, 2014b, June 20). In return for trade benefits and incentives, recipient countries must ratify and effectively implement core international conventions in these fields (DRI, 2016b, p. 1).

One of the fundamental additions to the current regulations' eligibility conditions is the respect for the United Nations' (UN) conventions on terrorism. Beneficiary countries are required to monitor and implement 27 UN Conventions—fifteen of which address human and labour rights, while the other twelve refer to the issues related to the environment, good governance, and the fight against drug production and trafficking.¹⁴ Beneficiaries are also subject to assessments regarding actual efforts in combating terrorism. This includes not only counter-terrorism efforts directed against groups fighting the state and society of the beneficiary country in

¹³Listed in annex II to Regulation (EC/European Commission) No. 732/2008.

¹⁴(a) Fifteen conventions relating to core human and labour rights listed in annex VIII, part A: (i) Convention on the Prevention and Punishment of the Crime of Genocide (1948); (ii) International Convention on the Elimination of All Forms of Racial Discrimination (1965); (iii) International Covenant on Civil and Political Rights (1966); (iv) International Covenant on Economic Social and Cultural Rights (1966); (v) Convention on the Elimination of All Forms of Discrimination Against Women (1979); (vi) Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment (1984); (vii) Convention on the Rights of the Child (1989); (viii) Convention concerning Forced or Compulsory Labour, No. 29 (1930); (ix) Convention concerning Freedom of Association and Protection of the Right to Organize, No. 87 (1948); (x) Convention concerning the Application of the Principles of the Right to Organize and to Bargain Collectively, No. 98 (1949); (xi) Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value, No. 100 (1951); (xii) Convention concerning the Abolition of Forced Labour, No. 105 (1957); (xiii) Convention concerning Discrimination in Respect of Employment and Occupation, No. 111 (1958); (xiv) Convention concerning Minimum Age for Admission to Employment, No. 138 (1973); (xv) Convention concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, No. 182 (1999); (b) Twelve conventions relating to the environment, good governance and the fight against drug production and trafficking, as listed in part B of annex VIII: (i) Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973); (ii) Montreal Protocol on Substances that Deplete the Ozone Layer (1987); (iii) Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (1989); (iv) Convention on Biological Diversity (1992); (v) United Nations Framework Convention on Climate Change (1992).

For a complete list of the conventions with respective links to the text of the treaties, see: http://www.commerce.gov.pk/Downloads/UN_conventions.pdf

question, but also decisive measures against militant elements using national soil to facilitate terror attacks abroad, especially in neighbouring countries. In other words, the beneficiary country must act against domestic as well as international terrorism, foremost cross-border terrorism.

7.3 Violations of GSP+ Principles

There are severe doubts that Pakistan addressed any of the major areas of the GSP+ requirements in a convincing way (SADF, 2017a, November 6).

7.3.1 Pakistan's Double Game and Its Involvement in State-Sponsored Terrorism

Islamabad's civilian and military leadership have so far failed to effectively implement the UN conventions. Most importantly, the country is not willing to change its security policies towards Afghanistan and India. The top echelon of Pakistan's armed forces and intelligence are still unwilling to identify India as a non-enemy or interpret any engagement by New Delhi in Afghanistan as anything other than a national security threat (Haqqani, 2018, January 12). Pakistan has also not ceased to support or at least show goodwill for terrorist groups that destabilise the region, and continues to grant safe havens and diplomatic protection to internationally acting terrorists (Wolf, 2017f, January 6). The involvement in these types of state-sponsored terrorism leads to the accusation against Islamabad's of playing a double game (Khalilzad, 2018, January 3)—it combats anti-Pakistan terror groups while at the same time supporting terrorists operating in both India and Afghanistan.

7.3.2 Appeasement Policies by State Authorities Towards Jihadists and Religious Fundamentalists

The central government—and partly also the provincial administrations—provide financial and other forms of support for political, social and cultural fronts of Jihadi organisations such as the Jamaat-ud-Dawa (JuD)¹⁵ or the Falah-e-Insaniat Foundation (FIF). The government of Pakistan and its state agencies continue to systematically

¹⁵It is reported that the Jamaat-ud-Dawa (JuD), the political arm and charitable wing of the domestic and internationally banned terrorist outfit Lashkar-e-Taiba (LeT), received nearly one million USD from the government of the Punjab province (AFP, 2010, June 18). The financial support was granted despite the fact that the links between JuD and LeT were obvious.

appease religious fanatics at the detriment of religious freedom. For example, the JuD remains active without any impediment from law enforcement agencies, despite all indications that its rank and file is closely associated with both domestic unrest and international terrorist activities—as well as promoting global Jihad. The JuD advocates Jihad against Pakistan's neighbourhood and beyond while enjoying large-scale patronage by state authorities. Because of this state support, the JuD is able to run schools, mosques, and hospitals (Jamal, 2017c, August 8). By offering basic services which are not adequately provided neither by either federal or provincial governments, the JuD becomes deeply entrenched into the daily concerns of the citizenry and is able to build-up a strong support-base. For instance, by operating religious schools (locally known as madrassas), the JuD and other like-minded organisations are able to fill the gaps within the public schooling system and address demands for education. Yet JuD-supported madrassas are not places where children can learn open-mindedness and critical thinking. Instead, these schools serve as centres producing religious hardliners with an ultra-conservative, intolerant, anti-pluralistic, and often supremacist mind-set. Not that this phenomenon is limited to privately-run madrassas alone. It is reported by the US Commission on International Religious Freedom (USCIRF) that many Pakistani public school textbooks contain derogatory references to religious minorities¹⁶ and promote religious bias¹⁷ (USCIRF, 2015, p. 109; 2016; 2017, p. 63). The USCIRF, 2016, p. 1) further states that textbooks used in public schools teach distrust of non-Muslims and followers of any faith other than Islam, which are and portrayed as inferior¹⁸—a fact not changed despite having been pointed out years ago (USCIRF, 2011). Textbooks depict non-Muslim communities in the country as non-Pakistani or sympathetic towards Pakistan's perceived enemies. Pakistani Christians are categorised as Westerners (or equated with the former 'British colonial oppressors'), and Pakistani Hindus as Indians. These portrayals of course fuel

¹⁶Pakistan is a multi-ethnic and religiously diverse state with an estimated number of around 207 million people (based on the 2017 census). According to the last official census (conducted in 1998), 95% of the people identify themselves as Muslims. Among this Muslim community, 75% identify as Sunni and 25% as Shi'a. The remaining 5% of the country's population are non-Muslim, including Hindus, Christians, and Parsis (Zoroastrians, Baha'is, Sikhs, Buddhists, and others). However, in contrast to these official statistics, Christians and other minorities believe that their real numbers are significantly higher. Furthermore, an estimated two to four million Ahmadi consider themselves Muslim, yet Pakistani law does not recognise them as such (USCIRF, 2017, p. 61).

¹⁷In a report published in April 2016 (Teaching Intolerance in Pakistan: Religious Bias in Public Textbooks), the USCIRF states that while 16 problematic passages outlined in an earlier survey in 2011 were removed from textbooks, 70 new intolerant or biased passages were added. Fifty-eight of these passages came from textbooks used in the Balochistan and Sindh provinces, while 12 came from the Punjab and Khyber Pakhtunkhwa provinces.

¹⁸For example, the report asserted that 'in public school classrooms, Hindu children are forced to read lessons about the conspiracies of Hindus toward Muslims' and Christian children are taught that 'Christians learned tolerance and kind-heartedness from Muslims.' Additionally, a review of the curriculum demonstrated that public school students were being taught that 'religious minorities, especially Christians and Hindus, are nefarious, violent, and tyrannical by nature.' (USCIRF, 2016, p. 9)

pre-existing societal tensions and create a negative climate for Pakistan's religious minorities (USCIRF, 2017). In the word of Lisa Curtis (2016, p. 23), 'the growing patterns of religious intolerance and persecution of religious minorities in Pakistan are threatening the very fabric of Pakistani society and undermining democracy, not to mention putting the lives of millions of members of religious minorities in danger'.

7.3.3 Lack of State Protection for Minorities and Violation of Fundamental Human Rights

What worsens the situation is the fact that the Pakistani state fails to provide sufficient protection against sectarian and religiously motivated violence not only to its minorities but also as concerns the whole citizenry (USCIRF, 2015, p. 109). Most recent measures¹⁹ conducted by state authorities are mainly symbolic in nature since they are not reflected in concrete policy implementations and actual 'day-to-day' politics. Let's take as an example a decision of the Supreme Court of Pakistan in June 2014.²⁰ The country's highest judges mandated the federal government to establish a task force—above all a special police force to protect religious minorities, especially in their places of worship (Dawn, 2014, June 19; USCIRF, 2015, p. 109). However any special security unit dedicated to the protection of minorities has yet to be formed. Furthermore, the government was requested by the judicial branch to establish monitoring bodies—such as a national council or a commission to protect minorities' rights—so as to monitor the practical realisation of the constitutional and legal rights and safeguards provided to minorities. Besides providing oversight, such an institution would frame policy recommendations regarding the protection of minority rights and develop a strategy for both provincial and federal governments to promote religious tolerance (Curtis, 2016; Dawn, 2014, June 19).

¹⁹For example, the 16-point National Action Plan on Human Rights (announced in February 2016)—that includes a policy framework for legislative reforms; increased protection of women's, minorities', and children's rights; human rights education; international treaty implementation; and financial support to victims of abuses. Yet besides its announcement in February 2016, it is unclear how far any of this plan's envisaged actions were implemented (USCIRF, 2017, p. 65; EC, 2018a, January 19). The National Parliament also passed a Criminal Laws (Amendment) Act 2016, which provides for punishments for inciting religious, sectarian, or ethnic hate speeches, proliferation of hate material, forced marriages of women belonging to minority groups (leading to forced conversions) (USCIRF, 2017, p. 65). However, Pakistan lacks any realistic measure of accountability for people accused of blasphemy. Impunity for violent attacks against religious minorities remains prevalent (AI, 2017, pp. 283, 284, 286).

²⁰Pakistan's judicial apex body initiated suo moto proceedings under Article 184(3) of the country's Constitution regarding suicide bomb attack of 22.9.2013 on the Church in Peshawar (killing 81 people) and regarding threats being given to Kalash tribe and Ismailies in Chitral. See for the detailed judgement, Supreme Court of Pakistan, Islamabad, SMC No. 1/2014: http://www.supremecourt.gov.pk/web/user_files/File/smc_1_2014.pdf

After multiple delays and postponements, the federal government ‘officially’²¹ (and finally) created a National Commission for Minorities (NCM) under the Ministry of Religious Affairs. The impact of these new institutions, however, will likely be limited since the NCM has hardly any access to Pakistan’s top civilian leadership, notably the Prime Minister’s Office (Swett & Glendon, 2015, June 3), and no formal interaction with country’s armed forces. Furthermore, instead of promoting inter-faith harmony and improving the situation of religious minorities, the Ministry of Religious Affairs seeks to establish a special monitoring and complaint cell to oversee websites containing blasphemous, objectionable, biased, anti-state, and sectarian content—especially on social media platforms (PT, 2017, March 30). There are indications that these monitoring activities target religious minorities and spread religious, ultra-conservative thinking—and as such undermine the work of the NCM.

Through its inaction regarding the formation of an effective police force to safeguard minorities’ interests and the unwillingness to entrust the NCM with sufficient powers, Pakistan failed twice: first by violating international conventions on human rights, and second by blatantly ignoring a judgement by the Supreme Court. This weakens civilian institutions, especially the judiciary—which can be seen as the last functioning institutional bulwark against undue military intrusion into the country’s politics. By ignoring the country’s top judicial body, the executive branch attacks the balance of powers central to any democratic country—a ‘balance’ fragile enough as it is, considering the decade-old debasement of the nation’s legislative wing. Further and closer to our present interest, we see that instead of struggling against Islamising forces, national authorities continue to appease Jihadist groups.

7.3.4 Repressive Legal Environment, Weakening of Institutions, Governance, and Quality of Democracy

The resignation of Federal Minister Zahid Hamid—caused by the demands of a fanatic Islamist mob—indicates the rising influence of religious hardliners in Pakistan. Minister Zahid Hamid had to step down after weeks of large-scale protests staged by an ultra-conservative, fundamentalist cleric against a perceived softening of the country’s ‘blasphemy laws’ (Abbas & Rasmussen, 2017, November 27). These ‘blasphemy laws’ refer to the sections 295 and 298 of Pakistan’s Penal Code; they criminalise acts and speech insulting or defiling the Qur’an, Prophet

²¹According to some reports Pakistani state officials claim that an NCM does exist since 1995. One such statement can be found in Pakistan’s compliance reports to the UN treaty monitoring bodies, including that regarding the Convention on Elimination of Racial Discrimination in 2009. For more details on the contradictory statements by Pakistani officials regarding this issue see Jacob (2016, May 25).

Muhammad, places of worship, or religious symbols (USCIRF, 2015, p. 111; 2017, p. 62). These provisions, especially since they contemplate capital punishment or life sentence, are in clear contrast to internationally accepted common sense—as well as norms regarding religious freedom. Beliefs are protected over individuals. As such, blasphemy laws are inherently discriminatory and opposed to fundamental human rights (USCIRF, 2015, p. 111).

The fact that accusers are not required to present any actual evidence of blasphemy, which obviously leads to abuse and false accusations, shows the law in question to be ever more deeply flawed and discriminatory (USCIRF, 2017, p. 62). The country's 'blasphemy laws' violate both freedom of religion and freedom of expression. As such, they undermine secular thinking and acting (Swett & Glendon, 2015, June 3). These 'blasphemy laws' are not only still in force but are indeed vigorously applied by state authorities so as to suppress any potential political dissent (Husain, 2017a, b, January 9; Swett & Glendon, 2015, June 3). This challenges both the country's political-administrative institutions and fundamental human rights. It undermines the acceptance of democratic norms and values and creates an atmosphere within which Jihadi ideology can flourish. Jihadist organisations have no trouble building up an effective infrastructure inside Pakistan.

Other severe concerns include the mass disappearances of journalists, bloggers and activists known for being critical of Pakistan's powerful military, conservative circles, or certain government policies and projects such as the CPEC (Khilji & Saleem, 2017, January 14). Many of those rejecting the growing habit of self-censorship in Pakistan were illegally detained, tortured, and even killed—with indications of involvement by state security agents (FH, 2017a, 2017b). The government defended these practices by referring to its 'war on terrorism' and the necessity to protect the Pakistani people (EC, 2016a, p. 192; 2016b; SADF, 2017a, b, p. 22). The country's elite continues to implement repressive measures towards its own citizens and people in Pakistan-administered areas in order to protect their political and economic prerogatives—a phenomenon which can be traced back to colonial times. We witness an extraordinarily high level of human rights violations by Pakistan's security forces, a deteriorating situation regarding women and girls,²² horrendous working conditions for large sections of the workforce, and intensification of environmental destruction, among other unfortunate trajectories. It also becomes apparent that the proclaimed democratic consolidation linked to the first transfer of power among two elected governments in 2013 appeared as delusive. Especially if one looks beyond the technical aspects of holding elections. Many,

²²To further address the international conventions, Pakistan's government established also several other National Commissions on: (1) Human Rights, (2) the Status of Woman, and (3) Rights of the Child. Islamabad also conducted some legislative action like the enacting of new laws to improve the rights of children and women (and to reduce the tremendous gender inequality), for example anti-rape and anti-honour killing legislations in general, or more concretely the Sindh Early Marriage Restraint Act, 2013 and the Punjab Protection of Women Against Violence Act, 2016). Taken the increasing cases of sexual harassments and other types of violence as well as a high level of social and political discrimination (EC, 2018b, January 19; 2018a; Yusuf, 2016, September 24).

including European observers, interpreted the last general elections as a positive sign of transition towards a democratic form of governance. However, such analysis of this alleged 'new democratic impetus' ignore the resilience of decade-old authoritarian and anti-democratic patterns. One must observe that the military and civilian establishment (politicians and bureaucrats), composed of elites many of whom originate from a limited number of influential feudal families, still dominate all significant spheres of state and society. The omnipresent dynastic structures within Pakistan's political parties is crucial. With a few exceptions, all political parties are in fact modern expressions of powerful families with hereditary leaderships (Hussain, 2012, July 24). Hence, despite the tremendous political changes since independence, Pakistani electoral politics and legislature have remained largely a family enterprise. These families traditionally originate from rural landowning and ethnical backgrounds. They form a limited number of oligarchies only interested in securing their own partisan interests. Pakistan's political culture continues to be featured by clans, tribes, castes and kinship structures based on the Baradari (brotherhood) system—determining and perpetuating factors of dynastic politics (Alavi, 1972, pp. 1–2; Hussain, 2012, July 24). As Anatol Lieven puts it, 'the kinship group is the most important force in society, the power of kinship is inevitably reflected in the political system' (Lieven, 2011, p. 38). The Baradari is the basic institution of kinship which functions, among other roles, as local political groupings and core building blocks of local political leadership. Kinship networks play a vital part in maintaining the dominance of both rural-aristocratic and urban elites (Lieven, 2011). In this context, the only major societal change was the emergence of a new (post-independence) industrialist and business elites drawing their strength mainly from the support by the urban mercantile class of Punjab—as well as the rise of extremely influential families with military and religious backgrounds. However, instead of overthrowing the established feudal-aristocratic structure, the newly emerged 'economic elites' have extended rural-feudal logics. They helped further entrench the traditional feudal-tribal, patrimonial and personality-based style of politics in Pakistan (Hussain, 2012, July 24; Mustaq, Ibrahim, & Kaleem, 2013, p. 1). The kinship or Baradari system within Pakistan society is deeply entrenched and extraordinarily resilient. The feudal-societal structure works as an extraordinary anti-revolutionary force (Alavi, 1976; Lieven, 2011). The kinship system hinders the implementation of reformist policies, naturally identified as opposed to the interests by leading families.

7.4 The Rising Debate of GSP+ Status for Pakistan and Its Basic Rationale

In spite of all violations of UN conventions and the ongoing truncation of democratic processes, Pakistan 'passed the latest mid-term review' and was able to keep its GSP + status (EC, 2018c, January 19; 2018d, January 19; SADF, 2017a, b). Yet the number of observers questioning the EU's decision is increasing as the violations of

core GSP+ principles such as human rights, religious freedom, freedom of press, and labour standards persist. There are growing demands for EU institutions to competently investigate Pakistan's role in cross-border terrorism and the relation between the Pakistani state and internationally-designated terrorists residing in the country as well as their affiliated Jihadist organisations.

The EU's initial rationale for granting GSP+ status to Islamabad was solely geostrategic, not economic—which contradicts official statements, according to which EU-Pakistan relations are traditionally economic rather than political (except for the EU-Pakistan Strategic Dialogue, the EU-Pakistan Joint Commission, and its sub-groups on governance and democracy) (Wolf, 2014, June 20; Zajackowski & Wolf, 2014). The basic premises were that the ties with Pakistan needed to be strengthened because of the country's geostrategic importance in combating 'global terror'. Similarly to certain considerations by the US, particularly during the administrations of the Presidents Georg W. Bush and Barack Obama (Haqqani, 2018), it seems that EU decision-makers were convinced that there is 'no-alternative' to collaborating with Pakistan in order to achieve sustainable peace in Afghanistan. It was also believed that Pakistan's ever closer relationship with the Chinese sphere of influence could be countered through substantial western support to the country's economy.

Nevertheless, the prevalent view today is that the GSP+ cannot achieve these geostrategic objectives. It is also held that the 'no-alternative-argument' regarding Pakistan is a distortion of both causes and consequences. The earlier proponents of the view that there is 'no-alternative' other than cooperating with Islamabad at all costs—even if it leads to the violation of one's own interests and objectives—obviously either misunderstood or ignored that Pakistan is one of the major sources of instability in Afghanistan and parts of India. The US now holds that the continuing security assistance and financial incentives intended to counter terrorism will instead be invested on both an increase of regular military capacities and on support to militant groups directed against both India and Afghanistan (PTI, 2015, December 8). It is important to note that those who advocate a more or less unconditional cooperation with Pakistan also insist on the acceptance of Islamabad's demand to keep India out of Afghanistan. It is argued that due to the tensions between Pakistan and India, any Indian activity in Afghanistan would complicate the situation in this war-torn country. However, for obvious sovereignty reasons, Pakistan is not authorised to decide who will be Kabul's partner in economic and other forms of developmental cooperation. Neither Afghanistan nor any other member of the Heart-of-Asia-Istanbul Process should give in to Pakistan's 'India-phobia'—which lacks substance and serves primarily as an argument to maintain the country's domestic power relations and repressive politics.

As far as the 'China argument' is concerned, Islamabad has been using its friendship with China as a 'bargaining-chip' vis-à-vis both Washington and Brussels for a long time so as to keep the 'cash flow' and other support pouring in. Yet these efforts to ensure western cooperation now meet their limitations. Numerous experts state that Islamabad has already made its first moves towards the 'Chinese Orbit'—where neither sanctions nor incentives by the US or the EU can affect Pakistani decision-makers. Moreover, due to the intensified Sino-Pakistan rapprochement, Islamabad's actions already run counter western interests (Haqqani, 2018; Wolf, 2018c, January 19).

The EU must reconsider its geostrategic rationale for granting GSP+ to Pakistan. Europe must reassess its evaluation mechanisms; and acknowledge the obvious mismatch between proclaimed achievements and the realities on the ground.

7.5 The CPEC as a Threat to Pakistan's Compliance with GSP+ Requirements

Facing an imminent threat of losing the GSP+ status, Pakistan sees the CPEC as the perfect escape. Of course, the implementation of CPEC projects implies further violations of GSP+ principles. Although most reasons (except for the fading efficacy of the geostrategic rationale) were already discussed in other parts of this book, some should be summarised here so as to explain why CPEC determines a severe challenge for Pakistan to keep its beneficiary status and related trade preferences.

Firstly, in order to ensure a safe environment for CPEC projects, the country's armed forces conduct large-scale campaigns, including the securitisation and militarisation of vast areas which lead to massive human rights violations and restrictions. Although the number of militant incidents dropped in several parts of the CPEC's geographical framework, terrorists are still able to conduct high-profile attacks all over Pakistan. It is also reported that international terrorist organisations such as the Islamic State are becoming more active in areas strategically significant for the CPEC, foremost Baluchistan (Ahmad, 2017a, b, c). This will force the country's security agents to continue to intensify their military operations in such areas so as to ensure a safe environment for the development and functioning of the corridor. One must expect additional harm to the local citizenry and a further deterioration of the human rights situation.

Secondly, by ensuring the security and stability of the CPEC implementation, Pakistan's armed forces entrenched their formal position within the political-institutional setup which seriously challenges civilian supremacy over the country's military. This will further damage civil-military relations—and reduce the quality of democracy in Pakistan, since civilian control of the armed forces is a necessary constituent for democratic consolidation.²³

Thirdly, in order to provide China with the semblance of a national consensus on the CPEC, the authorities will likely continue censoring critics. This will lead to the confinement of political rights and the suppression of legitimate political protests.

Fourthly, in order to avoid militant resistance against Chinese companies, workers, and projects from radicalised Islamist forces criticising China's treatment of its Muslim (Uyghur) population, Islamabad is likely to extend its 'goodwill' towards these fundamentalists. This was evidenced for instance by the release from house arrest of Hafez Muhammad Saeed, leader of the JuD/LeT and global terrorist

²³For a detailed elaboration of the impacts of CPEC see Chap. 9: Development versus Democracy? The CPEC and Civil-Military Relations in Pakistan.

designated by both the UN and US—who was held responsible for several Jihadist activities abroad, including the 2001 Indian Parliament attack in New Delhi and the 2008 Mumbai attack. The decision to place Hafez under house arrest instead of handing him over to international justice was by itself a severe violation of Pakistan's commitment to combat terrorism. Since his release, Saeed has taken part in all kinds of political activities, even taking part in elections as a candidate and spreading his extremist agenda.

The so-called 'mainstreaming' programme is another facet of Islamabad's 'good-will' towards religious fundamentalists—through which the state allows internationally-designated terrorists to form political parties and participate in elections. Officially, the mainstreaming programme aims to induct members of terrorist groups into the political process in order to 'reform' them and to keep them away from militant activities. However, critics argue that this but a measure taken by the military so as to appease former 'clients' or 'allies' by giving them a legitimate political role in the country (Husain, 2017a, b, October 29). Both the release of Hafez and the 'mainstreaming' programme strengthen religious extremists in general and the military establishment vis-à-vis civilians in particular (Rakisits, 2017). Through measures like these, Pakistani authorities help facilitate the Islamisation and radicalisation of society and institutional structures, hampering good governance, democracy, and civil society.

Fifthly, Pakistan has a negative record as regards providing safe labour conditions for large segments of its local workforce—in addition to widespread child and bonded labour²⁴ (a special type of forced labour²⁵). The increasing pressure of Chinese competition on Pakistani manufacturers might have a negative impact on the will and ability by these companies to improve their labour standards. In contrast, one should expect a worsening of working conditions, especially in Punjab and Sindh—the regional hubs of this type of coercive labour (Ahmad, 2017b, October 16). According to observers, the most affected business sectors include brick making, agriculture (cotton picking wheat and sugarcane industry) and carpet weaving industries, fisheries, stone brick crushing, coal mining, shoe making, manufacturing glass bangles, and power looms, as well as certain services such as Scavenging, sorting recyclables, collecting waste paper, and automobile repair

²⁴Like in many other countries, child labour and bonded labour are much interlinked in Pakistan. Furthermore, Pakistan is engaged in the worst forms of child labor, including forced domestic work and bonded labor in brick kilns (Ahmad, 2017b, October 16; USDOL, 2016).

²⁵'Bonded labour' is a special type of forced labour. It exists especially in Asian and agricultural societies. According to the International Labour Organization (ILO) Forced Labour Convention, 1930 (No. 29), forced or compulsory labour is all work or service which is exacted from any person under the threat of a penalty [or other oppressive measure] and for which the person has not offered himself or herself voluntarily (ILO, 1930). It can occur where work is forced upon people by State authorities, by private enterprises or by individuals. This type of labour mostly appears in cases where monetary deals occur such as loans. If the debtor is unable to repay his loan he is forced to serve the creditor for some specified term. The concept of forced labour covers a wide range of coercive labour practices, which occur in all types of economic activities and in all parts of the world', but especially in Pakistan (Fatima, 2017, September 22).

(Fatima, 2017, September 22; USDOL, 2016, pp. 1–2). Neither the abolition of bonded labour (Bonded Labour System, Act of 1992) nor the country's agreement on international labour standards in the GSP+ context and new related legislations²⁶ eradicated bonded labour systems or other forms of economic and physical exploitation of the country's most vulnerable labour force. Instead, the number of 'modern slaves' in Pakistan is growing. According to the 2014 Global Slavery Index (GSI) published by the Walk Free Foundation (WWF), the estimated number of people living in modern slavery in Pakistan was 2,058,200 people—which is marked as [very] high in the Index (WWF, 2014). In 2016 the WWF Index identified an even higher number of 2,134,900 people living as 'modern slaves'. This growing trend places Pakistan at sixth position in a list of 167 countries where the problem of human slavery is most severe (Fatima, 2017, September 22; WWF, 2016). It appears that while the country's legal framework of the criminalises all manifestations of modern slavery, there are hardly any statistics available on state-initiated investigations regarding labour exploitation and bonded labour (Ahmad, 2017b, October 16). Although Pakistan established some institutional mechanisms so as to enforce laws and regulations regarding child labour, the 'gaps in labour law and criminal law enforcement remain and some enforcement information is not available' (USDOL, 2016, p. 5).

Furthermore a number of Chinese companies, all with poor reputations regarding international labour standards, will be moving to Pakistan, especially due to the successfully established Special Economic Zones (SEZs). This will likely worsen the situation for domestic labourers. The failure by authorities and the ignorance among several companies in Pakistan regarding internationally accepted labour standards severely distort free economic competition between Pakistani and European entrepreneurs. In particular manufacturers in the textile sector,²⁷ willing to produce in Europe and follow European labour standards, would face unfair competition from imported products benefitting from trade preferences and obviously not manufactured under the same strict conditions.²⁸ The argument that the GSP+ status harms European producers is becoming popular. This situation will be

²⁶According to the Bureau of International Labor Affairs of the United States Department of Labor/USDOL (2016, p. 1), Pakistan ratified the UN CRC Optional Protocol on Armed Conflict, and the Punjab Provincial Government passed legislation establishing 15 as the minimum age for employment and 18 as the minimum age for employment in hazardous work. Baluchistan passed the Child Protection Act, which mandates the creation of child protection units/authorities so as to provide a referral mechanism through which rescued children can be placed in protective custody and obtain rehabilitation services. In addition, the Punjab Province launched the Elimination of Child Labor and Bonded Labor Project. Sindh passed a bill for the formation of a Child Protection Authority in May 2011, responsible for monitoring and controlling all child-related issues across the province, including sexual and physical abuse and human trafficking (Abro, 2018, February 6).

²⁷The increase in EU imports from Pakistan during the last four years have been concentrated on textiles. Textiles and leather in 2016 made up nearly 86% of EU imports from Pakistan (PBC, 2018).

²⁸Besides labour standards, another area of great dissonance concerns certain quality and manufacturing requirements.

aggravated by the CPEC and might create a situation in which the application of the so called 'safeguard clauses' will have to be considered. These 'safeguard clauses' refer to the partial withdrawal of the mechanism if:

[...] a product originating in a beneficiary country of any of the preferential arrangements referred to in Article 1(2), is imported in volumes²⁹ and/or at prices which cause, or threaten to cause, serious difficulties to Union producers of like or directly competing products, normal Common Customs Tariff duties on that product may be reintroduced (article 22 [1]).³⁰

Another aspect in this context is that many Pakistani manufacturers stopped producing locally. The gaps are then filled with imported products from China supplied to the Pakistani market in domestic packaging. Subsequently, not only Pakistani buyers but also EU customers might think these products are manufactured in Pakistan—which is not the case. This is important because China lost (since 1 January 2015) its status as beneficiary country of the EU's GSP scheme (UNCTAD, 2015, p. 7). This has also ramifications for Pakistan because Chinese products channelled through the Pakistani market are subject to an 'withdrawal investigation' under article 21 of the 'GSP+ Regulation'³¹ which states that the Commission may suspend preferential arrangements provided in the Regulation on the following grounds:

[...] fraud, irregularities or systematic failure to comply with or to ensure compliance with the rules concerning the origin of the products and with the procedures related thereto [...]
(UNCTAD, 2015, p. 62)

Sixthly, due to air and water pollutions affecting the country's biodiversity, there are serious concerns about environmental destruction. It is reported that several infrastructure and energy projects have negative impacts on the country's environment, for example through the flooding of land valuable for agricultural production, through deforestation, or through the destruction of soil—degradation, salinization, erosion, and drying out (Baloch, 2018b, April 18; Khan, 2017, June 27).³² The

²⁹Here it is interesting to note that the EU's GSP scheme also provides for the application of safeguard measures when the '[...] imports increase by at least 13.5% in quantity (by volume) as compared to the previous calendar year; ...]'. For example, the massive increases of textile (more than 20.6% in 2016 compared to 2015 [EC, 2018], which means that some products passed the 13.5% bench mark for the 'security clauses' during the last years would be subject to proper investigation if the European Commission or a member state would so request (UNCTAD, 2015, p. 62).

³⁰See Chapter VI Safeguard and Surveillance Provisions Section, I General Safeguards, Article 22 (1) of 'GSP+ Regulation': EU (2012), I (Legislative acts) Regulations, Regulation (EU), No 978/2012 of the European Parliament and of the Council 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008 (EU, 2012, October 31; UNCTAD, 2015, pp. 62–63).

³¹See for the complete text of this 'GSP+ Regulation': EU (2012), I (Legislative acts) Regulations, Regulation (EU), No 978/2012 of the European Parliament and of the Council 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008.

³²See also Sect. 6.17.

authorities, however, have so far conducted no environmental impact assessments (EIAs).³³ This will have severe consequences in the long run as the CPEC challenges Pakistan's obligations towards 'Environmental Protection and Climate Change'. Moreover, this will not only have consequences for Pakistan's biodiversity but also for the country's vulnerable workforce, because this large scale environmental destruction will likely lead to a further increase in the number of victims of modern slavery. The ignorance of existing environment protecting regulations, combined with the absence of awareness regarding the need to protect nature, may lead to the creation of a vicious cycle of 'devastation and exploitation'. There is also an evident correlation between the lack of law enforcement (e.g., measures against bonded labour or the protection of property rights), environmental destruction, and slavery (Bales, 2016a, 2017b; Grono, 2015, November 13). Especially the destruction of agricultural land and the precious mangroves, together with forceful and uncompensated land acquisitions, will make many Pakistanis extremely vulnerable since local livelihoods will be destroyed. Furthermore, environmental destruction will lead to unseasonal droughts, encroaching deserts, extreme flooding, and the death of livestock (Grono, 2015, November 13). Thus the CPEC appears to be an example of how modern slavery and environmental destruction go hand in hand.

Seventhly, the implementation of CPEC projects is increasingly associated with corruption (Gul, 2017, December 14; Raza, 2017, December 5). Some may even say that corruption is the biggest threat for the sustainability of CPEC projects, turning the whole development initiative into a 'sand castle'. The CPEC is facing both delays and cost overruns due to corruption and mismanagement on both sides of the partnership—China predominantly planning and constructing individual projects, and Pakistan overseeing their execution (Mourdoukoutas, 2017a, October 9). This is not only hampering governmental anti-corruption efforts but also efforts towards 'good governance'.

To sum up, one should expect not only a rising critique by both domestic agents and international human rights and labour organisations, but also an added pressure by responsible European Institutions, foremost the Directorate General for Trade of the European Commission. This directorate is in charge of implementing the European Union's common trade policy. It might have to reconsider its assessment of eligibility conditions applied to beneficiary country of GSP+ in general and to Pakistan in particular. This is crucial since there is an obvious mismatch between official statements and the real situation in the country.

³³Kaiser Bengali cited in Ahmed (2017c, September 3).

Chapter 8

Afghanistan Within the BRI Vision and the Feasibility of Enlarging the CPEC



8.1 China's Growing Afghan Diplomacy and the Proposal for an CPEC Enlargement That Includes Afghanistan

China's interest in Afghanistan has been increasing since 2014, as evidenced by intensified interactions between Kabul and Beijing. While Chinese objectives for Afghanistan may seem similar to those related to Pakistan, official statements by Chinese authorities indicate a 'less flimsy' approach towards the former, especially when compared with China's formulation of aims and interests regarding Pakistan. In other words, China's decision-makers are expected to act in a more assertive and determined way, with a clear strategic vision regarding the BRI extension into Afghanistan via the CPEC. In order to avoid the unfortunate trajectories that CPEC projects are facing in Pakistan, Beijing is developing a remarkable diplomatic activity with both Pakistan and Afghanistan. For example, on 16 December 2017, Beijing undertook an ambiguous move: it interfered into South Asian affairs by hosting the first China-Afghanistan-Pakistan Foreign Ministers' Dialogue, during which the three countries agreed to establish a dialogue mechanism so as to reinforce trilateral cooperation in politics, economics, security, mutual trust, connectivity, and counter-terrorism (Gao, 2017, December 27; Pant, 2017, December 29). This is not the first endeavour initiated or at least supported by China so as to create a multilateral platform dealing with Afghanistan's domestic developments. Rather, it is the continuation of a process started some years ago. In 2014, China hosted the fourth foreign ministers' meeting of the 'Heart of Asia—Istanbul Process', a major international effort to encourage cooperation and coordination between Afghanistan and its neighbours and regional partners.¹

¹The Heart of Asia Conference (Istanbul process) of 2014 supported 64 separate initiatives—ranging from boosting commerce and investment to disaster control and education—created so as to promote Afghanistan's socioeconomic reconstruction, national security and regional integration (Yunbi, 2014, November 3). For more information on the 'Heart of Asia-Istanbul Process', see: <http://hoa.gov.af/#move-top>

Another milestone for China's diplomatic engagement with Kabul was the appointment of the first Chinese Special Envoy to Afghanistan (Sun, 2017, March 7). In February 2015, following three sets of talks, the first round of the China-Afghanistan-Pakistan Trilateral Strategic Dialogue² was held in Afghanistan (Huasheng, 2015, March 18). Beijing is also part of the Quadrilateral Coordination Group (comprising Afghanistan, China, Pakistan and the US) established to end the protracted Afghan crisis in general and to revive the peace process between the Afghan government and the Taliban in particular (Khan, 2016a, January 22). The grouping has not achieved any noteworthy progress so far, as Pakistan and Afghanistan are both at loggerheads over issues regarding cross-border terrorism and militancy and as Beijing and Washington lack mutual trust (Shams, 2017b, June 25; Wolf, 2017a).

Another line of Chinese engagement was undertaken through the Kremlin-initiated trilateral talks between Russia, China, and Pakistan concerning the deteriorating security situation in Afghanistan (Khan, 2017a, January 17; Topychkanov, 2017, September 8). Without the presence of the Afghan government itself, however, these talks remained rather symbolic. Prior to that, China and Russia hosted a 6 + 1 Dialogue on Afghanistan in Geneva in March 2014 (Kley, 2014, October 24). Besides the aforementioned platforms, Beijing extends its activities regarding Afghanistan also through the Shanghai Cooperation Organisation (SCO), a regional multilateral organisation which was created for the purpose of addressing regional security concerns around Afghanistan. Yet, like all remaining initiatives, it appears that the SCO is not able to deliver enough (Pantucci, 2017, March 1). Nevertheless, these initiatives do indicate that Chinese diplomacy towards Afghanistan is becoming more proactive and dynamic to say the least.

Beijing's approach towards Kabul has to date been focused on achieving political reconciliation between the Afghan government and Taliban forces. In this context, China supports the notion that any peace process in Afghanistan should be an 'Afghan-led and Afghan-owned' endeavour (MFAPRC, 2015, January 6). Yet the increase in diplomatic activity is not the only aspect of China's new Afghanistan engagement. For quite some time, Beijing has not only been providing economic aid to Afghanistan³ but also expressed its will to strengthen business collaboration in order to push for development and modernisation in the country. At the first China-Afghanistan-Pakistan Foreign Ministers' Dialogue meeting held in China, Beijing

²For more information on the First Round of China-Afghanistan-Pakistan Trilateral Strategic Dialogue http://www.fmprc.gov.cn/mfa_eng/wjbxw/t1236606.shtml

³China became increasingly active in providing aid to Afghanistan. Between 2001 and 2013, China provided Afghanistan with a total of 1.5 billion yuan (approximately \$240 million) of aid. But in 2014 alone, China provided Afghanistan with 500 million yuan (\$80 million) in aid and pledged to provide an additional 1.5 billion yuan (\$240 million) until the end of 2017 (Huasheng, 2015). However, this financial support is mostly limited to certain economic projects which serve Chinese interests. Besides financial support, Beijing will provide hundreds of scholarships for Afghan students to study in China and give training to several thousands Afghan professionals in various fields, including counterterrorism, anti-drug trafficking, agriculture, and diplomacy (Huasheng, 2015).

and Islamabad announced their plans to extend the CPEC into Afghanistan, which would make Afghanistan part of China's BRI vision—and, if realised, would constitute the most far-reaching step in Chinese-Afghan economic cooperation so far.

However, triangular cooperation between Beijing, Kabul, and Islamabad depends on several conditions which can be easily become roadblocks. More specifically, in order for the CPEC enlargement into Afghanistan to be feasible, the following questions need to be addressed. What are China's motivations as it plans to carry out such an economically and politically risky enterprise? And are Beijing's interests sustainable enough to overcome the immense challenges involved? Another issue concerns how far is China willing to develop the required foreign policy flexibility so as to assume a more responsible and substantial role in the process of rebuilding Afghanistan—especially as regards security and the political sphere. How will Washington react to the idea of including Afghanistan into the CPEC equation? What will be the impact of such a trilateral developmental endeavour on the troubled ties between Kabul and Islamabad? Will Islamabad go beyond its official rhetoric and play a constructive role in extending the CPEC into Afghanistan? And last but not least, what are the ramifications for India?

8.2 Chinese-Afghan Relations and Beijing's Rising Interests in Afghanistan

Sharing a 90 km long border (in addition to the 200 km Wakhan Corridor land strip),⁴ China and Afghanistan have enjoyed a relatively good relationship since the fall of the Taliban in 2001 (Huasheng, 2015, March 18; Laub, 2014, July 4). Yet, despite increasing bilateral interactions during the last 15 years, Beijing showed limited interest in reconstruction and reconciliation processes within Afghanistan. It seems, however, that many Afghans appreciated China's 'low key position' profile in their country's domestic affairs in the past. China's popularity seems to have increased among Kabul's elite (Huasheng, 2012, p. 1). The Afghan leadership might thus hope that 'China can apply its enormous resources to help develop the Afghan economy and thereby address some socioeconomic causes of Afghans' discontent' (Weitz, 2014, December 5). Despite being quite silent in the past on the ever-evolving political landscape in Afghanistan, Beijing did sponsor a number of commercial projects in the country, including road-building and telecoms (Small, 2014, January).

⁴This narrow land strip not only connects China with Afghanistan but also separates Tajikistan from Pakistan.

China not only entertains good economic relations with Afghanistan, but is also able to outmanoeuvre its Western competitors⁵—who believe they possess the ‘moral first right’ regarding economic cooperation with the country (and exploitation of its vast resources). The discrepancy between China’s goal to maximise profit in Afghanistan and its (lack of) commitment or assumed responsibility regarding the safety and well-being of the Afghan people has concerned the international community, which feels it must carry all duties without reaping any of the benefits. Because of China’s traditional foreign policy principle of ‘non-interference in domestic issues’ (Gartenstein-Ross, Trombly, & Barr, 2014; Pang, 2009), several observers perceive Beijing’s role in Afghanistan as primarily economic—with no intention to take on security-related responsibilities (Small, 2014, January). Most especially Western critics accuse Beijing of being a ‘free rider’ (Sun, 2017, March 7; Weitz, 2011, August 12). China was accused of doing business in Afghanistan at the expense of the US and its allies as it ‘outsources’ security costs to the US and NATO military presence in the country (Clarke, 2015, December 7). Ensuring a stable and secure environment, a process which has cost the International Security Assistance Force (ISAF) mission of the North Atlantic Treaty Organization (NATO) many lives and material resources, is undeniably a precondition for China’s success in gaining an economic footprint in Afghanistan (Gartenstein-Ross, Trombly, & Barr, 2014). The fact that China has so far refused to take part in any direct military engagement, and is still avoiding involvement in international efforts aimed at building a stable Afghanistan, seem to support these accusations (Kley, 2014, October 24). China was always and strictly against any coercive approach in Afghanistan, an approach expressed very early on and linked to the fact that Beijing did not share the belief that military operations against the Taliban constituted the best solution for Afghanistan. Beijing was also sceptical of the side-lining of Russia and the rejection of Moscow’s Afghan expertise (Wolf 2012a, May 18). Instead, China advocated for a kind of ‘limited involvement strategy’, while emphasising the need for a multilateral diplomatic approach based on the engagement by all regional actors (Wang, 2017, September 8). Beijing’s promotion of a multi-lateral approach to address the ‘Afghan imbroglio’ is apparently linked with the Chinese questioning of the US’ role in and contribution to Afghanistan. One of Beijing’s major concerns is based on the suspicions that both the US and NATO ‘are pursuing a deliberate strategy’ so as to gain control over Central Asian oil and gas resources—as well as to contain China by encircling it with a combination of formal alliances, special security arrangements, and close if informal military relationships (Dumbaugh, 2010, p. i).

However, in order to understand the different facets of China’s role in Afghanistan, one needs a long-term perspective. First of all, China does have a history of political

⁵China was even able to win the tender for the larger investment in Afghanistan’s history, the Aynak copper mine in the South East of Kabul (Small, 2014, January). Other significant Chinese investment in Afghanistan include the Amu Darya oil fields in northern Afghanistan (Huasheng, 2015, March 18).

involvement in Afghanistan. Beijing condemned the soviet invasion and subsequently supported the Afghan resistance (*mujahideen movement*) with the help of its greatest regional 'quasi ally' Pakistan so as to counter the threat of Soviet encirclement (Small, 2014, January). Later, during the civil war, China started to assist the Taliban but did not go so far as to recognise the newly established regime in Kabul. China's decision to switch sides—at least temporarily—and support the 'Northern Alliance'⁶ in its ongoing conflict against the 'Pakistan-friendly' Taliban determined a severe challenge for Beijing's relationship with Islamabad. However, apart from this temporary trilateral diplomatic low, Beijing quietly and cautiously normalised its relationship with the Taliban⁷ while mollifying Pakistan (Gartenstein-Ross, Trombly & Barr, 2014; Pang, 2009).

Today, it seems that the Taliban have no severe issue with China since Beijing has not yet militarily intervened in Afghanistan (Khan, 2014, July 26). However, China's ambiguous and costly experience of engagement during the soviet encounter and the (re-)emergence of the Taliban were crucial determinants to the maintenance of a persistent political role in Afghanistan in the past and will be again in the future. This determinant in Chinese foreign policy has not been taken into consideration by many analysts, at least until recently. Furthermore, those who argue against the Chinese Afghan policy tend to ignore that Beijing—as both a global and regional power, and especially as an immediate neighbour—has to take into account a much more complex security predicament and strategic scenario as well as political sensitivities than many other international actors involved in Afghanistan. In this context, one has to recognise that China has the same goals as all other actors, at least as concerns the West and its partners (and to a certain extent also Russia): ensuring a stable, secure and economically prosperous Afghanistan (Weitz, 2014, December 5). Yet it is obvious that there are different visions and strategies on how to rebuild a war-ravaged country and that Beijing and Washington are positioned on two different poles along this continuum (Kley, 2014, October 24). Howsoever, it appears that Afghanistan always played a role in several of Beijing's major development initiatives, be it economically, politically, or security-driven. In this context, China's Afghan approach is not only linked with the 'Belt and Road' vision but is also deeply embedded in its 'Go Global', 'Greater Western Development Strategy' (GWDS), or the idea of 'marching west' (Holbig, 2004, p. 340). Yet besides including Afghanistan in these strategic visions, in practice the country remained as the missing link in

⁶Founded in 1992, the so-called 'Northern Alliance' in Afghanistan, formally known as the 'United Islamic Front for the Salvation of Afghanistan', is a multi-ethnic group, mainly composed of three non-Pashtun ethnic groups Tajiks, Uzbeks and the Hazaras. The initial aim was to overthrow the communist government, later they disintegrated during the civil war and turned than into an anti-Taliban force backed by the US (BBC, 2001, November 13). With the end of the Taliban, the Northern Alliance was dissolved.

⁷Besides the establishment of some kind of 'normalized' relations between Beijing and the Taliban, the issue of Taliban-Uyghurs ties remained as a contentious issue between both, especially that Uyghurs fighters received training from the Taliban as well as using Afghan soil to conduct terrorist activities in China.

China's concrete, operationalised diplomacy and geopolitics. Furthermore, there is a rising awareness in Beijing that earlier development strategies did not produce the desired results, especially regarding security and political stability in Xinjiang, which remains to be challenged by elements in its western neighbourhood.

Beijing's current foreign policy establishment deals with a variety of multi-layered factors both constraining and facilitating the country's political engagement in Afghanistan. In order to establish cordial and tranquil ties across the region and beyond, China aims to take the interests of both Iran and Russia into account—particularly their sensitivities regarding foreign military presence in Afghanistan (Gall, 2017, August 5). The 'CPEC initiative' in Afghanistan would create more opportunities for China-Russia cooperation, which would not only deepen the latest Pakistan-Russia rapprochement but also offer Iran the option to take a more 'open role' in Afghanistan than was the case before. Yet due to the radical deterioration of the relationship between NATO countries and Russia following Moscow's annexation of Crimea and its role in the armed conflict in Eastern Ukraine, prospects for China-Russia collaboration on issues related to Afghanistan will likely remain limited if Beijing wants to avoid further confrontation with the 'West' in the extended Central Asian region. Deeper collaborative ties between Moscow and Beijing would have negative ramifications as regards the willingness of Eurasian countries interested in maintaining good relations with both China and the NATO countries, especially EU Member States and the US. Besides the narrow space for collaboration between Moscow and Beijing in Afghanistan, there is also a limited scope for China-Iran cooperation in Afghanistan-related projects. While there is no change regarding the fanatic theocratic regime in Tehran, one should rather expect a continuation of Iranian deconstructive activities in Afghanistan—such as the involvement in drug business (including support of poppy cultivation) and related subversive activities such as the armaments of militant groups like the Taliban.

In order to maintain the local diplomatic balance, China has historically respected the special relationship between Islamabad and Kabul, as well as Pakistan's influence in and interaction with militant non-state actors in Afghanistan. This policy is meant to avoid risks that could affect China's relations with Pakistan over Afghanistan. Unlike the new US approach⁸ under President Donald Trump towards the Afghanistan-Pakistan region, which explicitly links the deteriorating security in Afghanistan with Pakistan, it seems that Beijing is still not willing to publicly accept this linkage as a factor relevant to its own security interests (Wolf, August 23). As Dumbaugh puts it, the apparent ignorance of the Afghanistan-Pakistan nexus supports the assumption that China calculates its interests to be best served by keeping Beijing's unique special relations with Islamabad separate from broader international (US/NATO) coalition efforts. Chinese priorities seem to include a policy of 'doing nothing to jeopardize its economic interests and future economic position in Afghanistan' (2010, p. ii)—as well as in Pakistan.

⁸See also Sect. 8.6 below.

This is probably why China did not put any significant pressure on Islamabad to change its policy of interference in the affairs of its western neighbour, especially not regarding forces fighting the US and their international allies (as well as the Afghan government forces). Beijing always tried to avoid close engagement with NATO countries. It also refused to take part in multilateral activities initiated by non-regional actors, while maintaining a passive stance (Gartenstein-Ross, Trombly, & Barr, 2014). It seems, however, that Chinese strategic thinkers and leaders are starting to realise that globalizing dynamics lead to an increasing integration of Chinese economic interests with concerns relating to local, regional and international security. In other words, economic engagement cannot be separated from political, human, and military aspects. A phenomenon which is reflected in China's rising interests, not only in Afghanistan but also in the extended AfPak region (Kley, 2014, October 24).

8.3 Beijing's Rationale

Chinese 'new' interests in Afghanistan are manifold and cover a full spectrum of political, strategic, geographical, economic, and security-related aspects. With regard to the latter, Beijing has several and mutually reinforcing objectives. A stable and secure Afghanistan is perceived as key, both to its investment in Pakistan and for domestic security—especially concerning China's restive Western province Xinjiang, which is facing religious as well as economically and politically driven turmoil leading to separatist tendencies (Huasheng, 2012, pp. 3–4). Here, China is concerned about the growing presence of Uyghur militants, who previously left their safe havens in Pakistan and are now located in Afghanistan's northern province of Badakhshan (Pantucci, 2017, March 1).

Border security is becoming a priority issue. China's aim is not only to ensure the security of its own border with Afghanistan but also that of the borders between Afghanistan and its Central Asian neighbours, for example by strengthening the border control capacities of Tajikistan (RFERL, 2016, September 26). Yet there are strong geopolitical and pragmatic undercurrents in everything Chinese security circles are endeavouring. Concretely, Beijing relies on Kabul to help control its restive frontier regions where a vicious circle of resistance and repression of separatists is in full swing. In this context, Afghan organised crime and its crime-terror nexus constitute the focus of China's efforts aimed at increasing stability in its neighbourhood. Beijing seeks collaboration with Kabul not only in combatting terrorism but also as concerns drug-trafficking,⁹ all in an effort to undermine the militants' financing mechanisms. However, an extension of the CPEC would mean that China would have to transform its Afghan policy by switching to maintaining

⁹Since some years, Afghanistan has become one of the largest sources of drug trafficking to China (Huasheng, 2012, p. 4).

‘controlled instability’. In other words, as long as the Afghan imbroglio is not creating negative spill-over effects into either Chinese territory or in areas of Central Asia which would endanger Chinese national interests, Beijing will not interfere.

However, a rise in Chinese financial investments will likely lead to an increase in China’s engagement so as to ensure security for CPEC projects along the Afghan border. This would force Beijing to take on a more active security role in Afghanistan as well as use its influence in a more assertive fashion among Pakistan’s civilian and military leadership, eventually forcing them to play a more constructive role in combatting cross-border-terrorism. This would be a major precondition for any attempt to extend the CPEC into Afghanistan in a sustainable manner.

Also as concerns economic, trade, and geostrategic aspects, China is quite aware of Afghanistan’s well-placed position on the regional map and beyond (Stanzel, 2016). Afghanistan has a prime location as a bridge connecting South, Central, West, and East Asia. Beijing hopes to establish the Wackhan Corridor (via Afghanistan) as the linkage connecting China to Central Asia, Europe and the Waters of the Gulf. This would enable Beijing to control trade and energy routes, as well as data transfer passing through Afghanistan. China would thus access the country’s vast deposits of natural resources such as copper, iron, coal, marble, and other precious metals or minerals.

By improving economic and political connectivity with Kabul via the CPEC, Beijing aims to deeper incorporate not only Pakistan but also Afghanistan into its sphere of influence (Gao, 2017, December 27). Chinese decision-makers hope to gain more leverage in Kabul in order to build-up additional informal alliances in the region. This can be seen as part of China’s strategy to break the perceived US ‘encirclement’ in Asia and constrain the rise of India. Last but not least, the CPEC’s enlargement into Afghanistan would reinforce trilateral cooperation between Kabul, Islamabad, and Beijing (Xinhua, 2017a, December 27). This would increase China’s status and reputation as a powerful regional and international actor.

8.4 The Gordian Knot: The Unfortunate Trajectory of Pakistan-Afghanistan Relations

The problematic Afghanistan-Pakistan relationship is one of the most significant South Asian flashpoints, and will likely continue to influence future political and socio-economic developments in the region and beyond. Although the two countries have a lot in common in terms of culture, their relations have always been tense. Despite some temporary improvements in the past, the attitudes the countries have towards each other remain unchanged: deep mistrust, suspicion, and resentment between Kabul and Islamabad constitute deep-seated attributes of this political deadlock (Khan, 2017b, September 8). In spite of this situation, Islamabad claims that its major interest is to work towards a unified, stable and peaceful Afghanistan (Rais, 2004, p. 44). It seems that this three-in-one strategy, proclaimed by Islamabad

as the cornerstones of its Afghan policy, has been eroded by competing interests, poor implementation and mutual misperception. Instead of opening an avenue towards friendly and constructive cooperation, the two neighbours have been for decades now blaming each other of interfering in each other's internal affairs and hampering social, economic and political development (Yusuf, 2014, August 7).

While Afghanistan blames Pakistan for supporting militant oppositional forces so as to destabilise inconvenient governments (Nelson, 2018, January 29), Islamabad accuses Kabul of reinforcing insurgencies in its resource-rich border province of Baluchistan as well as being responsible for the deterioration of the security situation in the Federally Administered Tribal Areas (FATA). These fears are gaining momentum because Pakistani security circles are convinced that Afghanistan hosts intelligence forces of its arch rival, namely India's external intelligence agency, the Research and Analysis Wing (RAW) (Khalil, 2016, December 16). Pakistan believes India to be interested in using their intelligence capacities in Afghanistan so as to conduct activities on Pakistani territory. The fact that no Afghan regime has ever recognised the legitimacy of the Durand Line (imposed by the former British colonial ruler as an international border) further complicates the bilateral relationship (Husain, 2010, pp. 35–36; Kaura, 2017, June 27). Territorial claims by the Pashtun and Baluch regions in Pakistan are just another facet of the Afghan dispute with Islamabad, which traces back to colonial times (Husain, 2010, pp. 55, 61–66).

These issues have determined the development of Afghanistan-Pakistan relations, which can be very broadly categorised into two periods. First, there was the war of resistance against Soviet occupation, the rise of the Taliban, and the subsequent intergroup Afghan civil war with the Northern Alliance (and other militant forces), as well as the establishment of the Taliban rule over the country (Islamic Emirate of Afghanistan from September 1996 December 2001). Second, we witnessed the 'post-Taliban' politics and the ongoing insurgencies in Afghanistan. Islamabad played a major role in Afghanistan's political development in both phases by constantly increasing its involvement in that country's internal affairs. One could state that Pakistan's foreign policy outlook and behaviour on the international stage is guided by its search for security and power in an environment perceived as hostile, insecure and highly competitive (Husain, 2010). However, it was not only Pakistan's anxiety regarding a second, western front in the form of a contested Afghan border (which could lead to an encirclement by 'Hindu India') that motivated decision-makers in Islamabad to intervene in Afghanistan (Pande, 2011, p. 35). Pakistan's Afghan policy during the last decades was not merely influenced by external factors. The influence of domestic trajectories must be considered too. In times of weak and unstable governance in Pakistan, Afghanistan was regarded by both civilian and military administrations as a strategic tool to distract from or even influence internal politics (Weinbaum & Harder, 2008). Yet it seems obvious that the attempts to use the Afghan policy as an instrument not only against New Delhi but also within its own political theatre in Islamabad backfired (Weinbaum & Harder, 2008). Today, India's engagement in Afghanistan as well as the positive perception among Afghans as regards New Delhi are both at a historical peak. In contrast, mistrust aimed at Pakistan (Khan, 2017b, September 8) is constantly increasing, creating a

worst-case scenario for Pakistan's political strategists. It should also be noted that Islamabad's aim to establish a Pakistan-friendly Afghan government has failed.

As such, there is the need for 'a strategic reassessment by Pakistan of its long-term national security interests' (Weinbaum, 2013, November 4). Pakistanis have to re-evaluate their interpretation of what constitutes a 'friendly Afghanistan'. 'Friendly' should at least mean cooperative, yet it does not imply subservience as some hard-liners among Pakistan's political elites view it. In this context, the view of Afghanistan as the 'little brother' and/or a 'Pakistani outpost' in a greater strategic game must be abandoned and Islamabad must recognise that an independent Afghanistan serves Pakistan's interests best (Weinbaum, 2013, November 4). Against this backdrop, Pakistan's policy to capitalise on the frictions among different Afghan groups heavily undermined any real goal of creating a stable and unified Afghanistan. Some do claim that Pakistan will utilise the deeply fragmented and anarchical Afghan state so as to undermine any peace process, ultimately leading to an unfavourable situation for Islamabad. Paradoxically, while Pakistan apparently aimed to promote consensus and unity, its activities were perceived as the greatest source of instability in Afghanistan. Having this in mind, it is not surprising that the current Afghan government is questioning Islamabad's sincerity within its involvement in the peace process between Kabul and the Taliban (Khan, 2017b, September 8). In more concrete terms, Afghan authorities are concerned that the Taliban and other militant groups are 'strategic assets' for Pakistan to be used so as to maintain its influence in the country and ultimately contribute to the deteriorating security conditions.

8.5 The Re-emergence of the Taliban and the Worsening of the Security Situation

Taking the persistently deteriorating security conditions into account, it would be naive to think that Afghan security forces have the necessary capabilities to regain control over the entire country and maintain law and order so as to provide stability. Despite remarkable progress, and due to the permanent setbacks such as the disintegrating and/or defecting of whole units (Jost, 2015, January 8), the ongoing support of anti-state actors from neighbouring states, (namely Pakistan and Iran; Wolf, 2017a; Casaca & Wolf, 2017), and the infiltration by terrorists among their own rank-and-files to contract so called green-on-blue¹⁰ attacks (Roggio, 2017, April 23; Rivera, 2011, June 27), the government will continue to rely on robust military support from outside, not only including hardware but also foreign military manpower. The Afghan security forces still lack the manpower, equipment and training needed to take back the large areas of territory (re-)captured by the Taliban (Almukhtar, 2017, August 23). Having control over large areas of Afghanistan, the

¹⁰Also known as 'insider attacks'.

Taliban are now stronger than ever before. They seized more territory between 2016 and 2017 than at any time in their more than one and a half decades of war against both international forces and the Afghan government, and achieved remarkable military successes in Kunduz, Lashkar Gah, and Tarinkot, among others (Cooper & Nordland, 2017, August 21; Khan, 2017b, September 8). It is reported that the Taliban army was able to establish its presence even in areas which were never before under their influence, for example in the mountainous province of Badakhshan in northeastern Afghanistan (Sarwar, February 12). All this indicates their growing power. In this context, one must also mention that—besides the worsening of the security situation—the re-emergence of the Taliban is not only a problem for political stability but also for economic prosperity in Afghanistan. Here, the fact that they are able to control vast areas of the country not only helps militants to undermine nationwide infrastructure and other development projects but also gives them access to the profitable mining sector.

Today, the Taliban act both as an armed group and as an economic player. Illegal mining, for instance, turned out to be their second largest source of funding (Hasrat-Nazimi, 2017, August 29). Increasing control of the mining sector by the Taliban has extraordinary negative ramifications for the country's development, since the exploitation of Afghanistan's mineral wealth is one of the few sectors that does boost the Afghan economy. Without the revenues from the mining sector, Kabul will hardly address any upcoming financial burdens related to Chinese development projects, including the envisaged CPEC enlargement.

8.6 The US Factor

The US reaction towards the CPEC enlargement idea needs to be viewed in the context of several puzzling parameters that keep Washington security circles busy. Several queries arise: Is the CPEC a purely socio-economic development endeavour based on mutual interests and which aims at the creation of win-win situations for the participating states, as claimed by China? Or is this corridor project an instrument for the much larger, geostrategic ambition to reduce the influence of Washington and counter the growing India-US axis in South Asia? In other words, is the CPEC part of Beijing's alleged goal to build a new world-order that would serve China's national interests?

Another concern arises from the potential intensity and nature of cooperation between the Afghan Taliban, its affiliated militant forces, and both China and Pakistan. It therefore seems that a sustainable extension of the CPEC into Afghanistan will depend on the cooperation of/with the Afghan Taliban. Here it must be noted that not only is Pakistan known for its close relationship with the Taliban but China too has a record of establishing some kind of working relationship with these militants (Kley, 2014, October 24; Weitz, 2014, December 5). Moreover not only do the Taliban in Afghanistan constitute a security threat; they are also increasingly becoming an economic actor because of their activities in poppy cultivation

(Wahdatyar, 2016, October 28) as well as in the mining sector (Lakhani & Corboz, 2017, July 24). These developments have become the focus of US interests under Trump's administration (Saif, 2017b, October 24).

If the economic role of the Taliban, embedded in peace and reconciliation processes, would be formally legalized, the US would most likely start perceiving the Taliban not only as a combatant in the battlefield of global jihad but also as a resource-controlling regional rival (Saif, 2017b, October 24). This would subsequently hinder efforts aimed at reaching any power-sharing agreement between Washington or Kabul and the Taliban, which constitutes a precondition for the CPEC extension into Afghanistan. Nonetheless, since the beginning of US military engagement in Afghanistan, including during Trump's administration, no substantial improvement towards peace has been achieved. Until now, Washington has never put much effort into peace resolution in Afghanistan. Peace talks were never fully backed by the entire US government, and all attempts towards initiating peace negotiations have so far failed.

Besides inconsistent US efforts,¹¹ neither the Taliban nor other militant groups operating in Afghanistan are interested in a sustainable and peaceful rapprochement between the combatants involved. Moreover, their demands—for instance the complete withdrawal of foreign troops and the implementation of a Sharia-based law and theocratic system of governance—are non-negotiable (Wolf, 2013a, b, c, d, e, f, g, h, i, j, September 12). The real issue, however, is that even if all sides involved would meet each other's demands and conditions, the Taliban would interpret such 'talks' as a broadening of the armed struggle rather than as a 'peace negotiation' (Majidiyar, 2014, May 1), for the simple reason that they see said talks as but a political extension of their militant activities (Soper, 2013, June 13). If a power-sharing agreement is to be achieved through peace talks, the Taliban would get an additional opportunity to undermine Afghanistan's institutional-administrative system from within (Wolf, 2015b, June 28). Participation in both peace negotiations and economic activities are seen by the Taliban as a war by other means—as adding political and economic factors to strict military purposes.

The tremendous rise of radicalised Islamist clerics within Afghanistan during the last years prepared the ground for the Taliban to regain political leverage.¹² Furthermore, looking at the development of previous talk initiatives (e.g., the Doha process) as well as subsequent agreements and their 'implementation', it is legitimate to question the credibility of any Taliban commitment (Wolf, 2013c, June 28; Majidiyar, 2014, May 1).¹³ It should be mentioned that China's attempts to urge Pakistan to exercise its influence over the Afghan Taliban were not successful

¹¹Most noteworthy in the given context is that the US invited the Taliban to peace negotiations while at the same time continuing to the target killings their (senior) leaders.

¹²Dr. Massouda Jalal, former Minister of Women's Affairs (2004–2006) and only woman candidate in the 2004 Afghan presidential election in an interview with the author, 25 April 2015 in Bonn.

¹³For example, besides getting the chance to open a political office in Doha (Clark, 2013, June 19), the Taliban continued to attack Afghan and international forces.

(Sun, 2017, March 7). The current US administration finally anticipated the re-emergence of the Taliban. Washington at last started to consider the Taliban's reluctance to take part into sustainable peace talks. In this context, the US emphasises Pakistan's state-sponsorship of the Taliban and other militants in Afghanistan. America reacted with a revised Strategy for Afghanistan and a related new approach towards Islamabad (Haqqani, 2018, January 15; Wolf, 2018c, January 19). In more operational terms, President Trump affirmed Washington's commitment towards Kabul through the announcement of a reinforcement of US troops in Afghanistan as well as a call towards NATO partners to step up their engagement too.

Washington's new Afghan approach also takes into consideration the role of India and Pakistan (Wolf, 2017a). In other words, the US conceptualises its Afghan policy in a much broader regional context than before: it plans to increase its pressure on Pakistan so as to deny safe-havens to terrorist and militant groups fighting US troops in Afghanistan (Borger, 2017, August 22; New York Times, 2017, August 21). It therefore seems that Washington is going beyond its initial scope and finally 'walks the talk' by taking concrete actions to prevent Pakistan from supporting destabilising activities in Afghanistan (Wolf, 2018c, January 19). In contrast, the US President portrays New Delhi as a crucial partner for the US in its South Asia strategy in general and its Afghan strategy in particular (New York Times, 2017, August 21).

Besides the Taliban, however, the role of the IS in Afghanistan needs to be considered too (Seldin, 2017, November 18). We need to observe how the relations between the IS and the US will develop in Afghanistan. Following the declaration of Jihad by the IS against Beijing, one could expect that the IS will choose CPEC projects as potential targets so as to fight Chinese outside their own borders—thus an increasing number of attacks against Chinese workers can be observed in Pakistan today. Against this backdrop one must raise the question: how far will China cooperate with other countries for and beyond the operationalisation of its proposed vision of an CPEC enlargement into Afghanistan? So far, Washington has not showed much interest in increasing the role of either Russia or Iran—at least not in their potential interaction with the Taliban in the form of an Iran-Russia-Taliban axis, for example (Majidyar, 2017, March 24). Beijing's attempts to cooperate with both Russia and Iran so as to ease the inclusion process of Afghanistan into the BRI, as well as other Chinese initiatives that do not necessarily reflect US objectives, were also not taken well in Washington. Though not explicitly mentioned, it seems that through the revised Strategy for Afghanistan the US intends to send a message to Iran, Russia, and particularly China by confirming their lasting interest and involvement in the Afghanistan-Pakistan region and beyond. This shift in interest was remarkable, especially given the previously declining attention to the issue from Washington's foreign policy and security circles (Wolf, 2017a).

The Pentagon's¹⁴ new military strategy in Afghanistan deserves more attention: the US is currently intensifying its war efforts by increasing both the tempo of US-led operations and the presence of US air forces¹⁵ in Afghanistan (Putz, 2018, February 9). The air-borne operations conducted by the US forces in early February 2018 so as 'to strike Taliban training facilities in Badakhshan province, preventing the planning and rehearsal of terrorist acts near the border with China and Tajikistan' (NATO-RSA, 2018, February 6) caught the attention not only of military observers but also of several political analysts (Lamothe, 2018, February 10; Putz, 2018, February 9). As mentioned in a press release by the US Central Command, the air strikes were supposed to target Taliban facilities and 'support networks of the East Turkestan Islamic Movement' (ETIM). The ETIM is deemed to constitute 'a terrorist organization with roots in the ethnic Uyghur separatist groups' which poses a threat to China-encouraged speculations over a potential geopolitical connotation of this military campaign (CENTCOM, 2018, February 8). The fact that the Badakhshan province, the main area of operation, was the subject of several rumours about potential Chinese troops on Afghan soil as well as Beijing's potential intention to build-up or at least support the establishment of a military base, was a catalyst for numerous interpretations of the respective US air strike (Goble, 2018, February 8; Snow, 2017, March 5). Some describe the bombing of an alleged militant Uyghur camp by the US air force as 'Washington doing a favour to Beijing' (missing reference).¹⁶ Yet targeting Uyghur militants collaborating with the Taliban obviously serves US and Chinese interests.

However, the current situation needs to be seen in the context of the increasing US-China rivalry in both South and Central Asia as well as in relation to rising tensions in the South China Sea. The India-US rapprochement and the related reconceptualization by Washington of the Asia-Pacific region as Indo-Pacific, as well as Beijing's increasing diplomatic activity regarding Afghanistan and the BRI initiative, must also be considered in order to understand the US strategic calculus in Afghanistan. After China confirmed its interest to extend the CPEC into Afghanistan, the interactions between Beijing and Kabul (and the growing Chinese security interests in Afghanistan) started receiving more international attention. Having this in mind, the bombing of Taliban/Uyghur training facilities in the Badakhshan province might be seen as an attempt to make a geostrategic and political statement through showing off military capabilities and strength. For

¹⁴The Pentagon, the headquarters of the United States Department of Defense, were also entrusted with new legal (war-fighting) authorities by the White House, which subsequently initiated a process of empowering the local command of the US Forces in Afghanistan (US Forces Afghanistan/Resolute Support' at the tactical level as well as the reduction of Washington's habits of micro-managing its forces abroad, especially in Afghanistan (Diamond, 2017, June 26; Wolf, 2017b, August 23).

¹⁵It is reported that the US Air Force dropped 4361 bombs in Afghanistan in 2017, as opposed to 1337 in 2016 and 947 in 2015 (Lamothe, 2018, February 10).

¹⁶A question which got reflected by Craig Nelson, Kabul Bureau Chief, The Wall Street Journal, in an e-mail interview with the author, on 5 March 2018.

instance, by dropping the GBU-43/B Massive Ordnance Air Blast (MOAB) in 2017, the US military used the largest non-nuclear weapon in combat ever (Batchelor, Worley, & Sampathkumar, 2017, April 13).

The 'Badakhshan airstrike' can be also seen as a way for Washington to express its perception of Afghanistan as part of 'the US sphere of influence', while emphasising its regional role through geostrategic rhetoric. Washington is therefore shifting its resources and geopolitical focus from Iraq and Syria towards Afghanistan and the 'Hindukush'; the US Central Command had already designated Afghanistan as its 'main focus of effort' (CENTCOM, 2018, February 8). The attempt to reassure both the Afghan government and neighbouring states about the military ability and reliability of the US, especially after the unfortunate trajectory of its military campaigns, is without doubt a reason for the recent use of tremendous force.

As such, it becomes clear that the US is willing to demonstrate its regional interests and military power to Beijing through massive technological advancements and extensions of air-borne warfare against the militants in Afghanistan. The current setting indicates that the CPEC enlargement into Afghanistan will have both domestic and regional impacts which counter US interests. Thus the US undoubtedly feels 'uncomfortable' with China's growing engagement in Afghanistan.

8.7 The Indian Factor: New Delhi's Development Cooperation with Kabul

Indian and Afghan leaders historically enjoyed extremely close relations, both before and after India's independence. Due to its friendship with the Soviet Union, India was one of the first non-aligned states to recognise the communist regime in Afghanistan installed after the Soviet invasion in 1979. Indians also appeared very keen to support successive Afghan governments in order not to affect bilateral economic and political ties (Bajoria, 2009a, b). However, with the Taliban's assumption of power in the 1990s, which was not only linked to a hostile Pakistan but turned the country into a hub for anti-Indian militant activities, the relationship between Afghanistan and India eroded. In the last 15 years, the Indian government has been trying to re-establish the pre-Taliban relationship. New Delhi restored full diplomatic relations and established an unusually large consular service¹⁷ across Afghanistan—followed by extensive development assistance. India was not necessarily encouraged by the international community. The US most especially was afraid that any official enthusiasm regarding Indian activities in Afghanistan would provoke Pakistan, one of the key actors in Afghanistan. Most importantly, however, India's engagement was favoured and supported by many Afghan leaders who were educated in Indian universities and attached great affection to their host country. Furthermore, India is still benefitting from its former support for the victorious

¹⁷For example, India opened consulates in Herat, Mazar-e-Sharif, Jalalabad, and Kandahar.

Northern Alliance,¹⁸ which was able to include many of their leaders in the post-Taliban government.

Since the overthrow of the Taliban in 2001 India has been increasingly emerging as a major actor in the on-going reconstruction process of Afghanistan so as to renew its ties with this country (Waintraib, 2010). Today New Delhi is one of the most significant bilateral donor countries as well as the largest regional donor (Joshi, 2010).¹⁹ This assistance covers many and diverse areas, including infrastructure, agriculture, transportation, communications, trade, investment, mining, education and student exchanges, science and technology, energy, healthcare, social welfare, sports, quality assurance and standardisation, training of officials, economic development, institution-building, and parliament to parliament exchanges (D'Souza, 2007, p. 833; Gupta, 2011, October 11; Waintraub, 2010).

All these both long and short-term projects are expected to strengthen mutually beneficial economic ties and reinforce India's soft power (Joshi, 2010). However, it is important to note that—unlike most other international donors—India focuses on sectors that have been identified by the Afghan Government as priority areas of development (D'Souza, 2007, p. 833). Additionally, projects such as road construction and power generation are channelled through the Afghan government, with local and provincial ownership aiming to enhance Afghan participation at all administrative tiers (D'Souza, 2007, p. 833). Yet in most of these projects, India keeps a relatively low visibility. By signing the Strategic Partnership Agreement on 4 October 2011, India extended its commitment to an all-round assistance (Gupta, 2011, October 11). This included not only trade and economic cooperation, capacity development and education, social, cultural, and civil society aspects as well as people-to-people connectivity, but it also had a remarkable security dimension.²⁰

The new security collaboration between India and Afghanistan included defence and counter-terrorism measures such as training Afghan security forces (Gupta, 2011, October 11). This development is crucial given that India's major disadvantage in the past was that it was not sufficiently 'involved in Afghanistan's security in a meaningful way' (Sikri, 2009, p. 52)—this despite India's security being deeply affected by political developments in Afghanistan. Nonetheless, India's willingness to offer both military and economic support to Afghanistan faces certain constraints due to initial US-Pakistani resentments. Instead of engaging with New Delhi, former US administrations remained stuck in old policy patterns and considered Pakistan's interests in Afghanistan as paramount. As a result, US policy towards the Afghanistan-India-Pakistan triangle for a long time lacked any concrete idea on how to deal with the large extent of India's political and economic engagement in

¹⁸Actually, rather due to the successful US led Operation Enduring Freedom (OEF) based on the cooperation with the Northern Alliance.

¹⁹For example, India pledged in 2011 two billion US dollars in development aid to Afghanistan until the period 2014 at the International Conference on Afghanistan (Timmons, 2012, June 7).

²⁰To include security as an issue in bilateral relations is a process which started already in April 2008, as India agreed to share its experience in counter-insurgency with Afghanistan, offered training for pilots, and help to maintain Afghanistan's fleet of helicopters (Sikri, 2009, p. 53).

Afghanistan, and how to balance the interests of India and Pakistan (Pleming, 2010). The latter situation, nevertheless, changed significantly under Trump's Presidency, as New Delhi was asked to help in developing Afghanistan. Appreciating India's important contributions to stability in Afghanistan, Trump requested Indian assistance, 'especially in the area of economic assistance and development' (New York Times, 2017, August 21). A few weeks afterwards, India announced up to 116 'high-impact community developmental projects' in 31 provinces of Afghanistan (PTI, 2017a, September 21).

The US approach towards India in Afghanistan had some major consequences for New-Delhi-Kabul ties, as India's support regarding military hardware has been limited significantly.²¹ In addition, Afghanistan is plagued with several trade and transit limitations of goods (D'Souza, 2007, pp. 836, 839). On various occasions in the past, the government of Pakistan has refused to grant transit permissions from India to Afghanistan and vice versa. In order to put pressure on Afghanistan, Pakistan also closed access to its Karachi seaport to (land-locked) Afghan trade (Rubin & Rashid, 2008). In consequence, India has supported infrastructure projects so as to make Afghanistan's trade more independent from Pakistan, especially via the construction of a ring road²² ('south trade corridor') connecting Afghanistan to closer Iranian ports (foremost Chabahar) and so facilitate its trade with both India and the Gulf states (D'Souza, 2007, p. 839; Waintraub, 2010).

To summarise, although the US started to welcome India's engagement in Afghanistan, this raises serious concerns in Pakistan. The fact that the collaboration between Kabul and New Delhi also includes security-related dimensions further enhances existing perceptions that India wants to extend its engagement in Afghanistan so as to encircle Pakistan and contain its influence. This phenomenon will continue the decades-long contention between India and Pakistan for favourable positions within Afghanistan, which was marked by tremendous ups and downs for both sides (Waintraub, 2010). A positive public perception of India and of its development efforts has been created in Afghanistan, not least because Indian projects take the Afghan government and local agencies into account by emphasising people's participation. The focus on low-visibility projects which correspond to the actual needs and demands of the Afghan government and people and are implemented with the objective of maximising local ownership are so far successful approaches. India's experiences in implementing development projects could function as a roadmap for China's potentially enhanced engagement in infrastructure initiatives within Afghanistan.

²¹For example, in the form of supplying Afghanistan with defensive military equipment, such as armoured check posts and watch towers (Pant, 2010, p. 8).

²²Namely, the Zaranj-Delaram Road was a project carried out by the Border Roads Organisation (BRO). Another important road project links the Kandahar with Spin Boldak, an important city close to the Pakistan border (D'Souza, 2007, p. 837)

8.8 Pakistan's Role in an Afghan CPEC Extension

The Pakistani media and official statements tend to claim that the Afghan-CPEC enlargement is well-perceived in Islamabad. Considering the tense India-Pakistan relations and growing engagement of New Delhi in Afghanistan, it is obvious that this expressed public enthusiasm about the prospects to include Kabul into the 'larger BRI fold' is based on an assertion among the Pakistani leadership that China will not try to capitalise on Indian infrastructure projects, especially those establishing connectivity between Afghanistan and Iran. Instead, from a Pakistani perspective, it is hoped that an extension of the CPEC into Afghanistan will be crucial to undermine the efforts of arch enemy India in creating an alternative land route into Afghanistan via Iran (Chabahar port). Such a link would diversify the existing access routes not only to Afghanistan but also towards Central Asia for trade and energy. This in turn would create additional competition for the CPEC and strengthen India's position in Afghanistan, enhancing Pakistan's fear of an 'Indian encirclement' (through the creation of a second 'western front').

Pakistan's support for an Afghan extension of the CPEC has also some limitations. Islamabad will not be very active in promoting industrialisation and modernisation within Afghanistan in the form of creation of new industrial units—which would endanger Pakistani counter-parts in Special Economic Zones (SEZ)—or Industrial Estates set-up under the CPEC framework. Pakistani industrialists from Punjab and Sindh (Karachi) would much on the contrary most likely use their political influence so as to undermine economic growth in Afghanistan. Perhaps this resistance can be reduced by offering large-scale incentives for foreign (especially Pakistani) entrepreneurs to invest in Afghanistan. However, considering former Pakistani experiences (such as the Gadoon Amazai Industrial Estate/GAIE in Khyber-Pakhtunkhwa) one can state that entrepreneurs from Karachi and Punjab are normally not interested in investing outside their respective regions in a sustainable manner.

8.9 The New Role of China in Afghanistan and Its Regional Impacts

Due to lack of data and transparency, it is quite difficult to evaluate future Chinese engagements in Afghanistan. In contrast to other both regional and non-regional actors, in which cases most analysts are convinced that they are able to forecast the development of their activities, China's Afghan policy still remains a conundrum. The traditional critique of China for being 'quiet' has obviously been wrongly misinterpreted as inactivity, given Beijing's refusal to support international efforts related to the military solution for Afghanistan (as well as Chinese activities in the field of social, political, and economic development of the country). Instead, China has already set the parameters for a substantial, long-term engagement in Afghanistan, as evidenced by China's plans to enlarge the CPEC.

However, a successful, sustainable extension of the CPEC into Afghanistan within a ‘win-win situation’ would change the geopolitical and geo-economic landscape of both the country and the region. It would not only improve connectivity but also help to industrialise and modernise Afghanistan. Furthermore, it would serve as a roadmap for future and partly ongoing mega-development projects, such as the envisaged TAPI-(Turkmenistan-Afghanistan-Pakistan-India)-pipeline (Gurt, 2018, February 13) or the energy transmission line project CASA-1000,²³ both of which face similar problems as those probably to affect the CPEC enlargement. As such, there is a tremendous scope for cooperation between China and the international community, especially regional actors such as India. New Delhi—with its long history of cooperation, experiences, and people-to-people contacts—could be a valuable partner for China and other international actors in development projects within Afghanistan. Yet China has to take India’s concerns and objections regarding the CPEC more seriously into account. The offer to rename the CPEC does not help overcome its inherent, systemic problems—which make it impossible for New Delhi to participate in the New Silk Road initiative. As such, any cooperation between China and India will most likely appear outside the BRI and CPEC development schemes. A potential collaboration seems rather likely on selected, individual projects instead of within larger development initiatives. For example, Beijing could cooperate in the build-up of infrastructure (for example connecting the ring road with the Wakhan corridor). However, within or outside the BRI/CPEC scheme, a constructive and transparent collaboration between New Delhi and Beijing would most likely help reduce the US’s unease towards an extraordinary increase of Chinese engagement in Afghanistan.

However, Washington’s new vision and greater role for India in Afghanistan is not well perceived in Islamabad. Pakistan’s military and security establishment simply does not want to allow New Delhi or any other regional actor to fill the power vacuum in Afghanistan (this might even include China). Furthermore, it is important to realise that Pakistan feels not only threatened by security and defence cooperation between India and Afghanistan but is remarkably sceptical about any Indian involvement in Afghanistan’s economic development. Pakistan’s hawkish observers would interpret any kind of Indian activity in its eastern neighbourhood as a direct threat towards national security—which would consequently lead to a further deterioration of India-Pakistan (as well as Afghanistan-Pakistan) relations. As such, only when there is fundamental change in Pakistan’s foreign policy towards both India and Afghanistan will the necessary rapprochement between Islamabad and Kabul be feasible.

²³The project demonstrates a landmark cooperation among the Kyrgyz Republic, Tajikistan, Pakistan, and Afghanistan, including for major components: a 500 kV AC transmission line from Datka, in Kyrgyzstan, to Sughd, in Tajikistan; a 1300 megawatt AC-DC Converter Station at Sangtuda, Tajikistan; a 750 kilometer High Voltage DC line from Sangtuda to Nowshera in Pakistan, via Afghanistan, and a 1300 megawatt DC-AC Converter Station at Nowshera. Two Indian companies were selected by the government in Kabul to build the transmission lines in Afghanistan (Putz, 2017, December 12).

There is so far not much indication for such a break of past trajectories. Neither the tremendous financial incentives by the US towards Islamabad nor the latest sharpened rhetoric of President Trump—including some punitive measures such as the freezing of aid—seem to have a significant impact on the mindset of Pakistan's decision-makers. On the contrary, Pakistan seems obviously unwilling to stop its support for cross-border terrorist activities of Pakistani-based groups operating in both Afghanistan and India.

The vision of implementing a potential CPEC enlargement into Afghanistan thus stands on shaky ground. Besides all the obvious aspects related to security and to Afghan internal power dynamics (namely problems related to the fragmented, factualised regional power centres), the idea to extend the BRI into Afghanistan faces fundamental challenges. The incorporation of Afghanistan into the BRI, and the fact that it should be conducted via the CPEC scheme requiring a 'determination through tripartite consultations on an equal footing'²⁴ constitutes an enormous challenge by itself. Such a trilateral mechanism will produce constructive results only when there is a significant improvement in Pakistan-Afghanistan relations. This seems still quite unlikely when one considers the state of affairs between both countries, foremost the ambiguity of intent characterizing Islamabad's approach towards Kabul. Admittedly, Pakistan and Afghanistan agreed to improve their ties 'as soon as possible' and 'to realize harmonious co-existence' at the first China-Pakistan-Afghanistan Dialogue (Xinhua, 2017a, December 27). Both states promised to resolve their concerns through comprehensive dialogue and consultation and, according to some observers, it seemed that Pakistan and Afghanistan are 'ready to play along' (Gao, 2017, December 27).

However, it remains to be seen whether the decision-makers involved are willing to 'walk the talk' and try to break out of the unfortunate patterns of the past. Beside the imperative of ending Pakistan's undue interference into Afghanistan domestic affairs, another major litmus test is how far Islamabad might (mis)use the potential CPEC enlargement as a foreign policy asset vis-à-vis Kabul so as to achieve political leverage in Afghanistan and challenge India's position in the area. India as well as other international actors have invested tremendous efforts and large amounts of money in crucial infrastructure projects and other multi-sectoral measures so as to improve the overall conditions for both state and society in Afghanistan. In sum, the Afghan enlargement of the CPEC has in theory the potential to boost China's role in the region as facilitator of cooperation and provider of security and economic growth. Yet by considering the realities on the ground, one must state that the proclaimed benefits of a BRI enlargement into Afghanistan threatens to worsen rather than to improve conditions of the Afghan people.

²⁴Chinese Foreign Minister Wang Yi cited in Xinhua (2017a, December 27).

Chapter 9

Development Versus Democracy? The CPEC and Civil-Military Relations in Pakistan



9.1 Civil-Military Relations and the CPEC: An Introductory Note

Since its independence, Pakistan experienced several changes in the role of the military in politics (Croissant, Kuehn, Lorenz, & Chambers, 2013, p. 191). The increasing role of the military undermined attempts by civilians to exercise control over the armed forces and consolidate democracy. This is one of the reasons why the entire process of democratisation in Pakistan remains highly truncated (Khakwani, 2003, p. 23). The country has moreover never experienced a clear-cut transition from an authoritarian system towards even the beginning of an uninterrupted, linear process of stabilisation and democratic consolidation. Instead, political developments are characterised by transitions between democratic, military, or semi-military regime types. After an initial phase of bureaucracy-military domination (1947–1972), the country witnessed various attempts to democratise; however, all these attempts can rather and unfortunately be described as responses to military rule. Nevertheless, despite the military-authoritarian influence, the political system in Pakistan was able to produce national elected leaders such as Zulfikar Ali Bhutto, Benazir Bhutto, Nawaz Sharif. Civilian-led political parties were also in power, the most noteworthy of which are the Pakistan People Party (PPP), Pakistan Muslim League-Nawaz (PML-N), and the Pakistan Tehreek-e-Insaf (PTI) (Shafqat, 1997, p. 256). The paradox is that on one side, these democratic transitions were both caused and facilitated through political interventions by the armed forces, yet on the other they were also conditioned and truncated by the military. The main reason for this is that civilian organisms were unable to institutionalise control over the armed forces.

Consequently, after spending several decades under military rule, Pakistan is often considered a classic example of a praetorian state (Kukreja, 1991; Perlmutter, 1977; Rizvi, 2004; Shah, 2003). The military perceives itself as the sole guardian of both national sovereignty and public moral integrity, as well as the chief initiator of the national agenda and the arbiter of all conflicts between social and political forces

(Ahmed, 2009; Cloughley, 2008; Rizvi, 2003; Waseem, 2007, May 25). And indeed, civilian rule has thus far been characterised by unrestricted and persistent power struggles between government and opposition, between different political institutions, and between the central government and the provinces. These struggles are fuelled by autocratic rule, mismanagement and corruption, and generated a situation in which the civilian government lost public support, thus allowing the army to further build its reputation and ‘moral legitimacy’ as well as its potential to directly intervene in politics. The military thus fostered, both unconsciously and deliberately, the perception that the government was neither able to form a sustainable—functioning—state apparatus nor capable to effectively run the affairs of the state. With this in mind, and observing the development of the CPEC and respective projects, one cannot help but feel that history is repeating itself.

Much of the domestic criticism on the CPEC focuses on where the concrete routes of the corridor will be built and whether Chinese investments—its special economic zones (SEZs) and industrial and manufacturing hubs—favour the Punjab region at the expense of other provinces and regions, namely Baluchistan, Khyber Pakhtunkhwa (KPK), rural Sindh, and Gilgit-Baltistan (Raza, 2015, November 24). Given the level of secrecy and the lack of accountability surrounding the CPEC initiative, there is no doubt that some of this criticism is justified. However all these debates do fail to take into account one significant point: the increasing institutionalization of the military’s formal role in the country’s political system, its subsequent legitimate seizing of power, and the impact of all these developments on the quality of democracy in Pakistan. In this context, one must be reminded that besides several political and administrative hurdles as well as environmental problems, the biggest challenge for Pakistan today is to guarantee a secure and stable environment so as to actually develop the corridor. Due to Islamabad’s federal government’s disappointing record in fighting terrorism and militancy, the military came to increasingly dominate decision-making and implementation processes in these areas, thus weakening the power of the civilian government (Rizvi, 2015c, September 6). There is thus an increasing number of experts questioning the relationship between development and democracy in the context of the BRI in general and of the CPEC in particular.

9.2 An Unequal Equation? Development and Democracy in Pakistan

There has been an extended debate about development and democracy and the relations between economic growth and democratisation (Little, 2018). According to Bueno de Mesquita and Downs, until some years ago ‘conventional wisdom has held that economic development, wherever it occurs, will lead inevitably—and fairly quickly—to democracy’ (Bueno de Mesquita & Downs, 2005, p. 77). The latter point of view was introduced into the discourse by one of the most outstanding

scholars in the field, Seymour Martin Lipset, a political sociologist who hypothesised that there is a positive correlation between high levels of wealth (per capita income) and established democracy (Lipset, 1959, p. 75). The argument that the nature of the democracy-development nexus is mutually beneficial is based on the grounds that

economic growth produces an educated and entrepreneurial middle class that, sooner or later, begins to demand control over its own fate. Eventually, even repressive governments are forced to give in (Bueno de Mesquita & Downs, 2005, p. 77).¹

As such, economic growth is supposed to lead to political liberalisation. The mutuality stems from the observation that development requires change, especially institutional change and deep political reforms so as to create an enabling environment capable of sustaining long-term, sustainable economic growth. The latter is deemed to be best achieved within a democratic form of governance. However, the increasing success of authoritarian states in achieving not only tremendous economic growth but also an extraordinary uplift of living standards amongst the citizenry by eradicating poverty seem to question the causal relationship between democracy and development. The fact that many oppressive regimes were able to achieve economic development while at the same time managing to avoid demands for more political freedom and rights complicated the puzzle regarding whether economic development does by itself lead to democracy and whether democracy does by itself generate economic development. Different streams of thought emerged as a result, in an attempt to interpret the apparently ambivalent relationship between democracy and development.

Impressed by the success of autocratic regimes in achieving modernisation, industrialisation, and large-scale economic growth, while simultaneously observing the problems democratic governments have in conducting large-scale development projects, some scholars tend to state that economic development needs to be achieved first so that its impetus can introduce and/or consolidate democracy at a later stage. Proponents of this line of argumentation emphasise that democracies 'are in general less capable of managing effective economic development than authoritarian regimes (Little, 2018). This perception is contrasted by scholars following the Lipset argument, which emphasises that one needs first a democratic form of government before any successful development can take place. Others assess the link between (liberal) democracy and economic growth as rather weak, stating that not only does development not necessarily lead to democratisation but also that democratic processes, norms and values do not necessarily have an influence on development. In other words, democracy has no automatic impacts on development, either positive or negative.

¹It is important to mention that economic growth fosters democratisation by increasing the size of the educated middle class; it is not guaranteed and depends on a certain set of factors, which the author identified with reference to western Europe at that time (Lipset, 1959, pp. 85; Bueno de Mesquita & Downs, 2005, p. 77).

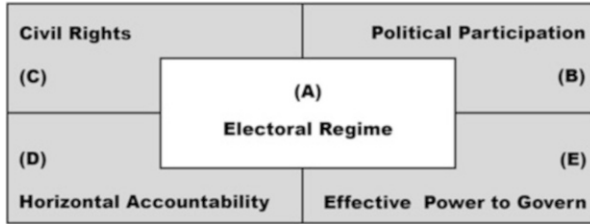
However, by considering the patterns of development and the weakening of liberal democracies worldwide, one must point out that ‘economic growth, rather than being a force for democratic change in tyrannical states, can sometimes be used to strengthen oppressive regimes’ (Bueno de Mesquita & Downs, 2005, p. 78). This is gathering momentum in the context of the CPEC’s implementation and its impact on economic development and democracy in Pakistan. In an interview with the German international broadcaster *Deutsche Welle*, Pakistan’s minister for ports and shipping, Hasil Bizenjo, stated that ‘democracy and development can’t be divorced’ (Shams, 2018, February 7). Furthermore, Bizenjo pointed out that ‘there are some elements in Pakistan who want to derail the democratic setup in the country and replace it with technocracy or presidency’ (Shams, 2018, February 7). However, as he also emphasised, ‘the supremacy of the civilian rule in Pakistan is necessary to carry forward the country’s development projects’; leading politicians, especially in the powerful Punjab province, are thus struggling for parliamentary oversight. This observation by the federal minister proves him optimistic about the future of democracy in his country (Shams, 2018, February 7). Bizenjo seems to follow the official rhetorical strategy of praising the CPEC as a game changer for the country’s economy. He describes the corridor as a critical juncture—one able to break with the unfortunate political patterns of the past. However, as is the case with other Pakistani civilian authorities, it seems the minister ignores the fact that the Pakistani military is grasping more and more power so as to guarantee a safe environment for the CPEC. This development has a negative impact on civilian checks and balances and increasingly challenges the country’s democratic transition.

Against this backdrop, this chapter is based on the rationale that the CPEC implementation is an example of how the BRI will enforce the global trajectory of dissolving the link between the economic growth and democratisation. It is argued that the BRI leads to a severe challenge for democratic norms and values in countries that are still in the process of consolidating democracy. Developments related to the CPEC exemplify the phenomenon clearly. It is believed that the way in which the CPEC is being implemented limits the civilian government’s decision-making powers and more generally hampers civilian control over the military. Since this control is interpreted as a prerequisite for democracy, the CPEC development can be said to be undermining the process of democratic transition initiated by the 2013 general elections. Moreover, in order to ensure the CPEC’s smooth development and minimise security threats, the army has built a parallel-governance structure. It also exercises tremendous executive as well as judicial powers which further side-line the civilian government. This will allow Pakistan’s military establishment to delay necessary reforms so as to reduce social and economic inequalities as well as hamper the initiation of processes leading to political liberalisation. In order to assess the correlation between the CPEC’s development and the quality of democracy, this chapter applies the ‘Heidelberg Model of Civilian Control’ (Croissant et al., 2009; 2010, 2013; Croissant, Kuehn, Chambers, & Wolf, 2011, March; Croissant, Kuehn, Chambers, Völkel, & Wolf, 2011, April) which helps to analyse the influence of the military vis-à-vis the civilian governments as regards decision-making and implementation processes.

9.3 The Concept of Embedded Democracy

In order to discuss democracy one must assume that there is a widespread agreement on the notion of ‘people’s sovereignty’. This is more difficult than it seems, however, as there is an endless theoretical debate about what might be the best and most suitable realization of that abstract concept. Numerous definitions of democracy are derived from different streams of political thinking, ideological convictions, and world-views. Despite this variety, mainstream definitions of democracy understand ‘modern democracy’ as a set of institutional arrangements (form of government) which guarantee that the polity is ‘governed by the freely expressed will of the people [and] whereby all individuals are to be treated as equals’ (Hadenius, 1992). Most importantly, the conception of democracy must derive from three democratic core principles, or values, namely: the peoples’ sovereignty, equality, and liberty (Brettschneider, 2006). The realisation of these three principles is a *sine qua non* for democratic rule. And yet there is much disagreement in the literature, not only on how to realise peoples’ sovereignty, but also on how equality and liberty should be implemented in practice. One can identify a wide range of different concepts and definitions of democracy, from minimalist-procedural ‘electoral’ versions equating democracy with the mechanisms enabling the choice of political representatives (Dahl, 1971, 1989) to more expansive concepts relating to liberal, participatory, strong, or deliberative democracy (Diamond, 2008). Minimalist visions tend to reduce democracy to a functioning electoral system and a representative form of government (Dahl, 1971, 1989; Schumpeter, 1942). This has raised criticisms among many scholars working on the conceptualisation of what constitutes a ‘modern, liberal democracy’. The basic argument is that ‘electoral minimalism’ is only focusing on one aspect of democracy and is thus not sufficiently addressing all three essential, core democratic values. Therefore, and in order to fill this gap, the philosophical notion of ‘liberal democracy’ is added through the recognition of universal and fundamental civil rights, individual liberties, the rule of law, and accountability as well as more specific requirements such as civilian supremacy in decision making and civilian control over the armed forces.

In an attempt to translate the theoretical notion of ‘liberal democracy’ into a systematic and integrated framework, the multidimensional concept of ‘embedded democracy’ was developed (Merkel, 2004; Merkel, Puhle, Croissant, & Thiery, 2003). At the core lies the assumption that in order to fulfil all three democratic principles in a given political system, a set of institutions must be established and can analytically be disaggregated into five ‘partial regimes’: (A) the electoral regime, (B) the system of political liberties and political participation, (C) the regime of civil rights, (D) the system of horizontal accountability, and (E) institutions that guarantee the effective power for the democratically elected representatives.



Source: Merkel, Puhle, Croissant, and Thiery (2003), Merkel (2004)

Partial regime (A) institutionalises the democratic principle of peoples' sovereignty and responsive and accountable rule through universal, free, fair and meaningful elections. Partial regime (B) complements the electoral regime by providing the political rights of participation and articulation, both of which are necessary so as to make elections meaningful instruments of vertical accountability through the rights of free political association and unhindered information. Partial regime (C) limits political power, prevents the abuse of political authority and guarantees individual freedom through a set of civil liberties. Partial regime (D) prevents the abuse of state power and ensures inter-agency supervision through institutional checks and balances between the legislative, executive and judicial branches. And finally, partial regime (E) includes those institutions guaranteeing that only democratically elected politicians exercise decision-making powers in relevant political issues. They prevent extraconstitutional actors from infringing upon legitimate political authorities' power to govern.

When linked together, these partial regimes ensure the healthy functioning of a mature democracy. In this context, each of these partial regimes and their respective institutional arrangements provide the basis for the democratic system as a whole. In other words, each of the partial regimes provides a comprehensive set of norms, rules and practices that interact with the others. More concretely, each regime mutually influences and balances the functions of the other partial regimes. Only if this 'mutual embeddedness' is guaranteed can there be a functioning and resilient democracy. If any element is left out or limited, infringing upon any of the norms, rules, or practices such as freedom of press, violation of human rights, restrictions on freedom of association, etc., this leads quite directly to the erosion of the liberal character of the democracy in question in an overall fashion. Croissant, Kuehn, Chambers, and Wolf (2010, p. 953) argue that if any of the five partial regimes is undermined, 'liberal democracy' deteriorates into 'defective democracy'. If the damage to the overall system is deep enough, breaches can lead to democratic collapse.² The problem of civilian control of the military is defined in partial regime (E)—Effective Power to Govern. One must point out that the military is threatening democratically elected representatives' effective power to govern in many states (Croissant et al., 2010, p. 953).

²See also Merkel et al. (2003); Merkel and Croissant (2000).

The very features that enable military forces to fulfil their duties, i.e., protecting communities by projecting coercive force towards enemies, also provide them with the ability to enforce their will upon the very societies (and respective governments) that created them (Croissant et al., 2010; Feaver, 1996, 1999). All societies and political regimes must ensure that their country's armed forces are subordinate to legitimate (elected) political decision-makers. As such, civilian control means that the civilian government carries final responsibility for political and military decision-making (Croissant et al., 2010).

9.4 The Concept of Civilian Control

This chapter refers to 'a consensus in democratization literature that civilian control of the military is a sine-qua-none condition for democratic consolidation'; 'only if democratically elected political leaders and their appointed officials control the armed forces can democratic rules and processes persist'³ (Croissant et al., 2010, p. 950). In line with the argument that democracy is impossible without civilian control, civil-military relations are understood as the distribution of decision-making powers between civilians (defined as democratically elected representatives of the sovereign people) and the armed forces (Croissant et al., 2010, p. 950). In this scheme, civilian control marks one pole along the decision-making power continuum, the situation in which 'civilians make all the rules and can change them at any time'.⁴ Croissant et al. (2010), Croissant, Kuehn, Chambers, and Wolf (2011, March), Croissant, Kuehn, Chambers, Völkel, et al. (2011, April) define civilian control as the continuous distribution of decision-making powers in which civilians have the sole authority to decide matters of politics as well as their implementation. Under civilian control, civilian organisms can of course freely choose to delegate decision-making powers as well as the implementation of certain policies to the military; the military itself however has no autonomous decision-making powers outside the areas specifically defined by civilians. Only civilian powers determine which policies or policy dimensions the military is to implement, and they alone define the boundaries between policy-making and policy-implementation. Civilian authorities also control the sanctioning of power vis-à-vis the military. They can—in principle—revise their delegations at any time⁵ (Croissant et al., 2010, p. 955; Croissant, Kuehn, Chambers, & Wolf, 2011, March).

On the other pole of the continuum lie military regimes in which the military controls all decisions concerning political structures, processes, and policies. In these

³See also Dahl (1989).

⁴See also Kohn (1997, p. 142).

⁵See also Kemp and Hudlin (1992); Pion-Berlin (1992); Kohn (1997); Bland (2001a, 2001b); Feaver (1999; 1996); Welch (1976).

environments civilian authorities do not possess any autonomous decision-making power. In this sense, civilian control is a relative condition, i.e., it is possible to distinguish different degrees of civilian control (e.g., strong or weak, encompassing or limited). Challenges to civilian decision-making power can take two analytically distinct shapes: formally institutionalised prerogatives and informal contestation. Institutionalised prerogatives describe formal rights through which the military is able 'to exercise effective control over its internal governance, to play a role within extra-military areas within the state-apparatus, or even to structure relationships between the state and political or social society'⁶ (Croissant et al., 2010, p. 956; Croissant, Kuehn, Chambers, & Wolf, 2011, March, p. 140). The dominance of civilian or military leadership in decision-making authorities depends on five elements: elite recruitment, public policy, internal security, national defence, and military organisation.

The area of elite recruitment refers to the core defining aspects of the political regime, namely the rules, criteria and processes of recruiting, selecting and legitimising those in political office. Any actor who controls this area is thus able to define 'who rules and who decides who rules' (Croissant et al., 2010, p. 957). Civilian control over elite recruitment means that the military is proscribed from establishing an alternative channel for access to political office. It also means that the processes of elite selection in terms of the formation, working, and transfer of political leadership are not subject to either the explicit consent or implicit acquiescence of the military (Chambers, 2010).

Civilian control over rules of competition is undermined when public offices are excluded from open competition and if the military influences electoral procedures. Civilian control over the rules of participation is constrained if active military personnel are eligible for public office and soldiers influence the formation and dissolution of government (Croissant et al., 2010, p. 957; Croissant, Kuehn, Chambers, & Wolf, 2011, March, pp. 139–140).

Meanwhile, the area of public policy focuses upon all policy fields except the narrowly understood aspects of security and defence policy. This includes a number of dimensions. First, it involves all phases of the political decision-making process, including the identification of political problems to be addressed and their incorporation into the political system (agenda-setting); the definition of policy goals and the elaboration of alternative policies so as to address these problems (policy formulation), and the selection of a concrete policy out of these alternatives (policy adoption). Second, it encompasses the implementation of these decisions by the bureaucratic administration. 'Civilian control over this area means that civilian powers alone decide on the contents, scope, and duration of policy decisions; they alone possess effective means to control and supervise the administrative implementation of these decisions' (Croissant et al., 2010, p. 957). However, 'while all policy issues are important to gauge the degree of civilian control over this area, it is particularly relevant if the military has any influence, formal or informal, on the national budget' (Croissant, Kuehn, Chambers, & Wolf, 2011, March, p. 140).

⁶See also Stepan (1988, p. 93).

Internal security constitutes a third area of civil-military relations; it can be defined in terms of two elements. First, it includes a geographic element as it focuses on the threats originating within the realm of the states' own territory. The second element stems from the role and the duties of various state agencies (Chambers, 2010). It involves the use of armed forces in a purely domestic environment, which includes public order in emergency situations (including disaster relief), preparation for counterinsurgency warfare and terrorism, domestic intelligence gathering, daily policing and border controlling.⁷

These activities are compatible with civilian control only if civilians have the right to make the decisions on the range, duration and frequency of all internal military operations as well as the civilian institutions, and are able to monitor their implementation (Chambers, 2010; Croissant et al., 2010, p. 958, 2013, March, p. 140; Croissant, Kuehn, Chambers, & Wolf, 2011, March; Croissant, Kuehn, Chambers, Völkel, et al., 2011, April).

National Defence remains the core function of any military corpus and includes all aspects of defence policy, ranging from the development of security doctrines to the deployment of troops abroad and conduct of war (Alagappa, 2001; Trinkunas, 2005). Soldiers, as experts in security matters, are often involved in the formulation and implementation of national defence policies; this is true even in modern established democracies. Such policies, however, and especially their implementation, can determine the security of the nation; it is thus crucial that they remain under civilian jurisdiction and oversight. As such, national defence activities can only be compatible with civilian supremacy when civilians control the range, duration and frequency of these missions and related activities. Additionally, civilian institutions must be able to effectively oversee the armed forces' implementation of national defence and security policies as well as to monitor the military's external security (national defence) missions (Chamber, 2010; Croissant et al., 2010, pp. 958–959; Croissant, Kuehn, Chambers, & Wolf, 2011, March, p. 140).

Finally, the area of military organisation comprises decisions on all organisational aspects of the military as an institution, which can be organised into two dimensions.⁸ The first dimension refers to the material aspects ('hardware') of military organisation: force, size and structure, procurement and production of military equipment, as well as other institutional, financial and technological resources of the military. The second dimension ('software') includes the ideational aspects of military organisation (e.g., doctrine and education) as well as decisions on personnel selection such as recruitment, appointment and retirement (Chambers, 2010; Croissant et al., 2010, pp. 958–959; Croissant, Kuehn, Chambers, & Wolf, 2011, March, p. 140). One may be able to measure the level of civilian control in this area by the extent to which civilians are able to decide on both the 'hardware' and 'software' of armed forces' organisation as well as by the extent to which civilians can set the boundaries of military autonomy in making decisions on these armed forces' internal affairs (Croissant et al., 2010, pp. 959–960; Croissant, Kuehn, Chambers, & Wolf, 2011, March, p. 140).

⁷See also Collier (1999); Trinkunas (2005).

⁸See also Alagappa (2001); Bland (1999, 2001a, 2001b); Cottey, Edmunds, and Forster (2002a, 2002b); Lambert (2009, pp. 279–296); Pion-Berlin (1992); Stepan (1988)

9.5 A Pretorian State: The Role of the Military in Pakistani Politics

Pakistan has been ruled by its military forces for over half of its existence as an independent nation-state. Unsurprisingly, most analysts agree that Pakistan's political system is largely dysfunctional. Since its independence in 1947, the country oscillated between various types of military rulers and political authoritarianism—with some democratic intermezzos. Despite the rise of electoral politics under Prime Ministers Benazir Bhutto (1988–1990, 1993–1996) and Nawaz Sharif (1990–1993, 1994, 1997–1999, 2013–2017),⁹ this did not result in a comprehensive and sustainable democratic system (Croissant et al., 2013, p. 175). The main reason for this is that the 'colonial notion of civilian supremacy over the military and the military's aloofness from politics' (Rizvi, 2007, 2009) soon dispersed after the new state of Pakistan came into existence. Since the end of British colonial rule Pakistan has seen the emergence of a strong military allied with the country's bureaucracy. As a result of numerous perceived internal and external threats and challenges,¹⁰ the bureaucracy has over time been side-lined in a power-sharing model and decision-making process dominated by the military. Under the popularly elected Zulfikar Ali Bhutto (1971–1977), civilian power was somewhat restored, yet this amounted only to another form of power-sharing between civilians (this time elected ones) and the armed forces (Rais, 1989). As the army grew in strength and size, the systemic political developments became characterised by a lack of institutionalisation and chronic instability (Nawaz, 2008, p. xxviii). This trend contributed to an imbalance of power and ultimately favoured the armed forces. It also weakened civilian power in political decision-making processes. The succeeding regime of General Zia ul-Haq (1977–1988)¹¹ seemed to embody the ultimate and institutionalised military dominance¹² over national politics (Burki & Baxter, 1991). This is evident from the unconventional transition to civilian rule between 1988 and 1999, which led to a situation in which civilian officials only barely seemed to survive in office amidst immense military power (Shafqat, 1997). At the end of this period it seemed that

⁹Due to direct or indirect military intervention into politics, neither Benazir Bhutto nor Nawaz Sharif were able to finish their term in office.

¹⁰For example, territorial dispute over Kashmir with India and a contested border with Afghanistan claiming parts of Pakistan's territory, socio-economic problems, lack of functioning political-administrative institutions; but at the same increasing over-bureaucratization of the state apparatus, and unstable, ineffective civilian governments.

¹¹General Zia usurped power through a military coup in July 1977 by unconstitutionally overthrowing Bhutto's civilian government.

¹²There has been a tendency for the military to institutionalise its political role (especially under Zia ul-Haq and Pervez Musharraf). It's featured by three criteria: (1) the abandonment of former personalised forms of exercising political influence (Ayub Khan 1958–1962 and partly Yahya Khan 1962–1971); (2) the (informal) induction of broader sections of the armed forces into the political system to run the affairs of state; and (3) the constitutional entrenchment of a political role for the armed forces, e.g., the introduction of the 8th Amendment.

civilian officials under Nawaz Sharif (1997–1999) were able to change the rules of the game; however and ultimately the military carried out a coup d'état and remained in power under the dictatorship of General (later president) Pervez Musharraf from 1999 until 2008. After the successful 2013 general elections, which marked the first transfer of power between two elected civilian governments, Pakistan appeared to be witnessing the rise of civilian rule. Yet despite this successful transition to an elected government under a civilian president (traditionally the military used the position of President as a civilian proxy in order to exercise formal influence over the government), the country's political process remains under military tutelage. Civilians simply fail to fundamentally change civil-military relations (Croissant et al., 2013, p. 176).

Any semblance of democratisation disappeared after the latest (third) premature end of Prime Minister Nawaz Sharif. On 28 July 2017, the country's Supreme Court (SC) unanimously disqualified Sharif as member of the national parliament. Sharif resigned as the country's Premier after the judges deemed him of being 'unfit for public office'¹³ (Wolf, 2017c, August 1). Critics describe the court proceedings as a violation of the 'principles of a fair trial', even as a 'judicial coup' (Telegraph, 2017, July 29). Almeida (2017, July 30), assistant editor at the Pakistan-based newspaper *Dawn*, identifies the judgement as 'confounding, appalling in argument and scope'. Other observers claim that the PM's ousting is based on politically motivated charges and a weakened democracy (Shams, 2017a, July 28; Wolf, 2017c, August 1). One can thus argue that the ousting of Mr Sharif from the office of Prime Minister was driven by Pakistan's armed forces so as to bounce back from the civilian attempts to gain leverage within the CPEC initiative.

Looking back, civil-military relations turned sour almost instantly after Mr Sharif took office in May 2013. Some of the flash points between the then new PM and the army top brass included Sharif's attempts to initiate a dialogue with India and negotiations with the Pakistani Taliban (Tehruik-i-Taliban Pakistan). Both endeavours incurred the military's disapproval (Balakrishnan, 2017, November 18). The fundamental point of contention however was the issue regarding who controls the CPEC's implementation. After failing to wrest control over the aforementioned issues as well as several other crucial policies, Sharif was not willing to relinquish decision-making power over the country's most important development initiative (Balakrishnan, 2017, November 18). Maintaining control over the CPEC was perceived by Sharif as essential for his own political survival as well as for the protection of his and his family's favourable stakes in the country's economy. Furthermore, loosing grip over the CPEC's planning means losing access to the most profitable both contemporary and future sources of income. A clash between civilian and military authorities over the control of the CPEC can be seen as inevitable. The simmering conflict between civilian powers and the army's top

¹³The five members of the country's highest bench ruled that the PM had not been 'honest', which is a prerequisite for the eligibility for membership of the national parliament—and subsequently for the chief executive's office—as enshrined in the Articles 62 and 63 of Pakistan's Constitution. It was argued that Nawaz did not disclose to the national parliament and the judiciary his employment (and related monthly income of \$ 3000) in the Dubai-based Capital FZE company in his nomination papers for the 2013 general elections (Wolf, 2017c, August 1).

brass finally broke out as it became clear that neither the army was willing to abandon its quest to decide the faith of the nation nor was former Prime Minister Nawaz Sharif willing to depart from his habit to monopolize power. The situation resulted in the ousting of Sharif from the PM's office.

Thus still today the military top brass maintains a crucial influence in all political decision-making areas, especially those related to the country's national defence. Terrorism, foreign policy regarding India and Afghanistan, the Kashmir issue, Pakistan's nuclear policy, and issues that relate to corporate interests such as defence budget, procurements, and business activities (Siddiq, 2003, 2009) are all primarily controlled by the military.

In sum, all civilian governments have so far failed to deal with major challenges relating to economic development and national security. In consequence, the military continues to perceive itself as the sole saviour of the nation against threats to Pakistan's integrity, sovereignty and statehood. Throughout the years, the military became so deeply entrenched within all levels of the Pakistani state that they do not depend on any formal prerogatives to exercise influence over the political decision-making process or to secure their interests. Until this day, Pakistan has not yet experienced 'civilian supremacy' defined as a situation in which elected civilians exercise control over the country's security forces¹⁴ (Wolf, 2013g, April 1). This observation is important, as this chapter argues that civilian control is *sine qua non* for democracy (Croissant et al., 2010). The lack of civilian control does not only limit the powers of elected administrations, but also creates anomalies in the electoral regime, political liberties, political participation and horizontal accountability. Therefore, Pakistan must be classified as a 'defective democracy' which is only partly free (FH, 2017a), taking into account the excessive powers by both military and intelligence services and their influence over the civilian government. This in fact allows them to manoeuvre, develop and implement their own strategies and ultimately gain control over the CPEC project.

9.6 Assessing the CPEC in the Context of Civil-Military Relations and Civilian Control

In accordance with the rationale of this chapter, it is stated here that Pakistan is witnessing the total absence of civilian control. Here, civilian control is defined as

civilians having exclusive authority to decide on national politics and their implementation. Under civilian control, civilians can freely choose to delegate decision-making power and the implementation of certain policies to the military while the military has no autonomous decision-making power outside those areas specifically defined by civilians (Croissant, Kuehn, & Wolf, 2009; Croissant et al., 2010, 2013; Croissant, Kuehn, Chambers, & Wolf, 2011, March; Croissant, Kuehn, Chambers, Völkel, et al., 2011, April).

¹⁴Understood as regular and paramilitary forces as well as intelligence agencies.

As such, full-fledged civilian control requires that civilian authorities enjoy uncontested decision-making power in all significant policy areas, namely elite recruitment, public policy, internal security, national defence, and military organisation. If the military gain dominance in any of these areas, civilian decision-making powers are challenged. Based on this concept of civilian control, one can easily see that civilian decision-making powers and democratic governance are weakened on both the central and provincial levels in Pakistan.

9.6.1 Elite Recruitment

One can observe that Pakistan has a long and unfortunate record of military influence in the area of elite recruitment. Analysing the military's influence on the electoral process, there are various 'electoral projects' on the national and regional levels. The military's role in the parliamentary sphere gained momentum as political parties and their representatives (both inside and outside the parliamentary sphere) failed to develop a constructive relationship between government and opposition (Wolf & Kane, 2010, pp. 174–176). Furthermore, key political players are often driven by personal rivalries and bitter conflicts. With the help of the intelligence services, politicians manipulated the 2008 elections so as to ensure a continued role for the armed forces (Wolf, 2013g, April 1, p. 26). With the subsequent help by the state machinery, the military successfully played off political parties and leaders against each other (Croissant et al., 2013, p. 291). In order to prevail in the polls, political parties were hampered by the influence of the military as the armed forces manipulated party rifts, created new parties, pressured individual candidates to withdraw from elections, restricted electoral campaigns and openly supported strategic political parties (Wolf, 2013g, April 1, p. 26). Even elected governments found their authority undermined in a number of ways, e.g. through facilitating votes of confidence by vote buying (horse trading), and were consequently ousted. All these complications inhibited the development of a functioning party system. The policy of creating tension (divide and rule) between the different political leaders and their respective parties did not only lead to increased factionalism, it also paralysed the parliamentary process and frustrated the progression of a constructive relationship between opposition and government (Wolf, 2013g, April 1, p. 26).

Finally, the 2008 and 2013 general elections appeared to determine critical junctures in the area of elite recruitment, as the military did not try to influence the electoral process directly and limited itself to its role as defined by the civilian government. As such, the military seemed to have given up—at least temporarily—control over government formation (Croissant et al., 2013, p. 191). In other words, between 2013 and 2016, there were no clear (overt) indications that military activities had an impact on the electoral sphere. However, considering the history of civil-military relations, it will be important to monitor upcoming elections, especially the electoral campaigns and those who are critical of the CPEC in general and the military's role within it in particular. Against this backdrop, it is important to point at the re-emergence of an old

phenomenon in Pakistani politics, recently known as the ‘political mainstreaming’ of militant religious extremists (Hussain, 2017c, October 27). Here one must state that Pakistan’s main security sector actors, especially the intelligence agency ISI and its political wing, had persistently intervened in the electoral process. The portfolio of undue encroachments into the (party) political arena by the ISI are the ‘masterminding alliances of co-opted civilians’, measures to create rifts within existing parties, or launched attempts to topple governments, for instance through a no-confidence vote (Grare, 2009, pp. 23–24).

Today the intrusion into the area of elite recruitment appears in a slightly different form. Yet it follows basically the same patterns, namely through influence over political processes so as to achieve and/or to protect the corporate interests of the military and intelligence. More concretely, the aforementioned ‘political mainstreaming’ of militant religious extremists happens via the granting of permissions for Jihadist organisations to become political parties. This move gives the Jihadists a legitimate role in the country politics and enables them to take part in elections. The latter can happen in two ways: either directly through political parties with candidates running campaigns under the party’s name and banner; or indirectly via independent candidates (in cases when the respective political parties were not able to register for the election), like in the Lahore by-elections of 2017 (Yousaf, 2017, October 11). However, according to experts, this ‘political mainstreaming’ of Jihadists was planned and promoted by the military leadership (Shahid, 2017c, December 7). It is crucial to state that the decisions to draft and execute the plan for mainstreaming Jihadists were taken by the military autonomously. This is gaining momentum since the then Sharif administration was against such ideas (Shahzad, 2017, September 16). Moreover, one has to be aware that the mainstreaming plan is a major element within a larger strategy by the soldiers to influence the area of elite recruitment. This strategy comprises several other measures to influence the contemporary electoral arena, including the forming (and toppling) of civilian governments. The rejection of the then PM Sharif’s request for military support to end the siege of the capital by radical Islamists and the release of terrorist Hafiz Saeed (Shahid, 2017c, December 7), subsequently allowed to become active in politics and to push the set-up of his religious hard-line party—the Milli Muslim League party—must be seen as proof of a return of military intrusion into the electoral arena.

The present chapter argues that the army’s rationale is to re-strengthen the traditional ‘mullah-military-nexus’¹⁵ (Haqqani, 2005) and build-up political proxies so as to balance or even outmanoeuvre inconvenient civilian governments,

¹⁵The ‘mullah-military-nexus’ refers to the close relationship between the country’s military (including intelligence) and Islamic clerics and organisational structures. Most military leaders, especially when they took over power, have sought to use Islam so as to enhance their legitimacy, undermine political opposition and increase their authority in both state and society (Malik, 2011, p. 42). For the security forces, Islamic clerics and support for conservative and radicalised Islamic thinkers were important factors in providing an ideological justification for the dominant role in the country’s political arena. For the radicalised Islamic clerics, the backing of the soldiers was necessary to provide them with the means to penetrate all facets of Pakistani society (Murphy & Malik, 2009, p. 25; Wolf, 2017a, pp. 112–117).

especially those who are attempting to challenge the military's power in the country. As such, there is no doubt that the above-mentioned activities by the armed forces are driven by the overall goal to ensure their corporate interests in the CPEC. Thus one must state that the CPEC leads to a weakening of civilian decision-making powers in the area of elite recruitment.

9.6.2 Public Policy

Public policy, as far as it is not related to the military's corporate interests, is the second area in which the civilian government exercises some degree of control, or at least did in the past (Wolf, 2013g, April 1; Wolf & Kane, 2010). Yet since the inception of the CPEC, some developments have been challenging the decision-making powers of civilian authorities regarding public policies. It is crucial in this regard to be aware that key areas of Pakistani public policy, especially foreign policy (e.g., Pakistan's relations with Afghanistan and India), are considered by the top echelons of the armed forces as both inseparable from and subordinate to national defence policies (Wolf & Kane, 2010, p. 180). This linkage is based on a number of convictions prevailing among the military leadership. Firstly, it is believed that foreign and defence policies are a matter of survival and as such seriously affect domestic policy (Pattanaik, 2000). Secondly, it is held that all policy fields are interwoven with each other. Thirdly, it is believed that security-related aspects of public policies must be given priority. It is interesting to note that a similar view can also be found in the civilian sphere. More concretely, ever since independence Pakistani politicians seem to have believed that the country's security and territorial integrity are more important than economic development. Although development and self-reliance would strengthen the nation's defence capabilities, sovereignty's defence requirements have to be met first (Bhutto, 2009, p. 117). While the military's dominance in the area of public policy is a product of both external and internal factors, the internal reasoning is fundamental.

Indeed, the civilian government supported the emerging decision-making role of the armed forces in all areas of public policy, especially in foreign, economic and financial (budgetary) policies. After playing an initial role of mentor and arbitrator, the military soon turned into the prime authority in numerous public policies. The armed forces were able to manipulate and control not only decision-making institutions but also the political behaviour of civilian actors.

In addition, the soldiers were able to extend and consolidate their influence over the appointment of military officers (both active and retired) as they managed and controlled positions of civilian authorities and ministries (Rizvi, 2003; Shafqat, 1997, p. 35). Furthermore, in order to understand the tremendous impact of the CPEC on civil-military relations in Pakistan, the so-called Apex Committees (ACs) are gaining significance. The ACs are a newly invented system of political-administrative bodies at both the federal and provincial levels which are, according to official statements, supposed to enhance civil-military interactions (ISPR, 2015,

January 3). It is expected that the increased coordination between civilians and armed forces via the ACs should improve the security situation in general and counter terrorism in particular (ISPR, 2015, January 3). We argue that the ACs are seriously hampering the civilian government's decision-making powers vis-à-vis the army's top echelon, and this for several reasons:

First, ACs were primarily initiated by the military in response to their accusations that Sharif's administration was not doing enough to implement the National Action Plan (NAP).¹⁶ The NAP was jointly drafted by the government, parliament, and the army. Its main objective is to improve the overall security situation in Pakistan (Jaffrelot, 2016, April 1); however the government was blamed for failing to fulfil it, and this was perceived by the military as a severe threat to the CPEC's establishment (Dawn 2016c, September 19; 2016d, August 16).

Second, Apex Committees can be defined as a military-civilian hybrid comprised of members of the federal and provincial governments as well as military top brass and representatives of other security sector agents. As indicated above, the engagement of both active or retired military personnel within the bureaucratic-administrative institutional framework is not a new phenomenon. What is essentially different about the ACs, however, is that this setup formally merges the military with the civilian government. It thus enhances the role of the soldiers in the administrative management of state affairs as well as legally strengthens their position in all decision-making areas relating to the CPEC and beyond (Rizvi, 2015d, August 9).

Third, although ACs act without sufficient parliamentary oversight, they have become more influential than both the federal and provincial cabinets and other specialist civil institutions. This is evident from the fact that federal and provincial cabinets meet less frequently than federal and provincial Apex Committees (Rizvi, 2015b, December 27). During his time in office, Nawaz Sharif tried to accumulate power at the expense of all other political institutions, foremost the cabinet and the parliament, making the ACs more instrumental and effective for the purposes of the military. In addition, Sharif's tendency to side-line the parliament added further significance and influence to the ACs. Instead of including elected representatives, Sharif relied on the bureaucrats to run ministerial affairs. He continued the process of undermining the internalisation of democratic procedures, norms, and values within the country's political-administrative institutional framework. In practice, this means that Sharif did not use the cabinet to exercise power. This increased the overall acceptance that decision-making is done in other forums outside the institutional structures and processes established by the constitution, especially the ACs.

Fourth, most of the important decisions related to the CPEC are made by the ACs. Soon after their establishment, the ACs started to make decisions far outreaching their initial purpose of coordinating security efforts. Today, the ACs function as core institutions dealing with the implementation of all kinds of CPEC-related projects.

Finally, while the ACs' official function relates to institutionalising and legitimising of the 'process of decision-making via consultation between

¹⁶See for more information: http://www.moib.gov.pk/InnerPage.aspx?Page_ID=46

democratically elected authorities and the military’ (Croissant et al., 2013, p. 192), it is obvious that the supreme authority on most crucial issues lies with the army. In consequence, the CPEC enhances the Pakistani military’s traditional approach of turning both the executive and the legislative organs into ‘rubber stamp’ bodies.

The trend of accumulating institutional leverage and formal political power by the military in the context of the CPEC dates back to the enactment of the 21st constitutional amendment and the Pakistani Army’s (Amendment) Bill of 2015. These legislative acts led to new institutional arrangements granting special powers to the armed forces. Here, most noteworthy is the establishment of military courts (Wolf, 2015c, May 14)¹⁷ providing constitutional cover to bring civilians under military jurisdictions (Dawn, 2015d, January 6). This creates serious concerns among observers. A major source of criticism in the given context is—besides the significant transfer of power from civilian to military institutions—that it was not entirely clear whether the proposed ‘special tribunals’ would function under the supervision of the country’s highest court alone or if there would also be any effective parliamentary oversight. In this regard, one should mention that it is a generally accepted international principle that military courts should have no jurisdiction over civilians (Decaux, 2010). In other words, the judicial system must ensure that civilians accused of a criminal offence of any nature, including terrorism, are brought to justice by civilian courts. Military courts in many countries have a bad reputation and a poor record as regards fair trials, especially regarding procedural and fundamental rights of the defendant (Decaux, 2010).

Taking the underlying causes of terrorism and Islamic fundamentalism into account, it is highly doubtful that Pakistan’s public safety will improve with or be guaranteed by the setup of military courts. The ongoing militancy and terror attacks can be seen as a proof of this fact.

The 21st constitutional amendment and the Pakistan Army’s (Amendment) Bill of 2015 were additional signs of the political system’s dysfunctional nature and the incompetence or unwillingness by the civilian leadership to deal with such tremendous challenges. By contrast, it is obvious to many international counterterrorism experts that not only have Pakistan’s security forces continuously nurtured terrorist groups, but also that the country’s executive and legislative bodies had a soft-corner regarding Jihadists. Being unwilling to deal with terrorism in a comprehensive way, it does not come by surprise that the various civilian administrations during the last decades have neither maintained the decision-making powers demanded nor built up

¹⁷In constitutional-technical terms, the 21st amendment to the Constitution provides for entering the Pakistan Army Act 1952, the Pakistan Army Act 1953, the Pakistan Navy Act 1961 and the Protection of Pakistan Act, 2014 in the first schedule of the Constitution. The first schedule of the Constitution contains laws which are exempted from the application of Article 8 (1) and (2) of the Constitution. These articles are part of Chapter 1 of the Constitution relating to the fundamental rights. More concretely, the 21st Amendment Act provides for the creation of military speed trial courts (STCs) for offences relating to terrorism, waging war against Pakistan and prevention of acts threatening the security of the country. The Act shall remain in force for two years starting on 7 January 2015 after the President signed the Act (Dawn, 2015d, January 6; Pakistan Today, 2015, January 6).

the necessary competence to implement an effective counter-terrorism strategy. It would therefore be inaccurate to say that the government was coerced into accepting special military courts; we also have to take into account a high level of unwillingness among the civilian leadership to tackle militancy and fundamentalism and more generally to take any responsibility. Thus, the military took charge once again and the civilians remained side-lined because of their own inadequacy in highly sensitive policy areas. This dynamic is yet another example of shifting responsibilities occurring at the cost of democratic institutions.

After rising critiques and promises at both domestic and international levels, military courts were disbanded on 7 January 2017 (Bilal, 2017, March 31). Yet two months later they were re-introduced, after the Pakistani President gave his formal assent to the Pakistan Army's Act 2017 and the 23rd Constitutional Amendment Bill¹⁸ on 31 March 2017 (Bilal, 2017, March 31). Observing this, civilians followed the old patterns of relying on military strategies to bring terrorists to justice instead of using the time to conduct reforms so as to improve the judicial system.

It seems that all this constitutional engineering around the legalisation of military courts is not just a short-sighted knee-jerk response by civilians (Jaffrey, 2015, January 6) in the form of an 'extraordinary measure for an extraordinary situation' (Dawn, 2015d, January 6). Quite the opposite: it is a well-planned, gradual strategy intended to build up a formal role by the military in the country's political landscape. Some analysts would call this strategy a 'constitutional coup' or describe it as 'a monument to the betrayal of the civilian, democratic cause' (Dawn 2015e, January 3).

To sum up, military justice without transparency and oversight is undermining the democratic process in Pakistan, a country which lacks the experience, willingness, and tradition needed to consolidate political institutions under civilian control. Therefore, the 21st Amendment and the 23rd Constitutional Amendment Bill are not only indicative of a willingness by the military leadership to openly direct the political process; they also indicate that the country is once again under the auspices of military rule. The latest constitutional manoeuvring thus bolsters the existing informal dominance of the armed forces as the military strengthens its formal institutional role. Handing over more power to an institution with such a history of undermining and arbitrarily changing the Constitution is more than just an act of negligence. The respective amendments may well constitute the surrender of any previous democratic achievements and further widens the path of deeply entrenched authoritarian tendencies. Also, recent history shows that Pakistan's security circles have an idiosyncratic definition of terrorism which is not necessarily in line with the understanding of this phenomenon within the international community. Subsequently, observers fear that these military trials will not be confined to terrorism charges but will also be used against political opposition as well as the media and separatist groups, especially those in the Balochistan province (Jaffrey, 2015, January 6). Having said this, there are already clear indications that military courts are used to silence critics of the ongoing CPEC projects. The latter is gaining

¹⁸This bill also became known as the '28th amendment bill' (Bilal, 2017, March 31).

momentum given the excessive use of death penalties by military judges (Rehman, 2017b, October 26).

Another major issue concerns how and by whom the country's foreign policy is designed. The civilian government has some level of decision-making power in Pakistan's foreign policy—as long as their actions coincide with the military's goals; however all important foreign policy decisions are made by the military, especially those regarding Kashmir, India, and Afghanistan. Up until this day, every attempt by the civilian government to reach a rapprochement deal with India has been boycotted and undermined by the military (Rizvi, 2003, pp. 211–212). The military also exercises an important influence regarding Pakistan-Iran relations. For example, while former PM Sharif promised the government in Riyadh that Pakistan would provide soldiers for the war in Yemen, then Chief-of-Army-Staff (COAS) General Raheel Sharif soon 'checked him—refusing to provide the troops because of the repercussions on domestic sectarian harmony' (Alam, 2015, December 4). Since the CPEC's success depends on its integration in the infrastructure and energy networks of neighbouring countries, the development project is not only linked with the regional security complex but also concerns crucial foreign policy parameters. One can therefore expect the military to increase its leverage in respective political and economic decision-making. The CPEC project thus further entrenches the military's central role in foreign affairs. This can be seen in the increase of diplomatic activities by the Army top-brass, activities that reach beyond military-to-military contacts. Furthermore, the soldiers became directly involved in entities such as the Senior Official Meeting (SOM) of the Joint Cooperation Committee (JCC) on CPEC¹⁹ or the 'International Forum on the China Pakistan Economic Corridor'²⁰ and other CPEC-related mechanisms of dialogue, planning and implementation. To conclude, the engagement by the armed forces in all aspects related to the CPEC shows that they are solidifying their role in public policy but also expanding their decision-making powers, thus leaving the civilian government little room for manoeuvre.

¹⁹The Joint Cooperation Committee (JCC) on the China-Pakistan Economic Corridor is a meeting at the ministerial level. The JCC is the apex decision-making forum on the CPEC and is jointly chaired by Pakistan's Planning and Development Minister and the vice-chairman of National Development and Reform Commission (NDRC) of China. However, the more significant bodies within the JSS are the Senior Official Meetings (SOMs), responsible for the preparation of the discussions to be held during the JSS sessions (Geo News, 2017, November 21).

²⁰Despite the International Forum being hailed as the first platform on which top civil and military organisations meet to promote the common objective of building the CPEC, the composition of the Pakistani delegation during its first meeting clearly emphasises the strong influence of the military in this bilateral entity (Nation, 2015, August 17).

9.6.3 *Internal Security*

Pakistan has existed in a state of a political instability since its independence. The military has always been highly involved in both state building activities (e.g., infrastructure development, water and energy schemes) and internal security operations. Initially, the military tried not to be drawn into the ‘handling of law and order situations’²¹; however, every Pakistani government came to request military involvement for one reason or other—a phenomenon partly authorised in Pakistan’s various constitutions. While this influence was one of the main sources of the military’s self-confidence and legitimacy to intervene in Pakistani politics (Wolf & Kane, 2010, pp. 187–188), it dictated its own function to include the management of national defence challenges as well as internal security threats. It then started to promote its image as the ‘ultimate guarantor of the country’s internal stability and territorial integrity’ (Talbot, 2002b, p. 322). Indeed, the military perceived itself as the most sophisticated and functional instrument in place to tackle the country’s socio-economic and political challenges. This also explains the military’s air of superiority in state-building vis-à-vis elected politicians (Wolf, 2012a; 2013g, April 1; Wolf & Kane, 2010). This attitude is evident in their approach regarding the CPEC project, as the military seems to think that neither its implementation nor any decision-making related to the endeavour should rest completely in the hands of civilians (Pattanaik, 2000).

One can state that security challenges arising from the CPEC development had the most significant impact on civil-military relations and caused the greatest loss of civilian control in decades. The increasing autonomy of the army in the area of internal security, especially since the country officially joined the US-led Global War on Terror, shows the army’s ability to define, formulate and implement its own policy agenda without depending on civilian decision-making processes. They have, for instance, full control over the size, scope and duration of domestic missions—as seen during the unilateral decision to launch major campaigns such as the Operation Rast-e-Rath in 2009²² or Operation Zarb-e-Azb Operation²³ in 2014 (Zahid, 2015, July 10).

²¹This is understood as aid-to-civilian-power missions, the objective of which has been to restore civilian authority in law and order crises or cope with natural calamities (e.g., in East Pakistan there occurred the Bengali-Urdu language crisis; various food crises; and the Dhaka police riots; while West Pakistan was confronted with the Karachi riots and the Ahmadiyya crisis, all of which transpired in the 1950s) (Cheema, 2002, p. 122).

²²Operation Rast-e-Rath (27 April–30 June 2009) is another interesting example for Pakistan’s autonomy in internal security decision making. Operation Rast-e-Rath or Rah-e-Nijat refers to a full-fledged military action in the Swat district of the Malakand Division of Khyber Pakhtunkhwa (KPK) in Pakistan, aiming to crush the followers of the militant organisation Tehrik-e-Nifaz-e-Shariat-e-Mohammadi (TNSM) as well as Taliban elements, operating in this area. Subsequently to counter similar extremist elements in the South Waziristan Agency, Operation Rah-e-Nijat was carried out. See for more details: Jones and Fair (2010, pp. 70–75).

²³The operation Zarb-e-Azb was launched in North Waziristan (NWA) on 15 June 2014, following a series of major terrorist attacks (especially attacks on Karachi’s international airport & Peshawar school attack) and the failure of peace negotiations between the government/army and Tehreek-i-

The decisions to extend both this anti-terrorist campaign (Haider, 2015b, July 3) and its geographical scope were also decided by the armed forces themselves. Zarb-e-Azb initially focused on the regions bordering Afghanistan, yet soon the army declared that the whole territory of Pakistan would be included in the area of operation (Wolf, 2015b, June). In this context, the officially proclaimed goal of the security apparatus is to link the CPEC's implementation with the aim of achieving a 'terror-free Pakistan' (Pakistan Today, 2016, December 24). In the words of then COAS Sharif: 'We [Pakistan's security forces] will not stop unless we achieve our end objective of a terror-free Pakistan' irrespective of the costs (Haider, 2015b, July 3). These costs took the form of many human and material losses but also increased the willingness of the soldiers to side-line civilians and scrutinise the latest achievements in democratic transitions for the sake of creating a safe environment for the CPEC. Another example of autonomous decision-making by the army concerns the Karachi security operations, during which the military guided actions against terrorists and campaigns so as to root out violent groups, including extortionists, mafia and armed wings of political and religious parties²⁴ (Rizvi, 2015c, September 6). Circumstances were very similar to those prevailing in Zarb-e-Azb: the decisions to carry out decisive measures against terrorists were taken by the military and the rangers, a paramilitary force headed by the army themselves (Rizvi, 2015c, September 6). These bodies only informed the government after the decisions were already taken.

Last but not least, mismanagements of the project (i.e., lack of political will, capacities, transparency and communication) as well as half-hearted attempts by the civilian government to deal with jihadi terrorists and militants—according the above-mentioned NAP—all created another opportunity for the army to call on the 'doctrine of necessity' and take over decision-making. In other words, by portraying the civilian government as incompetent and unable to ensure security and stability—a crucial pre-requisite for the development of the CPEC in general and Chinese funding in particular—as the army finds a justification to act autonomously and take over the implementation of both the NAP and CPEC. In sum, up until now, the civilians continuously demonstrated their inability to deal with major challenges related to economic development and national security. It appears instead that politicians choose to identify the military as the sole saviour of the nation against threats to Pakistan's internal security. Consequently, the civilian government lost control over the CPEC's decision-making process as regards internal security.

Taliban Pakistan/TTP. The campaign has been bolstered by a surge of 170,000 troops, almost a third of Pakistan's entire military. Besides the TTP, the major targets were the Lashkar-e-Jhangvi, Al Qaeda, Islamic Movement of Uzbekistan (IMU) and the East Turkestan Islamic Movement (Sial, 2014, December; Wolf, June 2015; Zahid, 2015, July 10).

²⁴The security forces have arrested over 58,000 criminals. Of them, 9570 were absconders while 630 were proclaimed offenders. Others apprehended during the operation included 1731 murderers, 713 terrorists, 517 extortionists and 118 kidnappers. Security forces also recovered 15,612 illegal weapons during the operation (Gishkori, 2015a, November 12).

9.6.4 *National Defence*

Since the country's independence, and especially after the first Indo-Pakistan war over Kashmir in 1947–48, the military came to control national defence and military policy, particularly Pakistan's relations with India and Afghanistan (Wolf & Kane, 2010, p. 185). The country's nuclear weapons programme is also the sole responsibility of the armed forces, civilians being excluded from any meaningful influence in either planning or implementing these policies²⁵ (Bhimaya, 1994; Waseem, 1994; Wolf, 2013g, April 1). To put it briefly, all political practice in the field of external security (national defence) became the sole responsibility of the higher defence administration and the military echelons. Even after the latest attempts of transition to a more civilian rule in both 2008 and 2013, elected leaders remained effectively side-lined in decision-making relating to national defence. Against this backdrop, there are indications that the CPEC project is further entrenching the army's dominant role beyond matters of national security. Here, the increase of the country's defence and security cooperation with China, alongside the common economic corridor project, both function as a catalyst for the rapid absorption of power in national security issues. In order to deepen the security-military cooperation, Islamabad and Beijing agreed to intensify collaboration in defence, counter-terrorism, and space and maritime technology (Daily Times, 2015a, April 21; Syed, 2015, April 21). So as to give life to this additional military arrangement, alongside the pledged funds for the CPEC, China promised to deliver advanced weapon systems.²⁶ This is likely to heighten concerns from both India and the US that Gwadar port will not only be used for economic purposes but will also serve as a major naval base for both Chinese and Pakistani navies. The fact that China helped to build Pakistan's nuclear weapon capabilities and that the new deal will also include cooperation in civil nuclear energy (Daily Times, 2015a, April 21)²⁷ both create even bigger fears in New Delhi. Furthermore, in order to enhance ideological and intellectual cooperation, Pakistan and China launched several think tanks and academic cooperation projects.²⁸ The latter endeavours are aiming at the establishment of a persistent 'information corridor' (Daily Times, 2015b, April 19) so as to promote perspectives, data, information, and policy recommendations for decision-makers and practitioners, as well as shape the opinion of scholars, media, and general public regarding the CPEC. It is assumed that this research collaboration will have a crucial influence reaching far beyond

²⁵For example, the decision to go for a further enrichment of the nuclear weapon program was clearly made by the military top echelon. In contrast, civilians were made responsible only to find a diplomatic solution for the consequences (international sanctions) (Kukreja, 2003, p. 237).

²⁶For example, in the form of eight submarines, worth between \$4 billion and \$5 billion (Detsch, 2015, April 21; Shams, 2015b, April 20).

²⁷"Given how important nuclear weapons are to the South Asian nation's military capabilities and even identity, the significance attached to China's essential role in the nuclear program can hardly be overstated." (Andrew Small quoted in Domínguez, 2015b, January 15).

²⁸One of the earlier examples is the decision to set up a think tank called 'Research and Development International' (Daily Times, 2015b, April 19).

CPEC-related matters; it is indeed a step towards enhancing strategic communication and coordination so as to safeguard common Sino-Pakistani interests in the areas of security and defence (Daily Times, 2015a, April 21).

In this context, there is a departure from China's official policy of non-interference in the domestic politics of other countries. This is most likely a shift away from its classic non-aligned foreign policy. Consequently, their extraordinary support for Pakistan, as an old friend and 'quasi-ally', can be seen as a critical juncture in the way in which China handles bilateral relations. However, there are clear indications that the Pakistani armed forces use defence and military cooperation with China not only to play a greater role in matters of national security, but also to get a stake in administrative and management affairs relating to the CPEC project (Panda, 2016, April 20; Rana, 2016, April 16). In this context it is crucial to point out that the military submitted an informal proposal to the civilian government so as to set up a new institution: the 'CPEC Authority'. This government body should function as a 'consultative forum on the pattern of Apex Committees'²⁹ so as to ensure a trouble-free implementation of the economic corridor (Ghumman, 2016, February 10). Additionally, the military leadership has a vision to integrate the CPEC as part of the NAP against terrorism: the army seeks to interpret a major development project as an instrument to eradicate terrorism under its own guidance (Daud, 2016, June 8). However, until the ousting of PM Sharif, the civilian government was able to bounce back the idea of introducing this additional bureaucratic layer which in effect ensures a further growth of military influence within the CPEC (Ghumman, 2016, February 10; Panda, 2016, April 20; Rana, 2016, April 16). General Sharif did not accept this decision and presented the matter to the Chinese PM during his visit in May 2016. During this stay, Pakistan's top general emphasised the significance of military-to-military relations for China-Pakistan ties and actively worked so as to persuade the Chinese leadership to see economic cooperation and security collaboration as two sides of the same coin; in the COAS's words, these policies should be pushed forward 'like two wheels' (Daud, 2016, June 8). If this trend continues, the military can be expected to be more adamant and assertive in its attempts to control national defence via additional ways offered by the CPEC (Kaura, 2016, May 2).

9.6.5 *Military Organisation*

During the first years of independence there was little military organisation to speak of; the military faced serious administrative and organisational challenges (Khan,

²⁹The basic concept behind the proposal is to create a body exclusively for the CPEC which can be used by major stakeholders (namely provincial governments and the security actors) so as to present their ideas regarding project planning and implementation to the executing authority, the federal government (Ghumman, 2016, February 10). The new authority is proposed to be headed by a chairman, who is to be assisted by director generals responsible for implementation of CPEC-related projects (Rana, 2016, April 16).

1967). These were not only caused by the partition process but also by unstable civilian governments which lacked the capacity to manage Pakistan's state affairs. The armed forces had to rebuild their organisational structures from scratch and were overwhelmed by constant aid-to-civilian-power missions (Cohen, 1984, p. 33; Cohen, 1983). Furthermore, the military underwent an extensive process of 'Nationalization and Re-organization' (Rizvi, 1987, pp. 30–34). Over time, however, the military leadership amassed influence and took over organisation up to a point where the officers' corps rejected any civilian influence in their internal affairs. They argued that it 'is against the institutional norms of the armed forces and will translate into risks and threats for organisational coherency'; it not only upsets the command hierarchy but also politicises and destabilises the military (Khakwani, 2003, p. 11). In sum, civilian decision-making in the area of military organisation is perceived by most soldiers essentially as efforts to generate dissension within the ranks, especially among the corps commanders (Khakwani, 2003). Generally speaking, the military rejects any attempts by the civilian government to establish supremacy (Wolf & Kane, 2010, p. 191); it is therefore no surprise that civilian governments became completely side-lined in all military internal affairs (Nawaz, 2008, pp. 481–482). For example, the fact that the civilian government never amended the defence budget or the service conditions (Rizvi, 2003, p. 205) of military business projects (Siddiq, 2009) is a strong indicator of total military dominance in that area (Wolf, 2012a, May 2018; 2012). Other than the symbolic appointments of top senior officers, civilians abandoned any attempt to interfere in military affairs (Wolf, 2013g, April 1). Civilian decision-making powers in the area of military organisation remained minimal, as evidenced by the CPEC development. The military made an autonomous decision to provide security, especially to build up additional forces as well as to restructure the existing ones so as to ensure the CPEC's safety in general and to protect Chinese companies, workers and investments in particular (Indian Express, 2016, May 17; Reuters, 2016, February 8; Tunio, 2016, January 20). The military is also massively influencing the organisation of civilian security sector agents via the ACs: Pakistan's army not only has full control over its own affairs but also increasingly perceives the management of police forces as their responsibility. This does provide them with more decision-making powers both in the area of military organisation and in the field of internal security. One can conclude that the CPEC further entrenched the pattern that pushed decision-making powers out of the hands of the civilian government and into the military's area of influence.

9.7 The Impacts of the CPEC on Pakistan's Political-Institutional System

The implementation of the CPEC project and the need to ensure its overall security, as well as the overarching goal of a terror-free Pakistan, both led to a tremendous rise in activities and influence by the military in all decision-making areas. Moreover, the

soldiers' current engagement in the CPEC creates opportunities for them not only to continue and extend their informal influence in decision-making but also to establish the strongest formal-institutional role of the army in Pakistan's political-administrative system since the country came into existence. As such, the military's engagement within the CPEC scheme has some extraordinary negative impacts on at least four out of five key areas of civilian control: the civilian government has minimal leverage in the areas of internal security and national defence; the armed forces remain fully autonomous with regard to military organisation; public policy, which was traditionally the only domain in which civilians had some decision-making power got tremendously under military influence since CPEC has decisive impacts on all spheres of economic, social and political life in Pakistan. The last area of elite recruitment remains rather less affected, yet there are also indications that the military increases its activities to gain more leverage in the electoral arena and among the political parties.

The tremendous decision-making power of the military, both old and new, finds its most visible expression in the creation of reserved domains in public policy such as its own business activities, as well as in a foreign policy that is independent and separate from the civilian government. For example, the army developed its own relationship with the US government. Today, as the military achieved a high level of political and economic autonomy—as seen in large enterprises like the semi-military Frontier Works Organisation (FWO)³⁰ or the increasing independent diplomacy with China—the armed forces possesses effective instruments to engage in the CPEC project and in all other related decision-making areas. The hype surrounding the CPEC created an atmosphere in which the armed forces effectively took on their strongest formal role ever in the country's political system. The military was not only able to extend its institutionalised role in decision-making process at the expense of all three branches of governance (executive, legislative and judiciary), but it also developed a quasi-parallel structure of governance. The fact that the civilian government was able to block the military proposal of the CPEC's establishment is at best a pyrrhic victory, because in the long run, the military will either enforce the establishment of such an authority by seeking Chinese support—or will rely on the already existing both formal and informal ways of increasing their power within the CPEC project.

Despite the CPEC-related decision-making processes taking place within a framework of mutual consultation and institutional mechanism (e.g., ACs, SOMs of JCC), which indicates some degree of power-sharing between military and civilians, the paramount decisive actor for policy formulation and implementation is increasingly the military. The major reason is that the CPEC's development led either to a further entrenchment of the already strong, mostly informal decision-making power of the armed forces, or to an additional, formal transfer of power from civilians to soldiers. Against this backdrop, the informal and undue absorption of decision-making power by the military into the civilian realm is a well-known

³⁰See for more information: <http://www.fwo.com.pk/>

phenomenon in Pakistan. What is new however is the fact that civilians themselves transferred powers to the military, both formally and legally. Theoretically, as the people's elected representatives and thus as the supreme sovereign authority, civilians have the right to do this. However, given the institutional weaknesses, lack of human capacities and skills, and especially given the absence of any effective control and oversight mechanisms, the formal handing over of power to the military so as to ensure the CPEC's implementation determines a severe setback for the country's efforts to establish a democratic system of governance. This is an unfortunate trajectory since it seems that Pakistani history is repeating itself. Despite the traditionally dominant role of the military, due to extraordinary circumstances—e.g., after Pakistan's armed forces lost wars and reputation against India in 1965 and 1971 or the unexpected death of military dictator Zia-ul-Haq in 1988—the government obtained and almost threw away several opportunities to regain control over the military and over decision-making mechanisms in general (Wolf, 2014a, November 13). It was hoped that a successful implementation of the CPEC could have been another exceptional moment which could be used to strengthen the civilians' position vis-à-vis the soldiers. Yet the way in which the civilian government handled the initial phase and the respective first CPEC projects, especially in the light of the accusations of endemic corruption against the ousted PM Sharif,³¹ enhances the perception that they are simply incapable of governing effectively. This further enforces the military's 'doctrine of necessity' to intervene in politics, not only in terms of internal and national defence, but particularly regarding economic development and implementation of the CPEC. Thus in order to carry out the many and essential tasks related to this project, the military resorts to their traditional 'help-yourself' attitude—which will further side-line the government's role in the CPEC related decision-making. The elected government continues to be used as a public facade, yet the fact that leadership lies with the military is obvious (Wolf, 2013g, April 1). In other words, due to the CPEC, there is no more need for the soldiers to stage a coup d'état so as to rule the country. The civilian government failed once again to improve the unhealthy civil-military relations or to establish any noteworthy elements of civilian control over the armed forces. Instead, this economic corridor initiative provides the soldiers with ample opportunities to delay the implementation of necessary political reforms meant to strengthen democratic processes in order to safeguard and extend their corporate interests into all policy fields. In result, the CPEC does not only mirrors another lost opportunity for civilians to improve the quality of democracy in Pakistan but also shows how economic development can hamper political liberalisation and freedom. The CPEC must therefore be identified as evidence that the causal link between economic growth and liberal democracy is weakening in Pakistan.

³¹The involvement of then Prime Minister Sharif in the Panama Papers scandal weakens (BBC, 2016, April 21) his position and that of his administration, creating additional momentum for the military to increase its leverage within the government affairs (Notezai, 2016, May 11).

Chapter 10

Final Thoughts



10.1 Economy, Trade, and Regional Cooperation

The CPEC's implementation faces tremendous challenges. Islamabad and Beijing are yet to transform their joint development initiative into a dynamic bridgehead for international economic collaboration. One of the most raised issues regards the CPEC's impact on the overall economy of Pakistan as well as the country's trade relations and regional cooperation. At the moment, it appears that the perspectives in all these areas look rather grim due to the following factors.

10.1.1 Further Reduction of Economic Freedom

The 2018 Index of Economic Freedom by the Heritage Foundation ranked Pakistan 131 out of 180 countries world-wide (HF, 2018, p. 1). The Index describes the South Asian country's economic conditions as 'mostly unfree'. The major reasons mentioned include the decades-long internal political turmoil, low levels of foreign investment, and excessive state involvement in the economy. These phenomena led to erratic growth and underdevelopment—especially within the private sector which is particularly suffering from inefficient and omnipresent regulatory agencies.¹ Given that CPEC-related investments occur in the form of government developmental expenditures, which systematically favour either Pakistani military companies or Chinese SOEs alone, private entrepreneurship in the country will be further undermined (HF, 2018, p. 1). One must expect CPEC-related developments to lead to an increased intrusion by the state in economic activities and worsening of

¹For example, the cabinet's Economic Coordination Committee (EEC), one of the most important regulatory bodies. The ECC was formed as an emergency wartime measure in 1965 amid the suspension of foreign aid and assistance and has been in place until today (BTI, 2018, p. 20).

Economic Freedom in Pakistan. The high-level involvement of state and governmental agencies in the decision-making and implementation of CPEC projects seems to so indicate. This is not without importance, since Economic Freedom is understood here as a fundamental right of every human being. The constraints on the economic liberties² of Pakistani citizens and private companies will have severe implications for human development, healthy state of society, quality of democracy, and poverty elimination (Miller et al., 2018, pp. 1–2, 9–15).

10.1.2 Geopolitical, Strategic, and Security-Orientated Rather than Purely Economically-Driven

Despite official statements claiming that the CPEC is a pure economic endeavour, it is increasingly obvious that the corridor has also strong geopolitical, strategic, and security-related dimensions. There are several factors supporting this assessment:

Firstly, it seems that numerous projects are not based on any economic cost-benefit calculation and appear as driven by political motivations instead. Considering proclaimed principles regarding sustainable economic growth, market-orientation, livelihood improvement, and sustainable, inclusive development (LTP, 2017, pp. 9, 11–12)—as well as the country’s commitment to the UN’s Sustainable Development Goals (SDGs)—the CPEC seems more a hindrance than a solution. If CPEC decision-makers maintain the same planning patterns revealed so far, the CPEC project might even turn into a complete failure—with disastrous impacts on the country’s economy. Consequently, one must not only question the economic viability of this development initiative but also wonder about the proclaimed economic rationale of the CPEC. Analysts seem to conclude that within the CPEC initiative, the ‘perceived geopolitical gains could also take precedence over economic ones’ (ICG, 2018, June 29, p. ii).

Secondly, due to the lack of transparency and high levels of secrecy surrounding the CPEC, it is difficult to assess whether the corridor’s implementation follows economic parameters or—more likely—security-related, political and strategic rationales. However, after assessing the initial years one can state that the decision to establish the corridor is determined by a combination of all these factors. According to experts, there is a growing awareness among Chinese decision-makers that operating in Pakistan is not easy—it is being discovered that ‘building the CPEC is not a smooth ride’ (Pantucci, 2017, March 1). It is entirely possible for Beijing to lose interest in the project. It is clearly expected that Beijing continues to support Islamabad so as to avoid a worsening in the economic and security situation in Pakistan; however this could be accompanied by a reduction in investments targeting sectors perceived as less relevant to core Chinese interests. In other words, investments in projects beyond the Gwardar

²Such as financial, investment, monetary, trade, labor or business freedom (Miller et al., 2018, pp. 8–15).

port area and the infrastructure and energy sectors could be cancelled, delayed and/or set on a level far below Pakistani expectations. This would doubtless affect the economic area—foremost industrial production and manufacturing—which would in turn severely hamper a successful development of the SEZs and slow down processes of industrialization and modernization in the country. Here, it is important to note that China is quite reluctant as it is to transfer its manufacturing units abroad. Beijing would likely prefer to move its production units towards underdeveloped provinces within its own borders in order to reduce domestic imbalances. Further complications in developing CPEC projects could lead the Chinese to abandon the build-up of capacities for industrial and manufacturing production within Pakistan. Additionally, one should expect that instead of extending its economic projects, Beijing might focus in increasing its engagement in security and defence cooperation with Pakistan so as to protect its investments.

Thirdly, Beijing is investing in the build-up of security and defence capacities in Pakistan—which obviously reaches beyond the protection of Chinese workers and companies (it seems that Chinese Private Security Contractors/PSCs are being deployed for these purposes); examples include the envisaged creation of a Chinese naval base at Gwadar (or nearby). This is an indication of the geostrategic considerations held by Pakistani and Chinese security circles. Such considerations also include a tremendous increase in defence and security cooperation between Beijing and Islamabad which is related to the CPEC, yet not directly so—examples include joint military drills, the provision of extensive military assistance, and the provision of complex weapon systems (Sohail, 2018, October 18). After assessing the comparatively low levels of cooperation between both countries' civilian security forces, one must state that there seems to be a preference among decision-makers for increasing military-to-military cooperation instead of building up cooperation between police forces. The side-lining of civilian policing is another indication of the corridor's growing military orientation.

Fourthly, this dominant role by the military within the CPEC, either directly (for example through their participation in the apex committees and other CPEC-related entities) or indirectly (through their economic entities) makes the corridor a matter of national security.

In sum, the CPEC's implementation appears as the confirmation of a 'quasi-alliance' between China and Pakistan.

10.1.3 Entrenchment of Corruption and State Capture

Corruption in Pakistan seems to be proceeding with worrying pace. By contrast, anti-corruption measures by state authorities have 'proven weak and uneven, ultimately culminating in arrested development and lost opportunities' (Faisal & Jafri, 2017, p. 71). High levels of corruption in Pakistan are likely to remain and continue to be a direct impediment to Foreign Direct Investment (FDI). Ongoing corruption will further encourage capital flight and reduce the willingness among both domestic entrepreneurs and international economic actors to (re)invest in Pakistan. Corruption will continue to

hamper the efficiency of the economy in general and of the CPEC in particular since it increases the costs of many projects and lowers potential benefits. It also hampers governmental resources—and hence its capacity for maintenance of projects, fulfilment of financial obligations (debts) and further investments. There are clear indications that the CPEC is being used as a form of rent creation by Pakistan’s elites. It also seems to foment struggles between different elite groups, foremost between military and industrial groups as well as among these and feudal families. As such, the CPEC can be seen as an instrument for the establishment to continue to exercise undue influence over political decision-making so as to ensure particular economic interests. In brief, the CPEC is contributing to the phenomenon of state capture in Pakistan.

10.1.4 Pakistan’s Economic Development Is Becoming Dependent on China

An increasing number of scholars argue that the CPEC will in the long run become a threat to Pakistan’s sovereignty (Jamal, 2018, January 11). It is argued that the CPEC ‘subordinates Pakistan’s interests to those of China’ (ICG, 2018, June 29). This is important since the focus on China as the sole partner in the country’s economic development not only leads to dependence on Beijing but also undermines severe efforts to formulate alternative visions and plans for the revival of ‘its choked economy and domestic financial base’ (Jamal, 2018, January 11). In situations of potential economic and financial emergency, Pakistan will be even more dependent on China’s ‘life-saving support to the country’s economy’.³ The evidence of Pakistan’s increasing dependence on Beijing appears when one looks at the (few public) financial details regarding major initiatives such as the Gwadar port. Here 91 per cent of the generated revenues will go to China (Khan, 2017c, November 25). Some analysts hold that Pakistan’s security establishment sees the CPEC essentially as a ‘counterpoint to rising U.S. diplomatic pressure and economic pressure to end support to Afghanistan- and India-orientated militant proxies’ (ICG, 2018, June 29, p. ii). In order to deepen economic ties with Beijing, the army’s top brass is even willing, for strategic purposes, to accept the threat that CPEC projects are to be negotiated to the detriment of Pakistan’s economic interests (ICG, 2018, June 29, pp. ii, 4). In any case Pakistan’s rising economic dependence on China might lead to a loss of political sovereignty.

10.1.5 The Creation of a Debt Trap for Pakistan

According to Kaiser Bengali, the finance mechanisms applied in the CPEC initiative will have tremendously negative impacts on Pakistan’s fiscal situation since they

³Michael Kugelman cited in Jamal (2018, January 11).

will create a vast outflow of loan payments and profit remittances to Chinese companies. The major challenge regarding the CPEC's finances can be described in the words of Michael Kugelman: 'The debt repayment terms [of Chinese loans for projects under the CPEC framework] are not transparent and are difficult for outside analysts to access, but what seems clear is that Pakistan has put itself in a position where it will need to put very large amounts of money into debt servicing in the coming years. For an economy as fragile as Pakistan's, that's an undesirable and perhaps even an untenable proposition'.⁴ Here it is also important to mention that not all CPEC-related projects are financed via Chinese loans. For example the rising security costs needed to protect Chinese workers and CPEC-related infrastructure (and other projects such as the Gwadar port and energy plants) are overwhelmingly covered by Pakistan—usually jointly by the federal government and provinces/regions. Only one percent of the necessary security is covered via CPEC-related loans. Since these governmental sources are not sufficient to cover the rapidly growing security costs, there are reports that the NEPRA (National Electric Power Regulatory Authority) has allowed a transfer of the remaining security costs to the Pakistani citizenry in the areas under their administration. This will be done by adding to electricity bills, much as is done regarding television license fees (PTV license fees). However, Bengali points out that the core problem is that the country spends heavily, yet does so without undertaking comprehensive cost-benefit calculations. It reported that Islamabad will end up repaying Beijing a CPEC-related investment portfolio initially worth \$50 billion through a loan-and-interest scheme amounting to \$90 billion over a span of 30 years (Express Tribune, 2017b, March 12). Taking into account that, according to an estimating by a Karachi-based brokerage house, China provided other such loans to Pakistan, one must expect further such repayments. Yet, interestingly, due to the BOT/IPP mode and the way in which loans for projects are granted, the Pakistani state does not appear on paper as a debtor (instead the 'recipient companies' executing the respective projects do). This does not mean that the country is able to avoid the situation usually described as 'debt trap'. Instead, the Pakistani state and society will have to deal with a complex scenario of both overt and hidden financial burdens which affect directly (and overwhelmingly) Pakistani citizens and entrepreneurs, but only indirectly official state budgets.

Here, the companies able to win over tenders for CPEC projects will most likely enjoy the benefits of the corridor initiative while others will be left to deal with the negative aspects. This is due to the way the CPEC contracts are arranged—concretely, because participating companies are able to shift much of the entrepreneurial risks (as well as additional costs) to the Pakistani state. This guarantees secure returns of investments for the companies involved; Pakistani citizens and entrepreneurs will be forced to cover CPEC-related expenditures through mechanisms such as increased energy costs and toll fees. These additional costs will most likely add to the negative impacts on consumption and investment levels in Pakistan.

⁴Michael Kugelman cited in Jamal (2018, January 11).

10.1.6 Widening of Pakistan's Trade Deficit with China

As things stand at present, it seems that the CPEC will deepen Pakistan's economic and trade deficits with China. This has major consequences for Pakistan's economy. First, it will further increase Beijing's enormous trade surplus in relation to Islamabad. The CPFTA has already resulted in tremendous trade imbalances during the last decade; however new CPEC projects are leading Pakistani exports to decline further as imports from China increase (Ahmed, 2017c, September 3). Second, due to Islamabad's ill-designed economic policies, poorly prepared trade negotiations with China, and Chinese trade barriers, Pakistan's companies are not able to compete with their Chinese counterparts. Pakistani entrepreneurs are likely not only to be expelled from the Chinese and other Asian markets but also to lose significant ground in their own domestic market.

Third, due to many CPEC-related projects' lack of sustainability and local ownership, Islamabad will be not able to address future financial burdens on its own. All these factors will further enhance Pakistan's enormous trade deficit and debt burden regarding China, which in turn will further deepen Islamabad's economic and political dependence.

10.1.7 Threat to Local Industries and Labour Force

There are indications that the CPEC will create threats to Pakistan's domestic industries and other local businesses, especially in the manufacturing sector. Yet due to a lack of empirical data, it is difficult to perceive exactly how far are Sino-Pakistani economic interactions affecting Pakistan's macroeconomic developments—for example by adding to the trade deficit—as well as microeconomic dynamics—for example by constraining local firms and labour forces (Business Recorder, 2017c, October 11). However, one can state that the CPEC is not being framed by any noteworthy economic policy framework in support of either local industries or autochthonous workforce. Instead existing regulations harm Pakistani economic actors vis-à-vis foreign, especially Chinese investors. This is unfortunate since most Chinese entrepreneurs do not make use of local workforces or materials; instead they import (tax-exempt) most needed resources from their home country (Ahmed, 2017c, September 3). Chinese entrepreneurs don't depend on local businesses to fulfil their needs—and Pakistani companies will not benefit from potential orders from Chinese firms. In addition the Pakistani market, which is already flooded with Chinese goods, will continue to receive more of these in. This will lead to a further decline in the domestic manufacturing sector—featured by the closing of Pakistani businesses and increasing unemployment (Ahmed, 2017c, September 3).

10.1.8 No Engine for Regional Cooperation

According to several indications, the CPEC is not turning into a boost for regional cooperation. Instead it seems to deepen bilateral conflicts in South Asia, foremost that between India and Pakistan. In other words, the CPEC will not contribute to the officially proclaimed vision that ‘South Asia shall grow into an international economic zone with global influence.’ (LTP, 2017, p. 9). Opportunities for integrating the CPEC in larger regional transport and logistic networks as well as production chains can be seen as severely overstated. Against this backdrop, one must state that civilian and military leaderships did not learn any lessons from the past. They are apparently not willing nor able to fix the core, intrinsic problems leading Pakistan from being a model for developing countries to a nation on the brink of economic and financial disaster. As long as Pakistani elites do not improve relations with their neighbours, foremost by stopping their support for cross-border terrorists and solving border and territorial disputes, the CPEC will be unable to create maximum benefits or produce a significant contribution for regional cooperation.

10.1.9 Distorting Market Dynamics and Neglecting Pakistan’s Private Sector (SMEs)

Although Pakistan has a long tradition of market economy, competition is still poorly regulated. Furthermore, existing competition laws are insufficiently enforced, and investor protection remains deficient (BTI, 2018, p. 19). These shortcomings have several harmful effects, particularly on the development of the country’s private sector. However, until recently there was not much debate about such CPEC-related impacts, especially as regards small and medium-sized enterprises (SMEs). Apart from some official statements encouraging Pakistani firms to take advantage of the CPEC, there lacks any concrete efforts such as convincing programs and incentives engage local entrepreneurs, for example as investors in the planned SEZs or as constructors in the large-scale infrastructure projects. Major tenders for CPEC-related projects are won over either by Pakistani public sector companies or by Chinese enterprises. Some sectors such as mining are even in some areas closed to Pakistani enterprises to the advantage of Chinese firms. As such, the CPEC distorts free and fair market competition through favouritism regarding Pakistani’s public sector companies (especially those owned by the military) and Chinese-state owned companies—both of which become more active in both qualitative and quantitative terms. Instead of promoting Pakistan’s private sector, the CPEC is leading to a situation where private, domestic firms—foremost SMEs—are being ‘crowded out’ from the market. The CPEC is indeed heightening citizen frustration regarding political high-handedness and economic neglect. There are rising complains among both Pakistani companies and regional political parties (representing the interests of their local business communities) regarding the way CPEC agreements are being negotiated. One of the major criticisms is that business

representatives are not included in the negotiation processes undertaken with the Chinese (Khan, 2017c, November 25).

10.1.10 Implementation of Chinese Standards and Impacts on Pakistan's Innovative Industries (R&D)

The CPEC's implementation will constitute a severe challenge for the development of 'indigenous/local' technological-innovative industries for several reasons. Firstly, the tremendous financial burden for both state and entrepreneurs due to (overt and hidden) costs of the CPEC will further limit the scope for necessary investments in education as well as research and development (R&D).⁵ Consequently, the already underfunded governmental R&D departments will face further difficulties to conduct programs intended to improve the level of innovation in Pakistan. Government support in the form of R&D grants, subsidies, or tax credits—especially for SMEs—is extremely low compared with other developing countries (Rehman, 2016). Insufficient employment opportunities for skilled manpower, lack of resources to finance research positions (especially PhDs and Postdocs), lack of promotion of local industries, and poor linkages between public and private sector R&D systems (external and internal R&D) are all likely to remain (Shahid, 2016, March 10). The country's general lack of R&D culture hits SMEs hardest. Furthermore, compared to the huge Pakistani military and Chinese firms, Pakistani SMEs also lack the connections with other firms and research institutions needed to foster complementary skills and absorptive capacity (internalize external knowledge) and support innovation (Rehman, 2016). This is unfortunate since innovation is recognized as a primary driver of firm competitiveness and the ultimate source of productivity and growth (Karlsson & Tavassoli, 2015).

Secondly, the massive import of Chinese technical equipment for manufacturing might help improve production capacity but is also likely to create dependence on Chinese supplies and maintenance services. This will limit the space for potential Pakistani companies, especially 'start-ups', to compete with Chinese firms. Furthermore, most CPEC projects are conducted by Chinese firms and/or with the use of Chinese technology due to a lack of local know-how and expertise. This process of 'technical leap-frogging' will lead to a Chinese standardisation in many crucial sectors.

Thirdly, due to limited funds and partisan interests among both Chinese investors and the Pakistani establishment, Pakistan's 'R&D sector' will experience further

⁵Regarding the United Nations, Pakistan spend between 1997 and 2015 in average 0.28% of its GDP for research and development; also known as GERD (Gross domestic expenditure on R&D/GERD, GERD as a percentage of GDP; United Nations [Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics] Furthermore, the World Bank state that from 2007 it dropped down dramatically from 0.63% down to 0.25. United Nations [Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics] data. For more information see: <http://data.uis.unesco.org/index.aspx?queryid=74#>

constrains as available resources are diverted towards security, selected energies, public transport, and communication. There will be not much opportunity to carry R&D endeavours in areas such as ‘environmentally friendly energy’, health care, smart resource management etc.

10.1.11 No Reversal of the Brain-Drain

Regarding the reversal of the brain-drain, one should expect mixed results at best. Currently it does not seem that the Government of Pakistan (GoP), foremost the Ministry of Science and Technology, is willing⁶ and/or able to increase the necessary funding for R&D projects needed to promote economic growth. In consequence, the shortage of funds is causing not only a ‘brain drain’ towards better paid positions and greater research budgets abroad but also a restructuring of the national labour market (Shahid, 2016, March 10). We witness the relocation of highly-educated people from the R&D sector into education (especially university teaching). The CPEC’s growing debt trap will reinforce rather than reverse this emigration trend among Pakistan’s highly-skilled labour force.

Furthermore, Pakistan’s decision makers have to recognize that the people did not leave the country only because of a search for better employment opportunities. Many leave because of repressive government policies, Islamization, radicalization and insecurity and the subsequent reduction in quality of life (Ali, 2010). At the moment, it does not seem that the CPEC is helping to improve the security situation. One should rather expect the opposite. As such, the corridor’s potential to initiate a reversal of the large-scale brain drain remains untapped.

Therefore, it is not enough only to offer new, lucrative employment opportunities combined with the promise of an improved security environment. It is also not a matter of winning the heart and minds of Pakistan’s skilled expatriates. The high amount of remittances can be seen as an indicator that the Pakistani diaspora did not lose touch with its homeland. Islamabad has to understand that it must earn the trust of the Pakistani abroad if it is to convince them to return. This can only be done through substantial political reforms, a strengthening of political institutions, transparency, and an unambiguous fight against all kinds of terrorism, militancy and religious fanaticism. Yet the way the CPEC is being implemented, instead of breaking with past dynamics, leads rather to the entrenchment of existing political patterns.

10.1.12 Creation of a ‘Casino Economy’

There is a threat that the CPEC is creating a type of economy which Kaiser Bengali calls ‘Casino Economy’ (Ahmed, 2017c, September 3). Concretely, an economy

⁶Most of the R&D departments of the GoP are failing to deliver because of the shortage of funds.

which is featured by short-term investment strategies focusing on anticipated high returns within a small period of time. Examples include investments in real estate, stocks, and other entrepreneurial activities of a speculative nature designed to maximize immediate profit. Some of the potential consequences of this ‘casino economy’ is that it generates ‘windfall profits’ through manipulated speculation in land, commodity markets and other non-productive investment areas. For experts, the ‘casino economy’ is extremely damaging as it produces only minimum income and has hardly any ‘employment multiplier impact’ (Ahmed, 2017c, September 3). Furthermore, the emergence of such a ‘casino economy’ fostered through the CPEC’s establishment would push aside most long-term sustainable development goals and programs.

10.1.13 No Adequate Solution to the Energy Crisis

Basically one can state that within the CPEC scheme, substantial progress is achieved in building up capacities for the production of energy. Yet according to experts, the energy sector’s main structural problems are yet to be resolved. For example, Pakistan continues to produce expensive energy. The tremendous security costs needed to protect CPEC projects and the tremendous debt burden created by Chinese loans are further factors leading to increasing energy costs. Power theft and line losses constitute additional challenges yet to be addressed (Ahmed, 2017c, September 3). Another problem is the ‘limited payment moral’ regarding ‘energy bills’—the custom among many Pakistani not to pay said bills. If these structural problems are not addressed soon, one must question the long-term sustainability of the new energy capacities created through the CPEC.

10.1.14 Hampering Smart Foreign Resource Mobilization

Pakistan is still to establish an efficient management of its foreign exchange reserves. Furthermore, Pakistan’s performance in attracting foreign direct investments (not aid-related) beyond inflows from China (and before that from the US) remains unimpressive. This is reflected in the development of an aid-fuelled ‘donor economy’ (Ahmed, 2017c, September 3) favouring the mushrooming of development agencies and NGOs which function in parallel with the local economy. This aid did create some kind of wealth in Pakistan, yet it did not increase the country’s productive capacities—which alone could address the country’s trade deficit and balance of payments. Many experts hoped that the CPEC would attract foreign investments in export-orientated production. Yet on the opposite most CPEC-related projects are from nonforeign-exchange-earning sectors, namely infrastructure and power generation. This contributes to Pakistan’s financial crisis since many independent power producers (IPPs) are either Chinese or linked to Chinese companies.

We witness further capital transfers abroad—topping the already tremendous cash outflow for debt repayments, dividend payments, and fuel payments to China and other donor countries and organisations. This is unfortunate since it seems that Pakistan still lacks any cohesive outward-looking strategy to enhance trade-orientated growth. In consequence, the CPEC and the envisaged SEZs might only have limited potential to attract foreign FDI from developed countries in Asia and elsewhere. Moreover, the persistently worsening security situation, growing Jihadism, and deteriorating human rights situation—combined with the country's endemic political instability—are not much conducive for foreign entrepreneurs to start business operations in Pakistan.

10.2 Political and Institutional-Administrative Dimensions

10.2.1 Changing the Nature of Sino-Pakistani Relations: Emerging Rifts

Pakistan's wish to deepen and shift its relationship with China from a geostrategic to an economic basis did not work out as planned. Obviously, economic interactions between the two countries increased tremendously. Yet instead of being more engaged as equal partners, existing asymmetries regarding trade, economic interactions (namely more Chinese agents becoming economically active in Pakistan than Pakistani in China), and political influence became further entrenched. There is also a concrete threat that overall Sino-Pakistan relations will cool down, even turn bitter in a middle- to long-term perspective. The so called 'all-weather friendship' could be transformed into a new relationship in which Pakistan will serve as an 'economic colony'⁷ of China—combined with a security and defence-oriented patron-client relationship. In this context, one can identify current CPEC dynamics as a model (or case study) for future development of ties between China and other BRI countries, particularly in South, South East, and Central Asia. The implementation of an effective, sustainable CPEC would be a crucial test regarding Chinese attempts to further transform the international order, at least in Asia. A successful CPEC would determine a clear extension of Chinese economic and political influence into a new global geostrategic centre. Furthermore, for all intents and purposes, a successful CPEC would lead to a reduction of US influence in Pakistan—as well as limit both Washington's and New Delhi's economic power in the Afghanistan-Pakistan region and Central Asia. All this would obviously and strongly serve Beijing's interests. The CPEC's success is of utmost importance for the Chinese government. However, officials and prominent voices among Pakistani political and business

⁷Understood here as being a transit country, a potential market for Chinese goods and a provider for raw and partly processed materials—including agricultural products. To a limited degree also as a provider of cheap labour in certain areas of industrial production and manufacturing.

communities as well as civil society are concerned about the ‘failure to protect local economic interests, high guaranteed returns on equity to Chinese investors and unaffordable national debt’ (ICG, 2018, June 28, p. i). These statement not only reflect concerns within Pakistan but also constitute warnings for other BRI and non-BRI countries to carefully (re-)evaluate Chinese development projects. One must see how the Chinese leadership will react to rising criticisms and shape its approach regarding local interests and concerns. Neglecting such factors could lead to further anti-Chinese sentiments and attacks in Pakistan—and ultimately create further strains within Sino-Pakistani ties.

10.2.2 Lack of Planning Capacities and Good Governance

The government has invested heavily in public infrastructure projects; however poor governance remains a major plague to the country’s development. Pakistan is among the lowest listed countries in global rankings regarding public infrastructure. The authorities do not seem either able or willing to conduct the political and economic reforms needed to counter insufficient planning and other shortcomings which plagued earlier development projects. Investments in CPEC-related infrastructure demand effective planning so as to ensure the productivity and usefulness. Only then will CPEC-related infrastructure be able to contribute to sustainable growth in Pakistan. This is yet to happen, as most the ‘CPEC projects and programs’ are not adequately ‘guided by diligent planning and policy’ (ICG, 2018, June 29, p. 27). If Islamabad is not able to address structural weaknesses—namely energy and water crisis, an uncompetitive industry and a massively disempowered citizenry—most CPEC-related endeavours will become unsustainable, show-case projects.

10.2.3 Loosing Sovereignty and Decision-Making Powers Amid Growing Chinese Leverage

There are rising concerns that the CPEC will increase Chinese influence over Pakistan’s decision-making processes in all areas—domestic politics, security affairs and foreign policy. Pakistani civilian governments are not only deprived of legitimate power by the military echelon but by Beijing too. One potential area of concern might be decision-making processes regarding the legal and constitutional status of Gilgit-Baltistan. As a side-effect of the CPEC initiative, Pakistan might be forced—due to intervention by China (Yasir, 2016, January 13)—to search for a solution regarding the constitutional status of Gilgit-Baltistan. Being constructed on internationally disputed territory, parts of the CPEC stand in a legal limbo. Now Beijing demands judicial clarity for its investments and development projects. This is absolutely crucial because the disputed territory of Gilgit-Baltistan constitutes the

only land connection between China and Pakistan—without this territory, the CPEC is not feasible at all. As it stands today, the legality of the whole CPEC project is questionable. However, as discussed earlier, such an interference by China in the complex affairs relating to Gilgit-Baltistan is not perceived by Pakistan as favourable to national interests. Concretely, it would not only undermine Islamabad's approach towards Gilgit-Baltistan but also its entire Kashmir policy. Furthermore, such a move would be not in line with international agreements, foremost UN resolutions on Kashmir.

Another remarkable area in which Pakistan is obviously losing sovereignty before Chinese influence regards the decision-making powers of its regulatory agencies. For example, the way the NEPRA was pressured to give in to demands by IPPs and transfer CPEC-related costs to consumers not only contradicts earlier decisions but is also not in line with the agency's mission to protect the interests of the Pakistani citizenry.

Many in Pakistan hold that Islamabad should exercise more decision-making power vis-à-vis Beijing regarding the basic direction of CPEC policies. Islamabad must defend more strongly its own economic and political interests within CPEC negotiations, especially the interests of its own business community and local population. According to the International Crisis Group, Islamabad 'should place the CPEC in the context of a broader strategic vision for modernising its economy in ways that do not destabilise the polity' (ICG, 2018, June 29, p. 27).

10.2.4 China's Involvement in Regional and Domestic Political Dynamics and the End of Non-interference

The tremendous economic and financial engagement attached to a transnational development initiative involving not only a politically unstable country like Pakistan but also a region troubled by such extraordinary tensions as South Asia, makes it inevitable that the driving force in question becomes drawn into various local conflicts. China's increasing involvement in the India-Pakistan conflict—which finds its most visible political expression in the ending of its neutrality and siding with Islamabad in the Kashmir issue (Chang, 2014, December 10; Sharma, 2014, December 4) and in the granting of diplomatic support to Pakistani-based cross-border terrorists (Wolf, 2017f, January 6)—are remarkable examples. The implementation of CPEC-related projects in AJK, another disputed territory, can be interpreted as 'Chinese support of Pakistan's claim on the territory' in question (Hussain, 2017a, June). In consequence, it will not be possible for Beijing to maintain its proclaimed policy of non-interference into the affairs of other states. Furthermore, the need to protect its interests as well as ensure and increase prerogatives for its companies and workers within the framework of the CPEC (and beyond it) is without doubt a motivation for the Chinese leadership to intervene in Pakistani politics.

There are already a few instances, such as the above-mentioned NEPRA case, of Chinese influence within Pakistan. It remains however too early—and obscure,

given the small amount of available information—to speak about a persistent and systematic Chinese interference in the country. This being said, China does have a history of interference in domestic political dynamics (for example the red mosque incident or the Uighur issue⁸)—and, considering the high level of engagement and interests involved, one must expect an increase of Chinese interference.

10.2.5 Truncation of Political Rights, Freedoms, and a Deteriorating Human Rights Situation

Pakistan's authorities are identifying each CPEC critic as an enemy of the state. All kinds of opposition forces—illegitimate (especially violent) as well as legitimate (peaceful and lawful)—are being suppressed through various judicial and extra-judicial means available to the country's security sector agents. In order to undermine the rising sceptical voices regarding CPEC projects, the authorities react within traditional patterns featured by violations of fundamental human rights and the restriction of freedom of expression and association. The CPEC project is currently creating more turmoil in Pakistan than contributing to stability. There is no indication that either civilian or military leaderships plan to change this trajectory. The Human Rights Commission of Pakistan (HRCP) expressed concerns that the 'omnipresent militarisation of the country' is 'seriously undermining the democratic system' (HRCP, 2016, April 3). Furthermore, human rights organizations are much worried about the growing attacks on the Pakistani media and academia as well as on various observers from civil-society (bloggers, independent experts, social activists etc.) intended to block critical reporting and analysis regarding the CPEC. In this context, the new opportunities for citizen surveillance provided by the CPEC's 'digital components' (as part of the so called 'Digital Silk Road') and the military control over them is a particular area of concern. It constitutes a tremendous threat for the political and personal rights and freedoms of the populations living within the CPEC's geographical framework (Pakistan and Xinjiang). There is an imminent peril that due to a lack of safeguards, this new 'information connectivity' will be used not only against anti-state elements such as terrorists but also against legitimate political opposition forces—further harming civil society (and their organisations) including anti-CPEC dissent' (ICG, 2018, June 29, p. 8). Other observed tendencies related to the CPEC contribute to the worsening of civil-military relations, quality of democracy and human rights situation in Pakistan: examples include the increasing military entrenchment into the political-institutional system, encouragement of

⁸During the occupation of the Red Mosque in Islamabad by Islamist militants, the Chinese government pressured then military ruler General Pervez Musharraf to use coercive force so as to free Chinese hostages. Beijing also exercised its influence to convince the Pakistani government to move against Uyghur militants residing in the country (ICG, 2018, June 29, p. 6).

authoritarianism, clientelism, and feudalism, the increased military involvement in business activities related to the CPEC, and the subsequent loss of oversight opportunities and decision-making powers by the civilian government. As such, it does not come by surprise that the ‘HRCP demands that civilian oversight of all military actions must be ensured without exception and progress should be shared with the people regularly’ (HRCP, 2016, April 3).

In sum, the CPEC’s current implementation mechanisms and projects clash with agreed international agreements and conventions, most remarkably with the conditions related to the EU’s GSP+ status.

10.3 Geostrategy and Security

10.3.1 *Geostrategic and Geopolitical Role of the CPEC for Pakistan*

Despite the official rhetoric describing the CPEC as merely an economic project, the corridor’s strong geostrategic implications in the South Asian region and beyond are unavoidable. In this context, some experts point out that Pakistan’s potential ‘economic empowerment’ and integration into the Sino-centric geo-economic space could become a decisive factor in the its leadership’s strategic thinking and decision-making. More concretely, by reducing the dependency on the US and EU, the CPEC could make Pakistan less vulnerable to non-military coercive action (Rafiq, 2018, p. 5)—for example economic sanctions and other punitive measures such as threatening to withdraw the GSP+ status or seeing the country becoming ‘blacklisted’ by the FATF.

Instead of being heavily dependent on western, especially US assistance, after completion of the CPEC Islamabad will be more or less exclusively dependent on China. As such, the CPEC not only means a switching of dependencies—from Washington s to Beijing—but also a decrease in foreign policy and assistance cooperation. Extreme involvement with China will reduce opportunities to cooperate with western states in security and defence cooperation as well as in economic development. Of course, much depends here on the future development of relations between China and the US as well as between the EU and Beijing’s Asian neighbourhood. Having this in mind, one must also state that the CPEC does not provide any significant geo-economic dividends for Pakistan. Furthermore, the expected geopolitical advantages related to the expected improvement of its international—especially regional—standing are yet to materialise. On the contrary, it appears that the CPEC faces tremendous hurdles in extending connectivity beyond its core areas (external connectivity) and is instead further complicating the country’s difficult relations with its neighbours.

10.3.2 Deepening of Fault-Lines Within South Asia's Extended Regional Security Architecture

Besides the problematic interactions with Pakistan's domestic security, the CPEC also has a tremendous impact on South Asia's regional security architecture. The CPEC has already affected existing political and security blocs—it remains to be seen how far these formations will impact the existing fault-lines in the region. A growing number of experts argue that the CPEC is leading to heightened differences and disputes within South Asia. Most noteworthy among these antagonisms: (a) that between China and India; (b) that between China-Pakistan on one side and India on the other side; (c) that between China and India—India's side various including partners of New Delhi's, namely the US, Japan and, to a lesser degree, some South East Asian States such as Vietnam. The potential intensification of these fault-lines threatens the CPEC's chances of becoming a long-run harbinger of economic growth through 'healthy' geopolitical competition.

10.3.3 The CPEC as Part of the Larger Challenge to the Rule-Based, Liberal International Order

After analysing the Chinese motivations behind the CPEC and the accompanying measures (such as the build-up of new IDFI's and mechanisms for conflict resolution) taken to support the implementation and functioning of this development initiative, it becomes clear that Beijing aims at the transformation of the existing international order. This constitutes a clear challenge towards the exiting ruled-based, liberal international order (including the Bretton Woods System) which managed most global affairs since the end of the World War II. Beijing seems clearly interested in modifying the current international, institutional structure (international institutions, regimes, organisations, etc—including the EU and other international forces) through the creation of new organs and mechanisms more favourable to Chinese interests. More ambitiously still, Beijing seems ready to establish itself as a supreme global power capable of deeply influencing international norms and regulations.

It remains to be seen whether the BRI (including the CPEC) and its supporting institutional framework will turn into a healthy competitor of the Bretton Wood's system and other established international mechanisms as part of an increasing global multipolarity. According to observers however, the new international entities related to the BRI (such as the new IFDI's) are apparently not nested in the international liberal order. On the contrary they seem to undermine the existing institutional setup. They might use the same technical language as other international institutions, yet they are entirely different in their normative nature and economic-political goals.

10.3.4 Increasing Centre-Region and Inter-Provincial Conflicts

According to analysts, the CPEC risks inflaming longstanding tensions between Pakistan's centre and federal units as well as within provinces—more concretely, between the dominant Punjab province and smaller regional entities, namely Baluchistan, Sindh, KPK/Sindh and the regions under Pakistan's administration Gilgit-Baltistan and AJK. At the centre of rising tensions are the matters relating to an inequitable economic development and unbalanced distribution of both resources and revenues (ICG, 2018, June 29, p. i). The human and material resources mobilized by the country's political elite and administrative system in the context of the CPEC initiative were not invested in substantial reforms. Instead of reducing existing disparities within both centre-region relations (especially in financial affairs) and among provinces, the CPEC led to their growth. In other words, the CPEC currently enforces regional asymmetries in social and economic development.

10.3.5 Increasing Securitisation and Militarisation of Pakistan and Xinjiang

After observing the tremendous security-related measures intended to ensure a safe environment for the CPEC development one must state that the corridor implementation leads to the militarisation and securitisation of entire regions—accompanied by a multitude of negative impacts on the local citizenry (particularly through human rights violations, restrictions of political rights and freedoms, and destruction of livelihoods). This phenomenon, combined with various malpractices linked to CPEC projects, make it hard for the whole development initiative to capitalize on the generally positive image of China in Pakistan. Instead one witnesses a growing number of attacks against Chinese workers, companies and institutions—like the assault against the Chinese consulate in Karachi—which lead to an increase in security measures by both the Pakistani government and various Chinese security forces (foremost PSCs). Pakistan is likely to experience increasing tensions related to the CPEC. These tensions will be translated in an increase of armed resistance and violent protest movements provoking ever harsher responses from security forces (creating a 'vicious cycle' of violence and repression). Thus instead of bringing stability to the Pakistani areas of the CPEC, one witnesses the exacerbation of previous local conflicts.

10.3.6 Worsening of Internal Security and Rise of Jihadism

Processes of 'securitisation and militarisation' are on the rise. It appears that instead of emerging as a 'bustling commercial hub', the CPEC is 'producing a heavily

militarised zone', displacing locals, depriving them of economic opportunities (ICG, 2018, June 29, p. i–ii), and worsening overall living conditions. This has severe negative impacts on the security situation in both Pakistan and Xinjiang.

Firstly, the CPEC's implementation reinforces existing regional cleavages and related armed confrontations, especially those inspired by separatist and/or sub-national movements. The most remarkable example is the Baluchistan conflict. Initially, the CPEC was seen by Pakistan's authorities as an opportunity to overcome the Baloch insurgency (Rafiq, 2017, p. 3). Yet until now neither political rights nor property and socio-economic conditions among locals—particularly in the port city of Gwadar—were in any way protected. Also there are no adequate economic privileges (reserved domains) vis-à-vis migrant labours put in place for the people of Baluchistan. Local communities were excluded from CPEC-related decision-making processes and had to face numerous violations of their rights as well as systematic marginalisation. It does not come by surprise that the CPEC is being identified as an instrument of exploitation of Baloch resources and suppression of legitimate local resistance. Baloch resentments against federal authorities gained a new momentum. Chinese presence in Baluchistan as well as 'guided immigration' from other provinces became major sources of contention.

Another instance is the so called 'Sindhudesh movement'. The movement, which fights for Sindh's separation or autonomy from Pakistan, had for quite some time a rather limited support base (Sangi, 2014, December 4). However, due to the anti-CPEC and anti-China ('No China Go China') agitations in province—spearheaded by local Sindhi national groups and political parties such as the Jeay Sindh Muttahida Mahaz (JSM)—the idea of Sindhudesh seems to gain a fresh impetus (ANI, 2018, January 19; Arain, 2016, June 12).

Secondly, the CPEC contributes to the emergence of new political protest movements all over Pakistan. Besides the happenings in Baluchistan and Sindh, also the KPK/FATA province and areas of Gilgit-Baltistan and AJK now witness remarkable anti-CPEC agitations. Not all such movements question large-scale development projects themselves; rather they express criticisms about specific ramifications of the CPEC's implementation—especially the neglect of the local interests and demands from those who have to suffer most from environmental destruction, the reduction of traditional job opportunities and worsening in living conditions.

Thirdly, there are clear indications that the CPEC is heightening Jihadist movements in both Pakistan and Xinjiang—as translated in increased activities by both local and international/ globally-acting terror organisations such as al-Qaeda and the Islamic State. Jihadists increasingly identify CPEC projects and other Chinese endeavours—especially other economic corridors under the BRI—as targets. The goal seems to consist in attacking Beijing's interests both inside and outside China's borders as a punishment for the country's treatment of its autochthonous Muslim populations.

Fourthly, the CPEC's basic idea provokes Islamist backlashes since it is perceived as a gateway for foreign, anti-Islamic influences likely to violate religious customs, norms and feelings. Furthermore, a successful implementation of the project would lead to citizen empowerment—by its very nature not suited to the

interests of extreme, conservative circles of Islamic clerics since it would constitute a threat to their influence within Pakistani society. In order to counter anti-CPEC agitations by radicalised clerics and their (Islamist) fundamentalist hardliners, the government maintains its traditional appeasement policies—which foment Islamisation and the suppression of liberal and secular thinking. The country’s religious minorities—foremost Hindus and Christians—suffer the consequences. Minorities are also accused both by state authorities and religiously and nationalistic circles of being influenced by ‘foreign forces’ intending to sabotage the CPEC initiative. The state’s current strategy to win over support from Islamists (or at least to ensure their neutrality) as regards the CPEC consists of providing them a ‘carte blanche’ not only to enter the political arena (described as a process of ‘political mainstreaming’) but also to terrorise the country’s minorities and moderate, secular forces. The country witnesses further social unrest and political instability.

10.3.7 Inadequate Political Risk Assessments by China

In sum, it seems that China may have underestimated local political difficulties while overestimating the economic and political governance capabilities in Pakistan. Beijing may also have miscalculated Jihadist dynamics in Pakistan and the role played by authorities in it (namely state sponsorship of terrorism) as well as the scope of existing geopolitical rivalries. This misinterpretation and/or ignorance has severe consequences.

10.4 Social Dimension and the Environmental Sphere

10.4.1 Missing Inclusive Growth, Neglect of the Informal Economy, and Rising Inequalities

According to the Inclusive Development Index (IDI) released by the World Economic Forum (WEF) on January 22, 2018, Pakistan achieved some advances in inclusive development.⁹ The IDI is also meant to recognize developments as regards living standards, environmental sustainability and the protection of future generations from further indebtedness. Yet an observation of the CPEC’s implementation makes obvious that Pakistan falls short in all these indicators. This is especially obvious regarding the crucial issue of how to incorporate the informal sector into the legalised national economy. There is a general lack of incentives given by the GoP to the employer within the informal sector wishing to legalize his or her business—especially as regards efforts

⁹Pakistan’s IDI ranking has improved from 52nd in 2017 to 47th in 2018 (Ali 2018e, February 27).

by entrepreneurs so as to regularise their production facilities and improve their employees' working conditions through mechanisms such as the provision of legal employment contracts and minimum wage guarantees (Ali, 2017c, April 28).

CPEC-related developments are at present still heightening social and economic inequalities in Pakistan.

10.4.2 Growing Chinese Debate on the BRI and CPEC

It is interesting to mention that in contrast to Pakistan, China holds a more open and critical debate on the BRI and CPEC. Of course such an exchange is limited—no explicit criticism of the nation's political structure itself is allowed. Yet in China there is an open invitation for academics, experts, practitioners and other stakeholders to share their opinion and expertise regarding these development initiatives. As such, despite the overall win-win rhetoric and official enthusiasm, some of the most substantial and far-reaching criticisms of both BRI and CPEC come from within China.

10.4.3 No Crucial (Positive) Impetus for Creation of Employment

According to experts, there is no confirmed data available demonstrating that the CPEC is able to produce as many employment opportunities for local communities as previously anticipated (Ahmed, 2017c, September 3), especially not in the most underdeveloped regions such as Baluchistan, KPK/FATA, Gilgit-Baltistan, and AJK. By contrast, there are indications that CPEC-related dynamics are causing the destruction of traditional livelihood opportunities and employment venues without creating new ones. It appears that most newly created jobs available to Pakistani citizens occur in the security sector—not in the production-oriented sectors capable of creating multiplying effects on economic growth.

10.4.4 Negative Impacts on the Environment, Climate Change and Public Health

There are numerous instances of destructive environmental ramifications in Pakistan, such as deforestation and various forms of pollution, which are directly linked to the CPEC's implementation. There are also clear indications that these environmental damages not only have profound impacts on public health in Pakistan (and beyond) but also negatively affect climate change dynamics. It seems that the GoP either ignores these environmental impacts so as to ensure a fast implementation of CPEC-related

projects or does not possess the necessary awareness and/or capacities for environmental protection.

In sum, after monitoring and assessing the first years of the CPEC implementation, it becomes obvious that a comprehensive approach to the concept of ECs is needed, not only so as to guide the formulation and implementation of such a mega development initiative, but also to measure its effectivity, efficiency, and sustainability. An assessment of an EC's performance on a strictly economic level—including cost-benefit calculations, the increase in trade volume, the build-up of physical infrastructure, logistics, services, and industrial and manufacturing areas—is crucial yet far from enough. It is equally critical to consider the social and political dimensions of any EC initiative—especially in countries such as Pakistan, which face a multitude of domestic as well as bilateral tensions. Current CPEC-related dynamics clearly exemplify the challenges faced when the full complexity of local economies and political realities are not properly considered. The failure to create and maintain a nation-wide consensus, especially as regards project allocations and the distribution of costs and benefits, has severe ramifications.

One of these is the loss of local support due to a lack of local and regional ownership. Moreover partisan political and economic interests by national decision-makers, combined with a deep lack in communication and transparency, are provoking increasing resistance not only against individual EC projects but against the overall EC vision. Instead of creating positive spill-over effects towards undeveloped and disadvantaged regions, the CPEC initiative currently enforces existing asymmetries and inequalities—along with numerous types of discrimination. As long as Pakistan's establishment does not accept and internalize democratic norms and procedures so as to solve internal conflicts, carry out substantial reforms and re-organise centre-periphery and inter-province relations, the CPEC will not become any kind of 'game changer' as regards social-economic development and political progress.

Having this in mind, one must point out that the CPEC is not fulfilling the functions of an EC—not at the moment and most likely also not in the near future. After witnessing the increasing, unresolved—indeed partly unaddressed—problems of the CPEC's first phase of implementation, and the tremendous lack in capacities needed to manage upcoming hurdles, it seems unlikely that crucial issues are to be solved in a reasonable time-frame. That China and Pakistan already established a corridor is beyond doubt; however said corridor has hardly the required potential become anything more than a corridor for transport, trade and/or logistic for Chinese exported goods and imported (raw) materials. The CPEC risks becoming a corridor which—according to Srivastava's typology of corridors—is to be considered a 'Narrow Regional Corridor' at best.

In conclusion, we present here but an overview of possible trajectories which might come into existence as long as no comprehensive EC concept is applied. By suggesting a broad range of indicators and characteristics, this book should not only be understood as a suggestion for a comprehensive analysis of the CPEC but also as a contribution to a wider conceptual framework regarding sustainable development of ECs—one which aim to minimise negative social and economic side-effects.

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Index

A

- Abbasi, S.K. (Politician, Pakistan), 95, 121, 211, 227, 228, 230
- Accountability, 35, 37, 41, 46, 115, 117, 119, 192–195, 201, 211, 226, 282, 285, 286, 292
- Afghan civil war, 269
- Afghanistan, 10, 18, 70, 94, 126, 243, 261, 292, 310
- Afghanistan-India-Pakistan triangle, 276
- Afghanistan-Pakistan region (AfPak), 87, 101–105, 108, 266, 267, 273, 317
- Afghanistan-Pakistan relations, 102, 164, 235, 268, 269
- Afghanistan-Pakistan Transit-Trade Agreement, 145
- Afghan mujahideen, 108
- Afghan policy, 265, 267, 269, 273, 278
- Afghan resistance, 265
- Africa, v, 6, 17, 40, 53, 56, 61, 66, 67, 77, 125, 149, 164, 171, 172, 178, 224
- Agricultural business bank, 183
- Agricultural Development Bank of China (ADBC), 183, 184
- Agricultural production, 38, 152–155, 169, 259
- Agricultural products, 155, 170, 317
- Agriculture, 81, 127, 165, 168, 169, 183, 203, 257, 276
- Airports, 7, 15, 25, 29, 133, 138, 179, 213, 300
- Akto (County, Xinjiang, China), 125, 127
- Allianz group, 189
- All-Party Conference (APC) (Pakistan), 136, 175
- al-Qaeda, 100–103, 105, 191, 224, 324
- Alternative energy, 75
- 28th Amendment bill (Pakistan), 298
- Amritsar Delhi Kolkata Industrial Corridor, 3
- Amritsar Kolkata Industrial Corridor, 140
- Andaman Sea, 68
- Anti-Chinese sentiments, 104, 217, 223–225, 318
- Anti-democratic, 111, 254
- Anti-money laundering (AML), 109
- Anti-Terrorism Law, 217
- Apex Committees (ACs), 209, 295, 296, 303, 304, 309
- Arabian Sea, 141
- Armed forces, 4, 8, 39–44, 89, 117–121, 214, 217, 235–240, 249, 252, 256, 281, 285, 287, 289–291, 293, 295–299, 301–306
- Army, 39, 41, 85, 86, 89, 109, 113, 118, 120, 121, 161, 172, 214, 215, 217, 235, 236, 238, 239, 241, 271, 282, 284, 290, 291, 294, 296, 297, 299–305, 310
- Army Welfare Trust (AWT), 120
- Asia-Africa Growth Corridor (AAGC), 235
- Asian Development Bank (ADB), 2, 21, 35, 85, 181, 206
- Asian Infrastructure Investment Bank (AIIB), 35, 60, 135, 181, 184, 185, 206
- Assurance, 276
- Atushi (City, China), 125, 127
- Authoritarianism, 290, 320
- Authoritarian regimes, 1, 112, 283
- Azad Jammu and Kashmir (AJK) (Pakistan administered), 94, 96, 115, 125, 128, 142, 236, 237, 319, 323, 324, 326
- Azhar, M. (Politician, Pakistan), 8, 204

B

Badakhshan (Province, Afghanistan), 267, 271, 274
 Bahria Foundation, 120
 Balance of payments, 74, 79, 109, 157, 195, 196, 200, 316
 Baluchistan (Province, Pakistan), 97–99, 115, 122, 125, 128, 131, 132, 134, 136, 139, 141, 158, 161, 162, 169, 172, 176, 213, 219, 223, 225, 232, 256, 269, 282, 323, 324, 326
 Bangkok's Erawan Shrine (Bombing), 101
 Bangladesh, 6, 80, 98, 114, 140
 Bangladesh-China-India-Myanmar-Economic Corridor (BCIM-EC), 3, 140
 Bangladeshi Liberation War, 8, 98
 Bara Bazaar (Market, Pakistan), 219
 Baradari (brotherhood) system, 254
 Bay of Bengal, 69
 Belt and Road Forum for International Cooperation (BARF), 64
 Benazir Income Support Program (BISP), 157
 Bengaluru-Mumbai Economic Corridor, 3
 Bertelsmann Transformation Index (BTI), 11, 12, 56, 73, 79, 81, 116, 150, 157, 161, 176, 177, 192–194, 203, 210, 211, 236, 307, 313
 Bhutto, B. (Politician, Pakistan), 89, 290
 Bhutto, Z.A. (Politician, Pakistan), 67, 281, 290
 Biodiversity, 127, 233, 259, 260
 Black-list (FATF), 109, 110
 Blackwater, 106, 216
 Blasphemy laws (Pakistan), 252, 253
 Boao-Forum for Asia (BFA), 64
 Board of Investment (BoI) (Pakistan), 133, 164, 174, 195
 Bonded labour, 82, 258, 260
 Border agreement, 8
 Brain drain, 80, 122, 201, 212, 315
 Bretton Woods system, 60, 184, 185, 322
 BRI community, 148
 BRICS's New Development Bank (NDB), 184, 186, 206
 BRI-identity, 148
 British Department for International Development, 181
British Raj, 1
 Broad National Corridor, 24, 126
 Broad Regional Corridor, 24, 126
 Brown, W. (Major), 94, 158
 Brussels, 3, 87, 246, 255
 Build, operate, transfer (BOT), 163, 182, 189
 Bureaucracy-military domination, 281

Bureau of International Labor Affairs of the United States Department of Labor (USDOL), 257, 258
 Bush, G.W. (Former US President), 245, 255

C

Caohu Industrial Park (China), 130
 Capital flight, 58, 80, 309
 Cargo, 15, 17, 34, 120, 136, 137, 170, 230, 237, 238
 Center for International Investment and Commercial Arbitration (CIICA), 62
 Central Asia, 2, 28, 56, 69, 71, 77, 99, 101, 103, 105, 126, 127, 140, 141, 144, 149, 164, 168, 173, 266–268, 274, 278, 317
 Central Asia Regional Economic Cooperation (CAREC), 181
 Central Asia South Asia Electricity Transmission and Trade Project (CASA-1000), 145, 279
 Central Development Working Party (CDWP), 208
 Central Leading Group for Comprehensive Deepening Reforms (China), 205
 Central Leading Group for Financial and Economic Affairs (China), 205
 Central Leading Group for Foreign Affairs (China), 205
 Central Pakistani Zone (CPEC subzone, geographical framework), 127
 Central Route (CPEC, infrastructure network), 125, 134, 135
 21st Century Maritime Silk Road (CMSR), 6, 61, 125, 171
 Centre for Global Development, 193
 Chabahar (Port, Iran), 123, 146, 164, 235, 277, 278
 Chechens, 108
 Chief-of-Army-Staff (COAS), 299, 301, 303
 Child labour, 82, 197, 248, 257, 258
 China-Afghanistan-Pakistan Foreign Ministers Dialogue, 261, 262
 China-Afghanistan-Pakistan Trilateral Strategic Dialogue, 262
 China Africa Joint Arbitration Centre (CAJAC), 62
 China-ASEAN Maritime Cooperation Fund, 186
 China-CEE Investment Cooperation Fund, 186
 China Construction Bank Corporation (CCB), 183
 China Containerized Freight Index (SCFI), 68

- China Development Bank (CDB), 173, 183, 184, 186
- China-Eurasia Economic Cooperation Fund (CEECF), 186
- China Export & Credit Insurance Corporation, 187
- China-IMF Capacity Development Centre, 214
- China Investment Corporation, 186
- China-Iran cooperation, 266
- China Overseas Security Group (COSG), 142, 216
- China-Pakistan Enterprise Zone, 129
- China Pakistan Free Trade Agreement (CPFTA), 10–12, 196, 197, 312
- China South-South Cooperation Assistance Fund (SSCAF), 186
- China-U.S. trade, 58
- Chinese Afghan policy, 265
- Chinese companies, 53, 56, 57, 66, 98, 131, 143, 151, 154, 159, 179, 180, 189, 194, 199, 200, 206, 207, 213, 214, 224, 256, 258, 304, 311, 316
- Chinese debt trap diplomacy, 189
- Chinese diaspora, 148, 149, 219
- Chinese dream, 47–49, 53, 172, 182
- Chinese entrepreneurs, 57, 131, 217, 312
- Chinese firms, 52, 57, 66, 154, 163, 188, 199, 206, 224, 237, 312–314
- Chinese workers, 70, 96, 141, 151, 154, 156, 215, 217, 223, 273, 309, 311, 323
- Chinese Yuan (CNY), 177, 190–192
- Chongqing (City, China), 55
- Christians, 250, 325
- Civilian control, 41, 256, 284–289, 292–306
- Civilians, 12, 39, 89, 93, 175, 244, 268, 281, 309
- Civil society, 2, 19, 37, 87, 93, 104, 112, 113, 244, 257, 276, 318, 320
- Clash of cultures, 159, 223
- Clean Drinking Water for All and Energy for All, 157
- Clean energy, 229, 231
- Cleavages (cultural, ethnic, social), 1, 3, 31, 43, 45, 149, 158
- Clientelism, 321
- Clientelist networks, 116, 240
- Clientelist practices, 239
- Climate, 26, 76, 108, 109, 122, 154, 182, 198, 204, 229, 230, 232, 235, 251, 260, 326–327
- Climate change mitigation, 182, 230
- Coal, 7, 18, 75, 97, 130, 152, 165, 179, 229–234, 257, 268
- Coal-fired power plants, 229, 232, 234
- Coastal aquaculture, 128
- Coastal Area Development Strategy, 54
- Cold War, 88, 89, 246
- Combating the financing of terrorism (CFT), 109, 110
- Commercial banks, 11, 183, 184
- Commercial loans, 179, 180
- Commodities, 23, 78, 163, 164, 166, 316
- Communication networks, 15, 96
- Communications, 7, 15, 18, 25, 29, 37, 96, 123, 159, 167, 171, 207, 215, 220, 227, 276, 301, 303, 315, 327
- Communication systems, 159
- Communist Party (China), 48, 175, 205, 224
- Community of common destiny, 148
- Compensation, 154, 155, 218
- Comprehensive Coordination Group, 205
- Concessional loans, 14, 179, 180, 198, 207
- Connectivity, v, 2, 3, 5, 6, 14, 15, 22, 27–28, 37, 45, 55, 66, 68, 77, 126–128, 133–147, 164, 171, 181, 185, 197, 198, 206, 220, 226, 235, 261, 268, 276, 278, 279, 320, 321
- 18th Constitutional Amendment (Pakistan), 163
- 21st Constitutional Amendment (Pakistan), 217, 297
- 23rd Constitutional Amendment Bill (Pakistan), 298
- Consumption, 56, 83, 166, 167, 200, 230, 232, 311
- Core zone (CPEC, geographical framework), 125–128
- Corruption, 11, 34, 37, 41, 43, 44, 79, 114–118, 121, 122, 130, 157, 192, 194, 195, 197, 203, 204, 210, 211, 222, 239, 240, 260, 282, 306, 309
- Corruption Perception Index (CPI), 11, 116
- Costs, 11, 12, 22, 31, 34, 35, 37, 45, 51, 53, 57, 67, 68, 75, 76, 82, 107, 113, 120, 129, 131, 134, 136, 149, 153, 154, 157, 158, 160, 163, 164, 166–167, 176, 179, 182, 188, 192, 194, 196, 199, 210, 211, 213, 220, 225, 226, 233, 241, 255, 260, 264, 298, 301, 310, 311, 314, 316, 319, 327
- Council of Common Interests, 210
- Counter-terrorism, 69, 86, 87, 90, 105, 110, 142, 215–217, 220, 223, 244, 245, 248, 255, 261, 276, 296, 298, 302
- CPEC Authority (Pakistan), 209, 303
- CPEC Cabinet Committee (Pakistan), 208
- Crimea, 266
- Criminal economy, 42, 83, 84

Cross-border terrorism, 8, 10, 86–88, 90, 177, 222, 249, 255, 262
 Cultural heritage, 151, 168, 170
 Currency Swap Agreement (CSA), 190–192
 Customs, 12, 25, 34, 36, 151, 159, 196, 197, 220, 223, 237, 316, 324

D

Dagha, M.Y. (Politician, Pakistan), 196
 Dams, 7, 18, 158, 162, 175, 232, 236
 Decision-making powers, 39, 90, 118, 176, 189, 284, 286–288, 291–293, 295–297, 299, 304, 305, 318–319, 321
 Defective democracy, 286, 292
 Defence budgets, 39–41, 119, 157, 235, 292, 304
 Defence cooperation, 279, 309, 321
 Defence establishment, 120
 Defence Housing Authorities (DHAs), 120
 Defence sector, 89
 Delhi-Mumbai Industrial Corridor, 3, 140
 Deliberative democracy, 285
 Democracy, 1, 4, 8, 18, 39, 40, 79, 87, 112–114, 243, 252–257, 281–306, 308, 320
 Democratic consolidation, 39, 253, 256, 281, 287
 Democracy-development nexus, 283
 Democratic transition, 5, 246, 281, 284, 301
 Democratization, 112, 244, 248, 281–284, 287, 291
 Demos, 114
 Deng Xiaoping, 48, 55
 Dialogue, 64, 87, 88, 141, 142, 148, 199, 227, 245, 246, 255, 261, 262, 280, 291, 299
 6+1 Dialogue on Afghanistan, 262
 Diamer-Bhasha Dam, 162, 175
 Digital Silk Road, 220, 320
 D.I. Khan (City, Pakistan), 127, 137
 Directorate General for Trade of the European Commission, 260
 Discretionary powers, 217, 239
 Discrimination, 58, 105, 159, 219, 248, 252, 253, 327
 Displacements, 31, 34, 149, 155, 218, 219, 221, 238
 Distribution, 12, 15, 16, 31, 37, 45, 49, 55, 74, 75, 81, 83, 90, 99, 114, 134, 139, 150, 160–167, 169, 170, 181, 193, 196, 210, 213, 287, 323, 327
 Distribution mechanism, 31, 45, 160–167
 Distribution of costs, 37, 160, 166, 210, 327
 Djibouti, 66, 67, 141, 217

Doha process, 272
 Domestic resource mobilisation (DRM), 35, 200, 202–204, 212
 Domestic revenue generation (DRG), 163, 165, 189, 204, 239
 Domestic terrorism, 97, 106–107
 Drinking water, 157, 169
 Drinking Water Policy (Pakistan), 233
 Durand Line, 269

E

Early Harvest Projects (EHP), 16, 123, 173, 192, 195, 237
 East Coast Economic Corridor (India), 3
 Eastern Alignment (CPEC, infrastructure network), 125, 134, 135
 Eastern Ukraine, 266
 East India Company, 222
 East Pakistan, 8, 80, 88, 300
 East Turkestan Islamic Movement (ETIM), 100–102, 274
 East Turkistan, 99, 105
 East-West Economic Corridor (EWEC), 140
 Economic and Commercial Councillors (China), 207
 Economic Coordination Committee (ECC) (Pakistan), 208, 209
 Economic costs, 57, 75, 107, 174, 233, 239, 308
 Economic exploitation, 120, 159
 Economic liberalization, 199
 Economic policy/policies, 11, 26, 27, 34, 46, 56, 58, 78, 132, 152, 197–201, 235, 312
 Economic viability, 31–32, 45, 140, 167–170, 174, 228, 308
 Ecosystems, 127, 154, 168
 Ecotourism, 154
 Education, 7, 15, 25, 46, 64, 73, 74, 80, 98, 106, 112, 117, 122, 167, 169, 201, 204, 210–212, 244, 250, 251, 261, 276, 289, 314, 315
 Egypt, 85, 129
 Electronic Data Exchange (EDE), 196
 Elite recruitment, 293–295
 Embedded democracy, 285–287
 Emerging Pakistan (campaign), 227
 Emissions, 228–230, 232
 Employment, 30, 78, 82, 83, 130, 131, 134, 154, 167, 193, 197, 200, 201, 212, 248, 258, 291, 314–316, 326
 Encirclement (strategy), 268
 Energy costs, 311, 316
 Energy crisis, 11, 14, 75, 76, 116, 213, 316

- Energy generation, 76, 229–231
 Energy prices, 158, 160, 180, 188
 Energy projects, 16, 76, 155, 163, 165, 166, 179, 180, 188, 197, 198, 213, 229, 234, 241, 259
 Energy sector, 74, 79, 166, 179, 187, 211, 247, 309, 316
 Energy tariffs, 188, 213
 Energy thefts, 75
 Environmental awareness, 38, 46, 228–235
 Environmental degradation, 154, 155, 228, 233, 234
 Environmental destruction/degradation, 154, 253, 259, 260, 324
 Environmental Impact Analysis (EIA), 233, 260
 Environmental Protection Act (2014) of Khyber Pakhtunkhwa, 234
 Erdogan, R.T. (President, Politician, Turkey), 104, 105
 Erosions, 44, 196, 231, 232, 259, 286
 Establishment (Pakistan), 7, 9, 89, 114, 221, 284, 314, 327
 EU Counter Terrorism Coordinator, 244, 246
 EU Delegation monitoring trade and development cooperation, 245
 Euler Hermes, 189
 EU-Pakistan 5-year Engagement Plan 2012–2017, 244
 EU-Pakistan Joint Commission, 245, 255
 EU-Pakistan relations, 243–247, 255
 EU-Pakistan Strategic Dialogue, 245, 246, 255
 EU-Pakistan Summit, 245
 EU Strategy on Connecting Europe and Asia, 3
 Europe, v, 6, 19, 28, 56, 61, 67, 77, 87, 125, 140, 164, 171, 243, 245, 246, 256, 258, 268, 283
 European Central Bank (ECB), 191
 European Commission (EC), 87, 245, 260
 European Economic Community, 243
 European Security and Defence Policy (ESDP), 244
 European Security Strategy (EES), 245
 European Union (EU), 3, 18, 50, 57, 85, 87, 88, 110, 243–248, 254–256, 258–260, 321, 322
 European Union Agency for Law Enforcement Cooperation (EUROPOL), 245
 EU's common trade policy, 260
 EU's Delegation to Pakistan, 245
 Executive Committee of the National Economic Council (ECNEC), 208
 Exploitation, 29, 54, 55, 120, 130, 159, 163, 176, 186, 225, 258, 260, 264, 271, 324
 Export costs, 196
 Export-Import Bank of China (EXIM), 183, 184, 186, 231
 External European Action Service (EEAS), 233, 243–245
 Extrajudicial killings, 218
- F**
 Faisalabad (City, Pakistan), 127, 132, 134
 Falah-e-Insaniat Foundation (FIF), 249
 Fauji Foundation, 120
 Federal Consolidated Fund (Pakistan), 162
 Federally Administered Tribal Areas (FATA), 4, 77, 84, 90, 106, 128, 136, 218, 269
 Feeder-systems, 27, 134, 137, 170
 Feudal, 114, 116, 238, 240, 241, 254, 310
 Feudal elites, 116, 240, 241
 Feudal families, 254, 310
 Feudalism, 91, 241, 321
 Feudal system, 240, 241
 Fibre optic cables, 7, 15, 127, 144, 220, 237
 Finance, 7, 15, 17, 35, 40, 55, 81, 109, 134, 139, 144, 178, 180, 182–184, 186, 190, 194, 199, 201, 205, 211, 231, 310, 314
 Financial Action Task Force (FATF), 109, 110, 223, 321
 Financial costs, 31, 45, 166–167, 169
 Financial mechanisms, 35, 46, 60–61, 178–193
 Fiscal autonomy, 163
 Fiscal deficit, 157, 198, 201
 Fiscal policy, 181
 Fishery, 128, 168, 257
 Five Principles of Peaceful Coexistence, 65, 171
 Floods, 83, 122, 231, 244
 Forced labour, 197, 248, 257
 Foreign Cooperation Group, 205
 Foreign exchange (FX) reserves, 57, 58, 73, 74, 183–185, 192, 200, 316
 Foreign policy, 2, 10, 47, 53, 65, 66, 69, 87, 93, 105, 109, 119, 143, 147–149, 175, 177, 226, 227, 235, 263–266, 269, 273, 279, 280, 292, 295, 299, 303, 305, 318, 321
 Formal economy, 79, 81, 84
 Fossil fuels, 74, 75
 France, 57, 110, 205, 246
 Free rider, 264
 Free trade, 15, 25, 34, 86, 190, 197
 Freedom House (FH), 220, 237, 253, 292
 Freedom of Net, 220
 Freedom of press, 221, 255, 286
 Fresh water, 15, 138, 156, 181

- Frontier Corps (FC), 214
 Frontier Services Group, 142, 216
 Frontier Works Organisation (FWO), 120, 121, 164, 165, 219, 236, 237, 305
 Fruits, 10, 170
 Fundamental rights, 114, 116, 297, 308
- G**
- Gadoon Amazai Industrial Estate (GAIE), 131, 132, 278
 Gallup Pakistan, 80
 Gansu (Province, China), 55
 Gas, 6, 15, 53, 55, 75, 165, 202, 229, 264
 Generalised Scheme of Preferences Plus (GSP +), 18, 87, 243–260, 321
 Generation Cooperation Agreement, 244
 Genocide, 8, 98, 105, 248
 Germany, vii, 51, 54, 57, 110, 205, 212, 246
 Ghost schools, 98
 Gilgit Scouts, 94
 Gilgit-Baltistan, 94–96, 98, 115, 123, 125–127, 130–134, 139, 142, 147, 154, 155, 170, 176, 209, 223, 225, 228, 229, 237, 241, 282, 318, 319, 323, 324, 326
 Gilgit-Baltistan Council (GBC), 95
 Gilgit-Baltistan Empowerment and Self-Governance Order (GBESGO), 95
 Gilgit-Baltistan Legislative Assembly (GBLA), 95
 Glaciers, 229
 Global Climate Risk Index, 232
 Global Corruption Barometer (GCB), 116
 Global governance, 61, 64, 226
 Global jihad, 101, 102, 250, 272
 Global Navigation Satellite System (BDS), 220
 Global Positioning System (GPS), 220
 Global SDGs Achievement Programme, 157
 Global Slavery Index (GSI), 82, 258
 Global value chain (GVC), 11, 29, 30, 51, 144, 197
 Global warming, 229, 233
 Go global, 57, 143, 172, 265
 Good governance, 37, 46, 71, 76, 91, 115–117, 221–222, 248, 257, 260, 318
 Goods, 4, 6, 10, 11, 22, 28, 40, 42, 44, 68, 77, 79, 82–84, 123, 129, 130, 132, 133, 137, 151, 163–168, 172, 187, 199, 200, 277, 312, 317, 327
 Goodwill projects, 15, 138, 156
 Governance, 1, 25, 35, 38, 44, 49, 61, 64, 71, 76, 91, 93, 96, 99, 108, 115, 116, 119, 120, 122, 177, 184, 211, 222, 226, 239, 245, 248, 254, 255, 269, 272, 283, 288, 293, 305, 306, 325
 Government of China (GoC), 179
 Government of Pakistan (GoP), 74, 81, 96, 108, 130, 166, 179, 187–189, 215, 216, 219, 233, 241, 249, 277, 315, 325, 326
 Grand coalition (Pakistan), 177, 201
 Grants, 13, 14, 85, 162, 179, 180, 189, 192, 314
 Greater Peshawar Region Mass Transit System, 139
 Greater Western Development Strategy (GWDS), 54–56, 59, 172, 265
 Green Belt and Road, 231
 Grew Wolves, 101, 104, 105
 Grey-list (FATF), 109, 110, 223
 Gross domestic product (GDP), 7, 48, 73, 75, 134, 167, 202, 232, 314
 Ground connectivity, 127, 135, 137, 138
 Groundwater, 232
 Guangxi (Autonomous region, China), 55
 Guided migration, 98, 155, 158, 219
 Guizhou (Province, China), 55
 Gulf of Thailand, 68
 Gwadar (Port, Pakistan), 13, 15, 17, 77, 97, 123, 125, 134, 138, 139, 141, 161, 174, 208, 213, 214, 302, 310, 311
 Gwadar airport, 138
 Gwadar City Master Plan (GCMP), 174
 Gwadar Free Zone, 138, 162
 Gwadar Port Authority, 161, 163, 213
- H**
- Habib Bank Limited (HBL), 189
 Haier Group, 129
 Haier (Industrial Park, Group) (Pakistan), 129
 Haier-Ruba Economic Zone, 129
 Hamid, Z. (Politician, Pakistan), 114, 252
 Han Chinese, 59, 63, 100, 131, 219
 Han migration, 131
 Haqqani Network, 108, 109
 Havelian municipality (Pakistan), 139
 Haveli (City, Pakistan), 137, 139, 240
 Hazaras, 265
 Health, 12, 25, 27, 40, 74, 82, 98, 106, 107, 123, 155–157, 159, 167, 196, 201, 210, 229, 230, 234, 326
 Health care, 138, 204, 315
 Health services, 117, 157
 Heart-of-Asia - Istanbul Process, 255, 261
 Higher Education Commission, 157
 High treason, 222
 Himalayas, 123, 135

- Hindu Dogra dynasty, 94
Hindu Kush, 123
Hindu-Muslim antagonism, 88
Hindus, 250, 325
Hinterland, 23, 28, 29, 54, 55, 58, 59, 154, 162, 169, 171
Hormuz, Strait of, 69
Horse trading, 293
Hu Jiantao, 67
Human Capital Flight, 80
Humanitarian Aid and Civil Protection department of the European Commission (ECHO), 245
Human Resource Development (HRD), 80, 121, 122
Human rights, vi, 41, 44, 62, 79, 91, 111, 112, 150, 156, 216, 218–222, 244, 245, 247, 248, 251–253, 255, 256, 260, 286, 317, 320–321, 323
Human Rights Commission of Pakistan (HRCP), 218, 221, 222, 320, 321
Human Rights Division (Government of Pakistan), 157
Hyderabad (City, Pakistan), 127
Hyderabad-Karachi highway, 181
- I**
Identity/identities, 88, 98, 99, 142, 148–150, 158, 191, 219, 244, 302
Illiteracy, 74, 98, 107
Import, 12, 25, 26, 53, 67, 130, 152, 165, 167, 172, 191, 196, 199, 200, 230, 238, 247, 312, 314
Import Substitution Industrialization, 200
Import substitutions, 132, 152, 200
Impunity, 35, 116, 240, 251
Imran Khan (Politician, Prime Minister), 113, 177, 194, 196, 201
Independent Power Producers (IPPs), 163, 179, 180, 189, 198, 213, 316, 319
India, 3, 35, 65, 76, 94, 127, 249, 263, 291, 310
India-China border clash of 1962, 8
India-Myanmar-Thailand Trilateral Highway, 140
Indian encirclement, 278
Indian ocean, 66–69, 141
India-Pakistan relations, 88, 143, 278
2001 Indian Parliament attack, 257
India's partition, 94
Indigenous innovation, 52–54
Indonesia, 68, 230
Indonesian coal, 230
Indo-Pacific, 65–66, 148, 274
Indo-Pakistan war, 94, 302
Indus Super Highway, 172
Indus Waters Treaty, 88
Industrial clusters, 30, 127, 129, 132, 173
Industrialization, 6, 16, 29–30, 41, 45, 50, 77–78, 132, 137, 151–153, 163, 190, 198, 200, 229, 240, 243, 278, 283, 309
Industrial parks, 7, 15, 128–130, 198, 208
Industrial zones, 15, 129, 130, 132, 137, 152
Industry 4.0, 51
Inflation, 74, 83
Informal economy, 81–84, 200, 203, 325–326
Informal sector, 81–84, 203, 325
Information and Broadcasting Ministry (Government of Pakistan), 157
Information and communication technology (ICT), 130, 215, 220, 237
Infrastructure, v, 1, 21, 55, 74, 116, 125, 247, 271, 299, 309
Infrastructure networks, 21, 55, 84, 126, 135, 140
Infrastructure projects, v, 4, 55, 62, 76, 135, 156, 166, 172, 180, 181, 183, 186, 187, 189, 195, 219, 234, 235, 238, 277, 278, 280, 313, 318
Inner Mongolia (autonomous region, China), 55
Innovation, 30, 49, 50, 52–54, 122, 200, 314
Insurance, 82, 166, 183, 187–189, 200
Interior Division (Government of Pakistan), 157
Internal migration, 131, 219
Internal security, 41, 44, 84, 89, 100, 106, 288, 289, 293, 300–301, 304, 305, 323–325
International Arbitration Court, 88
International Co-operation Review Group (ICRG), 109, 110
International Crisis Group (ICG), 132, 134, 136, 153, 155, 180, 193, 194, 199, 210, 213, 216, 218, 219, 221–224, 229, 235, 308, 310, 318–320, 323, 324
International Development Cooperation Agency (IDCA), 207
International developmental financing institutions (IDFIs), 35, 183–187, 198, 206, 322
International Forum on the China Pakistan Economic Corridor, 299
International Labour Organization (ILO), 82, 257, 260
International Military Education and Training (IMET), 212
International Monetary Fund (IMF), 49, 85, 157, 182, 184, 185, 195, 198, 201, 206, 214, 235, 239
International Security Assistance Force (ISAF), 101, 264

International terrorism, 1, 36, 104, 214, 249
 Inter-Services Intelligence (ISI), 109, 118, 294
 Investment, v, 1, 23, 47, 74, 95, 130, 267, 282, 307
 Investment allocation, 45, 161–162
 Investment climate, 26, 76, 204
 IPP mode, 163, 179, 180, 189, 198
 Iqbal, A. (Politician, Pakistan), 10, 17, 89, 110, 130, 136, 159, 179, 182, 193, 221, 229
 Iran, 6, 84, 108, 123, 140, 141, 145, 146, 164, 197, 266, 270, 273, 278
 Iran-China Corridor, 147
 Iran-Pakistan cooperation, 146
 Iran-Pakistan-India pipeline, 145
 Irrigation, 76, 169
 Islamic Development Bank (IsDB), 181, 206
 Islamic Emirate of Afghanistan, 269
 Islamic fundamentalism, 101, 109, 113, 297
 Islamic State (IS), 100–103, 105, 110, 111, 159, 224, 256, 273, 324
 Islamisation, 90, 98, 108, 150, 257, 325
 Ismailies, 251
 Israel, 85
 Italy, 57

J

Jacobabad (City, Pakistan), 127
 Jaish-e-Mohammed (JeM), 108
 Jamaat-ud-Dawa (JuD), 223, 249, 250
 Jammu and Kashmir (India administered), 8, 95
 Jammu and Kashmir (Princely State), 94, 95
 Japan, 3, 35, 54, 57, 85, 141, 185, 191, 205, 322
 Jihad, 101–103, 106, 107, 224, 250, 272, 273
 Jihadi ideology, 253
 Jihadism, 1, 31, 36, 90, 97, 98, 103, 106–111, 158, 177, 214, 224, 317, 323–325
 Jihadists, 8, 84, 90, 100–103, 105–107, 109–111, 144, 223, 249–253, 255, 257, 294, 297, 324
 Joint Comprehensive Plan of Action (JCPOA), 145
 Joint Cooperation Committee (JCC), 129, 139, 180, 194, 208, 209, 299, 305
 Joint Working Group (JWG), 130, 208, 209
 Judicial system, 297, 298

K

Kabul, 10, 71, 84, 86, 143, 145, 147, 255, 261–280
 Karachi, 8, 66, 77, 106, 121, 125, 128, 130, 132, 134, 137–139, 153, 168, 172, 174,

181, 208, 218, 223, 277, 278, 300, 301, 311, 323
 Karachi Circular Railway, 139
 Karakoram, 123, 183, 236
 Karakorum Highway (KKH), 13, 14, 18, 77, 96, 123, 135–137, 168, 180, 181, 198, 228
 Kargil offensive, 8
 Karot Hydropower Project, 183, 186
 Kashgar, 6, 13, 18, 123, 125–127, 130, 136, 137, 140, 228
 Kashgar Economic and Technological Development Zone, 130
 Keti Bandar (Port, Pakistan), 66
 Khattak, A. (Politician), 136
 Khunjerab Pass, 123, 134, 135, 168, 220, 237
 Khyber Pakhtunkhwa (KPK) (Province, Pakistan), 4, 77, 81, 90, 96, 115, 125, 127, 128, 131, 132, 134, 136, 137, 139, 161, 162, 176, 180, 214–216, 233, 234, 240, 244, 250, 282, 300
 Khyber Pass Economic Corridor (KPEC), 135, 144
 Kotla Jam (City, Pakistan), 137
 Kra canal (Kra Isthmus canal, Thailand), 68
 Kremlin, 262
 Kunduz (City, Afghanistan), 271
 Kyrgyzstan, 101, 144, 164, 279

L

Labour, 26, 51, 53, 66, 79, 80, 82, 83, 112, 122, 130, 131, 153, 154, 156, 167–169, 196, 200, 211, 219, 224, 232, 247, 248, 255, 257, 258, 260, 312, 315, 317, 324
 Labour costs, 51, 53, 153
 Labour forces, 26, 82, 219, 224, 258, 312, 315
 Labour market, 83, 122, 154, 315
 Labour standards, 156, 232, 255, 257, 258
 Lahore, 125, 127, 129, 134, 139, 170, 223, 224, 294
 Lahore by-elections, 294
 Lahore High Court (LHC), 234
 Land acquisitions, 12, 34, 132, 144, 169, 181, 221, 238, 260
 Landlords, 156, 240, 241
 Landslides, 122, 135, 155, 231, 232
 Lashkar Gah (City, Afghanistan), 271
 Lashkar-e-Taiba (LeT), 108, 109, 249
 Law enforcement, 116, 214, 220, 221, 244, 250, 258, 260
 Leading Group for Advancing the Development of One Belt One Road, 205
 Leading Group Office, 205, 207

- Leitkultur (leading culture), 148
- Liberal democracy, 284–286, 306
- Liberalization, 78, 283, 284, 306
- Lisbon Treaty, 244
- Livelihoods, 15, 16, 114, 149, 154, 170, 193, 260, 308, 323, 326
- Living conditions, 30, 90, 131, 154, 156, 159, 167, 204, 324
- Living standards, 30, 45, 107, 153–155, 157–159, 283, 325
- Loans, 13, 35, 55, 57, 78, 79, 85, 162, 179, 180, 184, 185, 187, 189, 191, 192, 198, 201, 206, 207, 257, 311, 316
- Lobby groups, 133, 177, 241
- Local communities, 4, 33, 37, 38, 154, 158–160, 170, 176, 210, 216, 218, 219, 228, 238, 240, 324, 326
- Local concerns, 33, 34, 45, 178, 235
- Local demands, 99, 131
- Local people, 33, 98, 149, 155, 241
- Local protests, 151, 178, 234
- Local rail transport, 139
- Local workforce, 131, 200, 224, 257, 312
- Logistic corridor, 22
- Logistic networks, 3, 27, 170, 313
- Logistics, 17, 22, 24–26, 29, 36, 40, 76, 102, 123, 126–128, 135, 138, 139, 164, 173, 184, 238, 327
- Long Term Plan for the China-Pakistan Economic Corridor (LTP), 14–18, 50, 89, 125–128, 130, 152, 173, 174, 193, 228, 308, 313
- M**
- Made in China 2025, 51, 53, 152
- Madrasas, 98, 137, 212
- Maintenance, 15, 31, 32, 53, 96, 107, 135, 164, 166, 202, 215, 236, 240, 265, 310, 314
- Makran Coastal Highway, 128, 138, 181
- Malacca, Strait of, 67–69
- Malaysia Truly Asia, 227
- Malhama Tactical, 106
- Malnutrition, 156
- Mangroves, 232, 233, 260
- Manufacturing, 11, 26, 30, 38, 40, 45, 50–52, 73, 78, 79, 81, 107, 120, 132, 139, 152, 153, 168, 199, 200, 257, 258, 282, 309, 314, 317, 327
- Manufacturing costs, 154
- Marching west, 172, 265
- Maritime Silk Road Group, 205
- Maritime transit, 68
- Massive Ordnance Air Blast (MOAB) (GBU-43/B), 275
- Media, v, 2, 21, 37, 40, 48, 64, 70, 93, 104, 105, 118, 193, 220–222, 252, 278, 298, 302, 320
- Middle East, v, 6, 17, 28, 53, 56, 67, 77, 102, 146, 164, 165, 167
- Middle-income trap, 51, 53
- Migration, 59, 80, 100, 131, 154, 155, 212, 219, 221, 245
- MILBUS (Military in Business, Pakistan), 12, 39, 41, 44, 46, 117–121, 236–239
- Militancy, 31, 59, 69, 70, 86, 90, 97, 100, 102, 105–107, 110, 115, 122, 158, 214, 217, 224, 262, 282, 297, 298, 315
- Militarisation, 214, 216, 222, 223, 238, 256, 320, 323
- Military, 1, 39, 49, 85, 93, 141, 243, 264, 281, 307
- Military business, 40–44, 120, 175, 236–239, 304
- Military organisation, 85, 119, 288, 289, 293, 299, 303, 305
- Militarisation, 117–121
- Mineral Economic Processing Zones, 130
- Ministry of Climate Change (Pakistan), 233
- Ministry of Commerce (MOFCOM) (China), 129, 171, 205, 207, 227
- Ministry of Defence (MoD) (Pakistan), 119, 120
- Ministry of Foreign Affairs (MOFA) (China), 171, 187, 205
- Ministry of Health (Government of Pakistan), 157
- Ministry of Information Technology (Pakistan), 236
- Ministry of Inter-Provincial Coordination (Pakistan), 210
- Ministry of Overseas Pakistanis and Human Resource Development, 80
- Ministry of Planning, Development and Reforms (MoPDR) (Pakistan), 74, 78, 81–83, 90, 147, 161, 193, 208, 227
- Ministry of Ports and Shipping (Pakistan), 161
- Ministry of Religious Affairs (Pakistan), 252
- Minority/minorities, 55, 59, 63, 98, 99, 112, 150, 158, 217, 219–221, 247, 250–252, 325
- Mir Ali Bazaar (Market, Pakistan), 219
- Miran Shah Bazaar (Market, Pakistan), 219
- Mismanagement, 38, 42, 210, 260, 282, 301
- Mobile services, 237
- Modern slavery, 82, 258, 260

- Modernization, 4, 22, 29–30, 41, 45, 48–50, 52, 68, 74, 78, 111, 151–153, 183, 198, 241, 262, 278, 283, 309
- Money laundering, 84, 109
- Monopoly/monopolies, 39, 187, 188, 237–241
- Monsoons, 122, 230
- Moscow, 77, 105, 264, 266
- Movement for the Restoration of Democracy (MRD), 113
- Mujahideen movement, 265
- Mullah-military-nexus, 294
- Multan (City), 127, 134
- Multi-Annual Indicative Programme (MIP), 244
- Multilateral Development Banks (MDBs), 182
- Multimodal, 28, 29, 127, 138, 139, 170
- 2008 Mumbai attack, 257
- Multimodality, 25, 28
- Musharraf, P. (General, Politician, Pakistan), 8, 14, 113, 172, 215, 290, 291, 320
- Myanmar, 3, 141, 175
- N**
- Narrow Regional Corridors, 24, 126, 327
- National Accountability Bureau (NAB) (Pakistan), 192
- National Action Plan (NAP) (Pakistan), 174, 214, 217, 251, 296, 301, 303
- National Assembly Standing Committee on Information Technology (Pakistan), 237
- National Bank of Pakistan (NBP), 189
- National Climate Change Policy (Pakistan), 233
- National Commission for Minorities (NCM) (Pakistan), 252
- National Congress, 48
- National Counter-Terrorism Authority (NACTA) (Pakistan), 216, 244
- National defence, 42, 201, 288, 289, 292, 293, 295, 300, 302–303, 305, 306
- National Development and Reform Commission (NDRC) (China), 6, 60, 171, 173, 178, 205, 208, 299
- National Electric Power Regulatory Authority (NEPRA) (Pakistan), 188, 241, 311, 319
- National Finance Commission (NFC) (Pakistan), 162, 163, 166
- National Food Security Ministry (Pakistan), 157
- National Forest Policy (Pakistan), 233
- National harmony, 17, 90–91
- National Highway Authority (NHA) (Pakistan), 134, 164, 165, 182, 194, 206, 234
- National identity, 88, 150, 191
- National Logistic Cell (NLC), 120, 121, 219, 236–238
- 13th National People's Congress (NPC) (China), 207
- National security, 12, 41, 42, 75, 101, 118, 221, 249, 270, 279, 292, 301–303, 309
- National Security Law, 217
- NATO's International Security Assistance Force (ISAF), 101, 264
- Natural hazards, 122
- Natural propensity, 32, 45, 167–168
- Naya Pakistan, 201
- Nepal, 3, 175
- Netherlands, 57
- New Delhi, 8, 85, 88, 95, 140–143, 147, 227, 249, 257, 269, 273, 275–279, 302, 317, 322
- New Silk Road, v, 5, 7, 47, 58, 61, 62, 141, 171, 206, 279
- 7th NFC award, 162, 163
- Ningxia (Autonomous region, China), 55
- Non-aligned states, 275
- Non-Cooperative Countries or Territories (NCCTs), 109, 110
- Non-interference, 66, 171, 217, 222, 264, 303, 319–320
- Non-tariff barriers (NTBs), 12, 196
- Non-tax revenue, 202, 204, 239
- North Atlantic Treaty Organization (NATO), 86, 101, 264, 266, 267, 273
- North Korea, 67, 86
- Northern alignment (CPEC, infrastructure network), 126, 128
- Northern Alliance, 265, 269, 275, 276
- Northern Pakistan Zone (CPEC subzone, geographical framework), 127
- North–South Economic Corridors, 2
- Nuclear program (Pakistan), 85
- O**
- Obama, B., 245, 255
- Oil, 6, 15, 53, 54, 68, 75, 76, 130, 165, 168, 172, 202, 230, 264
- One-China Policy, 7, 62, 86
- One-window facilities, 130
- Open Up the West (strategy), 55
- Operation
- Koh-e-Sufaid, 104
 - Nisar, 218
 - Radd-ul-Fasaad, 104, 218
 - Rast-e-Rath, 300
 - Zarb-e-Azb, 104, 218, 300

- Operation Decisive Storm, 146
 Operation Enduring Freedom (OEF), 101, 276
 Operation Gibraltar, 8
 Orange Line Metro (Lahore, Pakistan), 139
 Osama bin Laden, 191
 Outflows, 58, 189, 212, 311, 317
 Oversea economic zones (Programme, China), 129
 Overseas Investment Insurance Program, 187
- P**
- Pakistan Army Corps of Signals, 236
 Pakistan Army's Act 2017, 298
 Pakistan-China Joint Committee, 9
 Pakistan Industrial Development Corporation (PIDC), 129
 Pakistani Army's (Amendment) Bill of 2015, 297
 Pakistani Awami Tehrik (PAT), 113, 114
 Pakistani Commission of Inquiry on Enforced Disappearances, 218
 Pakistani Railway, 238
 Pakistan Muslim League-Nawaz (PML-N), 281
 Pakistan Ordnance Factories (POF), 139
 Pakistan People Party (PPP), 281
 Pakistan-Russia rapprochement, 89, 266
 Pakistan Tehreek-e-Insaf (PTI), 113, 114, 151, 191, 255, 277, 281
 Pakistan Telecommunication Authority (PTA), 202, 237, 241
 Panama, 68
 Panapak Electronic Company, 128, 129
 Paris climate deal (2015, UN), 231
 Paris Club, 198
 Parliamentary Committee on the CPEC, 193, 208
 Partition, 85, 88, 94, 304
 Pashtun Tahafuz Movement (Pashtun Protection Movement), 150
 Pass through tariff, 188
 Patronage, 39, 107, 110, 120, 239, 240, 250
 Patron-client relations, 121, 317
 Peasants, 156
 Penal Code (Pakistan), 252
 Pentagon, 274
 People's Armed Police (PAP), 216
 People's Bank of China (PBoC), 184, 190, 191
 People's Liberation Army (PLA), 142, 216
 People's sovereignty, 285, 286
 People-to-people bonds, 6, 148, 225
 People-to-people connectivity, 37, 276
 People-to-people contacts, 30, 158, 226, 279
 People-to-people diplomacy, 148, 227
 Peshawar, 125, 128, 134, 135, 137, 172
 Peshawar Torkham Economic Corridor (PTEC), 144
 Pew Research Center Survey, 9, 150
 Philippines, 11
 Pipelines, 6, 15, 96, 145, 165, 279
 Planning Commission of Pakistan, 208, 240
 Policy banks, 183–184, 186, 188, 190, 206
 Politburo Standing Committee, 175, 205
 Political consensus, 176, 177, 201, 210
 Political mainstreaming, 294, 325
 Political rights, 95, 176, 220–222, 256, 286, 323, 324
 Political violence, 31, 100, 114, 158, 214
 Pollution, 49, 154–156, 221, 228, 229, 259, 326
 Port Hambantota, 199, 206
 Port Qasim Power Project, 232
 Ports, 6, 7, 13, 15, 17, 18, 25, 29, 34, 36, 66, 67, 77, 97, 121, 123, 125–128, 133, 134, 136, 138, 139, 141, 142, 146, 161–164, 168, 174, 179, 186, 208, 213, 227, 235, 236, 277, 278, 284, 302, 310, 311
 Poverty, 2, 15, 30, 73, 74, 76, 81, 83, 84, 97, 103, 107, 144, 155, 157, 159, 163, 182, 234, 244, 247, 283, 308
 Power generation/energy generation, 76, 276, 316
 Power plants, 14, 184, 213, 229–234
 Praetorian state, 281
 Premature de-industrialisation, 77–78, 152, 153
 Pressler Amendment, 85
 Principled realism, 87
 Private sector, 32, 42, 119, 133, 180, 182, 190, 211, 236–238, 307, 313, 314
 Private Security Companies (PSCs), 142, 216, 217, 309, 323
 Production costs, 131
 Property, 35, 44, 52, 107, 238, 324
 Property rights, 69, 260
 Protectionism, 199, 200
 Public diplomacy, 7, 37, 46, 64–65, 148, 226, 227
 Public policy, 288, 293, 295–299, 305
 Public-private partnerships (PPPs), 35, 181
 Public schooling system, 250
 Public sector, 35, 76, 134, 236, 238, 313
 Public Sector Companies (PuSCs), 238, 313
 Public Sector Development Programme (PSDP), 134, 157, 181
 Public transport, 133, 137, 139, 160, 315
 Public welfare, 2
 Punjab (Province, Pakistan), 77, 99, 150, 214, 215, 234, 249, 258, 284, 323
 Punjabization (Pakistan), 150

Q

- Qasim (Port, Pakistan), 77, 128, 130, 138, 183, 188, 213, 230, 232
 Qinghai (Province, China), 55
 Quadriateral Coordination Group, 262
 Quadriateral Traffic in Transit Agreement (QTTA), 164
 Quality of democracy, 4, 87, 256, 282, 284, 306, 308, 320
 Quetta (City, Pakistan), 125, 128, 134, 138
 Quetta Mass Transit System, 139

R

- Radiation zone (CPEC, geographical framework), 125–128, 173
 Radicalisation, 75, 90, 96, 100, 105, 107, 108, 114, 165, 217, 257, 315
 Rah-e-Nijaat, 104
 Raikot (City, Pakistan), 180
 Railway infrastructure, 156, 164, 169
 Railways, 6, 15, 25, 51, 55, 126, 127, 133, 137–139, 156, 186, 213, 236
 Railway system, 137, 230
 Railway transportation, 137
 Rangers, 214, 217, 218, 301
 Rann of Kutch, 8, 88
 Raw materials, 6, 53, 54, 67, 78, 132, 153, 199, 231
 Rawalpindi, 139, 170, 220
 Realpolitik, 93
 Reforms, 26, 34–36, 39, 43, 46, 49, 55, 108, 109, 113, 114, 116, 172, 176, 177, 185, 199, 207, 210, 211, 213, 221, 225, 238–241, 243, 251, 257, 283, 284, 298, 306, 315, 318, 323, 327
 Regional imbalances, 81, 114–115, 153
 Religious freedom, 250, 253, 255
 Religious fundamentalism, 1, 45, 68–71, 158–159
 Renewable energy, 128, 152, 229
 Renminbi, 60
 Renminbi/RMB, 190
 Research and Analysis Wing (RAW), 269
 Resource exploitation, 221, 233
 Resources (natural, mineral, water), 11, 25, 32, 35, 36, 38–41, 43, 45, 46, 52–55, 69, 75, 76, 78, 79, 81, 84, 89, 93, 97–99, 118–122, 128, 130, 139, 143, 150, 152, 154, 155, 163, 165, 168, 169, 177, 181, 184, 186, 193, 199, 201, 202, 206, 211, 213, 214, 225, 230–232, 234, 235, 238, 239, 263, 264, 268, 314, 315, 323, 324
 Right to privacy, 220

- Riparian territories, 232
 Riyadh, 79, 146, 299
 Rizvi, K.H. (Politician, Pakistan), 113
 Road infrastructure, 11, 24, 123, 133–137, 155, 166, 169, 170, 184–186, 206, 234, 238
 Rohingya, 69
 Rotterdam, 68
 Ruba Group, 129
 Rural (population, areas), 132, 155, 156, 169, 183, 238, 241
 Russia, 6, 63, 77, 91, 105, 106, 140, 145, 146, 186, 223, 262, 264–266, 273
 Russia-China cooperation, 146
 Russia-Pakistan rapprochement, 146, 255

S

- Saeed, H. (Jihadist), 256, 257, 294
 Safeguards, 196, 215, 225, 240, 241, 251, 252, 259, 303, 306, 320
 Salinization, 232, 259
 Sanitation, 74, 169, 181
 Satellite state, 142
 Saudi Arabia, 79, 85, 110, 146
 School participation, 74
 Securitisation, 214, 216, 223, 256, 323
 Security, 2, 25, 47, 73, 93, 131, 244, 284, 308
 Security cooperation, 105, 141, 143, 225, 302, 309
 Security costs, 67, 157, 158, 166, 188, 226, 264, 311, 316
 Security Enhancement scheme (Pakistan), 181
 Security sector, 32, 144, 181, 216, 218, 294, 296, 304, 320, 326
 Security sector agents, 32, 144, 218, 296, 304, 320
 Self-censorship, 221, 253
 Senior Official Meeting (SOM), 299, 305
 Separatism, 31, 59, 69, 100, 158, 214
 Services, 4, 7, 10, 15, 17, 22, 23, 25, 30, 39, 40, 42, 43, 50, 52, 57, 61, 73, 74, 81–83, 116, 117, 119, 120, 130, 147, 153, 157, 164, 169, 188, 189, 195, 207, 215, 236, 237, 241, 246, 250, 257, 258, 275, 292, 293, 304, 327
 SEZ Act 2012, 129, 133, 174
 SEZ Act XLV 2016, 129, 133, 174
 Shaanxi, 55, 61
 Shaheen Foundation, 120
 Shaksgam Valley, 8
 Shanghai, 64, 68, 168, 184, 186, 262
 Shanghai Cooperation Organization (SCO), 64, 120, 184, 186, 197, 236–238, 241, 262
 Shanghai Shipping Exchange (SSE), 68

- Sharia-based law, 272
- Sharif, N. (Politician, Pakistan), 89, 118, 121, 136, 157, 281, 290–292, 296, 299, 303, 306
- Sharif, R. (General, Pakistan), 15, 299
- Sharif, S. (Politician, Pakistan), 222
- Shenzhen (Guangdong Province), 61
- Shia-Sunni conflict, 107
- Shipping costs, 68
- Sichuan (Province, China), 10, 55
- Sickness of industries/sick industries, 78
- Silk Road Economic Belt (SREB), 6, 60, 61, 125, 171, 231
- Silk Road Fund (SRF), 60, 183–186
- Silk Road Group, 205
- Silk Road Infrastructure Fund, 185–186
- Sindh (Province, Pakistan), 30, 81, 90, 115, 125–127, 132, 134, 139, 161, 174, 214, 215, 218, 229, 232, 244, 250, 257, 258, 278, 282, 323, 324
- Sinicization, 59, 63
- Sino-Iranian ties, 146
- Sinophile, 213
- Sinophobia, 151
- Sinosure, 166, 183, 187–189
- Skilled labour, 169, 211
- Skilled workforce, 50, 122, 131, 169
- Slavery, 82, 258, 260
- Small and medium-sized enterprises (SMEs), 11, 26, 116, 238, 313, 314
- Smart Factories, 51
- Smart Supply Chains, 51
- Smuggling, 42, 84, 140, 200
- Social evils, 31, 45, 158–159
- Social (safety nets, fabrics), 83, 156, 158, 246
- Social stratification, 156
- Social welfare, 44, 157, 225, 276
- Soft infrastructure, 34
- Soft infrastructure (Policy frameworks), 34–35, 46, 166, 178–204
- Soft power, 29, 45, 49, 148, 149, 246, 276
- Soil (pollution, fertility, territory), 10, 70, 111, 155, 231, 259, 265
- Solar, 6, 18, 152, 229
- Soldiers, 39–44, 118–121, 176, 214, 215, 217, 235, 236, 288, 289, 294–296, 299, 301, 304–306
- Sost dry port, 121, 240
- South Africa, 56, 186, 223, 230
- South Asia, vii, 1–5, 10, 14, 16, 21, 28, 50, 56, 74, 76, 77, 84, 86, 102, 108, 113, 127, 140–143, 149, 167, 171, 203, 243–245, 261, 268, 271, 273, 302, 313, 319, 321, 322
- South Asia Democratic Forum (SADF), vi, 87, 98, 221, 249, 253, 254
- South China Sea, 66, 67, 86, 274
- South East Asia, 2, 21, 28, 61, 68, 101, 103, 322
- South-East Europe, 28
- Southern China Sea, 69
- Southern Corridor, 6
- Southern Pakistani Zone (CPEC subzone, geographical framework), 128
- Southern Xinjiang Zone (CPEC subzone, geographical framework, China), 131
- South Korea, 54, 57
- South-South cooperation, 186
- South trade corridor, 277
- Sovereignty, 42, 70, 88, 171, 187, 190, 191, 234, 255, 281, 285, 286, 292, 295, 310, 318–319
- Soviet occupation, 108, 269
- Soviet Union, 39, 85, 89, 117, 172, 275
- Space and Information Corridor, 220
- Special Committee of the Senate of Pakistan on the CPEC, 193
- Special Economic Zones (Amendment) Ordinance of December 2015, 129, 174
- Special Economic Zones Rules of 2013, 129, 133, 174
- Special economic zones (SEZs), 15, 18, 25–27, 45, 52, 53, 78, 79, 126, 128–133, 137, 140, 143, 152, 154, 160, 162, 163, 174, 198, 200, 204, 219, 258, 278, 282, 313, 317
- Special Federal Development Programme, 157
- Special Security Division (SSD), 214
- Special tribunals (Military Courts), 297
- Spill-over effects, 22, 23, 28, 30, 31, 41, 71, 76, 144, 268, 327
- State Bank of Pakistan (SBP), 10, 76, 190, 191, 202
- State-owned companies, 313
- State-owned enterprises (SOE), 35, 39, 54, 57, 63, 153, 187, 188, 307
- State-sponsored terrorism/state-sponsorship of terrorism, 8, 91, 108, 110, 145, 249, 325
- Strategic Partnership Agreement, 276
- Strategy Paper for Pakistan, 244
- Suez canals, 68
- Sukkur, 125, 127
- Suppression (political), 159, 256
- Supreme Court of Pakistan, 251
- Supreme People's Court of China, 61
- Surveillance, 220, 259, 320
- Sustainability, 5, 18, 28, 38, 46, 62, 111, 117, 121, 122, 130, 140, 144, 161, 175, 204, 228–236, 239, 260, 312, 316, 325, 327
- Sustainable development, v, 3–5, 22, 38, 39, 132, 177, 186, 228, 231, 233, 247, 316, 327

Sustainable development goals (SDGs), 46,
157, 160, 186, 308, 316

T

Tahir-ul-Qadri, M. (Cleric, Pakistan), 113
Taiwan, 7, 62, 86
Tajikistan, 144, 164, 263, 267, 274, 279
Tajiks, 265
Taliban, 86, 101, 103, 105, 108, 109, 111, 146,
245, 262–266, 269–276, 291, 300
Talibanisation, 245
Tarinkot, 271
Tashkent process, 71
Tashkurgan Tajik, 127
Task Force-88 (TF-88), 214
Taxation, 35, 55, 200, 203, 204
Tax net, 204
Tax system, 83, 199, 203, 211
Technical barriers to trade (TBTs), 12, 196
Tehran, 84, 145, 146, 266
Tehreek-e-Insaf (PTI), 113, 114, 151, 191, 255,
277, 281
Tehreek-i-Labbaik Ya Rasool Allahs
(TLYRA), 113, 114
Tehrik-e-Nifaz-e-Shariat-e-Mohammadi
(TNSM), 300
Tehrik-i-Taliban Pakistan (TTP), 100, 291, 301
Telecommunication company, 237, 241
Telecommunication market, 238, 241
Telecommunication networks, 25
Telecommunications, 52, 184, 237
Telecommunications Reorganisation Act of
1996, 237
Tenants, 156
Territorial integrity, 58–60, 70, 101, 171, 176,
295, 300
Terrorism Situation and Trend Report, 245, 246
Textile sector, 258
Thakot (Town, Pakistan), 180
Thar (Desert, Pakistan), 230
Tharparkar, 221
Theocratic regime, 266
Theocratic system, 272
Third Front strategy, 55
Tiananmen Square (Beijing, China), 62
Tianjin (Industrial Zone, China), 152
Tibet (autonomous region, China), 3, 7, 55,
59, 62
Toll taxes, 163–166
Torkham (border crossing point between
Pakistan and Afghanistan), 137
Tourism, 15, 38, 91, 107, 127, 128, 154, 165,
168, 227, 231
Trade and Energy Corridor (TEC), 14, 172

Trade deficit, 12, 73, 74, 151, 152, 200, 230,
312, 316
Trade tariff, 200
Trans-European Networks (TENs), 21
Trans-Himalayan Economic Corridor, 3
Transit, 6, 34, 78, 111, 123, 127, 128, 139,
164–166, 197, 230, 235, 240, 277, 317
costs, 166
fees, 160, 163, 164, 166, 204
traffic, 154
Transmission (lines, distribution), 74, 123, 279
Trans-Pacific Partnership (TPP), 146
Transparency, 2, 7, 22, 34, 35, 37, 41, 46, 64,
116, 117, 170, 192–195, 201, 204, 209,
211, 222, 226, 227, 278, 298, 301, 308,
315, 327
Transparency International (TI), 11
Transparency International Corruption
Perception Index, 116
Transport, 2, 3, 15, 17, 18, 22, 23, 27–29, 34,
36, 56, 66, 67, 76, 79, 81, 119, 127, 133,
137, 139, 140, 146, 154, 159, 160, 164,
165, 170, 189, 197, 236, 238, 313, 315,
327
Transport costs, 153
Transport infrastructure, 79, 208
Triangular, 263
Triple-bottom line approach, 38, 46
Trucks, 136, 164, 165, 228, 230
Trump, D. (US President), 67, 86, 87, 145, 148,
191, 266, 272, 273, 277, 280
Tumshuq (City, China), 125, 127
Turanci Movement Platform, 104
Turkey, 6, 101, 102, 104, 105, 146
Turkmenistan, 53
Turkmenistan-Afghanistan-Pakistan-India
pipeline (TAPI), 145, 279
Two Centenary Goals (China), 48
Two-nation theory, 88

U

Umma, 103
UN Al-Qaida Sanctions Committee and the
Taliban Sanctions Committee, 101
UN Committee on the Elimination of Racial
Discrimination, 219, 252
UN conventions, 87, 248, 249, 254
Undernourishment, 156
Undocumented economy, 200
Ungoverned territories, 97, 106
United Arab Emirates (UAE), 85
United Bank Limited (UBL), 189
United Kingdom (UK), 85, 110, 212
United Nations Charter, 171

- United Nations Development Programme (UNDP), 74, 232, 240
- United Nations Economic and Social Committee for Asia and Pacific, 197
- United Nations (UN), 7, 87, 95, 219, 231, 248, 249, 254, 257, 308
- United Nations (UN) conventions on terrorism, 248
- University of the 21st Century, 122
- UN resolutions, 95, 319
- Urban, 21–23, 48, 55, 97, 126, 134, 137, 139, 238
 areas, 28, 29, 38, 75, 81, 114, 115, 127, 155, 156, 169, 170
 centres, 77, 78
 connectivity, 139
 elites, 254
 mercantile class, 254
- Urbanization, 2, 48, 49, 76, 167, 240
- U.S., 3, 49, 79, 100, 141, 244, 262, 300, 310
- US Agency for International Development (USAID), 181, 206
- US Army Corps of Engineers, 172
- US Central Command, 274, 275
- US Commission on International Religious Freedom (USCRIF), 250, 251
- US Congressional-Executive Commission on China, 220
- U.S. Department of State, 100, 101
- US-India cooperation, 89
- US-Iran tensions, 145
- Uyghur, 10, 59, 69, 70, 97, 99–106, 108, 131, 144, 219, 225, 256, 265, 267, 274, 320
- Uzbekistan, 71, 106, 144
- Uzbeks, 108, 265
- V**
- Vegetables, 170
- Vietnam, 8, 11, 322
- Violence, 31, 69, 75, 90, 96, 98, 100, 107, 108, 111–114, 158, 214, 223, 251, 253, 323
- Visas, 80, 195, 212, 224
- Vision 2025 (Pakistan), 81, 82, 147, 173
- Vision and Actions document, 171, 174
- Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, 6, 60, 171, 231
- Vote buying, 293
- W**
- Wakhan Corridor, 96, 263, 279
- Walk Free Foundation (WWF), 258
- War on Terror, 243, 300
- Washington, 54, 66, 68, 79, 85–87, 141, 145, 146, 154, 191, 192, 205, 207, 212, 223, 255, 262, 263, 265, 271–275, 279, 317, 321
- Waste, 118, 155, 169, 229, 248, 257
- Waste disposal, 155, 229
- Water resources, 154, 169, 231, 232
- Water-saving technology, 169
- Water scarcity, 156, 169, 232
- Water supply, 15, 25, 181
- Water treatment, 15, 138, 156, 181, 229
- Welfare, 2, 42, 44, 106, 119, 120, 156, 157, 201, 225, 276
- Western Alignment (CPEC, infrastructure network), 125, 134–136, 145
- Western China, 13, 18, 55, 56, 59, 70, 71, 77, 143, 172, 174
- Western Pakistani Zone (CPEC subzone, geographical framework), 128
- Workforce, 50, 82, 122, 130, 131, 154, 156, 169, 200, 212, 223, 224, 253, 257, 260, 312
- World Bank, 6, 21, 35, 73, 75, 76, 85, 117, 134, 144, 165, 181–185, 193, 203, 206, 231, 247, 314
- World Economic Forum Report (WEFR), 78, 325
- X**
- Xi'an (City, China), 61
- Xiaokang society, 48
- Xi Jinping (Politician, China), v, 6, 13, 141, 148, 175
- Xinjiang, 6, 7, 13, 55, 56, 59, 69, 70, 94, 96, 99, 100, 104, 123, 125–127, 130, 131, 141, 143, 144, 152, 158, 168, 219, 224, 225, 266, 267, 320, 323, 324
- Xinjiang Uyghur Autonomous Region (XUAR), 99, 125, 127
- Y**
- Yen, 191
- Yunnan (Province, China), 55
- Z**
- Zarai Taraqiat Bank Limited (ZTBL), 183
- Zardari, A. (Politician, Pakistan), 108
- Zhang Gaoli (Politician, China), 205
- Zhob (City, Pakistan), 134, 137
- Zia-ul-Haq, M. (General, Politician, Pakistan), 113, 306
- Zonergy's Quaid-e-Azam Solar Project (Pakistan), 184