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RESETTING PAKISTAN-CHINA RELATIONS AND REVIVING CPEC

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Resetting Pakistan-China Relations and Reviving CPEC

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Introduction

Pakistan and China have reset the bilateral relationship, particularly, economic cooperation after a year of economic slowdown in Pakistan. Prime Minister Imran Khan recently visited Beijing on the invitation of Chinese Premier Li Keqiang. It provided leadership of both countries an opportunity to exchange views on emerging regional and international situation, review entire gamut of bilateral relations, and explore avenues for cooperation under the second phase of China-Pakistan Economic Corridor (CPEC) framework. Visit was significant due to agenda, timing and associated symbolism. Notably, it was third visit of PM Khan to China in less than a year. First took place in November, 2018, when leadership of both countries took stock of the state of the relationship and progress under CPEC. That visit then had taken place three months after Pakistan Tehreek-i-Insaf (PTI) formed government in August 2018. In April, 2019, PM Khan attended Belt and Road Forum and delivered a keynote address. And, the current visit took place just before President Xi Jinping's visit to India, and the recently held meeting of the Financial Action Task Force (FATF), which evaluated Pakistan's progress in countering terrorism financing.

Reviewing Regional Environment

PM Khan's visit took place in an evolving regional security environment. First, Afghan peace talks broke down last month. Pakistan later hosted U.S. Special Representative Zalmay Khalilzad and a delegation of Afghan Taliban. Islamabad is pushing for revival of negotiations aimed at settlement of Afghan conflict. Second, the situation in Indian-held Kashmir warrants urgent action to ensure that at least the aggravating human rights situation is addressed. Indian actions have escalated tensions in South Asia with direct implication for international peace and stability. Third, Pakistan was looking forward to the meeting of FATF to present its review report with the hope of moving out of the grey list. Pakistan then required support of China at that forum.

Both sides, during PM Khan's visit, exchanged views on evolving situation. Pakistan briefed Chinese side on its concerns and position related to Indian actions in Jammu and Kashmir. As PM's Khan meeting with President Xi took place days before his visit to India, it was an important opportunity for Pakistan to take China into confidence. Beijing reiterated its support for Pakistan's core national security interests. Secondly, for Afghanistan peace process both countries have undertaken joint initiatives in recent years. Peace in Afghanistan requires support

of internal and external stakeholders. Islamabad and Beijing continue to maintain strategic communication and coordination in support of an Afghan-owned and Afghan-led peace process.

On the subject on India, visit itself took place days before President Xi and PM Modi's informal summit. By giving full protocol to PM Khan during the visit, Beijing subtly signaled to New Delhi that matters associated with Pakistan will not be on the agenda of bilateral discussions. Linked with it is the evolving situation in Kashmir and India's decision to alter the status of Ladakh. China had criticized Indian actions and expressed reservations on unilateral changes to status quo. Given that Ladakh borders Pakistani administered region of Gilgit-Baltistan and Chinese territory of Tibet, any changes to its status impact both Islamabad and Beijing. It was in this background that any reference to India recent actions in Kashmir was absent from statements issued by India and China following Modi-Xi informal summit in Chennai.

Reviving Economic Partnership

PTI has been peddling narrative of corruption and accountability for years. It was skeptical of transparency in CPEC projects, thus, its corruption rhetoric also engulfed these projects, disregarding considerations of China being a close partner of Pakistan. PTI leaders were unaware of the financial details of these projects, and now that a year has passed no irregularities related to these projects have surfaced. But damage had been done and resultantly, all stakeholders associated with CPEC projects became cautious when PTI government assumed office last year. Eventually, this thinking had to be discarded, and PTI government was forced to walk an extra mile in addressing concerns of Chinese and Pakistani business communities and investors.

In run up to the visit, Prime Minister and senior government officials reiterated assurances to accelerate ongoing projects under the CPEC framework since CPEC projects had virtually stalled with the slowdown in the economy. The PM then chaired several meetings to remove "bottlenecks in CPEC projects" and emphasized "timely completion" of the on-going projects as the top priority of the government.¹ The slowdown in CPEC projects can be gauged from the fact that government convened meeting of the Progress Review Committee after 10 months in September, 2019. The 57th meeting was held on November 20, 2018² and 58th meeting was called on September 13, 2019.³ This issue was also discussed during visit of Chinese Foreign Minister Wang Yi in early September and PM Khan had assured the visiting Foreign Minister of Pakistan's

¹ <https://www.dawn.com/news/1508708>

² <http://cpec.gov.pk/news/132>

³ <https://www.app.com.pk/cpec-review-meeting-for-removing-bottlenecks-of-projects/>

commitment to completion of CPEC projects.⁴

The cabinet, moreover, approved the setting up of long proposed CPEC Authority to address obstacles faced by Chinese companies, speedy execution of CPEC projects, improve centre-provincial coordination, facilitate and incentivize investors from China. An ordinance to establish CPEC Authority was promulgated on the eve of PM's visit to China. Chinese government was also informed that the Authority had been created to "oversee the expeditious implementation of CPEC projects".⁵ This overdue step addressed as major concern of Chinese side. It remains to be seen how effective will be CPEC Authority in ensuring coordination with provincial governments, as subjects of transport, infrastructure, energy, and special economic zones have been devolved to provinces following the 18th Amendment to the Constitution.

Meanwhile, CPEC is entering into its next phase, under which promotion of "industrial and socio-economic development in Pakistan" has been envisaged. In view of the much needed collaboration with Chinese investors and private sector for the success of CPEC Phase-II, PM held extensive meetings with heads of various Chinese companies and State-owned Enterprises (SOEs) working in different fields. Pakistan has put in place a policy-framework to facilitate and incentivize investment from Chinese companies. Islamabad has furthermore been seeking relocation of Chinese manufacturing units to Pakistan. Gwadar port and city, in particular, are being marketed as next industrial city of Pakistan. On the eve of PM Khan's visit, federal cabinet approved tax concessions for Gwadar port and Gwadar Free Zone, addressing another bottleneck hindering development in Gwadar.⁶ These measures will go a long way in enabling Gwadar to become a 'trade and logistical hub' for the region.

Given that Beijing had declared CPEC a "flagship" project of Belt and Road Initiative (BRI). Therefore, it requires a consistent effort from both countries to undertake impactful construction of CPEC projects, so that they can show-case it as a success of BRI. During recent visit, two sides again vowed to "speedily execute CPEC" for realizing its "growth potential", in turn, enabling it to become a "high-quality demonstration project for BRI".⁷ Such direct linking of CPEC projects with BRI indicates high premium being put on CPEC projects by Chinese leadership. Pakistani policy-makers should take cognize of it and keep a close watch on timely

⁴ <https://www.dawn.com/news/1504379>

⁵ http://pid.gov.pk/site/press_detail/12009

⁶ <https://tribune.com.pk/story/2073068/2-pakistan-approves-tax-relief-gwadar-port-free-zone/>

⁷ http://pid.gov.pk/site/press_detail/12009

completion of CPEC projects while ensuring highest standards of quality and transparency.

The second phase of CPEC will formally commence with 9th meeting of Joint Cooperation Committee (JCC), the apex decision-making body related to CPEC, in November at Islamabad. It will provide both sides opportunity to review progress made during past year, appraise reports of Joint Working Group on various sectors and track implementation of the ongoing projects. During JCC, both sides will also give go-ahead to new projects, besides exploring more avenues for cooperation. Pakistan is seeking financial close of ML-1 project to modernize its main railway line at the upcoming JCC meeting. Chinese side will share plans for investments in Special Economic Zones (SEZs) and collaboration with Pakistan's SME sector to enhance Pakistan's industrial capacity and diversify its export base. At the moment, Pakistan is undertaking review of legal regime related to SEZs with the aim to ensure "concrete legal backing and enhanced incentives and benefits"⁸ to the investors. Pakistan needs to complete these processes without any further delay and go ahead with setting up of SEZs. Only through swift implementation and quick facilitation of investors can Pakistan incentivize Chinese manufacturers to relocate their industrial units to Pakistan and expand its exports to earn much-needed foreign exchange.

Policy Recommendations

The challenge for the policy-makers in Beijing and Islamabad is to implement the consensus reached between leadership of the two countries and advance bilateral cooperation in diverse areas. For Pakistani policy-makers, particularly, recent visit re-emphasized centrality of relationship with China to Pakistan foreign policy and national economic development strategy. To continue it over the medium to long-term, Pakistani policy makers can focus on following policy-measures:

1. Maintain regular strategic communication and enhance coordination between leaderships and all tiers of government and think-tanks in two countries.
2. Hold periodic meetings of relevant officials and technical experts to review progress on CPEC projects.
3. Refrain from politicizing Pakistan-China relationship and linking CPEC projects with domestic political agenda of PTI.

⁸ <https://www.dawn.com/news/1507441/laws-for-special-economic-zones-under-cpec-being-revisited>

4. Complete legal regime of SEZs at the earliest with the goal to ensure ease of doing business for Chinese investors.
5. Ensure effective coordination between various ministries at federal and provincial levels for smooth implementation of on-going projects
6. Inclusive decision-making with representation from all provinces and regions on socio-economic development projects related to CPEC.
7. Insulating progress on CPEC projects and operationalizing of CPEC trade route from tensions with India.

Pakistani policy-makers should be cognizant of the fact that CPEC projects will generate their own effects. It will stimulate Pakistan's economy and also lead to co-dependency with China. As CPEC enters into next stage, it requires tactful handling by all stakeholders of the dynamics associated with the projects, both domestically and externally.

About Author:

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