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# Returning to the Shadows: China, Pakistan, and the Fate of CPEC

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## EXECUTIVE SUMMARY

### The CPEC Slowdown

The troubles faced by the China Pakistan Economic Corridor (CPEC)—the flagship of China’s Belt and Road Initiative (BRI)—are perhaps the most conclusive demonstration that the BRI model that has been in place for the last few years is no longer sustainable. Even before the coronavirus pandemic, CPEC had stalled. Not only are the figures commonly cited for the total package of projects under this framework since its launch in 2015—which run as high as \$62 billion—no longer accurate, investments of that magnitude are not under consideration either. The projects that are already underway or that have been completed are far from negligible, however. CPEC represents a marked expansion of China’s economic presence in Pakistan, with approximately \$25 billion in investments to date—but this is already pushing close to the framework’s limits rather than the foundations of a more ambitious plan.

Ahead of a visit by the Chinese leader, Xi Jinping, CPEC has ostensibly been going through a modest revival. This will see the addition of a couple of hydro-electric power plants and the upgrading of the ML-1 railway line between Karachi and Peshawar. But the pandemic has further weakened Pakistan’s already poor economic situation. Islamabad is embroiled in renegotiations with China over doubling the payback period on the existing CPEC energy projects and addressing its worsening debts. While CPEC may be a partial beneficiary of the immediate need for spending to revive the struggling economy, the government’s financing capacity has diminished significantly.

In the coming years, the CPEC agenda will therefore largely be focused on completing investments that have already been agreed (including around Gwadar port), moving ahead with considerably slimmed-down plans for special economic zones, and identifying small additions that fit the current Pakistani government’s agenda, such as socioeconomic projects. This is a change in scale from the aspirations that once characterized the scheme, which one Chinese official characterized as moving from “mega projects” to “peanut projects.”

Some elements of this rebalancing of CPEC had always been envisaged. The shift away from heavy capital investment in a second phase was a feature of the original plans. Yet, up until late 2017, it was anticipated that a far more expansive array of projects would be in motion, and that industrial cooperation between the two sides would also have taken off. Without the latter in particular, CPEC will fall far short of its transformative intentions.

### CPEC’s Troubles

Several factors contributed to the downgrading of ambitions for CPEC by Pakistan and China. It has been hit on three fronts—economic, political, and strategic.

Economic considerations are primary. Pakistan's fiscal and balance-of-payments situation means that the full-scale version of CPEC is not financially viable.

Political factors have also contributed to CPEC's fading fortunes. As has been the case in other BRI countries, when CPEC was initiated it was perceived to be closely tied to the agenda of the government of the day—led by Prime Minister Nawaz Sharif of the Pakistani Muslim League—rather than being rooted in a broader national consensus. Opposition parties, swathes of the business community, and—critically—the army had reservations about how CPEC was being conducted, even if they supported the general concept.

For its part, China has been skeptical about the Pakistan Tehreek-e-Insaf government led by Prime Minister Imran Khan that took office in 2018, compared to the warm relationship it enjoyed with Sharif. But Chinese concerns go further. Beijing has been burned by the politicization of its presence in Pakistan that CPEC induced, having previously sat seemingly untouchable above the country's political fray. Even as the two countries find their way to a better footing for the relationship again, Beijing is unlikely to repeat the experiment of the vastly expanded level of economic and political engagement that characterized CPEC's early years.

The strategic context has also shifted. As a result of its worsening relations with the United States and the shock of the 2017 Doklam crisis, China sought to stabilize ties with India, which necessitated a discreet backing away from the comprehensive upgrade in its relationship with Pakistan that was evident from 2015 to mid-2017. CPEC has also become a factor in the wider rivalry between Beijing and Washington, with the United States taking a far more critical approach to the initiative in the last year. At every turn, CPEC has been bound up in geopolitical tensions rather than functioning as a “neutral” economic and developmental initiative. With the Sino-Indian relationship heading in a far more adversarial direction after the recent Ladakh clash, this is only likely to accelerate.

Ordinarily, the result of all these developments would simply be for CPEC to slow down quietly and proceed on a more economically and politically sustainable trajectory. Yet the controversies around CPEC, and its elevated position as the flagship of Xi Jinping's signature foreign policy initiative, necessitate a public narrative of progress and success. CPEC's reputation has become as important as the substance of any of the projects, and the two sides will take the steps required to maintain that, even if their private assessments of its prospects are more pessimistic.

## **CPEC's Legacy**

CPEC will nonetheless leave an important legacy for Pakistan, for the country's relationship with China, and for the BRI.

### *Pakistan*

The shrinkage of CPEC means that the financial risks—which many other BRI countries face—have been diminished for Pakistan. Loans, sovereign guarantees, and imports related to CPEC have contributed to Pakistan's overall debt and current-account troubles but they are far from the principal factor in its economic



distress. While CPEC will not be the game-changer for the Pakistani economy that its supporters once hailed, it is not a debt trap either. This picture could change if there is injudicious selection of new projects designed around maintaining the CPEC narrative rather than Pakistan's economic needs but the two sides have so far been more cautious on debt-financing than has been seen elsewhere on the BRI.

CPEC is adding new physical infrastructure, including road upgrades and power stations, the latter being the overwhelming focus of its first phase. Some of these have already been completed and the total energy package should add at least 14,000 MW to the national grid. Yet, in the absence of reforms to the power sector, even this most effectively executed part of CPEC is likely to be tainted by problems of high electricity pricing and "circular debt."

Other parts of CPEC have moved more slowly. While there has been progress connecting Gwadar by road to the country's interior, essential construction around the city and port itself is years behind schedule, and none of the questions about its economic viability have gone away.

There will likely be at best a handful of special economic zones created, and the process around them has been sluggish. These were once intended as the centerpiece of CPEC's second phase and as the part of the investment package that would generate exports, jobs, and broader industrial cooperation between the two sides. Instead, opposition from Pakistani business means that the special economic zones are taking the form of smaller pilot projects.

Some supposed features of CPEC always existed more in the realm of speculation rather than in any concrete plans. In particular, despite the use of the term "corridor," it was never intended as a serious cross-border artery, and there are still no plans for railways, pipelines, or even large-scale road traffic between Pakistan and China.

While it represents a far smaller financial volume than the other elements of CPEC and is far less visible, China's technological involvement in Pakistan may ultimately prove to have a more lasting impact, as Beijing takes on an ever-more dominant role in the country's digital architecture. This runs from the new Huawei fiber-optic cables and "safe city" projects to remote-sensing satellites and Pakistan's involvement in the Beidou satellite navigation system.

### *The Sino-Pakistani Relationship*

CPEC was supposed to lead to an upgraded and more comprehensive relationship between China and Pakistan, transcending their longstanding narrow security ties. Some of the broader interpersonal linkages—educational, cultural, political, and otherwise—that have developed around CPEC will persist, but greater mutual exposure has not necessarily had a benign effect. Differences and irritations that were easier to smooth over when the relationship was managed by a small cast of individuals on the two sides have assumed greater prominence.

The problematic domestic and international repercussions of CPEC have re-emphasized the limits of the Sino-Pakistani relationship. It has become clear that trying to do too much in the economic sphere may even weaken cooperation on the security issues that matter most to both countries if it results in political tensions. As a result, China is slimming the relationship back to what it has traditionally prioritized, rather than hoping that its investments can be a catalyst for economic change in Pakistan or a rebalancing of the country's strategic outlook.

This means a doubling down by China on the military and security front in terms of the focus of the relationship and the way it is managed. It has reverted to using the Pakistani army as its principal interlocutor, including relying on it to deal with various political and economic issues that had previously been the prerogative of the civilian government. In part, this is also an adjustment by Beijing to the Pakistani army's reassertion of a more dominant role for itself in the country. The fact that the CPEC authority is now chaired by a retired general vividly reflects this.

The result is that Sino-Pakistani relationship of the future is likely to look more like that of the past than the version that emerged after the launch of CPEC in 2015. Deep security ties will persist, and even intensify as the Sino-Indian relationship deteriorates, but without the scale of broad-based economic and political engagement that characterized the last few years.

The negative repercussions of the reduced CPEC ambitions for bilateral ties should not be exaggerated. Given its strategic situation, Pakistan will continue to be politically and militarily reliant on China. It will also remain one of Beijing's very few dependable security partners. But the more expansive vision has receded. Between 2015 and 2018, a once closed and secretive relationship had a rare period in the sun, with a "China mania" in Pakistan and an open Chinese embrace of the country that was dubbed its "one real ally." Now it is largely resuming its traditional pattern.

### *The Belt and Road Initiative*

China has learned some of the same lessons from its BRI flagship in Pakistan as it did elsewhere, including the need to pay greater attention to macroeconomic risk and the importance of building firmer political foundations for its investments.

But, whereas in other countries it has been forced to renegotiate terms and navigate a higher level of critical scrutiny, China faces a different situation in Pakistan. The nature of their security relationship means that Beijing has the channels to ensure that most of CPEC's problems can be kept behind closed doors rather than feeding the global "BRI backlash" narrative. After making initial offers of a "rebalanced" CPEC to the new government elected in 2018, it then simply encouraged the Pakistani army to silence critical ministers. Only when the coronavirus crisis hit the Pakistani economy were plans to renegotiate projects moved forward.

The downscaling of CPEC's ambition is likely to be replicated in other BRI countries. From Myanmar to the Maldives, China has repeatedly experienced situations in which its overbearing economic presence and poor handling of local politics undermined its economic and strategic goals. This will be considerably exacerbated

by the pandemic. Beijing faces a wave of renegotiations, many of which will require a revisiting of the original contract terms rather than simply a rollover of debts.

Yet Pakistan, for all its difficulties, was not supposed to play out this way. Given the decades of trust that had been built up between the two sides, it seemed to be a place where China could expect to be given the benefit of the doubt and avoid catalyzing the sort of resistance that it has seen elsewhere. This has not proved to be the case, with even its most reliable partners in the country having doubts about the scheme.

Nonetheless, there is no new “BRI 2.0” model taking shape in Pakistan. This is partly a function of the country’s current economic problems, but it also reflects Beijing’s growing understanding that any comprehensive initiative of the sort that was envisaged with CPEC is going to be too difficult to execute successfully. If the experience of CPEC indicates anything about the future development of the BRI, it is therefore that a change of pace and scale is more likely than a significant recasting of the political and economic nature of China’s initiative.

## INTRODUCTION

The China-Pakistan Economic Corridor (CPEC) has been the single highest-profile investment package under China's Belt and Road Initiative (BRI). Billed as the BRI's flagship when it launched in 2015, CPEC was meant to be one of the largest clusters of Chinese investments under the global plan. Initial reports suggested that China would invest more than \$46 billion in Pakistani infrastructure under the scheme; some estimates of the total package went as high as \$100 billion or more.<sup>1</sup>

In addition to its eye-popping scale, CPEC also seemed to embody the multifaceted nature of the BRI: a vast array of projects, encompassing ports, roads, railway lines, fiber optics, energy projects, industrial cooperation, agriculture, and virtually every other sector of the Pakistani economy. For its supporters, CPEC was a "game-changer" that would catalyze an economic takeoff in Pakistan, and strengthen the country's strategic position.<sup>2</sup> In India, home of its strongest critics, it was a military gambit in economic clothing that sought to shore up China's access to the Arabian Sea and undermine Indian sovereignty claims in Kashmir.<sup>3</sup> Both sides could at least agree that CPEC was a plan of major significance that would completely transform and dramatically upgrade the Sino-Pakistani relationship.

Yet five years in, CPEC faces major challenges. Even before the coronavirus pandemic, Pakistan's deteriorating economic picture had forced China to reevaluate the feasibility of moving ahead with it in its most expansive form. With Pakistan now facing negative growth rates for 2020, its capacity to make repayments on project loans has been severely affected, and the Pakistani government has already attempted to renegotiate the terms of the energy deals that comprise the largest portion of CPEC. For its part, the Chinese government is facing a wave of BRI debt crises across the world, and it has become more cautious about taking on new overseas financing commitments.<sup>4</sup>

The overall picture is one of scaled-back ambitions and efforts to put the best possible face on CPEC's more modest scope. While \$25 billion of projects have been moving ahead or completed, only a few of the other infrastructure projects that were once being actively negotiated are even under discussion anymore.<sup>5</sup> Although China and Pakistan have been assembling a new "Phase Two" package to be launched during the Chinese

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1 For the \$100 billion figure see for instance, Nadia Naviwala, "[Pakistan's \\$100B deal with China: What does it amount to?](#)" DEVEX, August 24, 2017.

2 See remarks by Prime Minister Nawaz Sharif, "[CPEC 'game-changer' for Pakistan, 'fate-changer' for region: PM](#)," Associated Press of Pakistan, August 29, 2016.

3 For discussion of the various strands of India's analysis, see Daniel Markey, "[Why The China-Pakistan Economic Corridor Will Worsen Tensions in Southern Asia](#)," War on the Rocks, September 28, 2017.

4 See Rhodium Group, *Booster or Brake? COVID and the Belt and Road Initiative*, April 15, 2020.

5 See "Statement of the Spokesperson from the Chinese Embassy in Pakistan," May 21, 2020. The Chinese embassy has consistently provided the most conservative figures for CPEC investments, which only count the projects that are happening rather than those that are under negotiation. As such, they have tended to correspond most closely to the reality on the ground, where many of the larger figures have at best a speculative quality.

leader Xi Jinping's upcoming visit, tentatively scheduled for later this year, it will be a pale shadow of the massive scope and ambition that once characterized the scheme.

Some elements of the new package reflect plans that were supposed to have been put in motion years ago, such as industrial cooperation and the associated special economic zones.<sup>6</sup> The larger projects, such as the ML-1 railway line between Karachi and Peshawar, have been highly contentious given the financial liabilities at stake. Others reflect the very different priorities of Prime Minister Imran Khan's Pakistan Tehreek-e-Insaf (PTI) government from those of its predecessor, such as aid provision, and represent precisely the sort of economic relationship—that of donor rather than investor—that China had always sought to avoid.

As with many other BRI projects, it is impossible to disentangle CPEC from geopolitics. In its early years, while CPEC served to further complicate dynamics between China, India, and Pakistan, it played little role in the emerging Sino-U.S. competition. Some elements of the investment package were viewed with a skeptical eye in Washington, but on the whole, the CPEC plans were seen by many there to have potential benefits too: if Beijing was willing to deepen its economic role in Pakistan and address the country's infrastructure and energy deficiencies, such efforts could even have a stabilizing effect.

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As the Sino-U.S. rivalry has continued to intensify and concerns about the BRI have grown, that sanguine attitude has evaporated, and has been replaced with efforts by the administration of President Donald Trump to convince Islamabad that CPEC is a wolf in sheep's clothing, a debt trap meant to ramp up Beijing's influence over Pakistan. In the past, Pakistan usually succeeded in finding a way to straddle relations between Washington and Beijing, but that balancing act is becoming much more difficult as their rivalry deepens.

Yet it is the domestic situation inside Pakistan that has proved most challenging. Not the security threats that many analysts believed would derail the initiative—in fact, the projects have largely been well protected—but more prosaic political, economic, and bureaucratic challenges. No national consensus in Pakistan has ever been established over exactly what form CPEC should take. Political parties, swathes of business, and—most critically—the army have had reservations about how CPEC was being conducted, even if they supported the general concept.<sup>7</sup>

Since 2017, the economic and political context for the BRI's showcase has shifted significantly, from the fall of its biggest political supporter, Prime Minister Nawaz Sharif, to Pakistan's dramatically weakened economic picture. Even ventures that were supposed to yield healthy returns for Chinese power companies have seen payments fall short. In many cases, those companies now face a renegotiation of terms. Meanwhile, any projects that were not given a forceful push from the center were often snared by bureaucratic or local political

6 Saeed Shah, "[China's Belt-and-Road Initiative Puts a Squeeze on Pakistan](#)," Wall Street Journal, April 3, 2019.

7 Interviews in Pakistan, September 2018, and February 2019. For a rare Pakistani article alluding to the concerns in the military, see Farooq Tirmizi, "[CPEC is dead. Somebody tell Beijing](#)," Medium, May 29, 2019.





*Pak-China Comm Centre by the Khunjerab Pass, at the China-Pakistan border.*

obstacles, from the investment zones to the plans for turning Gwadar into a functional port. If CPEC's launch in 2015 reflected a benign constellation of factors, in 2020 it faces a far more adverse environment.

In one sense, this would seem to make CPEC emblematic of the BRI. Pakistan is one of a number of cases, from Malaysia to the Maldives, where a familiar list of problems have resulted in a backlash from local actors, particularly in the aftermath of elections that have seen more skeptical parties take power.<sup>8</sup> However, the close Sino-Pakistani relationship has ensured that the negative reverberations have played out less visibly than elsewhere in Asia.

Yet in many more ways than that, Pakistan was supposed to be different: Beijing's initial ambitions for CPEC were grander and more transformative than for most other BRI countries. It was envisaged as playing a central role in the future of the Pakistan's economy and bolstering its strategic position, as well as contributing to the stability of China's western periphery.<sup>9</sup> In falling such a long way short of these goals, the disappointment is far greater than in countries where Beijing is just downscaling a few projects or dealing with deferments of debt repayments.

<sup>8</sup> Kathrin Hille and Simon Mundy, "[The Maldives counts the cost of its debts to China](#)," Financial Times, February 10, 2019; Bradley Hope and Tom Wright, "[WSJ Investigation: China Offered to bail Out Troubled Malaysian Fund in Return for Deals](#)," Wall Street Journal, January 7, 2019.

<sup>9</sup> Interviews in China, Pakistan, and Washington, DC, 2013-2017.



At the same time, it would also be wrong to characterize CPEC as a simple embodiment of the flawed approach that has defined the BRI in so many countries. It is clear that the principal items on the standard checklist of problems—excessive debt, large-scale corruption, coercive economic influence—do not apply to the same extent in the Pakistani case as they do elsewhere.

***CPEC was an attempt to expand beyond the military and intelligence linkages that have almost entirely defined the two sides' ties for decades.***

While there has been evidence of price inflation in some of the energy projects, for example, there is less evidence of the astronomically bloated costs that have been seen in other countries or of China's seeming indifference to debt levels. Beijing has been deeply embroiled in the financing of Pakistani debt, but largely to address the balance-of-payments crisis rather than excessive project lending, and the current renegotiations reflect the economic shock resulting from the coronavirus pandemic rather than the inherent unmanageability of the project costs.

When it comes to the question of economic influence, China's objectives in Pakistan were not the same as in Sri Lanka or Djibouti, reflecting the distinctive history of their relationship. Beijing has a longstanding security partnership to fall back on and different channels through which to address its political problems. Pakistan is not a country where China sought to build a security relationship through economic means. Instead, CPEC was an attempt to expand beyond the military and intelligence linkages that have almost entirely defined the two sides' ties for decades. But, precisely for these reasons, Pakistan was supposed to be an easier case. It was the "all-weather friend," the country where support for the relationship with China spans the political spectrum and registers stratospheric approval numbers in public opinion polls, the place where—when problems emerged—the army could be counted on to weigh in on Beijing's behalf. Cultural differences and security risks were always going to provide obstacles, but this was true in many other countries as well.

Pakistan has regularly been used by China as a testing ground and a showcase. This was supposed to be true for the BRI too: CPEC was intended as a proof of concept, a demonstration that Beijing could deliver a strategic economic and development agenda under difficult circumstances and show up prior U.S. failures to boot. China's chastening experience in Pakistan, where its standing and influence were expected to yield more convincing results, is in this sense a salutary lesson for its wider global ambitions. CPEC may still prove to be a showcase, but one that tells a very different story than Beijing had intended.

The period ahead for CPEC will be characterized by a very different balance of factors to those of its first five years. Both sides are savvier and more cautious. The days that saw a seemingly ever-expanding list of mega-projects and speculation about tens of billions of dollars of new investments are over. The near term will be defined by the economic hangover from the global coronavirus pandemic, and the medium term will see CPEC taking a more modest trajectory.

Yet since the global battle over the BRI's reputation will not be easing up anytime soon, there is little chance that China and Pakistan can simply allow CPEC to fade away quietly. Its prominent standing in the frame-

work of Xi Jinping's signature foreign policy initiative means that Beijing needs to maintain the narrative of success, even if that narrative is belied by developments on the ground. At the right moment, Phase Two will be launched with full fanfare, even if the use of the word "flagship" has largely been dropped.

The civil-military struggles in Pakistan around CPEC are also effectively over. Where Prime Minister Sharif and the Pakistan Muslim League-N (PML-N) government sought to maintain control over the projects and, implicitly, to use CPEC as a means of tilting the balance a little further in favor of the country's politicians running the economy, the CPEC authority is now run by a retired general. In this sense, things have come full circle—a strategic initiative that was once supposed to transform Pakistan and the nature of its relationship with China has ended up largely reinforcing decades-old dynamics instead.

***Since the global battle over the BRI's reputation will not be easing up anytime soon, there is little chance that China and Pakistan can simply allow CPEC to fade away quietly.***

This report lays out the principal political, economic, and security developments that led to CPEC's dramatic takeoff, then to its quieter retrenchment, and now to some modest attempts at revival. It does not attempt to be exhaustive or to dig into project details, but rather to provide an overview of how these various factors intertwined to affect the overall strategic context facing China, Pakistan, and the BRI. The primary focus is on how CPEC played out in Pakistan. Although the deliberations and high strategic goals in Beijing are an important part of the analysis, the report focuses on how China's strategic choices interacted with the political and economic situation in Pakistan.

The report is based on interviews that were principally conducted in Islamabad, Karachi, Lahore, Beijing, and Western capitals over CPEC's lifetime, from the preliminary planning to the present day, with the last in-person interviews in Pakistan taking place in February 2020. It takes a chronological form rather than a thematic one. CPEC has meant different things at different moments, which means that any analysis of the subject is essentially a snapshot of a specific moment in time.

With the combination of the unpredictability resulting from the coronavirus pandemic and the growing urgency to get the CPEC narrative back on track ahead of Xi Jinping's tentatively scheduled visit, recent months have seen more flux on CPEC planning than at any point since the last Pakistani elections in 2018.

But to make sense of what is likely to happen in CPEC's second phase, and what it might mean for the BRI and for Chinese grand strategy beyond that, it is essential to look back at the promises and disappointments of its first five years.

## CPEC'S GENESIS

### The Inception

When then-newly elected Pakistani Prime Minister Nawaz Sharif and Chinese Prime Minister Li Keqiang sat down together at the Serena Hotel in Islamabad in May 2013, there was little reason to think that they would unleash one of the most dramatic and controversial new infrastructure plans of the decade. After all, Pakistan had been knocking on China's door for years attempting to solicit big-ticket investments and had generally come up short. This time, when Sharif sketched out the proposals that would eventually become CPEC, the Chinese premier's message was unequivocal. One attendee of the meeting summarized it in three words: "Let's do it."<sup>1</sup>

During his time in office, Sharif's predecessor,<sup>2</sup> Asif Ali Zardari, had turned up in China every few months to court the leadership of the Chinese Communist Party (CCP) and draw capital into the country's struggling economy.<sup>3</sup> Zardari had one notable achievement: Beijing's reluctant agreement to take over the management of Gwadar port, in Balochistan, which China had originally built between 2002 and 2006 but had been in stasis during the subsequent period of management by the Port of Singapore Authority.<sup>4</sup> Gwadar aside, the statistics for the preceding decade presented a stark picture of promises unfulfilled and projects that were never delivered: \$66 billion in Chinese investments were announced in various incarnations between 2001 and 2011, only 6 percent of which came through.<sup>5</sup>

For years, Pakistan had consistently sought to pitch China on the virtues of its supposed strategic economic geography. But Beijing was deeply skeptical. Vague talk of the strategic benefits that could be derived from energy pipelines and railways connecting China and Pakistan ran up against stubborn topographic facts. The land artery between the two countries, the spectacular Karakoram Highway, was largely built in the 1960s and 1970s, during China's Cultural Revolution, when rational economic planning was far from the top priority.<sup>6</sup> But it had never functioned as a serious conduit for cross-border trade, which was almost entirely conducted by sea. In more recent years, the problems of worsening insecurity in Balochistan, and in Pakistan as a whole, had only raised more questions about the utility of the route.

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1 Interviews in Pakistan, 2014-2019.

2 Zardari occupied the Presidency rather than the Prime Minister's office, but executive powers shifted to the parliamentary system after the 18th amendment to Pakistan's constitution.

3 Chris Buckley, "[Pakistan leader backs China over Xinjiang](#)," Reuters, August 21, 2009.

4 Dawn, "[President Zardari announces Chinese takeover of Gwadar port](#)," February 18, 2013.

5 Charles Wolf Jr., Xiao Wang, and Eric Warner, [China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations and Implications](#), Rand National Defense Research Institute, 2013.

6 For the history, see Muhammad Mumtaz Khalid, *History of the Karakoram Highway*, Vol. I and II, Hamza APSC Rawalpindi, 2009.

While Pakistani leaders kept pitching plans for transport and energy corridors, Beijing was open about its doubts. Late in Zardari's term, one senior Chinese economic policymaker, presented with yet another Pakistani proposal to connect Gwadar and Xinjiang, responded baldly: "This is a plan that could only be realized in decades. Where is the plan that can work now?"<sup>7</sup>

Beijing was not entirely unwilling to invest in Pakistan. When it did so, however, this typically involved projects in which it could work directly with the army, the sole institution that China trusted to deliver on its promises. The record was quite clear: while military-industrial cooperation and nuclear power plants had moved ahead, civilian projects were limited to a few telecoms and mining projects.<sup>8</sup> When Nawaz Sharif laid out his vision for power projects, roads, and other infrastructure investments during his 2013 meeting with Li Keqiang, the positive response he received was therefore a genuine break from precedent.

What led to Beijing's change of heart? One key element was the change in political leadership in Islamabad. The earlier PML-N government had a track record of pulling off major infrastructure projects, most notably during Sharif's last phase in office in the 1990s. More recently, China had developed a good working relationship with the prime minister's brother, Shabaz Sharif, then the chief minister of Punjab province. The newly elected government handled relations with Beijing deftly: whereas its Pakistan Peoples Party (PPP) predecessor had asked the Chinese government for a bailout soon after taking office, the PML-N took a different tack, sending senior foreign and economic policymakers to explain why, rather than assistance, it wanted investments and would deliver on them where the PPP had fallen short.<sup>9</sup>

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At the same time, Pakistan was on an upswing in 2013. The security situation had improved considerably, and the economy was starting to take off again after several bad years. The biggest obstacle to continued growth was the country's energy crisis, which saw rolling blackouts in major cities that decimated critical economic sectors, such as textiles. The new government had a single-minded focus on fixing the problem quickly and a clear view of how China could help.<sup>10</sup>

Yet the leadership change in Beijing was even more significant. Xi Jinping, who had taken over as general secretary of the CCP in 2012, was putting together an ambitious set of plans to expand China's geo-economic profile. Where Chinese economic planners had previously viewed Pakistan with trepidation, the new scheme, which would later be dubbed the Belt and Road Initiative, gave the country a far more prominent role in China's grand strategy than it had ever enjoyed before.

7 Author interviews in China, Pakistan, and Washington, DC, 2013-2017.

8 For a history of economic ties before CPEC, see Fazal-ur Raman, [Pakistan-China Trade and Investment Relations](#), Institute of Strategic Studies Islamabad, 2011, p. 3, and Hailin Ye, "China-Pakistan Relationship: All-Weathers, But Maybe Not All-Dimensional," in Kristina Zetterlund (ed.), *Pakistan—Consequences of Deteriorating Security in Afghanistan*, Stockholm: Swedish Defence Research Agency, 2009.

9 Dawn, "[Ahsan Iqbal discusses trade, energy with Chinese minister](#)," June 26, 2013.

10 Farhan Bokhari and Victor Mallet, "[Nawaz Sharif takes steps to revive Pakistan's economy](#)," *Financial Times*, May 13, 2013.

## The “Belt and Road” Meets the “All-Weather Friendship”

Even before the BRI was formally launched in 2013, the CCP leadership had been engaged in a multifaceted debate about how its domestic economic transition and its foreign policy agenda could be joined. In the aftermath of the 2008 global financial crisis, China had spent heavily on domestic investment in order to continue to stimulate growth, and it was left with considerable excess capacity and diminishing returns on those investments.

At the same time, on its western periphery China was warily contemplating the United States drawing down its military presence, as over a decade of engagement in Afghanistan—with heavy supporting activity in Pakistan and in Central Asia—came to a close. At one level, this provided an opportunity for China: continental Asia was one of the few regions of the world where it could expand its economic and security presence without running into resistance from Washington. Indeed, for years, the United States had been actively encouraging China to step up its role in Afghanistan and Pakistan.<sup>11</sup>

Yet on the military and security side, there were considerable grounds for caution on Beijing’s part. Some on the Chinese side saw a trap, in which the United States stepped down from its military commitments in Afghanistan and the Middle East in order to facilitate its proposed “pivot to Asia,” only for China to be sucked into the region’s instability.<sup>12</sup>

The potential for an expanded economic role was much more in China’s comfort zone. Afghanistan was still too insecure for any serious investments to be viable, but Pakistan was a greater concern and a more significant opportunity. An economic development plan that helped strengthen the country would benefit Beijing in various ways.

In general, China wanted to see a strong, capable Pakistani state that could counterbalance India, which had always been the central factor in Sino-Pakistani relations. A weakening Pakistan would be more prone to internal instability and to risk-taking in its relations with its neighbors, as well as less able to act effectively against the militant groups that targeted China. Beijing also saw the gap between India and Pakistan widening, and the root of this development as economic: India was always going to be larger in population and in land-mass but if Pakistan did not even come close to matching India’s growth rates, it was going to fall further and further behind on all dimensions of national power, including the ever-greater strain that would be placed on its military budgets.

At the same time, Chinese experts talked about a version of regional balancing that went beyond narrow security calculations. Through CPEC, China sought to encourage Pakistan to think about its power position in more expansive terms, as Beijing itself did. As one Chinese analyst put it in a 2015 interview, “We want to change the mindset. Pakistan talks about catching up with India militarily. We want to see it balancing India

11 For some of the early debates on the subject, see Wang Jisi, *Westward: China’s Rebalancing Geopolitical Strategy*, Center for International and Strategic Studies at Peking University, 2012, pp. 6-7.

12 Yun Sun, [March West: China’s Response to the U.S. Rebalancing](#), Brookings Institution, January 31, 2013.

more comprehensively—economically, socially, culturally.”<sup>13</sup> Another Chinese expert framed things even more boldly: “The purpose of the China-Pakistan Economic Corridor is to transform the social and economic structure of Pakistan.”

Pakistan also offered the chance for China to build a showcase that would display to the rest of the world the tangible benefits that would flow to countries that build closer ties with it. As China’s global footprint has grown, its need for reliable access to overseas military facilities has grown along with it. That access depends on a network of friendly countries that would allow the People’s Liberation Army to use ports, airbases, and other logistical and military facilities.<sup>14</sup> When CPEC was first set in motion in 2013, Pakistan was one of the few countries that already provided such access, and there was an increasing imperative to demonstrate that being a close friend of China was correlated with economic rewards.<sup>15</sup>

For decades, the Pakistani rationale for deep ties had always been clear: China offered essential support for the military, political backing in international institutions, and the extension of other forms of assistance—financial, technological, logistical—when needed. As China’s influence grew over the years, the value to Pakistan of the “all-weather friendship”—a term coined early in the two sides’ relationship as a pointed contrast to the “fair-weather friendship” with the United States—grew along with it.

***Many in Pakistan hoped that China might take the place of the United States, which had been an important—if also ambivalent—ally in the years after 9/11.***

By 2013, the argument in favor of even deeper ties seemed almost incontrovertible. In the early 2000s, Pakistan’s economy had gone through an acutely difficult phase, with investors pulling back as a result of the political turmoil and perilous security situation, which saw unprecedented levels of terrorist violence in major cities and a Taliban insurgency in Swat valley.<sup>16</sup> Even as economic and security conditions started to improve, outside finance was hard to come by and private investors were still skittish about returning. CPEC was a rare chance to change the narrative, in rapid and dramatic fashion. For Sharif’s government, it also offered a quick fix for the country’s energy crisis, with Chinese companies ready to step in immediately to add capacity that would come online even before the next elections.

Many in Pakistan also hoped that China might take the place of the United States, which had been an important—if also ambivalent—ally in the years after 9/11. Following a decade in which tens of billions of dollars of financial assistance had been extended by the United States, relations were on the slide. For many years, Washington had been willing to overlook Pakistan’s support for the Taliban’s activities in Afghanistan,

<sup>13</sup> Author interviews in Washington, DC and Beijing, May 2015.

<sup>14</sup> Feng Zhang, “China’s New Thinking on Alliances,” *Survival*, 54(5): 129-148, 2012.

<sup>15</sup> Pakistan would be described as a “model to follow” for other countries in their relations with China, see Liu Zongyi, “[Pakistan Remains Faithful Partner of China](#),” *Global Times*, December 28, 2015.

<sup>16</sup> See Ahmed Rashid, *Pakistan on the Brink: The Future of America, Pakistan, and Afghanistan*, Penguin Group, 2012.





*Gwadar port, CPEC's most prominent project.*

given its willingness to provide supply lines for U.S. forces in the country, to allow U.S. drone strikes on its territory, and to assist with the targeting of groups that both saw as threats.<sup>17</sup>

But tensions had come to a head. Even before the *annus horribilis* of 2011 in their relations,<sup>18</sup> Pakistan was chafing at the scale of the U.S. security footprint in the country and the deep unpopularity of the government's role in facilitating the U.S.-led war in Afghanistan. At the same time, the willingness of the United States to tolerate the escalating attacks from Pakistani-backed groups on its soldiers, intelligence personnel, and the Afghan population was diminishing.

The United States had attempted to step up its civilian assistance to Pakistan through the Kerry-Lugar-Berman Act in 2009, but it did so amid a backdrop of intense mutual distrust. At the time, Special Representative for Afghanistan and Pakistan Richard Holbrooke suggested to Chinese officials that the most helpful thing that Beijing could do in the wider region was to provide economic assistance to Pakistan, given the limitations that now existed on the U.S. side.<sup>19</sup>

<sup>17</sup> For a summary, see Daniel Markey, *No Exit from Pakistan: America's Tortured Relationship with Islamabad*, Cambridge University Press, 2013.

<sup>18</sup> The year saw tensions explode on every front, including the special forces raid that killed Osama Bin Laden, the Salalah border confrontation (which saw 28 Pakistani soldiers killed by NATO forces), and the Raymond Davis incident, in which a U.S. security contractor was detained after killing three Pakistanis in Lahore.

<sup>19</sup> Aubrey Carlson, "[SRAP Holbrooke's April 15 dinner with Chinese foreign minister Yang Jiechi](#)," U.S. State Department Cable, April 20, 2009.

Meanwhile, the relationship between the United States and India continued to deepen and expand, in part because both were worried about the geostrategic implications of China's rise. In this context, Pakistan saw diminishing prospects of Washington playing an even-handed role in security crises in the region and a nascent hardening of geopolitical battle lines. As a result, any opportunity for a clear, visible strengthening of relations with China needed to be seized, as a demonstration that Pakistan was not in danger of isolation, as a bulwark against U.S. and Indian pressure, and as a new source of financial backing. Strategic and economic goals were not just in alignment—drawing in stronger Chinese support seemed to be a virtual necessity.

And, for China, given this complex and shifting backdrop, CPEC seemed to provide a way to achieve several of its objectives simultaneously: stabilizing its western periphery, outsourcing overcapacity, bolstering its strategic partner, and setting the stage for a more expansive form of cooperation between the two countries that others would see and wish to imitate.

## The Master Plan

The plans for CPEC were teed up during the transition between governments in Pakistan after the 2013 elections. Li's visit set off an extended process of consultation between China's National Development and Reform Commission, headed by Xu Shaoshi, and Pakistan's Planning Commission, headed by Ahsan Iqbal.

For China, this was an unusually deep and comprehensive level of involvement with the civilian government in Pakistan. Its most important channels had always been through the army, with even economic deals typically receiving the imprimatur of the General Headquarters in Rawalpindi. The more diffuse centers of power that had been increasingly involved in Pakistan's political and economic life beginning in the early 2000s—the burgeoning media sector, the Supreme Court, new political parties, the provinces newly empowered by the eighteenth amendment to the constitution<sup>20</sup>—were more of a challenge for Beijing, which wanted decisions taken, stuck to, and implemented quickly on everything from energy pricing to land acquisition.

While nominally accepting the authority of key civilian bodies, such as electricity regulators or provincial governments, Chinese negotiators periodically suggested CPEC decision-making structures that would give greater weight to a central point of authority, including a more formal role for the army, where decisions could be executed quickly. “The Chinese complained early on,” one Pakistani expert close to the discussions noted, “they would go directly to Raheel Sharif [the then-Chief of Army Staff]. They wanted a CPEC body that would override the law and the system.”<sup>21</sup>

This was not just the reflection of a desire for a system that more closely mirrored China's own decision-making structures, or that valorized authoritarianism. It was a function of the difficulty of launching such a dramatically transformative agenda that would require Chinese officials to immerse themselves much more deeply in Pakistan beyond their usual circle of relationships.

20 The Eighteenth Amendment, passed by the National Assembly in April 2010, effectively changed Pakistan from a presidential to a parliamentary system and strengthened the fiscal and administrative authority of the provinces.

21 Interviews in Islamabad, November 2016.

As the discussions on CPEC moved forward, it quickly became clear how little expertise on Pakistan there was in Beijing, particularly when it came to economic and social matters. While plenty of Chinese officials and experts had some degree of facility with the economies and societies of their East Asian neighbors, Pakistan was unfamiliar turf despite its supposed status as China's closest partner. One Chinese expert who was pulled into deliberations on Pakistan noted that the discussions lacked any center of gravity: in larger internal meetings on CPEC, everyone would stick to the script about the two countries being "iron brothers"; in smaller gatherings, many of the same people would vent their concerns about what they were doing in a country that they viewed with suspicion, even prejudice, and very little understanding.<sup>22</sup>

Still, the problems that would eventually accumulate were not fully apparent as the plans for CPEC were first drawn up, in part because both sides shared two objectives that had not been present before: speed and scale. In years past, when economic cooperation efforts ran into problems, Chinese officials and businesspeople would simply slow down or withdraw altogether.<sup>23</sup> They had plenty of latitude to do so: Pakistan was not a priority market for China, the economic and political situation was unpredictable, and poor security conditions heightened the level of risk aversion.

***As the discussions on CPEC moved forward, it quickly became clear how little expertise on Pakistan there was in Beijing, particularly when it came to economic and social matters.***

Now, with the BRI starting to move ahead, Chinese officials were desperate to find concrete projects that would demonstrate that Xi's vision could translate into an on-the-ground reality. This was not straightforward: in the early days of the BRI, many countries would offer up poor-quality projects that had not been able to attract outside financing for good reason. Many host-country government officials took their time to identify sensible prospects for cooperation. Some were cautious about taking on Chinese investment on too large a scale. There were reports that Xi was becoming impatient: one Chinese expert close to the CCP leadership described him literally banging his fist on the table and demanding projects from the officials who were tasked with making BRI happen.<sup>24</sup>

Pakistan was a rare country that was willing to oblige. Its officials shuttled back and forth to China to make sure that the opportunity was seized. For the PML-N government, CPEC was not just a way to change Pakistan's economic narrative, it was potentially the ticket to win the next election: if it fixed the country's chronic power crisis, it would be delivering on the party's main campaign promise.

These political considerations heavily influenced the shape of the plan that emerged, which was very far removed different from the supposed "corridor" that formed part of the CPEC brand. The pitch that Pakistan had been making to China for decades was a simple one: Beijing should use the country for transit purposes.

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<sup>22</sup> Interviews in Beijing and Shanghai, 2015-2018.

<sup>23</sup> Mathieu Duchâtel, China's Policy Towards Pakistan and Stability in South Asia, presentation at the Asia-Pacific Security Forum, Europe Institute for Asian Studies, Brussels, September 10-11, 2010, p. 14.

<sup>24</sup> Interview, Washington, DC, 2015.

Shorter land routes to the Indian Ocean would, in theory, provide alternatives for energy and goods transportation to maritime choke points such as the Malacca Strait.

Yet there are many problems with this notion. First is the cost. By any estimate, land routes through Pakistan are vastly more expensive than transportation by sea, and Chinese officials have openly stated that they make little commercial sense.<sup>25</sup> The costs also extend to the up-front expenses for construction of the transportation infrastructure, such as railways or pipelines. Building a railway line parallel to the road, for instance, is technically feasible but would almost certainly necessitate extensive and extraordinarily expensive tunneling in order to ensure that the route was not routinely affected by landslides and the other natural disasters that make the existing road so fragile.<sup>26</sup> Even after well over a decade of upgrades, the Karakoram Highway is still subject to seasonal closures and regular blockages.

The costs of developing more reliable infrastructure connections between the two countries would make more sense if the Pakistani economy were substantially larger or if Pakistan genuinely functioned as a regional trade hub. Yet the only way of achieving the latter would be a normalization of economic relations with India.<sup>27</sup> As long as old political obstacles—including the army’s opposition—made that impossible, the prospect of a serious cross-border economic link between China and Pakistan remains prohibitively expensive.

***The limited scope of these plans did not stop the notion of a “corridor” from having considerable political purchase in Pakistan and internationally.***

Equally, if the route had real military value for China and Pakistan, there would also have been some grounds for them to bear the sky-high costs. In fact, it is extremely vulnerable: a narrow route that is readily blocked even in normal times, passes through territory that is subject to militant attacks, and culminates in a province that remains highly insecure. While it is possible to protect the port of Gwadar itself, transport routes through the rest of Balochistan are a different matter. Indeed, when some of the new road connections were being built, the province was the location where the greatest number of CPEC workers were killed by militants attempting to disrupt the project.<sup>28</sup>

Therefore, the CPEC plan that emerged from the consultation process did not really resemble a corridor at all, though it included upgrades to Pakistan’s internal infrastructure and some cross-border fiber-optic cabling. There was also a fix for the most egregious lack of internal interconnectedness: the fact that the Gwadar port’s only road route ran along the coast to Karachi and not into the country’s interior.

25 Gabe Collins and Andrew Erickson, “[Still a Pipedream: Pakistan-to-China Rail Corridor is not a substitute for Maritime Transport](#),” China SignPost, No. 13, December, 22 2010.

26 Author interviews, Islamabad, 2014–2018. See also, Tim Craig, “[Pakistan’s route to China sees ferrymen’s livelihoods dry up](#),” Washington Post, October 12, 2015.

27 Interviews, Islamabad, Beijing, and Washington, DC, 2015–2019.

28 Syed Raza Hassan, “[Attacks have killed 44 Pakistanis working on China corridor since 2014](#),” Reuters, September 8, 2016.





*Pakistani students in a Mandarin class, National University of Modern Languages in Islamabad.*

Yet the limited scope of these plans did not stop the notion of a “corridor” from having considerable political purchase in Pakistan and internationally. Domestically, the planning stage was characterized by considerable controversy over the CPEC’s “route.”<sup>29</sup> While there were undoubted differences in the economic benefits that might accrue to different parts of the country depending on whether roads were built or upgraded in one location or another, the notion of a super-highway of Chinese goods, industrial parks, and other benefits that would deliver rewards to whatever it touched was always fanciful. Exasperated Chinese officials attempted to persuade unhappy opposition parties that “all of Pakistan is a corridor,” a more reassuring formulation than “there is no real corridor.”<sup>30</sup> While this controversy eventually died down, its external ramifications persisted.

The CPEC plan had a different set of focal points, stretched over three five-year phases.<sup>31</sup> The first part was composed of the “early harvest”—projects that would largely be completed in time for the next Pakistani elections scheduled for 2018—and other short-term projects to be completed by 2020. Over the next two phases, medium-term projects would run until 2025 while long-term projects would be completed by 2030. The first phase was supposed to address energy and infrastructure, while the second phase would be focused on industrial cooperation. The final phase would encompass a broader array of cooperation on everything from agriculture to tourism.

29 Malik Muhammad Ashraf, “[The CPEC Controversy](#),” Pakistan Today, December 4, 2015.

30 The phrase was used at events the author attended in Islamabad in 2015-2016.

31 The CPEC plan is summarized at the official website: CPEC, “[CPEC Homepage](#),” 2020 and at CPEC, “[Long term plan for China-Pakistan Economic Corridor \(2017-2030\)](#),” 2017. See also, Arif Rafiq, [The China Pakistan Economic Corridor: Barriers and Impact](#), United States Institute of Peace, October 2017.

Each phase was meant pave the way for the next: first, fix the energy crisis and infrastructure deficiencies; then, build up industry and exports, with an improved energy and infrastructure situation providing a foundation for these efforts; and finally move to other sectors of what should, by the mid-2020s, be a more successfully functioning economy.<sup>32</sup> These later phases were to be addressed in subsequent negotiations between the two sides, with the early stages of the planning heavily focused on getting the first round of projects in motion.

The most internationally eye-catching element of the scheme was the plan to turn Gwadar into a working port, which had already been signed off by the previous government. China had been responsible for the original construction of the port, but the contract for its operations was then handed over to the Port of Singapore Authority (PSA) from 2007.

The following years saw a tug of war between the two sides: the PSA blamed the Pakistani navy for being unwilling to resolve a land dispute that held up the next stage of the port's development. The Pakistani side blamed the PSA for failing to fulfill its commitments, which included several hundred million dollars of investments in the port.<sup>33</sup> The issue wound its way through the courts, while the port saw almost no commercial activity.

***Gwadar has not only been a political lightning rod but also rife with problems that have proved difficult to solve.***

For both parties, the resumption of control by Chinese companies in 2013 appeared to provide the optimal solution. There was considerable reluctance in Beijing, however. For all the nominal advantages that Gwadar offers in terms of its location near the Persian Gulf and the depth of the harbor, it has not only been a political lightning rod but also rife with problems that have proved difficult to solve: as a work site, it has been extremely dangerous for Chinese workers; its economic prospects have always been dubious; and it has lacked the basic necessary elements of a reliable water or power supply.<sup>34</sup>

Under CPEC, China would fix many of the outstanding issues around the port. It would upgrade the tiny airport, build a freshwater treatment plant to create the needed water supply, complete the dredging and construction of breakwaters at the port, construct a free trade zone adjacent to the port, build higher-grade road connections between the port and the city proper, and take on several smaller-scale development projects. The Pakistani military's Frontier Works Organization would be largely responsible for the difficult task of road construction in Balochistan to connect Gwadar to the provincial capital of Quetta, as well as for roads stretching further afield. Somewhat unusually for a BRI project, all of the Gwadar investments would take the form of direct grants rather than loans from the Chinese government. They would make up around 10 percent of CPEC's overall value.

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32 Interviews in Beijing, Islamabad, Lahore, Karachi, and Washington, DC, 2014-2017.

33 Syed Fazl-e-Haider, "[China set to run Gwadar port as Singapore Quits](#)," Asia Times, September 5, 2012, .

34 Khaleeq Kiani, "[Gwadar facing water and power shortfall](#)," Dawn, January 22, 2018.



The second major component of CPEC's first phase was internal infrastructure. This involved road and rail upgrades, including expanded connections between Karachi and Peshawar as well as Karachi and Lahore; improvements to the lower reaches of the Karakoram Highway; and—more controversially—the Orange Line Metro project in Lahore, a pet project of Shabaz Sharif that the Chinese side largely agreed to as a political favor. These investments would primarily be financed by loans from the Chinese government and would comprise the largest part of the government-to-government lending in CPEC, amounting to approximately 20 percent of its initial total value.

The first phase would also include the only significant cross-border project: a fiber-optic cable linking the Khunjerab pass, at the China-Pakistan border, with Rawalpindi. The link, which would be built by Huawei, carried a relatively small \$44 million price tag, but was part of a more ambitious set of digital connectivity plans for Pakistan by undersea cabling through Gwadar, optical remote-sensing satellites, and the use of China's Beidou navigation satellite system in place of the U.S.-owned Global Positioning System.<sup>35</sup>

By far the most significant component of CPEC's first phase, however, was the energy-sector,<sup>36</sup> the element most closely associated with the PML-N's election promise. CPEC's initial plan promised a considerable increase in productive capacity, as much as 11,190 MW for the first phase of projects, incorporating 70 percent of the initial project value.

*The specifics of the energy-sector development plan were controversial for several reasons.*

The specifics of the energy-sector development plan were controversial for several reasons. The plan focused heavily on the construction of coal-fired power stations. In contrast to renewable-energy schemes, which would be harder to connect to Pakistan's existing energy grid, coal-fired plants had the advantage of speed, as well as the potential over time to draw on the country's coal supplies. But initially, they were heavily import-reliant. Some experts also worried that China was moving to find overseas markets for its carbon-heavy industries, just as it had promised to clean up its climate act at home.

There was another concern about the energy-sector development plan: concentrating on development of capacity alone meant that many endemic problems would persist. The biggest of these is Pakistan's long-standing "circular debt" problem. Distribution losses, theft, and the non-payment of tariffs result in power-distribution companies not receiving full payments; they in turn are unable to pay the generation companies, which are then unable to pay the fuel suppliers. At the end, the government ends up taking on the debt burden once the crisis becomes unsustainable.

The proposed financing model would leave Chinese companies directly exposed to this deep-seated problem. The new power plants to be built under the CPEC plan were to be financed by Chinese lending institutions and executed by Chinese companies, with their returns coming directly from the generous energy pricing

35 Tahir Amin, "[US-owned GPS: Military reliance will be reduced after use of China's Beidou satellite](#)," Business Recorder, March 18, 2019.

36 In addition to the above resources, the author benefited from an advance copy of Erica Downs, [The China-Pakistan Economic Corridor Power Projects](#), October 2019.

rates that Pakistan offered. While this would, in theory, largely keep loans off the books of the Pakistani government, the unknown variable was the circular debt. Beijing continually pushed for the establishment of a dedicated “circular debt” or “revolving” fund, in the form of an escrow account through which the Pakistani government would close the anticipated gap between the revenues the companies were supposed to receive and what they recovered in practice, which would often exceed 20 percent of the overall payments.<sup>37</sup> In practice, this was not delivered. “We didn’t have the money,” as one former minister ruefully admitted.<sup>38</sup>

Provisional plans were put in place for CPEC’s future phases: discussions began on dozens of special economic zones (SEZs) around the country while work started on a comprehensive “long-term plan” for CPEC that would lay out the cooperation plans up to 2030 and put the other elements of the scheme into a lasting structure. With this overall framework in place, negotiations continued through 2014 on the initial projects that would be included in CPEC’s public launch, as well as their specific terms.

## The Launch

Xi Jinping was scheduled to visit Pakistan at some point relatively early in his tenure as president. While it was partly a routine matter to have a plan of CPEC’s scale launched during a major bilateral visit, Xi’s personal involvement and political stamp of approval carried even more weight than usual.

Since CPEC had been first mooted, China had launched an even more comprehensive initiative, in what was then more commonly known by its direct translation from the Chinese as “One Belt, One Road.” The Silk Road Economic Belt—the land-based dimension of the scheme—was announced in Kazakhstan in September 2013; the 21st Century Maritime Silk Road was announced in Indonesia a month later.<sup>39</sup> While “One Belt, One Road” was initially understood by many outside China either as another ineffectual slogan or at most a new global infrastructure scheme, it soon became evident that this was going to be a substantially resourced effort at the heart of Chinese grand strategy, closely tied to a newly installed leader who was rapidly consolidating his hold on power.

There was some anxiety in Pakistan about whether CPEC would be formally included in the Belt and Road Initiative at all, particularly after some official Chinese maps were published in which it did not feature.<sup>40</sup> But CPEC was a natural fit. It had a maritime and a continental component. It had demonstration potential for showing that true friends of China could attract some of the largest early investment packages. And, perhaps most importantly, Pakistan had “shovel-ready” projects that could make the BRI an on-the-ground reality

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37 Khalid Mustafa, “[Chinese Investors in CPEC Power Projects Seek Revolving Fund](#),” The News International, June 23, 2018.

38 Interviews, Islamabad and Karachi, 2019.

39 National Development and Reform Commission (People’s Republic of China), [Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road](#), March 2015.

40 Shannon Tiezzi, “[China’s ‘New Silk Road’ Vision Revealed](#),” The Diplomat, May 9, 2014.



*Slogan along the Karakoram Highway, Pak-China friendship tunnel No. 1 at Attabad lake, Hunza.*

sooner rather than later. Far from the country being left out, Chinese officials dubbed CPEC the “flagship” of the BRI, which would demonstrate the scope and ambition of China’s newest overseas endeavor.<sup>41</sup>

The decision to make CPEC the showcase of the BRI was not devoid of controversy on the Chinese side. Many officials and non-government experts questioned the wisdom of making enormous commitments to a country whose security and economic situation remained highly fragile. For some, this skepticism extended to the BRI as a whole. Many of the external criticisms that would later be voiced about BRI—including jibes about “the transnational Great Leap Forward” or “One Belt, One Trap”—were shared inside the Chinese system as well, usually behind closed doors.<sup>42</sup> But the critics soon got in line as the initiative become ever more directly associated with Xi, and was ultimately even placed in the CCP constitution.

Xi was originally due to visit Pakistan as well as India in September 2014 but, to the considerable embarrassment of the Pakistani government, this proved impossible as election protests led by Imran Khan shut down the capital.<sup>43</sup> The question of when the visit would be rescheduled was highly political. Xi was going to add Pakistan to his planned trip to the Middle East in 2015, but Saudi Arabia’s decision to launch a war in Yemen

41 Li Keqiang, [Building the China-Pakistan Economic Corridor Flagship Project](#), Ministry of Foreign Affairs of the People’s Republic of China, Press Release, November 8, 2014, and Xi Jinping, [Pak-China Dosti Zindabad](#), April 19, 2015.

42 Interviews, Washington, DC and Beijing, 2015 and 2016.

43 Abdul Shakoor Khan, [“PTI, PAT protests hindering free movement on Constitution Avenue: SC,”](#) Dawn, August 25, 2014.



meant that any Middle East trip had to be postponed until an itinerary that successfully navigated Saudi-Iranian tensions over the war could be found.<sup>44</sup>

The war in Yemen had real implications for whether Xi would go to Pakistan at all: as the conflict escalated in early 2015, key Gulf States demanded that it participate in the Saudi-led coalition fighting the war. However, China worried that this would put CPEC in jeopardy, given neighboring Iran's likely reaction to any Pakistani decision to support the Arab coalition fighting in Yemen. Islamabad knew that the decision to stay out of Yemen might come at a cost: the Gulf States threatened to withhold future economic support from the country if it did so.<sup>45</sup> This threat carried special weight in part because—unlike China—Gulf donors provided Pakistan with direct budgetary support.

*The decision to make CPEC the showcase of the BRI was not devoid of controversy on the Chinese side.*

When the Pakistani government made the dilemma it faced clear to its Chinese counterparts, Beijing provided some unusual reassurances: if needed, China would be willing to extend more expansive forms of direct financial support to the country. In return, Pakistan would have to stay out of Yemen.

As Xi's visit drew nearer, a final outstanding issue was what scale of package would be announced during the visit. China leaned toward the conservative end of the spectrum, concerned about the expectations that larger figures would generate, not only in Pakistan but also in other countries that might well demand similarly large BRI deals.

But the Pakistani government was eager to announce as large a number as possible, in order to show that the country really had turned a new page. In practice, although \$28 billion was the mutually approved and announced figure, encompassing the projects that had actually been agreed for the visit, a larger Pakistani-circulated number, \$46 billion, which encompassed a number of additional projects that were still under negotiation, received the most public attention.<sup>46</sup> The gap between higher, more speculative Pakistani numbers and more cautious Chinese ones, restricted to projects that were moving ahead, proved to be enduring.

Xi's trip took place in April 2015. For some on the Chinese side, the fact that it was not paired with a visit to India—a first for a Chinese leader in decades—provided a rare opportunity. It could be used to undertake a form of de-hyphenation, in which China upgraded its relationship with Pakistan without every element of the visit being compared to one across the border.<sup>47</sup> The Sino-Pakistani relationship could be placed on its own footing, focused on economics in addition to security, and looking south and west to the Indian Ocean and the Middle East rather than exclusively at India. With the relationship expanding beyond the confines of

44 Mu Chunshan, "[China's Xi To Make First Middle East Trip](#)," *The Diplomat*, March 26, 2015. See also Mu Chunshan, "[Revealed: How the Yemen Crisis Wrecked Xi Jinping's Middle East Travel Plans](#)," *The Diplomat*, April 22, 2015.

45 Dawn, "[UAE minister warns Pakistan of 'heavy price for ambiguous stand' on Yemen](#)," April 11, 2015.

46 Saeed Shah, "[China's Xi Jinping Launches Investment Deal in Pakistan](#)," *Wall Street Journal*, April 20, 2015.

47 Interviews, Beijing, Islamabad, and Washington, DC, 2015–2016.

military and intelligence ties, China could also start talking more enthusiastically and expansively about its “all-weather friend.” For those among China’s South Asia experts who saw a stable relationship with India as the most important precondition for a successful foreign policy in the region, this was still risky. But a more forward-leaning approach to Pakistan was in keeping with the less inhibited international stance that Xi had adopted. Over the next year, Chinese intellectuals would start writing about Sino-Pakistani ties being a “model to follow,” and about Pakistan being China’s “one real ally.”<sup>48</sup>

The choreography of the visit went smoothly, from the eight JF-17s—the two sides’ jointly developed fighter jet—that accompanied the Chinese president once he entered Pakistani airspace, to the signing ceremony for the key CPEC agreements on April 20. And with that, CPEC was officially launched.

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48 Yufan Huang, [“Q. and A.: Yan Xuetong Urges China to Adopt a More Assertive Foreign Policy,”](#) New York Times, February 9, 2016.

## CPEC IN MOTION

### The Battle Begins

At first, given the history of economic relations between Pakistan and China, it was not apparent that real money was going to be at stake in CPEC. The old pattern had been one of grand announcements followed by tepid progress. Now, even though many of the Chinese financing institutions were still skeptical, the political decision in Beijing, particularly in the context of the Belt and Road Initiative, was to find ways to resolve problems, rather than using them as excuses to stop or slow down.<sup>1</sup> On the Pakistani side, while there were significant differences at the provincial level over the capacity and willingness to execute the projects, the ministries and provincial governments that pushed ahead found matching enthusiasm from their Chinese counterparts.

But China also had to deal with several waves of criticism from some players on the Pakistani side—some of it fair, some of it based on misconceptions. The general problem that it had to navigate in the first phase was that the PML-N had limited interest in bringing other political parties on board or sharing the credit: although ostensibly a national project, CPEC had a distinct party-political flavor to it. This ultimately affected the army's view of CPEC too, though that was further down the line.

In the short term, much of the criticism—voiced by groups ranging from the religious, rightist Jamiat Ulema-e-Islam (F) party to the secular, leftist Awami National Party—focused on the fact that the supposed priority route of CPEC would pass through Punjab and various developed areas of Pakistan, rather than through a “western route” that would include Khyber-Pakhtunkhwa and Balochistan, where some of the other parties had their political bases.<sup>2</sup> The Pakistan Peoples Party was a clear exception: it had been on board with CPEC from the start and wanted to claim credit for its own role in getting the project moving.

Chinese officials were keen to stress that the spigots could be turned on for everyone. “Rather than fighting over their share of the pie, we can just make a bigger pie,” one told a Pakistani audience at a CPEC meeting in 2016.<sup>3</sup> Chinese officials repeatedly emphasized to their Pakistani interlocutors that CPEC would include an assortment of new infrastructure connections rather than a single “route.” But discontent continued to grow despite all-party conferences, meetings with Chinese representatives, and declarations of willingness to prioritize road construction in the west.

Perhaps the biggest problem for China was Imran Khan's Pakistan Tehreek-e-Insaf party. Any criticism was a shock to Beijing, which had been used to a situation where it was virtually untouchable in Pakistan. The PTI

1 Interviews Islamabad, Karachi, and Lahore, 2015-2019.

2 International Crisis Group, [China-Pakistan Economic Corridor: Opportunities and Risks](#), June 29, 2018.

3 The phrase was used by Chinese officials at a public event attended by the author in Islamabad, 2016.



was a rising political force with which it had not yet come to terms.<sup>4</sup> Khan's views on China were elusive, and the party had little of the history of strong ties with the country that the major parties had built over decades. With one or two exceptions, the PTI also lacked expertise on China, which meant that there were few intermediaries who could help navigate relations.

The issue for China was not just the public criticism about routes and unfair distribution of benefits, or the boycotting of all-party conferences, but the fact that the PTI ran one of the most critical provinces, Khyber-Pakhtunkhwa, where its jaundiced view of CPEC played out in the provincial government's approach to projects. Privately, Chinese officials complained that the PTI "didn't get it" and had failed to appreciate that resources could be marshaled for their political priorities too.<sup>5</sup> The Chinese embassy in Islamabad held meetings with Khan to try to allay the PTI's concerns, but it was ultimately moved to issue a rare public statement in July 2016 saying that political parties should "address their differences" in order to create "favorable conditions" for CPEC's completion.<sup>6</sup>

While much of the political infighting focused on the division of resources among different players in Pakistan, some raised concerns about the lack of transparency surrounding CPEC. Particularly in the early stages, as multiple projects were being negotiated and astronomical numbers were being thrown around by ministers, the opacity of the scheme started to become a concern not just for opposition parties and the wider public, but even within the government.

***Concerns over the specifics of the project's financing were magnified by the fact that Pakistan had been negotiating with its back against the wall.***

The sharpest public criticism came from the governor of the central bank, Ashraf Mahmood Wathra. In December 2015, he declared that even he did not know what the debt implications of CPEC actually were. "I don't know out of the \$46 billion how much is debt, how much is equity and how much is in kind," he said.<sup>7</sup> There were estimates of CPEC's loan terms, the off-the-books obligations, the impact on the balance of payments situation, and other issues, but few authoritative numbers seemed to be available.

Concerns over the specifics of the project's financing were magnified by the fact that Pakistan had been negotiating with its back against the wall: it needed new sources of investment, and China was perhaps the only suitor willing to bring significant resources to the table. Beijing used that leverage to strike a hard bargain: it demanded, and received, a risk premium and high returns on equity, among other sweeteners. Despite the fact that it pursued CPEC with over-arching strategic goals in mind, its companies and financing institutions sought the best possible terms from Pakistan, which—while not exactly predatory—were far from concessional.<sup>8</sup>

4 Khawar Ghumman, "[Protests not against CPEC, PTI chief assures Chinese envoy](#)," Dawn, June 21, 2017.

5 Interviews, Islamabad, and Beijing, 2016-2017.

6 Khawar Ghumman, "[PML-N unwilling to share CPEC control?](#)" Dawn, July 18, 2016.

7 Katharine Houreld, "[Pakistan Should Be More Transparent on \\$46 bn China Deal, State Bank Head Says](#)," Reuters, December 4, 2015.

8 Interviews, Islamabad and Beijing, 2014-2019.



*CPEC coal-fired power plant at Port Qasim.*

Some on the Pakistani side were clear-eyed about the implications. One official who was closely involved in the negotiations contended at the time that, if there was a future debt problem, Pakistan would simply renegotiate terms at a later stage, given that China's strategic interests meant that it would not want the country to run into excessive economic difficulties.<sup>9</sup> The official was not necessarily wrong. One Chinese expert characterized the relatively tough initial terms as being a necessary discipline: "We can't be too generous up front. We need the Pakistanis to propose projects that make sense even in difficult economic conditions rather than just seeing us as a source of cheap finance," the official said. "But Pakistan is not a place where our main priority is to make money—if we have to revisit loans and contracts at a later point, we can do that."<sup>10</sup>

Others in Pakistan worried about what they were seeing elsewhere on the Belt and Road. In early 2015, the newly elected government in Sri Lanka was dealing uncomfortably with the financial aftermath of a series of "white elephant" projects in the south of the country.<sup>11</sup> The situation had considerable political resonance in Pakistan, despite the vast differences in the situation of the two countries and in their ties with China. When the Sri Lankan government signed over to China a ninety-nine-year lease on the strategic port of Hambantota as part of a debt-relief deal in 2017, those concerns intensified, given the echoes of colonial experiences past.

<sup>9</sup> Interviews, Islamabad, 2015.

<sup>10</sup> Interviews, Beijing and Washington, DC, 2016.

<sup>11</sup> Maria Abi-Habib, "[How China Got Sri Lanka to Cough Up a Port](#)," New York Times, June 25, 2018.

There was a notable spike of controversy about the CPEC long-term plan, especially after Dawn newspaper leaked the details of an expansive, 231-page planning document for it from the China Development Bank in July 2017 that seemed to herald a Chinese presence in virtually every sector of the economy, from the leasing of thousands of acres of agricultural land to surveillance systems in every major city. An editorial accompanying the leak argued that CPEC’s “scope has no precedent in Pakistan’s history in terms of how far it opens up the domestic economy to participation by foreign enterprises.”<sup>12</sup> The final version of the long-term plan was a considerably slimmed-down indicative list of areas of cooperation, but the leaked version helped to create the impression that a dramatic scheme for the country was being covertly hatched.

Other concerns bubbled up in Pakistan’s business community.<sup>13</sup> Many in the private sector had already been hit hard by the consequences of the 2006 free trade agreement with China—which saw a vast explosion of Chinese imports and little apparent matching benefit on the Pakistani side—and did not want to be burned again.

Some businesses were concerned that Chinese companies would be offered preferential terms that were not available to their Pakistani counterparts, such as duty-free imports and tax breaks. The focal point for these concerns was the proposed SEZs that were supposed to drive the second phase of CPEC.<sup>14</sup> China’s pitch—that its own businesses had gone through the shock of SEZ-driven competition from foreign investors in the 1980s and 1990s and emerged stronger for it—was not altogether reassuring.<sup>15</sup>

There was also concern that CPEC would create a new “charmed circle” of Pakistani businesses—largely in Punjab—that would benefit from privileged relationships with Chinese companies, allowing them an inside track on procurement contracts and other deals, while other corporate interests languished.

As CPEC got underway, new problems began to emerge. At the local level across the country, there were rumors and anxieties about an influx of Chinese workers, about land being taken without compensation, and about improper dress and behavior by Chinese nationals. Given that perhaps the most serious crisis between the two countries in the previous decade—the kidnapping of Chinese “massage workers” and the subsequent siege of Lal Masjid in Islamabad in 2007—was prompted by precisely these sorts of social tensions, the two governments had to treat these concerns seriously, and the Chinese embassy embarked on an sustained effort to squash rumors on social media.<sup>16</sup>

Some cases went beyond rumors, including a widely circulated video showing Chinese workers attacking their Pakistani security detail after they were refused a visit to a brothel, and a major controversy about

12 Khurram Hussain, “[Exclusive: CPEC master plan revealed](#),” Dawn, June 21, 2017.

13 Nasir Jamal, “[Descon head wants level playing field under CPEC](#),” Dawn, January 8, 2018.

14 Michael Kovrig, “[National Ambitions Meet Local Opposition Along the China-Pakistan Economic Corridor](#),” The Diplomat, July 24, 2018.

15 Ibid.

16 The exemplar being the deputy chief of mission, Zhao Lijian, on twitter at @zlj517

Pakistani women being drawn into Chinese human-trafficking networks.<sup>17</sup> Chinese officials had to deal with an influx of their nationals, who were embroiled in everything from ATM skimming to proselytizing.<sup>18</sup> Incidents like these made clear that social tensions between Chinese guest workers and local populations were on the rise.

While Chinese workers operating under the CPEC security umbrella were amply protected, those outside it were still at considerable risk. A Chinese cyclist en route to Iran was kidnapped in Khyber Pakhtunkhwa province in May 2014; he was freed in August 2015. Other Chinese nationals were less lucky: two Christian missionaries in working Quetta were kidnapped in May 2017 and killed less than a month later. In February 2018, a COSCO executive was shot dead in his car in an affluent neighborhood of Karachi, in an apparent targeted attack.<sup>19</sup>

*Local-level tensions aside, there was genuine support among many in Pakistan for CPEC. China appeared to be coming through for the country just as it was running into deep trouble with its other outside sponsors.*

Local-level tensions aside, there was genuine support among many in Pakistan for CPEC. China appeared to be coming through for the country just as it was running into deep trouble with its other outside sponsors. There was also a sustained attempt by both sides to build a stronger level of elite, and even middle-class, involvement in the Sino-Pakistani relationship: the traffic between the two countries vastly increased, whether among officials, academics, businesspeople, students, or through other cultural exchanges. A mini-“China mania” of sorts took off in Pakistan.<sup>20</sup>

That said, given the scale and scope of CPEC, wide-ranging political consultation was needed in order to ensure broad-based political and social buy-in for the project. Instead, the debate over CPEC quickly took on a binary “for” or “against” quality. Any criticism was characterized as “malining” CPEC rather than scrutinizing it.<sup>21</sup> Many of the complaints were manageable and some of the early criticism was taken on board. But CPEC never came close to achieving the kind of deep-rooted consensus necessary to ensure that the projects and plans drawn up under its umbrella could proceed as intended across changes of government, changes of national mood, or changes in Pakistan’s economic circumstances. And all of these dimensions were about to take a sharp turn for the worse.

17 Priyamvada Grover, “Chinese workers in Pakistan got way too angry when stopped from visiting brothels,” *The Print*, April 6, 2018, and CBS News, “Pakistani officials claim women trafficked into prostitution in China after marriage,” June 17, 2019.

18 Imtiaz Ali, “4 Chinese nationals arrested in another ATM skimming incident in Karachi,” *Dawn*, January 14, 2018.

19 BBC News, “Abducted Chinese cyclist Hong Xudong released in Pakistan,” August 23, 2015; Kevin Ponniah et al, “Risky Road: China’s missionaries follow Beijing west,” BBC News, September 4, 2017; Syed Raza Hassan, “Senior Chinese shipping executive shot dead in Pakistan,” *Reuters*, February 5, 2018.

20 Nasir Jamal, “Mother China: A ‘Chinese revolution’ sweeps across Pakistan,” *Herald*, July 15, 2018.

21 China Daily, “China Daily Editorial: Is an evil design at play to malign the CPEC?” September 12, 2018.



## The view from New Delhi

“CPEC is intended to wean the populace from fundamentalism,” Li Keqiang to Narendra Modi<sup>1</sup>

Many external actors were cautiously supportive of CPEC in its early stages. The United States had been urging China for years to take on precisely this sort of role. European countries, the Gulf States, and even Japan—which was highly wary of the BRI—took a similar view. They and other countries were also curious about whether they might be involved commercially in Chinese-funded projects.

India was the clear exception. Its formal position on CPEC was that it was a sovereignty issue given that the “route” of the corridor traversed Gilgit-Baltistan, claimed by India as part of greater Kashmir.<sup>2</sup> In practice, there was very little by way of new projects in Gilgit-Baltistan, with most of the road upgrades that were rebranded as part of CPEC having been set in motion long before 2015.<sup>3</sup> In negotiating the plan for CPEC with their Pakistani counterparts, the Chinese side were cautious not to include any large-scale projects in Gilgit-Baltistan that might represent a clear, material change to the status quo—indeed, there were local complaints about precisely this fact. At the same time, India had not historically taken the position that smaller-scale economic investments in Kashmir were a priori objectionable and a sovereignty violation.<sup>4</sup>

The vehemence of India’s objections to CPEC was therefore something of a surprise to China: Prime Minister Narendra Modi would bring the issue up directly in his bilateral meetings with Xi Jinping and with other non-Chinese counterparts. It was also used as grounds for India to refuse to participate in the first Belt and Road Forum in 2017, to China’s considerable chagrin. At the peak of India’s opposition, Modi’s Independence Day speech of 2016 referenced Balochistan explicitly, seemingly hinting that the country might expand its support to Baloch insurgents in targeting Chinese economic assets.<sup>5</sup>

While sovereignty was the stated objection, India had several other concerns that were less vocally expressed. New Delhi’s relationship with China had been deteriorating sharply prior to 2015, and CPEC looked like a corollary upgrade in Sino-Pakistani ties, which India had—not without basis—seen for decades as being directed at them. The history of economic relations between China and Pakistan also strongly suggested that CPEC would take on a military-security quality rather than being purely economic, with Gwadar port one of the obvious focal points.

China tried to argue that CPEC would actually be beneficial to India too: it would help to stabilize and induce restraint in Pakistan, and reduce incentives for extremism. But India was inclined to see CPEC

1 Shishir Gupta, “Govt makes it clear: India has not forgotten Pakistan-occupied Kashmir,” *Hindustan Times*, May 24, 2015.

2 *The Economic Times*, “CPEC violates sovereignty: India tells China,” July 12, 2018.

3 Adam Hodge, “Karakoram Highway: China’s treacherous Pakistan corridor,” *The Diplomat*, July 30, 2013.

4 USAID, *Mangla Dam Rehabilitation Project*, March 14, 2016.

5 *Times of India*, “Chinese Scholars ‘Deeply Disturbed’ by PM Modi’s Reference to Balochistan,” August 28, 2016.





*Khunjerab Pass, at the China-Pakistan border. CPEC road projects pass through territory claimed by India.*

as more likely to embolden its neighbor, and even to create the risk that future Indo-Pakistani conflicts might actually draw in China as well. These concerns were bolstered by the attacks by Kashmiri militants on Pathankot Air Force Station in India's northern Punjab state in January 2016 and on an Indian military outpost in Uri in Kashmir in September that year, which seemed to imply renewed threats of cross-border militancy following CPEC's launch.

It was also hard to separate CPEC from other dimensions in which India saw the upgraded Sino-Pakistani relationship as having negative repercussions. In June 2016, for example, China blocked it from joining the Nuclear Suppliers Group, partly at Pakistan's behest.<sup>6</sup> In 2016 and 2017, China also blocked efforts by the U.N. Security Council's "1267 Committee" (which is concerned with the sanctions regime against Islamist militants) from taking action against a key Pakistani-based militant leader, Masood Azhar, who has been behind some of the most prominent attacks on Indian soil.<sup>7</sup>

India's opposition to CPEC had ramifications on a few fronts. It made it difficult for the country's partners to publicly support the effort or to play an active commercial role in projects. It also deepened the "with us or against us" quality to the CPEC debate in Pakistan itself. And it created a real headache for China, which seemed to have believed that, while its diplomatic support and its security ties with Pakistan would create tensions with India, its expanded commercial and economic role might be viewed more neutrally by Delhi. Instead, CPEC turned out to be yet another item on a lengthening list of disputes between India and China that came to a head in 2017.

<sup>6</sup> James Pearson, "[China rejects bending rule for India to join nuclear club](#)," Reuters, June 24, 2016.

<sup>7</sup> In May 2019, Beijing changed course, and allowed militant leader Masood Azhar to be added to the sanctions blacklist maintained by the 1267 Committee. Associated Press, "U.N. Adds Leader of Outlawed Pakistan Group to Sanctions List," May 1, 2019.

## Dark Clouds Gather

Despite the political infighting and criticism in Pakistan, the first two years of CPEC saw many successes. The value of projects under negotiation expanded from the original \$46 billion to \$62 billion, with new hydroelectric power projects added to the mix.<sup>22</sup> More importantly, the value of projects that were signed off and moved into implementation hit \$19 billion.

The speed in some of these cases was genuinely impressive: the Sahiwal coal-power project and the first unit of the Port Qasim coal-power project were completed well ahead of schedule, adding 2,600 MW to Pakistan's national grid. Sahiwal, in Punjab, set a record for the construction speed of a unit of this kind, clocking in at 200 days ahead of the planned completion date.<sup>23</sup> Other power projects fared less well: the Gadani coal-power project, for example, was dropped from CPEC, and a major solar-power project went into stasis.<sup>24</sup>

Progress on the Gwadar port projects was considerably slower, due to a combination of bureaucratic capacity in Balochistan and the scale of the task required to make it logistically functional, but it was at least physically connected to the province's interior, enabling a first symbolic convoy to be sent there all the way from Xinjiang in November 2016.<sup>25</sup> Still, going into the second half of the year, there was considerable momentum behind CPEC, with even the initially reluctant PTI chief minister of Khyber Pakhtunkhwa ultimately getting on board.

Yet there were dark clouds gathering on a number of fronts. The first set of issues related to the intended second phase of CPEC. The first phase imposed burdens on the Pakistani economy: the import of Chinese equipment hit the balance of payments, and, with the exception of laborers on road projects, there was no large-scale job generation associated with the investments. The promise of the second phase—industrial cooperation and the relocation of Chinese firms into special economic zones—was employment and exports, which would address both these issues. Yet objections from the business community and problems of land acquisition meant that the dozens of SEZs that had been planned were eventually pared down to a handful. Even these were either adjuncts to existing zones or made very slow progress.<sup>26</sup> And, unlike with the power projects that formed the core of the first phase, there was no major political push to overcome these problems.<sup>27</sup>

Many of the other CPEC infrastructure projects outside the energy sector were also moving at a notably slower pace. This was partly a reflection of the fact that, unlike the power projects, where all the up-front financing came from the Chinese side, the roads and railway lines that were a part of CPEC required consid-

22 Salman Siddiqui, "[CPEC investment pushed from \\$55b to \\$62b](#)," Express Tribune, April 12, 2017.

23 IEA Clean Coal Center, "[Pakistan: Sahiwal coal power plant fully meets world standards](#)," September 18, 2018.

24 Arif Rafiq, "[The China Pakistan Economic Corridor: Barriers and Impact](#)," United States Institute of Peace, October 2017.

25 Muhammad Zafar, "[First Chinese Trade Convoy Arrives in Gwadar through CPEC](#)," Express Tribune, November 12, 2016.

26 Jeremy Page and Saeed Shah, "[China's global building spree runs into trouble in Pakistan](#)," Wall Street Journal, July 22, 2018.

27 Shahbaz Rana, "[Delay: SEZs unlikely to be ready for investment for two more years](#)," Express Tribune, January 19, 2019.



*CPEC's Orange Line metro project, Lahore.*

erable financial outlays from the Pakistani government. By late 2017, as the economy started to slow down, it was less and less clear whether it would have the capacity to fund them.<sup>28</sup>

There were even more serious problems than the deteriorating economy. The rising tensions between Nawaz Sharif and the army finally boiled over. The Supreme Court ousted him from office over a corruption case in July 2017 and it became increasingly clear that the army intended to prevent Sharif from returning to the political frontlines.<sup>29</sup>

China had been counting on continuity. While the PML-N was far from perfect and CPEC evidently had its challenges, for Chinese purposes the party had largely been an effective partner in pushing the initiative forward. Although Beijing nominally stood above Pakistan's party politics, it was widely understood that it favored a second term for Sharif and would see it as no bad thing if he won an election by pointing to the successful economic partnership with China.<sup>30</sup>

28 Khurram Hussain, "[The year of Dar's reckoning](#)," Dawn, December 28, 2017. Even by June 2017, the IMF was warning of "re-emerging vulnerabilities" in the Pakistani economy. Economist, "[Pakistan's old economic vulnerabilities persist](#)," June 29, 2017.

29 M. Ilyas Khan, "[A war of nerves between Pakistan's military and Sharif](#)," BBC News, May 28, 2018.

30 Interviews in Islamabad, Beijing, and Washington, DC, 2016-2018.



But by late 2017 it was deeply uncertain whether the army would allow the PML-N to fully and fairly participate in the next election, even without Sharif as prime minister.<sup>31</sup> China was already reluctant to agree to new projects with a government that was starting to face economic headwinds. As political uncertainty continued to grow in 2017, it adopted a wait-and-see attitude, wanting to have clarity on what new political constellation would emerge.

A change of government would expose China to a number of risks. It would have to deal with new people in key positions, a prospect it disliked so much that it had even lobbied for the planning minister, Ahsan Iqbal, to regain this job after he was reshuffled into another role. There was the potential for contracts to be reviewed or renegotiated by a new administration. Inevitably, there would be new political priorities to deal with and new payoffs to make. And even worse than low-level corruption would be any effort by a government to root it out and potentially expose the Chinese firms involved.

The army's problems with the prime minister colored its views of CPEC. There was clear disquiet about the fact that they did not feel they had adequate oversight of what was going on between the Chinese side and the Sharif brothers, including what money was changing hands.<sup>32</sup> Moreover, the army's concerns about CPEC were not limited to its identification with their chief political antagonist. Many in the army saw the need to respond to the bubbling discontent about China's growing economic presence in the country. Some worried that public resentment of the widening Chinese economic footprint, if allowed to fester, might start to chip away at the broad public support for the all-important security relationship.<sup>33</sup>

*Many in the army saw the need to respond to the bubbling discontent about China's growing economic presence in the country.*

Senior military officials also started to worry about the geopolitical implications of CPEC. However close the military relationship with China, it was not clear that the level of dependency that a maximalist version of CPEC implied was beneficial for the military or for Pakistan as a whole. Excessive reliance on China would reduce room for maneuver with other partners, including the United States. And far from CPEC tightening the two sides' bonds, it appeared to mean that Pakistan was starting to be taken for granted, as Chinese dealings with India would soon illustrate.

For its part, China was perfectly amenable to greater military involvement in CPEC; it had, after all, even pushed for a more formal role for the army in the decision-making over projects. But the speed with which the military moved against the Sharifs in 2017 caught Beijing off guard. Chinese officials in charge of CPEC had been banking on two terms for the PML-N government, and the army's decision to take down the prime minister effectively undercut their political strategy. According to some accounts, China conveyed its concerns to the army quite clearly.<sup>34</sup>

31 Maria Abi-Habib and Salman Masood, "[Military's influence casts a shadow over Pakistan's election](#)," New York Times, July 21, 2018.

32 Author interviews, Pakistan 2016-2019. For context, see Syeda Mamoon Rubab, "[CPEC & the Army: Red flag](#)," The Friday Times, September 2, 2016.

33 Author interviews, Pakistan 2016-2019.

34 Author interviews, Pakistan, 2019-2020.



*Pakistani workers on their way to work in the morning at a Chinese installation along the Karakoram Highway.*

At the same time that the political turmoil in Pakistan deepened, China was wrestling with the need to improve ties with India. Between 2015 and late 2017, the development of CPEC and the worsening Sino-Indian tensions continued along parallel—and occasionally overlapping—tracks. Then, from June to August 2017, China and India found themselves entangled in one of the most serious border incidents in decades, on the Doklam plateau on the China-Bhutan border. The crisis was triggered when Indian troops moved in to block a Chinese road-building effort in territory disputed by China and Bhutan. The next two months saw a military standoff at a juncture of high political significance for Beijing, given its proximity to a sensitive Communist Party Congress meeting.

With Xi seeking to consolidate his long-term control of the Chinese Communist Party, a major, unexpected flare-up on China's western borders was a serious problem and potential embarrassment. Militarily, strategically, and politically, the situation was perceived in China to be partly the product of misjudgments that raised serious questions about its overall approach to the region.<sup>35</sup> The tentative efforts at “de-hyphenation”—leaning closer to Pakistan without any concomitant effort to be responsive to India's sensitivities—started to look less wise in light of the Doklam standoff.

At the same time, China's broader geostrategic environment was also becoming increasingly difficult as the Trump administration embarked on a far more explicitly competitive approach to the Sino-U.S. relationship.

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<sup>35</sup> Author interviews, Beijing, December 2018.



India became one of the focal points for China as it worked to calm its relations with other major powers while ties with the United States frayed.<sup>36</sup>

The public attempt by China and India to arrest the slide and draw a line under Doklam was the Xi-Modi summit in Wuhan in April 2018. At that meeting, the two countries committed to stabilizing their relationship and managing their emerging competition in a more predictable fashion.<sup>37</sup> One of the most obvious ways to bring this about was for China quietly to walk away from “de-hyphenation.” Instead, it would put elements of its relationship with Pakistan back on the negotiating table with India.

China took initial steps in this regard even before the Wuhan summit: in February 2018, for example, it reached a deal with India on Pakistan at a key meeting of the Financial Action Task Force (FATF), the inter-governmental organization that—among other responsibilities—coordinates state efforts against the funding of transnational militant groups. In return for India’s support for the Chinese candidate, Liu Xiangmin, for the FATF presidency, China would no longer try to block Pakistan’s being placed on the “grey list” for failing to curb terrorist financing.<sup>38</sup> This was ultimately followed in May 2019 by China’s decision to allow the U.N. Security Council’s 1267 Committee to place the Pakistan-based militant leader Masood Azhar on its sanctions list.

Chinese officials were at times candid about the need for the adjustment. As one former Chinese diplomat put it: “In the past, we mainly took Pakistan’s attitude into consideration, but now we need to balance Pakistan’s relationship with India and the rest of the international community.”<sup>39</sup> Just a few years after CPEC was launched, China was altering its overall approach to South Asia in important ways: strategically, economically, and politically, it was now hedging its bets.

At the same time, events in Pakistan made clear that CPEC was undergoing a serious revision. A symbolic turning point was the November 2017 Joint Coordination Commission (JCC) meeting in Islamabad. The JCC meetings, which had been running since August 2013 on an annual or biannual basis, were the most senior-level CPEC planning meetings between the two sides.

Prior to 2017, the JCC meetings had generally ended with a flurry of announcements and news stories about railway upgrades, new power plants, and road-construction projects. This meeting, however, amounted to a cold shower. Although the slimmed-down version of the long-term plan was signed off and there was a further half-hearted attempt to push forward on special economic zones, the main stories that emerged were about the projects that were not agreed to, rather than the ones that moved forward.<sup>40</sup>

36 Evan S. Medeiros, “China Reacts: Assessing Beijing’s response to Trump’s new China strategy,” China Leadership Monitor, March 1, 2019.

37 Tanvi Madan, “Dancing with the dragon? Deciphering India’s ‘China reset,’” War on the Rocks, April 26, 2018.

38 Smita Sharma, “US wanted Japan for FATF slot, India backed Beijing,” The Tribune, March 4, 2018.

39 Sarah Zheng, “Why China dropped its opposition to UN blacklisting of Pakistan-based terror chief Masood Azhar,” South China Morning Post, May 2, 2019.

40 Shahbaz Rana, “Pakistan stops bid to include Diamer-Bhasha Dam in CPEC,” Express Tribune, November 15, 2017.

There were good reasons for both sides to hold back on projects such as the enormous Diamer-Bhasha dam.<sup>41</sup> On the Chinese side, there were unanswered questions about its viability and concerns about how such a large investment in Gilgit-Baltistan would affect China's ability to claim to India that CPEC projects would not change the status quo in greater Kashmir. On the Pakistani side, there was no longer the same willingness to accept the kind of contractual terms that it agreed in the earlier, more desperate days of CPEC negotiations.

*By early 2018, CPEC had effectively gone into hiatus.*

But what was significant about the November 2017 JCC meeting was not any of the specific investments. Rather, it was that less than three years after the launch of CPEC, the overall plan had been scaled back considerably. The lead-up to the meeting was the last point at which the full array of CPEC projects—to which the \$62 billion figure was tied—was still in some sense under negotiation. From that point on—until 2020—the \$19 billion figure became the operative number.

By early 2018, CPEC had effectively gone into hiatus. Existing projects were still being completed, but as the election season began in earnest in Pakistan, and the country's economic troubles began to turn into a full-fledged crisis, there would be no new CPEC projects. Instead, China found itself playing a new role that it had previously sought to avoid: that of lender of last resort. It had traditionally been uncomfortable providing financing to alleviate Pakistan's current-account problems. But in early 2018, not least given the contributory role that CPEC had played, Beijing stepped in with short-term loans from the Chinese state and from large Chinese commercial banks.<sup>42</sup>

Chinese companies were already finding out that the supposed "high returns on equity" were proving elusive in practice. With the first power projects completed, they experienced Pakistan's circular debt problem at first hand. Chinese officials complained about the payment shortfalls on key energy projects and asking the Pakistani government to pay the difference. But given the country's weakening fiscal situation, this was impossible.

The chairman of one of the Chinese investing companies later gave public statements about revenue shortfalls at the Port Qasim power project, telling the Express Tribune:

We have around \$150 million (over Rs21 billion) late payments now...The delayed payment of tariff is a big issue for us every day...We are trying our best to generate more power and get more tariff payment timely as you know that this is a power plant, we have to import coal from the international market, also we have to repay debt to the financing banks...To be frank, the devaluation against the dollar...has caused us a lot of losses."<sup>43</sup>

As the elections began, the mood music around CPEC was growing very gloomy indeed.

<sup>41</sup> Ibid.

<sup>42</sup> Drazen Jorgic, "[Exclusive: Pakistan seeks economic lifeline with fresh China loans](#)," Reuters, May 25, 2018.

<sup>43</sup> Salman Siddiqui, "[CPEC's first power project mired in financial difficulties](#)," Express Tribune, May 10, 2019.

## CPEC IS DEAD, LONG LIVE CPEC

### Enter Imran Khan

While Imran Khan's PTI fell just short of winning an outright parliamentary majority in the 2018 elections, he was quickly able to pull one together with the support of smaller parties and independents, enabling him to take his place as Pakistan's prime minister.

China and CPEC merited a special mention in his post-election remarks, as he commended the "huge opportunity" the initiative represented to "drive investment into Pakistan."<sup>1</sup> Unlike his predecessor, Khan made no mention of high-speed rail links or power stations; instead, he focused on Pakistan's opportunity to learn from China "how they brought 700 million people out of poverty." Khan also suggested that his country learn from "the measures they have taken against corruption, how they have arrested more than 400 ministers there."<sup>2</sup> While these were already well-established talking points to link China to his election agenda, such comments did not suggest much enthusiasm for the version of CPEC that he was going to inherit.

The Chinese government already had cause for anxiety when the PTI took office. While it had fixed its relationship with figures such as Parvez Khattak, the PTI chief minister of Khyber-Pakhtunkhwa, the experience of the previous few years of criticism had left a bad taste. The PTI's campaign agenda also seemed to be a poor fit for CPEC. The party's key priorities—including an anti-corruption drive, a push for the redistribution of benefits among Pakistan's provinces, and a socioeconomic development initiative—were not goals that CPEC or the BRI were designed to deliver.<sup>3</sup>

Though CPEC was sold as an economic development initiative, its projects were still supposed to yield solid returns on the investments, which meant that they were generally located in the more economically functional parts of the country. Despite a couple of token aid projects in Gwadar, there was little about CPEC by that time that had succeeded in building any grassroots base of support for the initiative.<sup>4</sup> And an anti-corruption push by the new PTI government could pose direct risks to CPEC projects—and to the wider Sino-Pakistani relationship—if it started accusing the PML-N of corrupt behavior in regard to these investments.

Nonetheless, China was willing to figure out terms with the PTI. It took a conciliatory stance in the aftermath of the elections: incoming government ministers were told that, as long as they honored existing contracts,

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1 Imran Khan, "[Imran Khan's speech in full](#)," Aljazeera, July 26, 2018.

2 Ibid.

3 PTI, "[The Road to Naya Pakistan](#)," 2018.

4 Drzen Jorgic, "[Hoping to extend maritime reach, China lavishes aid on Pakistan town](#)," Reuters, December 16, 2017. For a good summary, see International Crisis Group, "[China-Pakistan economic corridor: opportunities and risks](#)," June 29, 2018.

everything else was on table. Chinese officials signaled to their new counterparts that the terms of existing loans could be revisited, provided this was done discreetly, as well as a clear willingness to accommodate the PTI's political agenda. The message, delivered by Foreign Minister Wang Yi during his visit to Islamabad in September 2018, was simple: just tell us what you need.<sup>5</sup> If, as one Chinese official suggested, what the PTI wanted was a move from "mega projects" to "peanut projects" that was possible too.<sup>6</sup>

The PTI line was that it was supportive of CPEC as a general concept, but it did not like the way the PML-N had implemented it: it was too Punjab-centric; not enough benefits flowed to Pakistani businesses; it was not green enough; its terms had been poorly negotiated; and projects were almost certainly corrupt.<sup>7</sup> Privately, there are accounts that Imran Khan was even more doubtful. As one senior member of the new government noted, "Imran made clear that he saw CPEC skeptically. He viewed it as part of the PML-N pitch. He went into it with a lot of questions, including about corruption."<sup>8</sup>

***The PTI line was that it was supportive of CPEC as a general concept, but it did not like the way the PML-N had implemented it.***

China still expected that the criticism leveled at CPEC by the PTI when it was in opposition would abate once the party got into government. Instead, it was blindsided by an explosive interview with the Financial Times from the new commerce minister, Abdul Razak Dawood, a prominent Pakistani businessman.<sup>9</sup> He stated that Pakistan planned to review or renegotiate the CPEC agreements, that the previous government had given away too much, and that the whole scheme should be put on hold for a year.<sup>10</sup> Dawood had made virtually identical comments a few months earlier in his private capacity, but he was now one of the leading economic policy voices for the PTI government. He also gave his interview during Wang Yi's visit, in what seemed to be a clear slight.

Other key figures, such as Planning Minister Khusro Bakhtiar and Finance Minister Asad Umar, trod more carefully, but Dawood's remarks appeared to be an authentic representation of at least one important strand of thinking in the new government. It was also the voice of the important parts of the Pakistani business community that had felt sidelined by CPEC and were still highly skeptical about proposals for special economic zones and industrial cooperation that they feared could be tilted against them.

For the Chinese side, determining what this all amounted to was difficult. One Chinese official complained that different Pakistani ministers essentially appeared to be freelancing—laying out their views on CPEC

5 Ministry of Foreign Affairs of the People's Republic of China, [Wang Yi talks about ten important consensuses reached by foreign ministers of China and Pakistan](#), September 8, 2018.

6 Interviews, Islamabad, September 2018.

7 Khawar Ghuman, "Protests not against CPEC, PTI chief assures Chinese envoy," Dawn, June 21, 2017; Qamar Zaman, "Politicians hit out at 'unfair' Pakistan-China economic corridor," Express Tribune, April 22, 2015; Nasir Jamal, "Descon head wants level playing field under CPEC," Dawn, January 8, 2018.

8 Interview, Islamabad, February 2020.

9 Jamil Anderlini, Henny Sender, and Farhan Bokhari, "Pakistan rethinks its role in Xi's Belt and Road plan," Financial Times, September 9, 2018.

10 Financial Times, "Pakistan rethinks its role in Xi's Belt and Road plan," September 9, 2018.

priorities without there being a consolidated government stance. An assortment of ideas was being thrown into the mix—some workable, some less so.<sup>11</sup> Both sides saw the value of some greater third-country involvement in CPEC, for instance.<sup>12</sup> But the PTI government's decision to solicit Saudi investment in a refinery at Gwadar—sensitively close to the border with Iran—without adequate consultation with Beijing was worrying.<sup>13</sup> The move appeared to reflect the new government's predilection for seeking financing from friends in the Gulf States, rather than a new model for drawing in additional CPEC partners.

The Khan government's overall handling of the economic situation was equally confusing, particularly its unwillingness to negotiate a much-needed IMF loan package. Beijing also watched with discomfort as officials it had been dealing with on the CPEC projects were called in for questioning over corruption issues by the National Accountability Bureau.

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As Chinese concerns over the Khan government's approach to CPEC continued to grow, China decided that the time had come to take its concerns directly to the Pakistani military. Ever since it had become clear that the elections were moving in the PTI's favor, Beijing had been trying to discern whether it needed to deal with the PTI on its own terms or if it could just cut straight through to the power behind the throne. Chinese officials noted that many of the new ministers were former figures from the country's last period of military rule under General Pervez Musharraf, rather than fresh faces from Imran Khan's "New Pakistan," which indicated less of a break from the past than Khan's electoral rhetoric seemed to suggest.

The Chinese ambassador, Yao Jing, was pointedly photographed meeting with army Chief of Staff Qamar Javed Bajwa just days after Dawood's Financial Times interview, and Bajwa paid a visit to Beijing the following week.<sup>14</sup>

Increasingly, China's practice would be to make a beeline for the army's General Headquarters when it had a problem with the new government. As one Pakistani official put it, "whenever someone says something out of turn, the Chinese ambassador calls the Pakistani army chief, who tells them to shut up."<sup>15</sup>

There would be several such occasions before the message got through. In October 2018, for example, Railway Minister Sheikh Rasheed publicly lamented the "huge burden" of CPEC loans, suggesting that those loans would be scaled back.<sup>16</sup> Even worse, in September 2018, a press briefing claimed that Religious Affairs Minister

<sup>11</sup> Interviews, Islamabad, 2018.

<sup>12</sup> Catherine Wong, "[China, Pakistan agree to open economic corridor to investment from other countries](#)," South China Morning Post, September 12, 2018.

<sup>13</sup> Tom Hussain, "[With CPEC, Pakistan risks Chinese anger by courting Saudi Arabia](#)," South China Morning Post, October 6, 2018.

<sup>14</sup> Inter Services Public Relations, "[H.E Mr. Yao Jing, Ambassador of China to Pakistan called on General Qamar Javed Bajwa, Chief of Army Staff \(COAS\) at GHQ, today](#)," September 11, 2018; Dawn, "[Bajwa starts three-day China visit](#)," September 17, 2018.

<sup>15</sup> Interviews, Islamabad, 2018-2019.

<sup>16</sup> Mubasher Bukhari, "[Pakistan cuts Chinese 'Silk Road' rail project by \\$2billion due to debt concerns](#)," Reuters, October 1, 2018.





*Small village in the shadow of CPEC's HydroChina Dawood Wind Farm, Sindh.*

Noor ul-Haq Qadri raised concerns about “restrictions” being placed on Uighur Muslims in Xinjiang in a meeting with Ambassador Yao.<sup>17</sup> If criticism of CPEC were problematic, public reference to the Xinjiang situation from Pakistani ministers was seen as completely unacceptable. Beijing was waging a diplomatic offensive to counter growing global concerns about the mass internment of Uighurs, and it could ill afford public complaints from foreign Muslim leaders.<sup>18</sup> There was an additional Pakistani dimension to the issue, given that the spouses of a number of Pakistani businesspeople had been caught up in the sweep.<sup>19</sup> When pressed on the issue in public interviews, Imran Khan disavowed any knowledge of what was happening in Xinjiang.<sup>20</sup>

Against this somewhat fraught backdrop, Khan's first trip to China as prime minister, in November 2018, was notably unsuccessful. He did not follow the usual protocol by making China his first trip, going instead to Saudi Arabia, the United Arab Emirates, and back to Saudi Arabia again, before finally heading to Beijing.<sup>21</sup> Khan had his reasons for traveling first to the Middle East: the Gulf States were dangling substantial offers of

17 Zaheer Mahmood Siddiqui, “[Cost of railways project under CPEC cut by \\$2bn: minister](#),” Dawn, October 2, 2018; Javed Hussain, “[Religious affairs minister discusses treatment of Xinjiang Muslims with Chinese envoy](#),” Dawn, September 19, 2018.

18 James Leibold, “[The spectre of insecurity: the CCP's mass internment strategy in Xinjiang](#),” China Leadership Monitor, March 1, 2019.

19 Diaa Hadid and Abdul Sattar, “[‘My Family has been broken’: Pakistanis fear for Uighur wives held in China](#),” NPR, November 15, 2018.

20 Ben Westcott, “[Pakistan's Khan dodges questions on mass Chinese detention of Muslims](#),” CNN, March 28, 2019; Express Tribune, “[PM ‘doesn't know much’ about condition of Uighurs in China](#),” January 8, 2019.

21 Express Tribune, “[Two-day visit: Imran Khan in Saudi Arabia on first foreign trip as PM](#),” September 18, 2018; Gulf News, “[Shaikh Mohammad Bin Zayed welcomes Pakistan Prime Minister Imran Khan in Abu Dhabi](#),” September 19, 2018; Asif Shahzad, “[Imran Khan leaves for Saudi conference saying Pakistan ‘desperate’ for loans](#),” Reuters, October 22, 2018.

financial assistance, while China was demanding that the new government get its economic house in order first. Still, the departure from prior practice was noted in Beijing.

Typically, a visit of this level of importance would involve extensive advance groundwork by senior officials and trusted interlocutors on both sides. Yet Khan sent no such delegations prior to his trip.<sup>22</sup> The Chinese authorities were left scrambling to figure out what Khan would actually be asking for. The answer was, essentially, several billion dollars of bailout money—the same ask that had soured Zardari’s first trip to China ten years earlier. The request went down almost as badly, even though Beijing was already far more financially embroiled in dealing with Pakistan’s balance of payments crisis than it had been during the PPP’s time in office. The message to the Pakistani government during the visit was very clear: first, do your homework.<sup>23</sup>

China continued to provide short-term financing but did not want to be responsible for Pakistan’s financial situation without the involvement of the IMF, and it still had little confidence in the new government. For Beijing, any IMF package for the country would be somewhat of a mixed bag. The IMF would be in the position to make an authoritative pronouncement on CPEC’s economic impact on Pakistan, given it would have to be given access to a trove of information about Chinese loans as part of the negotiation process. This would not necessarily paint a rosy picture. At the same time, however, the IMF package would provide a stamp of international legitimacy, release funds from other sources, and force Pakistan to take unpopular economic decisions for which China did not want to be held responsible.

Yet the new government remained reluctant. In the months after the PTI took office, it was very clear that new ministers were still finding their feet. Some Pakistani officials were shocked at how little understanding there was among them about CPEC or the Sino-Pakistani relationship.<sup>24</sup> This was by no means an anomaly: missteps by the new government in other policy areas during its chaotic first months in office were just as pronounced.

The December 2018 JCC meeting that followed Imran Khan’s November visit to Beijing, where the detailed agenda for CPEC in the coming years should have been set, was therefore clearly lacking in political momentum. The main agenda items for China were simply to finish the existing projects—especially the Gwadar port project, which continued to lag well behind schedule—and to ensure that there was a respectable public narrative around CPEC in place for the second Belt and Road Forum, which was due to be held in Beijing in April 2019.

Whatever was actually happening on the ground, CPEC’s political status as the “flagship” and “most comprehensive” BRI package meant that sensitivities around the image of the investments were acute on the Chinese side. As a result, Beijing was still willing to be flexible. Chinese officials had managed to come up with an internal justification for the socioeconomic projects that the Khan government was calling for: China could use Pakistan as a test case for its new aid body, the China International Development Cooperation Agency,

<sup>22</sup> Interviews, Pakistan 2018-2019.

<sup>23</sup> Interviews, Pakistan 2018-2019, and Dawn, “[PM’s China visit](#),” November 5, 2018.

<sup>24</sup> Interviews, Islamabad, 2018/2019.

and was ready to put as much as \$1 billion into the projects over the next few years, high figures given how little money Beijing provides in direct aid.<sup>25</sup>

Talk of renegotiating projects, however, largely stopped. The very word “renegotiation” raised hackles on the Chinese side, not least given that this was precisely what China was having to do elsewhere along the BRI, most prominently in Malaysia. For its part, while assessments of the energy projects ultimately found evidence of inflated prices, the Pakistani government had not found a level of corruption or egregious markups on CPEC investments that were comparable to the East Coast Rail Line or the 1MDB scandal in Malaysia, for instance, which made renegotiation even less likely.

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A residue of CPEC’s initial ambition was still there.<sup>26</sup> Some smaller pieces of the long-term plan, such as agricultural cooperation, were set in motion. The commitment to move ahead with SEZs was also maintained, albeit in a form that was still drastically pared back from the original plans—as the tortured language about industrial cooperation in the Chinese official statement released after the JCC indicated.<sup>27</sup> It was impossible to maintain the story that CPEC was simply undergoing a planned transition from large-scale capital investments to an industry-and export-focused second phase when there was such a tangible lack of energy, let alone concrete action, behind that element of the planning.

Unsurprisingly, given the project’s altered trajectory, China had also decided that it was better not to draw too much attention to CPEC for a while. What was once the subject of a pervasive focus in the Pakistani press was given much less prominence. Pakistani officials were discouraged from saying much about it; instead, they stressed the role of other key investors, such as Russia or the Gulf states.<sup>28</sup> In the absence of a clear narrative of success, both sides decided that it was better to play the whole thing down.

There were also renewed concerns on China’s part about CPEC security. In late 2018 and early 2019, Baloch militant groups launched two high-profile attacks. An armed assault on the Chinese consulate in Karachi in November 2018 was followed in May 2019 by an attack on the Pearl Continental Hotel in Gwadar, the principal destination for visiting delegations. Though no Chinese citizens were killed in either attack, the two incidents were disturbingly near-run cases.

As Pakistan’s economic picture continued to deteriorate, and Gulf and Chinese sources continued to signal limited willingness to provide more financing, the PTI government concluded that it had to seek an IMF bailout, despite the fact that Khan had argued strenuously against just such a move during the campaign only

25 CPEC, [Socioeconomic development MOU of CPEC to be finalized tomorrow](#), April 22, 2019; Business Standard, [“China to provide USD 1 billion grant to Pak for socio-economic development,”](#) June 21, 2019.

26 Express Tribune, [“JCC meeting: Pakistan, China finalized MoU on industrial cooperation,”](#) December 21, 2018.

27 Embassy of the People’s Republic of China in the Islamic Republic of Pakistan, [Latest progress on the CPEC](#), December 29, 2018.

28 Interviews, Islamabad, 2018-2019.

months earlier.<sup>29</sup> Under the \$6.3 billion deal with the IMF, which was finalized in July 2019, Pakistan agreed to undertake a series of market reforms and to cut fuel and other subsidies. Once the package was finalized, China committed to the largest additional contribution of outside support for the first twelve months of the three-year program.<sup>30</sup>

But it appeared that CPEC itself was largely on ice. As one Pakistani China expert put it: “We’ve got what we’re going to get out of CPEC on the really big stuff. It’s over.”<sup>31</sup>

### CPEC 2.0 and the Sino-US Rivalry

It was only in late 2019 that China and Pakistan appeared to find a new equilibrium with CPEC. As one Pakistani official who has followed the relationship closely put it in early 2020, “the new government didn’t know much about the relationship with China or about CPEC. It had its anti-corruption focus, and there were prominent people in the government who felt they had lost out on the China trade front. But about six months ago [in the fall of 2019] the strange dynamic stopped.”<sup>32</sup>

Imran Khan had a notably more successful trip to China in October 2019 than he did the previous November. It signaled a turning of the page on the difficulties that had emerged between his government and Beijing. Notably, Khan traveled with Chief of Army Staff Qamar Javed Bajwa, who had either preceded or accompanied him on his major trips. The Chinese side was careful not to repeat even a hint of the old ambiguities about parallel civil and military tracks: Xi Jinping received the two men together.

Some of the CPEC sensitivities had been fixed ahead of the trip. A new CPEC authority was to be established, chaired by a retired Pakistani general, Asim Saleem Bajwa (not related to the army chief) who was the former head of the army’s information wing. It closely resembled the plans that had been shot down by the PML-N government a few years earlier, though in one notable change there would also be immunity from prosecution for members of the new authority.

After Khan’s visit, the ninth JCC meeting, scheduled for the following month in Islamabad, had a credible mandate. What emerged was a considerably slimmed-down set of ambitions. Still, the plan at least represented some clarity about what was coming next, and what it lacked in scale, it made up for in terms of its feasibility.

The core of the new package contained various elements including: a package of small socioeconomic initiatives, such as “smart classrooms” and renovations of vocational schools; special economic zones in Rashakai, Faisalabad, and Thatta; and a push to get the details of the ML-1 railway line upgrade from Karachi to Peshawar agreed. The rail line upgrade was an expensive project—worth around \$8 billion—for a Pakistani government

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29 Salman Masood, “Pakistan to Accept \$6 Billion Bailout from I.M.F.,” New York Times, May 12, 2019.

30 International Monetary Fund, Pakistan, July 2019.

31 Interviews, Islamabad, 2019.

32 Interviews, Islamabad, 2020.





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chronically short of resources.<sup>33</sup> But it was perhaps the only large-scale project that still made sense to both sides, and that would support the story that CPEC was still on track, just in time for a second proposed visit to Pakistan by Xi Jinping.

Other outstanding issues were still being resolved, including the impact of payment delays and currency depreciation on CPEC energy projects. But the push was to get a sufficiently credible array of new projects in motion ahead of Xi's trip, which was then tentatively scheduled for late spring or early summer 2020. The two sides were due to hold another JCC meeting in April to wrap them up. It was all much more low-key than the high-wattage announcements that followed JCCs a few years earlier, but the narrative—that of China and Pakistan working together and “on the same page,” moving into CPEC's second phase—was set.

There was one unexpected shift, however, to the political and strategic environment in which these deliberations were playing out. Pakistan and China had both grown used to a neutral, and at times even relatively positive, stance toward CPEC from the leading U.S. State Department South Asia officials. The region had been seen by many U.S. and Chinese officials as one in which, though Washington and Beijing were in competition across some domains, was also amenable to certain forms of cooperation. This was most evident in the Afghan peace process, where they had continued to operate in reasonably close coordination during the Trump administration, and it was thought to be the case for Pakistan as well.

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<sup>33</sup> Drazen Jorgic, “[Fearing debt trap, Pakistan rethinks Chinese ‘Silk Road’ projects](#),” Reuters, September 30, 2018.



At the most basic level, both sides wanted to see a level of security and stability in Pakistan, and this was believed to necessitate an economic development agenda. For U.S. officials who had been struggling with the myriad of challenges facing their own programs in the region over the years, there was a degree of humility when evaluating China's efforts. While it appeared that Beijing had little interest in learning any of the lessons from the U.S. experience since 2001, this was still an environment where, on balance, the United States largely wanted to see China's economic efforts succeed.

Yet with the launch of the economic strand of the Free and Open Indo-Pacific Strategy in the summer of 2018, the Trump administration's outline for its own counterpoint to the BRI, the United States' qualified support for CPEC became harder to maintain. On the one hand, the line being promoted by the Trump administration was the BRI was economically predatory and harmful to any country that bought into it. Instead, senior administration officials argued, developing countries should choose investment partners from "free and open" economies—ideally the United States. On the other hand, the United States had been explicitly encouraging countries like China to invest more heavily in Pakistan and Afghanistan, including in conjunction with U.S. efforts.

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CPEC's status as the "flagship" project of the BRI made this contradiction especially acute. U.S. officials had begun to make the case against the initiative in virtually every region the world and it would seem strange if the highest-profile investment scheme under it was exempted from this critique.

And yet, the toughest place to make the anti-BRI argument was in Pakistan. The United States had been scaling back its own economic support to the country especially sharply in the previous two years. Even before this, Islamabad had turned to Chinese financing as much out of desperation as enthusiasm, which had direct ramifications for the contract terms it was able to negotiate. Other "free and open" economies had also been treading around Pakistan with a degree of trepidation, and not only because of security risks, economic challenges, or concern for their more important economic relationship with India. The prospect that Pakistan would face further rounds of financial pressure from the United States over its hosting and support of the Taliban had also given serious grounds for pause.

The Chinese and Pakistanis had grown used to critical references to CPEC by U.S. Secretary of State Mike Pompeo after the Free and Open Indo-Pacific Strategy was launched. These verbal jabs were by no means without consequence: the United States had influence over key elements of the IMF package for Pakistan, for example, and its demand that no bailout funds go to Chinese investors was reflected in some of the unusual wording in the agreement. But the dynamics with U.S. officials working on the region had not seen such a dramatic change: the U.S. Special Representative for Afghan Reconciliation, Zalmay Khalilzad, had continued his shuttle diplomacy with Beijing, and the Chinese ambassador in Islamabad had held candid discussions about CPEC with the U.S. State Department's top official for South Asia, Alice Wells, in the past.

Even in the middle of worsening dynamics in the Sino-U.S. relationship then, a broadside against CPEC from Wells in November 2019 therefore still came as a surprise. Wells' speech echoed much of the criticism that Pakistanis had made—including serving government ministers.<sup>34</sup> It was not an indiscriminate hatchet job; instead, she offered a detailed critique that chronicled many of CPEC's known problems. Wells also covered other BRI cases in South Asia, including the more obviously troubled projects in Sri Lanka and the Maldives.

Wells made a case for expanding commercial ties between the United States and Pakistan too, and laid out some of the successes of U.S. development efforts in the two countries. But the recent history between the United States and Pakistan made it virtually impossible for those messages to be heard. The speech elicited an aggrieved response across virtually the entire Pakistani political spectrum. At the same time, her remarks—and other efforts by U.S. officials to paint the BRI as a serious threat—led to concerns in Pakistan that the growing zero-sum dynamics between the United States and China were going to be very difficult to navigate.

Just a few months earlier, in July, Prime Minister Khan and General Bajwa had visited the United States, hoping for a reset in relations. During that visit, Pakistani officials made the case that U.S.-Pakistani and Sino-Pakistani ties could happily coexist, as they so often had in the past. One specific message conveyed was that the United States should stop fretting about Gwadar, which, Pakistani officials pledged, no country would be allowed to use for naval purposes.<sup>35</sup>

After that largely successful visit, China expressed an uncharacteristic note of disquiet. It had generally seen closer U.S.-Pakistani ties as falling in line with Chinese interests—ensuring that Pakistan was bolstered by U.S. backing with arms and money rather than subjected to political, financial, or even military pressures from Washington. Now, even modest Pakistani attempts to restore what had been a deeply troubled relationship with the United States in recent years were being viewed by Beijing with a jaundiced eye. To Pakistani officials, it seemed that a squeeze was taking place from both sides. These dynamics were also being replicated over Afghanistan. The expectation had once been that Chinese investments would flow into the country after any peace deal that stuck. Instead there was growing anxiety in Beijing, Islamabad, and Kabul that proposals to link CPEC and Afghanistan's economic connectivity agenda were more likely to be caught up in the wider Sino-U.S. strategic competition.<sup>36</sup>

When Ambassador Wells visited Pakistan in January 2020, senior Pakistani officials conveyed their concerns about being forced to pick sides. They also signaled the risk that in the current context, any choice they did make would have to be in China's favor.<sup>37</sup>

34 Alice Wells and Michael Kugelman, [A conversation with Ambassador Alice Wells on the China-Pakistan economic corridor](#), U.S. Department of State, November 21, 2019.

35 Interviews, Washington, D.C. 2019.

36 Interview, Islamabad, 2020.

37 Ibid.



Signage at the Karakoram Highway Phase II (Thakot-Havelian Section) being built under CPEC, near Abbottabad.

Pakistan's headache over Sino-U.S. dynamics was soon eclipsed by the coronavirus crisis. The government was initially uncertain how to handle the outbreak in China, given the large number of Pakistanis—businesspeople, students, and others—living there, including in Wuhan. Many other governments moved quickly to evacuate their citizens, but Islamabad came under considerable pressure from Beijing not to do so (despite Khan's preference for an evacuation) as part of the wider efforts by the Chinese government at reputation management through the crisis.<sup>38</sup>

China's line to the Pakistani government was that it was better placed to deal with any health issues faced by Pakistani nationals in the country, given its immediate experience. It was concerned about the implications for CPEC and the wider relationship if large numbers of returning students from Wuhan resulted in a major outbreak in Pakistan itself. And Beijing portrayed this as a vote of confidence: that Pakistan trusted China to deal with the situation effectively.

The pressure worked and, after a period of wobbling, Islamabad made clear that there would be no evacuations. "the Pakistan government and its people are standing firmly with their Chinese brethren," the health minister declared in February 2020.<sup>39</sup> A ripple of such solidarity statements from Pakistan followed. Flights from elsewhere in China resumed (as Beijing had wished) soon thereafter, and when coronavirus cases started

38 Ibid.

39 Yang Han, "Pakistan confident in 'iron-clad' friend," China Daily, February 5, 2020.

emerging in Pakistan, the Pakistani authorities made sure to identify those cases as coming from Iran rather than from China.

As the number of infections in Pakistan continued to climb in March and April, China stepped up its humanitarian support, including much-needed healthcare equipment, teams of medical doctors, and other forms of assistance. But, despite continued public assurances by the Pakistani government that CPEC was on track and that all was well, the economic fallout was soon too much to contain. Once again, Pakistani officials were forced to head to Beijing to ask for emergency economic support. Pakistan's back was truly against the wall: real GDP growth in 2020 was projected by the World Bank to fall by 1.2 percent, with little or no growth projected in 2021.<sup>40</sup>

***Despite continued public assurances by the Pakistani government that CPEC was on track and that all was well, the economic fallout was soon too much to contain.***

When he traveled to Beijing in March, President Arif Alvi became the first head of state to visit China since the coronavirus outbreak. Publicly, Alvi and Xi Jinping made repeated pledges of solidarity and reiterated their commitment to the all-weather friendship. But the core substance of the meetings involving the ministers on the delegation focused on Pakistan's economic woes and steps that China might take to help.

One of the ways that Pakistan hoped to address the economic crisis was by revisiting the terms of its purchasing agreements with independent power producers. This was assisted by a major new report suggesting that project costs had been inflated, including for two of the most prominent CPEC projects—Sahiwal and Port Qasim. The Pakistani delegation asked for a doubling in the repayment period incorporated in the tariffs and—in their opening position—a slashing of the interest rate.<sup>41</sup>

Pakistan was also embroiled in negotiations on its short-term debt. In April 2020, China reluctantly acquiesced to a Paris Club push at the G20 to suspend debt payments from the least-developed countries for the remainder of the year, given the sheer magnitude of the economic crisis. While Pakistan was able to agree terms with the Paris Club itself, the larger debts in the next fiscal year are owed to China. At the time of writing, the negotiations are still underway but it will be almost impossible for China simply to say no: Pakistan cannot afford the existing terms.

This has not stopped new projects from being added to the books. In one sense, the necessity of deficit spending induced by the crisis has created some more fiscal flexibility. With plans for Xi's visit moving ahead and the need for measures to stimulate the Pakistani economy growing more urgent, some of the CPEC plans have been expedited.

<sup>40</sup> World Bank, [Pakistan Overview](#), April 10, 2020.

<sup>41</sup> Khaleeq Kiani, "[Pakistan urges China to soften terms for power deals](#)," Dawn, April 16, 2020.

As of July 2020, several projects were being pushed forward. Many of them are the lagging parts of the old CPEC agenda. Gwadar is being moved toward conclusion, as are the final stages of the Lahore Metro Orange Line and some motorway upgrades connecting Quetta to the Karakoram Highway. A small number of special economic zones will finally be launched too. But there is a set of new items too. The Pakistani government has agreed plans for the ML-1 rail line, even if the financing for it is still to be finalized. Some hydroelectric power projects have been given the green light.<sup>42</sup> And—although not formally part of CPEC—Chinese firms have been involved in the controversial plans to move ahead with the biggest of the hydro projects: the Diamer Bhasha dam.

Some of these new projects are more financially risky than the CPEC package that was already in place. Like many large rail projects, there is considerable debate over whether ML-1 makes economic sense, and there have been numerous attempts to shoot it down by those who consider it a liability for the railway sector and the country's public finances.<sup>43</sup> Diamer Bhasha has repeatedly failed to attract international financing. Whether the new slate of Chinese investments moves ahead as planned remains uncertain. What is clear, however, is that in a state of real economic desperation, China is—yet again—Pakistan's first port of call.

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42 Faseeh Mangi, "[New China deals signal Belt and Road revival in Pakistan](#)," Bloomberg, July 16, 2020.

43 Interviews, Pakistan, 2017-2020.



## RETURNING TO THE SHADOWS: 2020 AND BEYOND

If anyone had claimed, when Li Keqiang and Nawaz Sharif met in 2013, that by 2020 China would have moved ahead with \$25 billion of new investments in Pakistan, most of which would be nearing completion, they would have been greeted with considerable skepticism. Given the starting point for the economic relationship, any assessment of CPEC has to acknowledge the significance of the shift in the last few years. Not only are the existing investments far from negligible, China is set to play a larger role in Pakistani economic life than it did in the past. There will also be a lasting impact from the major increase in linkages between the two countries that took off alongside CPEC, from student scholarships to cultural exchanges.

Beyond CPEC, other elements of the relationship remain strong. Military cooperation continues to advance on all fronts, from the sale of advanced naval warships to Pakistan to the near-certainty that China is involved in assisting the country with the missing naval leg of its nuclear triad.<sup>1</sup> China's role in helping to build up Pakistan's digital infrastructure—from fiber optics and satellites to “safe cities”—is also expanding.<sup>2</sup>

The structural elements of the relationship are also unchanged. Pakistan will be increasingly reliant on China, given the long-term trajectory of U.S. ties with Pakistan and India. The People's Liberation Army's growing capabilities—along with its upgraded assistance to the Pakistani military—will weigh more heavily in the conventional strategic calculus in the region than it did when Chinese arms sales were restricted to low-end equipment.

For Pakistan and China, recognition of the very real limitations on the relationship has arguably been one of the factors behind its durability. The fit of mutual enthusiasm that consumed the two sides for a couple of years created expectations that could not be met and a level of familiarity that was clearly not breeding greater affection. The relationship may not have expanded in the way that both sides hoped, but it is now perhaps on firmer, more realistic, footing.

The CPEC slowdown also ensures that the two sides are unlikely to be faced with a major BRI debt crisis. While Chinese investments may well have led Pakistan into financial trouble—as they have in other countries—if CPEC had become a \$62 billion investment package, the much lower real numbers do not appear to impose an unmanageable burden on the Pakistani economy and there is ample scope for a rollover of debt payments during the current crisis.<sup>3</sup> Although the overall economic situation is unquestionably poor, CPEC

1 Iskander Rehman, [Murky Waters: Naval Nuclear Dynamics in the Indian Ocean](#), Carnegie Endowment for International Peace, March 9, 2015; Emanuel Sarfraz, “[Pakistan enters nuke triad club](#),” *The Interpreter*, January 11, 2017.

2 Jeremy Page et al., “[America's undersea battle with China for control of the global internet grid](#),” *Wall Street Journal*, March 12, 2019; Li Xia, “[1st land-based China-Pakistan cross-border optical fiber inaugurated](#),” *Xinhua News*, July 14, 2018; Leo Kelion and Sajid Iqbal, “[Huawei wi-fi modules were pulled from Pakistan CCTV system](#),” *BBC News*, April 8, 2019.

3 For other cases, see John Hurley et al., [Examining the debt implications of the Belt and Road Initiative from a policy perspective](#), Center for Global Development, March 2018.

financing and CPEC-related imports have played only a modest contributory role in worsening the situation. This may change with some of the contentious new projects that are currently under discussion but so far, while the scheme may not have achieved a grand transformation of the Pakistani economy, neither is it leaving the country with a bad hangover.

The difficult CPEC experience will nonetheless place certain limits on the Sino-Pakistani relationship for many years to come. It is highly unlikely that the Chinese government will attempt to pursue a comparably grand effort in the future, and both sides have been burned, though that sense is even stronger among Chinese officials and experts than among their Pakistani counterparts. In some ways, the next 18 months or so will be important less for what happens to CPEC itself, and more for what lessons are drawn from the last few years.

***Unlike with some of the other BRI countries, which have seen a major renegotiation of contracts and a significant adjustment of political ties with China, there is little indication of any “BRI 2.0” model emerging in Pakistan.***

Pakistan is certainly one of a growing number of cases of BRI rebalancing. The view that Beijing prioritized speed and scale over judicious selection of projects, attentiveness to political and economic risk, and giving due priority to international and local consent is well embodied by CPEC. The change in government in Pakistan in 2018 can be added to other similar developments in Malaysia and the Maldives the same year, in Sri Lanka in 2015, and in Myanmar before the BRI was even launched.

CPEC has undergone some major adjustments, including a significant paring back of the overall scale of the investments. But unlike with some of the other BRI countries, which have seen a major renegotiation of contracts and a significant adjustment of political ties with China, there is little indication of any “BRI 2.0” model emerging in Pakistan that would promise to put the whole initiative on a more sustainable footing.<sup>4</sup>

This is partly a reflection of the way power is exercised in Pakistan. One of the lessons that China appears to have learned can be summed up as: “Don’t trust the civilians.” There has been a reversion not just to the pre-CPEC relationship, but even to its pre-2008 phase, during General Musharraf’s time as leader. The reassertion of the army’s control over Pakistani politics is a reality that China has had to navigate. But the temptation for Beijing, given its preference for centralized decision-making authorities, is now to try to manage the relationship primarily through the military again. In many ways, China should have taken the opposite lesson: it is the failure to build a broad-based consensus in Pakistan, and even within the army itself, behind CPEC that ultimately proved costly. While it is possible to navigate a security relationship with the army and to get it to muffle “off-message” ministers, this is no way to manage the complexities of a broad-based economic relationship or the wider array of constituencies that are now active in Pakistani politics.

Unsurprisingly, neither has there been any move towards opening CPEC up to more scrutiny. Rather, the limited debate about CPEC that was underway in the broader Pakistani polity has largely been closed down

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<sup>4</sup> Bloomberg, “China’s Xi defends Belt and Road, vows ‘zero tolerance’ of graft,” April 25, 2019; David Lawder and Richard Borsuk, “IMF’s Lagarde says China’s Belt and Road should only go where sustainable,” Reuters, April 26, 2019.



*The Pakistani side of the China-Pakistan border, Khunjerab.*

and ministers are extraordinarily cautious about making any statements that might embarrass Beijing. This is partly conditioned by the growing reputational battle over the BRI that China is waging with the United States, but its effect will be invidious when it comes to the crafting of a well-conceived and mutually beneficial economic agenda.<sup>5</sup>

Similarly, it remains to be seen whether China's supposed willingness to engage in more third-country cooperation will translate into concrete action. It was reluctant to have Japanese finance or even European consultants involved in Pakistani infrastructure projects, for example, and insisted that the government cut them out.<sup>6</sup> Yet, as long as China plans on continued involvement in Pakistan's economic life, it will benefit from the experiences of other outside actors rather than pretending that their insights—including the negative lessons gleaned from their mistakes over recent decades—cannot usefully be applied, and that China's development model, applied by businesspeople and officials with little understanding of Pakistan, is the only path to success.

The gamble that China undertook with CPEC was that it could boost the Pakistani economy, gradually rebalance the country's strategic thinking, and mollify India simultaneously. The whole approach was characteristic of a long-running strand in China's handling of Pakistan, which is to suggest that the country would benefit from treating its economic and strategic choices rather more like China did: stabilizing ties with India

<sup>5</sup> U.S. Department of State, [Advancing a Free and Open Indo-Pacific Region](#), November 18, 2018.

<sup>6</sup> Interviews, Pakistan, 2015-2019.



and ensuring mutually beneficial economic interactions, prioritizing economic growth as the underpinning of national power, and following the Chinese development model on everything from infrastructure to special economic zones. Talking to Chinese officials over the years, it was clear that they believed Pakistan's future success was contingent on its replicating an assortment of the decisions that Beijing had taken in its own "reform and opening" process since 1979.

Today, it is clear that this strategic advice has run into resistance on almost every front. What is more, it appears that addressing CPEC's underlying issues is not the main priority for China in Pakistan. If Beijing's effort to influence the country's thinking about its own future has failed, the alternative is not necessarily to try to fix the problem. Instead, both sides have effectively decided to double down on the security-focused version of the relationship, which worked successfully in the past, combined with just enough visible CPEC action to keep alive the narrative that the BRI is still moving ahead successfully.

While Pakistani's case is—as this report argues—in some respects *sui generis*, given the special relationship that existed with China before CPEC was launched, there are other cases where Beijing may draw the same conclusion. The assumption from some analysts has been that the BRI will roll forward with only a few minor tweaks in the years to come. In some countries, this may well be true. But where it is clear that the model is failing to deliver either strategic or economic benefits, there is likely to be a substantially smaller, slower and more cautious approach in future. This may—as with CPEC—amount to an outright stalling of joint initiatives, as China loses confidence that its boldest and most transformative developmental ambitions are realistic.

In addition, the coronavirus crisis will exacerbate all the challenges that Pakistan and CPEC face. China is now dealing with a wave of BRI renegotiations across the world and it already appears that some of the projects that may have made economic sense during normal times now look like liabilities. The capacity of the Pakistani government to finance new projects itself is going to be limited, given its financial situation and current growth projections, but even the terms of existing investments will almost certainly have to be revisited.

***The coronavirus crisis will exacerbate all the challenges that Pakistan and CPEC face.***

CPEC is also an illustration of the fact that assessing the BRI's future direction will continue to require a close read of the practical developments in the countries concerned, rather than a scan of public pronouncements and a hunt for data to fit a preexisting analytical framework. Discussion of CPEC has consistently been characterized by a major gap between the facts on the ground and how it is described. Even some of the best, and most thoughtful experts continue to use figures that have long lost their connection to reality. The BRI meta-narrative casts a long shadow over whichever specific case is being examined, whether it be lines drawn on maps across Asia, superlative numbers, dual-use ports, debt traps, and other tropes.

In the case of Pakistan, some of these framings have been misleading. The "corridor" concept and transportation routes from Xinjiang to Gwadar have been a consistent, distracting focal point from the nature of the investments that have been made. Rumors of large-scale debt distress—which are founded in several other BRI cases—have not been fully borne out by the facts. There continues to be more interest on the part of many

outside observers in potential dual-use facilities at a barely functional port than out-and-out military cooperation taking place in plain sight.

Indeed, CPEC has at times even been a distraction from the nature of the military relationship between Pakistan and China as a whole: there is no need to dig out secret documents and hidden plans when vast arms sales, naval cooperation, and joint weapons systems development all occur openly, with no need of any “cover” from CPEC. And as the relationship between China and India faces a turning point after the clash in Ladakh in June 2020, it is these traditional elements of military cooperation between China and Pakistan that are likely to come to the fore again, potentially in an even less inhibited way.

The result is that the Sino-Pakistani relationship of the future is likely to look somewhat more like the narrower form of the past than the more broad-based version that started to emerge after 2015. Deep security ties will persist, but without the scale of economic and political engagement that characterized the initial years after CPEC’s launch. The strategic salience of the two countries’ ties is undimmed. In the past, that always meant that the relationship was treated as an unusually sensitive one that needed shielding from critical attention and kept as closed and tightly managed as possible. For a short window of time, CPEC brought the China-Pakistan into the light, and it appeared possible that ties between the two sides might be placed on a more comprehensive footing. But that would have required CPEC to be a clear, demonstrative success. Instead, while it has not failed, it has undoubtedly disappointed. And as a consequence, the China-Pakistan relationship is returning to the shadows once again.



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