China-Pakistan Economic Corridor: Opportunities and Risks

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Principal Findings

What's new? Pakistani leaders say the China-Pakistan Economic Corridor (CPEC), launched in 2015, is a "game changer" for the country's ailing economy. But opaque plans for the corridor, the upheaval likely to affect locals along its route, and profits flowing mostly to outsiders could stir unrest. The government has repressed CPEC critics.

Why does it matter? CPEC could help revive Pakistan's economy. But if it moves ahead without more thorough debate in parliament and provincial legislatures and consultation with locals, it will deepen friction between the federal centre and periphery, roil provinces already long neglected, widen social divides and potentially create new sources of conflict.

What should be done? The government that assumes power after the July 2018 elections should encourage debate about CPEC; consult with business leaders, civil society and locals affected; ensure landowners receive fair compensation; encourage hiring local labour; and allow space for dissent. Beijing and Chinese companies involved should support such measures.

Executive Summary

Envisaged in mid-2013 and launched in April 2015, the China-Pakistan Economic Corridor (CPEC), a set of projects under China's Belt and Road Initiative, marks a new era of economic ties in a bilateral relationship historically defined by security cooperation. Pakistan's economy clearly needs reform to better serve its people, and many officials say CPEC will help in this regard. But as currently rolled out, the corridor risks aggravating political tension, widening social divides and generating new sources of conflict in Pakistan. The government that assumes power after Pakistan's July elections should mitigate these risks by being more transparent about CPEC plans, consulting all stakeholders, including smaller provinces, the business community and civil society, and addressing concerns that the corridor subordinates Pakistan's interests to those of China. For its part, Beijing also should consult stakeholders in regions that will host CPEC projects projects it agrees upon with Islamabad. It should encourage Chinese companies to display sensitivity to residents of those areas, including by hiring local labour.

CPEC, which comprises loans, investments and grants that could grow to around $60 billion, travels a 2,700km route. It starts on the Pakistani Arabian Sea port of Gwadar, in Balochistan province, climbs along the Karakoram highway through the Khunjerab pass in Gilgit-Baltistan, before crossing into the Kashgar prefecture in China's Xinjiang region. Within Pakistan's territory, the economic and development project prioritises transport infrastructure, industrial development, energy and Balochistan's strategically located Gwadar port. Agricultural modernisation and production form another critical component.

The Pakistan Muslim League-Nawaz (PML-N) government, which came to power after elections in 2013 and stepped down on 31 May 2018, depicted CPEC as a leap forward both in relations with China and for the country's economic development. Contenders to national office from across the political spectrum have broadly endorsed this view. Yet some high-level officials and prominent voices in Pakistani business are concerned about the failure to protect local economic interests, high guaranteed returns on equity to Chinese investors and unaffordable national debt.

While it is too early to assess if CPEC can deliver the economic gains Islamabad promises, the project risks inflaming longstanding tensions between the centre and smaller federal units and within provinces over inequitable economic development and resource distribution. Less-developed federal units such as Balochistan and Sindh contend that the corridor's route, infrastructure and industrial projects will mostly benefit Punjab, already the country's wealthiest and politically powerful province. Yet, even in Punjab, locals could forcibly resist the state's acquisition of land for CPEC's agricultural projects.

In Balochistan, CPEC is exacerbating existing grievances among a population whose perceptions of exploitation and neglect by the centre, together with authorities' suppression of dissent, have long fuelled an insurgency. The province will receive no direct financial benefits from Gwadar port, a key CPEC project, which means local anger at Islamabad is likely to intensify. Instead of developing a sleepy fishing village into a bustling commercial hub as pledged by Islamabad and Beijing, the project is

producing a heavily militarised zone, displacing locals and depriving them of economic lifelines. In Sindh's Tharparkar district, coal-based CPEC power projects are not only damaging the environment, but are also displacing locals from their homes and could destroy livelihoods.

Many of these problems stem from opaque policy formulation, and the failure to heed regional and local concerns. CPEC's Long-Term Plan (2017-2030) was formulated by the centre with little input from local leaders, business or civil society actors. It was not disclosed until December 2017 – and then only in broad strokes – after the rollout of some major elements had already begun. From the project's entry point, Gwadar, to its exit point, in Gilgit-Baltistan, the state's response to local dissent and alienation has been an overbearing security presence, marked by army checkpoints, intimidation and harassment of local residents, and crackdowns on anti-CPEC protest.

Perceived geopolitical gains could also take precedence over economic ones. Pakistan's military establishment views a deeper economic relationship with China, even if tilted in Beijing's favour, as a counterpoint to rising U.S. diplomatic and economic pressure to end support to Afghanistan- and India-oriented militant proxies. But as it expands its economic footprint in the country, Beijing, too, seems increasingly concerned about the threats posed by such proxies to its national and regional security interests. Moreover, unequal gains, combined with perceptions that CPEC projects undermine the economic, social and political interests of key stakeholders, could aggravate anti-Chinese sentiment within Pakistan. There already have been several attacks on Pakistanis employed in CPEC projects.

Islamabad should ensure that CPEC's directions and priorities address the country's economic and political interests, including by taking the following steps:

- Build political consensus on the project's direction, including by fostering debates in the national and provincial legislatures, to ensure that there are equitable gains for all provinces; and stop arrests, harassment and other coercion of critics.
- Consult economists, chambers of commerce, the Pakistan Business Council, trade associations and other business community stakeholders, and incorporate measures to address their concerns in a new framework for CPEC special economic zones and development projects.
- Hire local labour and ensure that CPEC projects apply labour protections and practices.
- Consult extensively with local communities about the potential costs and benefits of major development projects and devise an appropriate compensation and resettlement plan for all those displaced, including not just formal landowners but also those with the informal land ownership common across Pakistan. If needed, parliament should consider relevant reforms to the 1894 Land Acquisition Act.

Beijing and Chinese firms should:

- Consult and engage the full spectrum of Pakistani stakeholders, from competing elites to the grassroots, as CPEC projects are identified and/or implemented, and prioritise job creation for locals.
- Conduct comprehensive risk and political analysis of CPEC projects to ensure that benefits are shared equitably between competing interests.
- Complement such efforts with effective and extensive communication with Pakistani stakeholders at the local, regional and national levels, so as to illustrate common interests.

For all the risks and challenges, CPEC offers an opportunity to upgrade Pakistan's aging and dysfunctional infrastructure, and revive a flagging economy. But to deliver on these promises, both Islamabad and Beijing need to implement it with considerably more sensitivity and consultation than they have displayed thus far, with provinces and the communities most affected given a greater voice in shaping CPEC projects. Locals need to see dividends; benefits that overwhelmingly flow to outsiders would aggravate social and political divides, fuelling tension and potentially conflict. As Pakistan's democratic transition approaches another milestone, with a second consecutive elected government completing a full term, its successor should seize the opportunities of a fresh mandate, shape public debate on CPEC and adopt related policies that put the well-being of Pakistani citizens at their core.

Brussels, 29 June 2018

China-Pakistan Economic Corridor: Opportunities and Risks

I. Introduction

Security cooperation has long defined Pakistan's relationship with China, with economic ties lagging far behind military engagement. Since 2015, such ties, focused on the China-Pakistan Economic Corridor (CPEC), a set of projects that are part of Beijing's Belt and Road Initiative, have assumed new significance.[1] Pakistan's political leadership calls CPEC a "game changer" that would bring prosperity by revitalising a fragile economy. Its military, which dominates foreign, defence and security policy, perceives closer ties with China as an opportunity to offset rising tensions with the U.S. over Pakistan's support for Afghanistan- and India-oriented militant groups.[2] For China, geopolitical ambitions, sustained by greater connectivity and trade infrastructure across the region, drive the evolution of the relationship.[3]

This report examines CPEC's economic and development projects within Pakistan, discusses whether it will bring the broad economic revival that Pakistani leaders claim it will generate, and assesses its political and security costs for Pakistan. It analyses CPEC's impact on domestic stability and security, particularly the potential

[1] For analysis of China's Belt and Road Initiative, see Crisis Group Asia Commentary, "The Twists and Turns along China's Belt and Road", 2 October 2017; and Crisis Group Europe and Central Asia Report N°245, *Central Asia's Silk Road Rivalries*, 27 July 2017. "Pak-China bilateral ties are time tested: Our relationship has attained new heights after the China-Pakistan Economic Corridor that is a game changer for the region and beyond", stated then Prime Minister Shahid Khaqan Abbasi. Quoted in "Long Term Plan for China-Pakistan Economic Corridor (2017-2030)", Ministry of Planning, Development and Reform, Government of Pakistan and National Development and Reform Commission, People's Republic of China (2017), at www.cpec.gov.pk.
[2] For Crisis Group analysis of military-led security policy and militant proxies, see Asia Reports N°279, *Pakistan's Jihadist Heartland: Southern Punjab*, 30 May 2016; N°271, *Revisiting Counter-Terrorism Strategies in Pakistan: Opportunities and Pitfalls*, 22 July 2015; N°255, *Policing Urban Violence in Pakistan*, 23 January 2014; N°242, *Pakistan: Countering Militancy in PATA*, 15 January 2013; N°178, *Pakistan: Countering Militancy in FATA*, 21 October 2009; N°164, *Pakistan: The Militant Jihadi Challenge*, 13 March 2009.
[3] Crisis Group discussions, Chinese and Western analysts, Beijing, Hong Kong, Shanghai and Washington, March-May 2018; Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics* (London, 2015); "China's diplomatic efforts to promote energy and resources cooperation along the 'One Belt and One Road'", CIIS Report No. 5, China Institute of International Studies, May 2015; Daniel Markey and James West, "Behind China's gamble in Pakistan", Council on Foreign Relations, 12 May 2016; Li Qingyan, "Opportunities and Challenges for Constructing CPEC: Regional and National Economic Perspectives", *China International Studies*, vol. 62, January/February 2017; "Opportunities and Challenges of Implementing the 'Belt and Road' Initiative", CIIS Report, vol. 17, China Institute of International Studies, April 2017; Huang Ying, "B&R, AIIB: Opportunities for Enhancing FDI in South Asia", *Contemporary International Relations*, vol. 27, no. 1, January/February 2017; Michael Kugelman, "The China-Pakistan Economic Corridor: What It is, How It is Perceived and Implications for Energy Geopolitics", in *Asia's Energy Security and China's Belt and Road Initiative*, NBR Special Report no. 68, National Bureau of Asian Research, November 2017; Andrew Small, "The Backlash to Belt and Road", *Foreign Affairs*, 16 February 2018.

for heightened tensions between the federation and federal units, between Islamabad and Gilgit-Baltistan, and on conflict dynamics within provinces. It does not analyse in detail Beijing's Pakistan policy or its options for CPEC. The report is based on interviews with officials, economists, politicians, security analysts, journalists, activists and other stakeholders in the federal capital, Islamabad, as well as in Balochistan, Punjab and Sindh, conducted from November 2017 to January 2018.

II. The Beijing Connection

A. *Balancing Geopolitics and Economics*

Geopolitics and security dynamics have long determined the contours of Pakistan's China policy, with mutual animosity toward India a major factor. In the 1950s, Pakistan anchored its foreign policy in close relations with the U.S., while China and India established strong ties in the Non-Aligned Movement. When a border dispute triggered the 1962 war and unravelled the Sino-Indian relationship, Islamabad seized the opportunity to forge stronger ties with Beijing, including settling their own border dispute by ceding Gilgit-Baltistan's Shaksgam valley to China.[4] During Pakistan's 1965 war with India, China provided it limited military but significant diplomatic support. After Pakistan's loss in the 1971 war with India, resulting in East Pakistan's secession and the formation of Bangladesh, military ties between Islamabad and Beijing deepened and soon came to define the relationship, including China's eventual support for Pakistan's nuclear weapons program.[5]

Economic ties were also historically shaped by strategic priorities such as road connectivity in the border region of Gilgit-Baltistan and Xinjiang. Built in the 1970s, the Karakoram highway connects Pakistan's north, via Gilgit-Baltistan, through the Khunjerab pass, to Xinjiang's Kashgar prefecture, rising to 4,700m above sea level in rough mountainous terrain.[6]

Yet Pakistan's alliance with China has thus far yielded few economic benefits. Not only does China-Pakistan trade lag far behind Sino-Indian trade, it is also outstripped by Chinese trade with similar-sized and even smaller economies than Pakistan's, such as those of the Philippines and Vietnam.[7]

Moreover, Pakistan's trade deficit with China has tripled over the last five years, reaching around $12 billion in 2017.[8] Leading economists and representatives of Pakistan's business community see the country's Free Trade Agreement (FTA) with China, signed in 2006 and operational the following year, as disproportionately benefiting the latter.[9] Chinese goods have flooded Pakistani markets because the FTA's

[4] Until 2009, Gilgit-Baltistan was officially called the Northern Areas.
[5] A prominent Chinese academic argues that for Beijing this relationship's objective "has not been to strengthen the two countries' welfare interests but to strengthen them against common threats. It should be described as a shield to protect their traditional security interests rather than a bridge to lead to common prosperity and wealth". Quoted in Small, *The China-Pakistan Axis*, op. cit., p. 25. Paul K. Kerr, Mary Beth Nikitin, "Pakistan's Nuclear Weapons", Congressional Research Service, 1 August 2016, p. 3.
[6] The 1,300km road, officially called National Highway 35 but commonly known in Pakistan as the Karakoram highway, was built between 1959 and 1986. The 887km highway starts in Punjab's Hasan Abdal district, and then traverses Khyber Pakhtunkhwa and Gilgit-Baltistan; the remaining 413km are in Chinese territory, where the road is designated China National Highway 314.
[7] Small, *The China-Pakistan Axis*, op. cit.
[8] Pakistani exports to China increased from $0.5 billion in 2006-2007 to $1.47 billion in 2016-2017. Chinese exports to Pakistan jumped from $4 billion to $14.56 billion in the same period. "Trade bodies meet commerce officials over China FTA concerns", *The News*, 28 March 2018; "All set for signing of revised FTA with China", *Dawn*, 20 March 2018; "Pak-China FTA", *Dawn*, 10 February 2018.
[9] Crisis Group interviews, economists, representatives of business and industry and the finance sector, Lahore and Karachi, November-December 2017.

concessions mainly favour China and also because Pakistan's liberal import policy, including low duties and general sales tax, keep down the prices of Chinese machinery and other imports.[10] Meanwhile, high Chinese tariffs make it hard for Pakistani exports to penetrate the Chinese market. A former State Bank governor pointed out: "Part of the problem is our own policies, but the Chinese haven't done what they could have".[11]

Islamabad is renegotiating the FTA, seeking safeguards for local industries and incentives for exports and Chinese measures to facilitate duty-free import of some 70 Pakistani items. China has reportedly agreed to liberalise 90 per cent of tariff lines, among other measures to appease Pakistani industry.[12] A prominent economist described Islamabad's efforts to renegotiate the FTA as "locking your door after everything's already been stolen".[13] That said, improved conditions would benefit Pakistan's economy.

Economic ties appear to have gained more importance since CPEC was launched in 2015, as part of China's Belt and Road Initiative, an ambitious program to invest as much as $1 trillion in new transport and trade infrastructure connecting China to the rest of the world.[14] Islamabad and Beijing conceived CPEC in mid-2013 and formally launched it in April 2015 as a $45 billion economic and development package including loans, investments and grants that could grow to around $60 billion. Some Chinese analysts now consider it the "flagship" of the Belt and Road.[15]

Despite this new emphasis on economic ties, Pakistani policymaking is still shaped by the ostensible strategic dividends of a close relationship with China as a counterpoint to India and a means of deflecting U.S. pressure. A Lahore-based business leader with close knowledge of Pakistan's dialogue with China said, "as Pakistan gets more isolated internationally, we're hoping that China will give us a veto [exercise a veto on Pakistan's behalf] in the UN Security Council, diplomatic and moral support, as well as put pressure on India. That's what the military wants". A senior journalist who has long covered security issues said, "the military sees CPEC as a counterforce to a hostile U.S. and India. It will latch on to China even if the deals [under CPEC] are unfair to Pakistan".[16]

Pakistan's ties with China have weathered political instability, including previous regime changes and coups, but the removal of former Prime Minister Nawaz Sharif in July 2017 has slowed the pace of CPEC projects, and damaged investor confidence,

[10] In the FTA, Pakistan's concession list covered 59 per cent of Chinese imports, while China's concession list covered 5 per cent of Pakistani imports. Hussain H. Zaidi, "Revising FTA may not make a big difference", *Dawn*, 19-25 February 2018. See also Ehsan Malik, "Don't let Chinese imports kill Pakistan's local industry", *Dawn*, 20 May 2018. Malik is CEO of the Pakistan Business Council.
[11] Crisis Group interview, Shahid Kardar, Lahore, November 2017.
[12] "China urged to encourage imports from Pakistan", *Dawn*, 17 January 2018; "Pakistan, China agree on terms of FTA phase II", *The Nation*, 26 May 2018.
[13] Crisis Group interview, Faisal Bari, Lahore, November 2017.
[14] Crisis Group Report, *Central Asia's Silk Road Rivalries*, op. cit.
[15] In late April, Ahsen Iqbal, then minister for interior, planning and development, disclosed that the two countries had spent $29 billion on CPEC projects by that month. "PM hails CPEC as springboard for development", *Dawn*, 24 April 2018; Ruan Zongze, "Belt and Road Initiative: A New Frontier for Win-Win Cooperation", *China International Studies*, July/August 2017.
[16] Crisis Group interviews, Lahore, November 2017.

local and Chinese.[17] Although China insists that political changes in Pakistan have no impact on the bilateral relationship, a senior Sindh official who interacts regularly with Chinese officials and investors said, "the Chinese were disappointed when Nawaz Sharif was ousted; they don't like this political merry-go-round".[18] A political economist added, "CPEC has been on hold since Nawaz Sharif's dismissal; the Chinese are waiting to see what happens after the elections."[19] Polls are scheduled for 25 July 2018.

B. *The Jihadist Factor*

The military's support for Islamist militants and their political fronts, both to protect its jihadist proxies and to destabilise the civilian government, could frustrate Pakistan's hopes that China would help to neutralise U.S. pressure. Most recently, these fronts include two new Islamist groups, the Barelvi Tehreek-i-Labaik Ya Rasool Allah (or Labaik), and the Milli Muslim League, a political front for the anti-India Lashkar-e-Tayyaba/Jamaat-ud-Dawa; both contested 2017 by-elections in Peshawar and Lahore.[20] A retired top intelligence official said, "there's a misperception about being able to handle the fallout of the games we play. We assure Beijing, 'don't worry', but then look at our record. The immediate objective might have been to undermine Nawaz Sharif, but we won't be able to manage the fallout".[21]

China is particularly concerned about links between militants in Pakistan's tribal borderlands and disgruntled Uighurs organised as the East Turkestan Islamic Move-

[17] A Lahore-based business representative who strongly supports CPEC said: "The day the JIT [joint investigation team] was formed [to investigate Sharif], I told people not to invest in Gwadar". Crisis Group interview, Lahore, November 2017. The Supreme Court used a controversial constitutional provision, Article 62 (1) (f) [requiring that parliamentarians be *sadiq* (truthful) and *ameen* (trustworthy or righteous)], to disqualify Sharif from holding public office. The judgment, given in a case related to leaked records of offshore assets disclosed in the Panama papers, was based on Sharif's failure to disclose employment in his son's Dubai-based firm in his 2013 election nomination papers even though he did not take a salary. The Supreme Court's verdict was based on the findings of the JIT that had two military representatives, one each from Military Intelligence (MI) and Inter-Services Intelligence (ISI). At the time of the verdict, Sharif's relations with the military had soured as he tried to expand civilian control over national security and foreign policy, particularly attempting to improve relations with India. Aqil Shah, "Pakistan's court sets a dangerous precedent", *The New York Times*, 28 July 2017; "Nawaz Sharif steps down as PM after SC's disqualification verdict", *Dawn*, 28 July 2017; Article 62: Qualifications for membership of Majlis-e-Shura (parliament), constitution of Pakistan.
[18] Crisis Group interview, Karachi, December 2017. A senior Chinese foreign ministry official said, "it makes no difference (to China) who comes in (government) and who goes out as both countries have brotherly relations". "Change of govt in Islamabad won't affect CPEC: China", *Dawn*, 3 November 2017.
[19] Crisis Group interview, Karachi, January 2018.
[20] In November 2017, Labaik occupied a road and bridge linking Islamabad and Rawalpindi, which hosts the army's headquarters, gravely undermining the PML-N government's credibility as access to the federal capital was barred by violent Labaik protesters. The government's public standing was further eroded after it had to agree to Labaik's demands for the resignation of Law Minister Zahid Hamid, held responsible for an election reform bill which the protesters believed weakened the oath taken by legislators on the finality of the prophethood. The siege ended after a military-brokered deal, with a serving major general signing it as guarantor. "Faizabad sit-in ends as army broker's deal", *Dawn*, 28 November 2017.
[21] Crisis Group interview, Lahore, November 2017.

ment (ETIM) in Xinjiang Uighur Autonomous Region.[22] After the 11 September 2001 attacks in the U.S., ETIM members found sanctuary along with other jihadist groups in Pakistan's Federally Administered Tribal Areas (FATA). Pressured by China, the Pakistani military moved against Uighur militants, claiming to have eliminated them, though many appear to have crossed the border into Afghanistan after the Pakistani military's 2015 operation in FATA's North Waziristan.[23]

According a senior ex-intelligence official, "the [Pakistani] military and Chinese perceptions on the jihadi proxy issue will diverge and become an issue but the India factor will prevail and limit any serious Chinese pressure".[24] Indeed, Beijing has repeatedly blocked the U.S.-backed Indian bid at the United Nations to list Masood Azhar, the leader of the anti-India jihadist Jaish-e-Mohammed, as a "global terrorist".[25]

That said, China's patience with the military's support for jihadist proxies may be waning. At the September 2017 BRICS (Brazil, Russia, India, China, South Africa) summit in China's city of Xiamen, those countries expressed concern over "the security situation in the region and violence" because of several transnational organisations – these included Pakistan's Lashkar-e-Tayyaba, Jaish-e-Mohammed and a close ally, the Afghan Haqqani network.[26] China's decision to support the Financial Action Task Force (FATF)'s move to "grey-list" Pakistan – in other words to include it in the list of countries with weak "anti-money laundering" (AML) and "countering financing of terrorism" (CFT) regimes – during the task force's plenary session in February this year is yet another signal that it shares, at least to some degree, U.S. and Indian concerns about Pakistan-based jihadist groups.[27]

Warning that Pakistan faced international isolation because it had failed to end state support for such groups, former Prime Minister Nawaz Sharif said that allies like China were concerned.[28] There are even signs that the coming together of U.S. and Chinese positions on these proxies might inspire a rethink in the military command about the institutional costs of such support – the first step toward policy

[22] Crisis Group Report, *Central Asia's Silk Road Rivalries*, op. cit.
[23] No political party, not even the Islamists, condemns reports of Chinese abuses of Uighur rights or military action against the Uighurs. Crisis Group interview, Ahmed Rashid, journalist and author, Lahore, November 2017. "Bombing of Chinese separatists shows how Trump's Afghan war changed", *The Washington Post*, 11 February 2018; "Pakistan says 'almost all' Uighur militants eliminated", Reuters, 2 September 2015; "China leans on Pakistan to deal with militants", *Time*, 10 April 2009; "Pakistan announces it has defeated ETIM. So what?", *The Diplomat*, 22 October 2015.
[24] Crisis Group interview, Lahore, November 2017.
[25] "China blocks Indian bid to list Masood Azhar as global terrorist", *The News*, 2 November 2017. Also Crisis Group Report, *Pakistan's Jihadist Heartland*, op. cit.
[26] "Brics name Pakistan-based militant groups as regional concern", Reuters, 4 September 2017.
[27] Pakistan will be included in the watch list in June 2018. It was first put on the list during 2012-2015, but for failure to curb money laundering. The charge of terror financing is now included. China first reportedly opposed the U.S.-sponsored motion, backed by the UK, France and Germany, to include Pakistan in the watch list and then withdrew its objection during the second vote called by the U.S. Crisis Group discussion, analyst, Washington, April 2018; "Pakistan set to be placed on FATF grey list in June", *Dawn*, 24 February 2018; "Economic fallout of being on grey list", *Dawn*, 5-11 March 2018.
[28] "We have isolated ourselves", Sharif warned, because "militant groups are active", adding, "President Xi has said it". Cyril Almeida, "For Nawaz, it's not over till it's over", *Dawn*, 12 May 2018.

change – given the possible impact on Pakistan's already troubled economy of a FATF grey-listing (and possible blacklisting).[29]

C. *Security Challenges for Chinese Nationals and Projects*

As China's economic footprint expands in Pakistan through CPEC, so, too, do concerns about security threats to its interests and personnel. While exact numbers are not available, there are an estimated 30,000 Chinese nationals living in Pakistan. The numbers of Chinese visiting Pakistan on short term, including tourist visas (often used to bypass bureaucratic hurdles in obtaining business visas) could be as high as 70,000. "With large numbers of Chinese citizens coming into Pakistan", said a senior police official in Lahore, "security challenges are becoming graver".[30]

In October 2017, the Chinese embassy in Islamabad claimed there was a militant threat against the ambassador and requested additional security. In December, the embassy said it had received "some information that the security of Chinese institutions and personnel in Pakistan might be threatened".[31] Chinese firms and analysts see a need to train and employ more private security personnel and enhance security protocols.[32]

A report by a leading Chinese think tank warned that CPEC risks becoming a new arena for competition among deeply divided political parties, levels of government, the military and civilians, and ethnic groups in Pakistan; other Chinese analysts concurred.[33]

Deeming it a national security priority, the Pakistani military has sought more control over key parts of the project. Along with thousands of police and paramilitary officers, a Special Security Division, comprised of 15,580 army personnel and the Maritime Security Force, are tasked with protecting Chinese workers and CPEC

[29] The military leadership, in closed-door discussions, has acknowledged that Islamabad will have to respond to Beijing's concerns. In a briefing to a hand-picked group of journalists and security analysts, army chief Qamar Javed Bajwa, reportedly declaring his intention to eliminate all militant and jihadist groups in Pakistan, said that the military would heed China's advice to peacefully resolve differences, including over Kashmir, with India. Suhail Warraich, "The Bajwa doctrine", *The News*, 18 March 2018; "The 'Bajwa doctrine'", *Dawn*, 25 March 2018.
[30] Crisis Group interview, Lahore, November 2017. According to a Chinese analyst, there are approximately 10,000 Chinese employed in CPEC projects, and a further 9,000 participating in other construction projects. Crisis Group interview, Beijing, April 2018. "Massive Chinese investments a boon for Pakistan", *Economist*, 8 September 2017; "Braving security fears, Chinese seek 'Silk Road' riches in Pakistan", Reuters, 28 August 2017.
[31] "Chinese embassy warns of threat to envoy", *The Nation*, 22 October 2017; "Chinese citizens in Pakistan warned of possible terror attacks", *Dawn*, 8 December 2017.
[32] Zi Yang, "China's Private Security Companies: Domestic and International Roles", *China Brief*, vol. 16, issue 15, 4 October 2016; Fu Xiaoqiang, "Holistic Counter-terrorism Efforts and Better Protection of Overseas Interests", *Contemporary International Relations*, March/April 2018.
[33] "Opportunities and Challenges of Implementing the 'Belt and Road' Initiative in South Asia", Research Report Vol. 17, China Institute of International Studies, April 2017; Crisis Group discussions, Chinese analysts, Beijing and Shanghai, March-May 2018.

projects.[34] This larger military footprint is alienating locals even as CPEC strains relations between the federal units and the federation.[35]

[34] "Over 92,000 foreigners visit Pakistan since launch of CPEC", *The News*, 5 March 2018; "Murder of Chinese man was inside job, says police official", *Dawn*, 8 March 2018.

[35] Several Pakistani observers are concerned that absent safeguards, the Long-Term Plan's inclusion of information connectivity with China, including the construction of optical fibre cables and networks and electronic border monitoring, could further shrink space for civil society, including anti-CPEC dissent. Crisis Group interviews, journalists, retired senior officials, business community representatives, Karachi, December 2017. See also "Long-Term Plan for China-Pakistan Economic Corridor", op. cit.

III. Demystifying CPEC

A. *A Conceptual Leap?*

A Pakistan Business Council representative argued that, "CPEC is primarily a geopolitical project. Economics have merely been added on to it".[36] But not all business leaders are as sceptical. Given the fragility of Pakistan's economy, some believe that CPEC could have a useful "demonstration effect, indicating to other investors that Pakistan is a safe and attractive destination for foreign direct investment".[37] The CEO of a major Karachi-based business conglomerate described CPEC as a "win-win" that will provide Pakistan "much-needed project financing lines to make up for its infrastructure shortages", and attract other countries' suppliers and financial institutions to do business in the country. A senior partner at a leading corporate services firm said that once Chinese industrial units were set up in Pakistan, instead of merely exporting raw materials, the country could export high-value products to China.[38]

Politicians across the political spectrum also are mostly supportive. The leader of the opposition in the Senate noted that CPEC could encourage the modernisation of manufacturing; Punjab's chief minister believed that CPEC would help create jobs.[39] In its annual credit analysis for Pakistan, Moody's Investors Service concluded that, if successfully implemented, CPEC could transform Pakistan's economy by stimulating local and foreign investment.[40]

Still, analysis of the economic promise and impact of CPEC – as well as its ability to support a broad set of economic goals and an Islamabad-devised integrated strategy to develop the economy – is hampered by the opacity of its formulation and rollout. Pakistan's Planning Commission reportedly presented China with a full menu of projects for financing, with little apparent consideration for how these would be best sequenced. The menu includes everything from investment in the power sector to road and rail infrastructure, industrial cooperation and agricultural development. A former Planning Commission head described it as a "kitchen sink approach".[41]

There has been little input from key stakeholders, whether parliament, chambers of commerce or civil society organisations.[42] A major daily noted: "The ambitious CPEC partnership has deepened doubts about the willingness of the Pakistani state

[36] Crisis Group interview, Karachi, December 2017.
[37] Arif Rafiq, "The China-Pakistan Economic Corridor: Barriers and Impact", U.S. Institute of Peace, 25 October 2017.
[38] Arif Habib, "Why CPEC is a no-brainer"; Shabbar Zaidi, "Reality versus myth". Texts of speeches in "CPEC 2018 Summit: Supplement", reprinted in *Dawn*, 22 May 2018.
[39] Punjab Chief Minister Shahbaz Sharif said, "Pakistan has a huge youth bulge that can benefit from opportunities coming this way thanks to CPEC. If not given opportunities, our youth will be pushed into a bloody revolution". Sherry Rehman, "CPEC: A momentum for prosperity", texts of speeches in "CPEC 2018 Summit", op. cit.
[40] "Moody's reaffirms Pakistan's rating, but vulnerabilities remain", *Dawn*, 22 May 2018.
[41] Crisis Group interview, Nadeem ul Haque, Lahore, November 2017.
[42] Crisis Group interviews, business leaders, chambers of commerce representatives, civil society activists, Lahore, Karachi and Islamabad, November 2017-January 2018.

to be transparent and its ability to negotiate the best possible economic terms in every deal".[43]

CPEC's Long-Term Plan (2017-2030), released in December 2017, defines the project broadly as "a growth axis and a development belt", with "the comprehensive transportation corridor and industrial cooperation between Pakistan and China as the main axis" and "concrete economic and trade cooperation" as "the engine". The plan names four priorities in Pakistan – the Gwadar port, energy, transport infrastructure and industrial cooperation, which would speed up Pakistan's industrialisation and urbanisation. According to CPEC's timelines, short-term projects would be completed by 2020; medium-term projects, including the industrial system, close to completion by 2025; and long-term projects in place by 2030.[44] Yet the plan provides barely any details on planned and proposed projects and agreements.

The seventh meeting of the CPEC Joint Coordination Committee, which reviews and approves CPEC projects, took place in November 2017. The committee's discussions reportedly suggest a potential shift from concessional loans for energy and infrastructure projects to commercially viable projects that would not qualify for concessional loans.[45] Since sovereign guarantees would likely apply to such commercial loans, it would further increase Pakistan's national debt. Yet detailed information is limited. A senior journalist investigating CPEC said, "we still know very little about CPEC. The material that would tell us more is still vigorously concealed".[46] Another analyst commented, "the launch of the detailed CPEC plan neither adds anything new to our understanding of the project nor helps remove the concerns of critics regarding the overall impact of the project".[47]

The government is largely responsible for this lack of transparency. But though individual parliamentarians have raised concerns about inequitable distribution of CPEC projects and resources, all the major opposition parties have also supported CPEC and been reluctant to discuss it in parliament. Committee chairs and ranking members have failed to promote open debate or exercise oversight over one of Pakistan's most ambitious economic and geostrategic undertakings.

B. *Power Production and Debt*

Islamabad has encouraged CPEC investment in power production, with power projects included in its first ("early harvest") phase.[48] To attract Chinese investment, most plants are being built with Chinese equipment and many will be Chinese-owned. More wattage for the national grid will certainly help reverse the decline in

[43] Editorial, "Balancing ties", *Dawn*, 7 March 2018.
[44] The belt, consisting of CPEC's "core zone", would include all four Pakistani provinces, the federal capital territory, Islamabad, and Gilgit-Baltistan, and Xinjiang in China. "Long-Term Plan for China-Pakistan Economic Corridor", op. cit. The Long-Term Plan's memorandum of understanding was signed on 21 November 2017. A major daily had published a leaked version of the Long-Term Plan in May 2017. "Exclusive: CPEC master plan revealed", *Dawn*, 15 May 2017.
[45] Crisis Group interview, Naheed Memon, chairperson, Sindh Board of Investment, Karachi, December 2017. Memon was part of the Sindh delegation to the Joint Cooperation Committee meeting.
[46] Crisis Group interview, Khurram Hussain, Karachi, December 2017.
[47] Mushtaq Rajpar, "CPEC concerns", *The News*, 21 December 2017.
[48] For example, in 2016 the Karot hydropower project was initiated as the first investment by China's Silk Road Fund. Ruan, "Belt and Road Initiative", op. cit.

economic productivity caused by long power outages. Yet the pace of implementation has been slow at best.[49] Moreover, International Monetary Fund (IMF) assessments show that Pakistan's repayment obligations, including the payment of debts and guaranteed rates of return on equity for investors (17 per cent for power projects), "will likely offset a significant share of these [foreign direct investment and other external funding] inflows, such that the current account deficit would widen". It warned, "Pakistan's capacity to repay could deteriorate at a faster pace, with faster depletion of foreign exchange reserves and significant implications for economic growth".[50]

These assessments reflect that in its bid to attract investment, Pakistan offers overly generous terms to foreign (including Chinese) investors. These will be unaffordable if the increased power generation does not yield the expected economic growth. If, and when, Islamabad seeks another IMF bailout, the IMF will likely demand greater transparency in CPEC energy and other projects' financing, so as to assess the impact of expensive Chinese loans on Pakistan's balance of payment crisis.[51]

The new plants are in any case inadequate since an aging and inefficient power infrastructure will remain unreformed. Domestic industries and consumers will also continue to pay more, because of a tariff policy that is overly generous to foreign investors and reflects rising expenditure on security for CPEC projects and personnel (discussed below).[52]

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[49] The Planning Commission initially said CPEC's energy component would generate 17,000 megawatts by 2020, but the current pace suggests only half that output would be in place by then. Rafiq, "The China-Pakistan Economic Corridor", op. cit.

[50] In 2018, Pakistan's current account deficit will be around $16.6 billion; according to IMF estimates, its gross international reserves were $12.7 billion by mid-February 2018, while foreign exchange liabilities were $13,496 billion. Rejecting criticism that CPEC was a debt trap at the April 2018 CPEC summit, then Planning, Development and Reform Minister Ahsen Iqbal said, "out of the total package, an estimated amount of 34 billion [U.S. dollars are] in the form of investment by Chinese companies in the energy projects in Pakistan". According to a former Pakistani finance minister, if Pakistan has to return $100 billion in principal and interest over the next twenty years, it would amount to $4-5 billion annually. Abdul Hafiz Sheikh, "Is Pakistan ready to make the right choices?", text in CPEC 2018 Summit, op. cit. According to IMF, estimates of annual outflows for CPEC-related investment and government-to-government loans would reach $3.5 billion by 2024-2025. "IMF warns of looming CPEC bill", *Dawn*, 17 October 2016. "IMF projects gross external financing needs at $24.464 billion in FY2018", *The News*, 16 March 2018; Editorial, "IMF warning", *The News*, 12 March 2018; "Govt to secure $1,5bln commercial loan in April to shore up reserves", *The News*, 28 March 2018; "Sheer size of CPEC portfolio appals IMF", *The Express Tribune*, 13 December 2017; Ishrat Hussain, "Financing burden of CPEC", *Dawn*, 11 February 2017. Hussain is a former governor of Pakistan's State Bank.

[51] See "Pakistan needs IMF support, Mulk warned", *The Express Tribune*, 5 June 2018; and "Pakistan refutes IMF as it eyes bonds, China funding", Bloomberg, 8 March 2018.

[52] In August 2017, the National Electric Power Regulatory Authority allowed power producers to charge consumers 1 per cent of capital cost in nineteen CPEC power projects for 20-30 years, for the provision of security to Chinese personnel and projects. Jawad Syed, "Terrorising the Belt and Road: A Critical Analysis of Security Threats to Chinese Nationals and Businesses in Pakistan", working paper, Lahore University of Management Sciences, China-Pakistan Management Initiative, November 2017. "If energy input costs don't come down, we can't benefit", said a senior Pakistan Business Council representative. Crisis Group interview, Lahore, November 2017.

C. Special Economic Zones and Industrial Cooperation

Special Economic Zones (SEZs) and industrialisation are among the key areas of co-operation, and possibly the most critical for economic growth and job creation. Of several provincial economic zones Pakistan has proposed so far, China has agreed to first develop one each in Sindh, Khyber Pakhtunkhwa and Punjab. Work has already begun on the largest, the M3 industrial city in Punjab's Faisalabad district.[53]

Special economic zones were integral to China's 1980s economic reforms, subject to free-market and export-oriented policies and measures such as tax benefits and preferential treatment of foreign investment.[54] For CPEC, Pakistan's GSP+ access to the EU will likely attract Chinese investors and producers, as will tax rebates and other incentives.[55] If Pakistani producers and labour benefit, the zones, coupled with pro-export and growth reforms, could indeed create opportunities for Pakistan.

If not, they could undermine existing domestic industry. Information is scarce about how the zones will relate to the rest of the economy, which could slow other investments. For example, producers would be hesitant to establish factories or mills if a nearby CPEC zone produces similar goods but with the benefit of tax, duty and other concessions. An industrialist complained: "There's no mechanism for such information flows. If the Chinese plan to set up something that competes with me, I'll find out too late".[56] Whether these zones will ultimately produce products that can compete in the international market, including against Chinese manufactures is also debatable.

Much depends on Pakistan's regulatory framework, where there have been few changes to level the playing field. Pakistan's more than 60 industrial zones (unrelated to CPEC) have done little to increase industrial competitiveness, and the most prominent industries, such as textiles and automobile manufacturers, survive on subsidies and other forms of protection, with few incentives to be competitive. Pakistani policy is skewed toward imports, given a one-time 6 per cent import duty, rather than production. Manufacturing accounts for 13 per cent of the economy but almost 60 per cent of the tax burden.[57] "China is not contracted to make Pakistan more competi-

[53] The other provincial SEZs are Dhabeji Industrial Park in Thatta, Sindh, and Hattar Industrial Estate-II in Khyber Pakhtunkhwa. Other approved SEZs include one each in Azad Jammu and Kashmir (Mirpur), Gilgit-Baltistan (Moqpondass SEZ) and FATA's Mohmand agency (Mohmand Marble City). Islamabad is pushing for two federal SEZs, in Port Qasim, Karachi and in Islamabad (ICT Model Industrial Zone). "China to continue concessional financing under CPEC", *Dawn*, 22 May 2018; "Govt keen to launch Islamabad, Karachi SEZs this year", *Dawn*, 2 February 2018; "Due to delay, Centre plans to take over development of economic zones", *The Express Tribune*, 14 January 2018; "Three economic zones set to take off under CPEC", *The Express Tribune*, 13 November 2017.

[54] Frank Holmes, "China's new special economic zone evokes memories of Shenzhen", *Forbes*, 21 April 2017.

[55] The EU granted Pakistan GSP+ access to its markets in December 2013, including zero tariffs on 20 per cent of Pakistani products and preferential rates for 70 per cent.

[56] Crisis Group interviews, Lahore, December 2017. According to CPEC's Long-Term Plan, CPEC will "encourage various forms of Chinese enterprises to enter the Pakistani market". "Long-Term Plan for China-Pakistan Economic Corridor", op. cit.

[57] Statistics provided by Pakistan Business Council, Karachi, December 2017.

tive", said a senior Lahore Chamber of Commerce member. "We have to do that ourselves".[58]

[58] Crisis Group interview, Lahore, November 2017.

IV. CPEC: End to End

A. *Strains on the Federation*

The earliest tussle between the federation and federal units is related to CPEC's route from Kashgar in Xinjiang to Gwadar port in Balochistan. CPEC was originally meant to pass through and thus help develop impoverished areas of Balochistan as well as southern Punjab and Khyber Pakhtunkhwa. Activists and politicians in all three smaller provinces, Balochistan, Sindh and Khyber Pakhtunkhwa, including the Pashtun nationalist Awami National Party (ANP) and the Islamist Jamiat Ulema-e-Islam [Fazlur Rehman (JUI-F)] alleged that Sharif's PML-N government had changed the route to benefit its constituents in wealthier parts of central Punjab, the party's political bastion.[59]

A compromise between the federal and provincial governments yielded three planned routes: western, central and eastern. The western route would pass from the Karakoram highway's Khunjerab pass on the Gilgit-Baltistan-Xinjiang border, through Islamabad, Khyber Pakhtunkhwa's Dera Ismail Khan district, Balochistan's Zhob, Qilla Saifullah, Quetta, Panjgur and Turbat districts, before reaching Gwadar. A central route would pass through Dera Ismail Khan and reach Balochistan's Khuzdar district and Basima town via interior Sindh and southern Punjab. The eastern route would cover southern and central Punjab districts, including Lahore, Faisalabad, Rahimyar Khan, Bahawalpur and Multan.[60]

The controversy continues, however. With renegotiations and new Chinese conditions on the western corridor, CPEC's immediate focus is on using and upgrading the existing eastern route before eventually turning to new western routes.[61] A Baloch member of parliament said Chinese officials were wary of developing the western route because of security concerns: "The federal government has created this impression in their mind". Afrasiab Khattak, a former senator and senior ANP leader from Khyber Pakhtunkhwa, a major jihadist sanctuary, was also critical of the current focus on further developing the eastern route. "We feel cheated", he said, "Punjab gets the industrial zones and trade; Khyber Pakhtunkhwa gets [militant] training grounds and madrasas".[62] Yet addressing the adverse impact of CPEC on local communities, both in remote regions and the heartland, is arguably more urgent than settling the controversy about routes.

[59] In 2015, when the military reportedly requested additional expenses to secure CPEC projects, the provinces refused to provide them their share of the federal budget, asking, according to a senior official, how much of CPEC "would pass through their territory". Umer Farooq, "The federation question", *The News on Sunday*, 1 April 2018. See also "Altering reality", *The News*, 16 May 2015; Rafiullah Kakar, "Making sense of the CPEC controversy", *The Express Tribune*, 21 January 2016.
[60] For an overview of the route controversy, see Rafiq, "The China-Pakistan Economic Corridor", op. cit.
[61] According to a senator from Balochistan, during a visit to China, the delegation learned that the western route did not even exist in the Chinese record. "Senators in shock: CPEC western route doesn't even exist in Chinese record", *The News*, 10 March 2018.
[62] Crisis Group interviews, Islamabad, February 2018. A Khyber Pakhtunkhwa official alleged that none of his government's proposed projects were included in CPEC. "No KP-proposed projects land among CPEC", *The Express Tribune*, 17 November 2017. See also "The Baloch concerns", *The News*, 31 December 2017.

B. *CPEC's Exit Point: Gilgit-Baltistan*

All three prospective CPEC routes cross from Pakistan into China from Gilgit-Baltistan, which Pakistan considers part of disputed Kashmir. Its constitutional status within Pakistan is undetermined and political autonomy a façade, given the circumscribed powers of its elected legislative assembly. Nevertheless, because the Khunjerab pass via the Karakoram highway marks CPEC's border for both Pakistan and China, there were high expectations among residents that CPEC would offer Gilgit-Baltistan major development dividends. Indeed, Beijing's ambassador to Pakistan has promised major CPEC-related benefits to the region, including enhanced cross-border trade, upgraded infrastructure and hydropower projects.[63]

Residents' hopes thus far appear to have been misplaced. Given the mountainous terrain, the single-lane highway in Gilgit-Baltistan can only be upgraded and not significantly widened. "Overland trade", said a CPEC expert, "is in any case very expensive and would remain so even if the route is developed further".[64]

Locals in Gilgit-Baltistan are already resentful of what they see as their region's political and economic isolation. Adding insult to injury is that CPEC projects, designed and implemented without their input, will be of little benefit to them.[65] The ecological costs of infrastructure projects in a mountainous region prone to landslides, and carbon emissions from the expected increase of truck traffic, have also angered environmental and local activists. Locals are also sceptical of government claims that CPEC will reduce high rates of unemployment, suspecting that most jobs will go to outsiders from Punjab and Khyber Pakhtunkhwa, which could also affect Gilgit-Baltistan's delicate Sunni-Shia demographic balance.[66]

Instead of addressing such concerns, authorities have regularly invoked the 1997 Anti-Terrorism Act and the 2016 cybercrimes law against political party and human rights activists. Intelligence officials have warned local journalists in Gilgit-Baltistan against criticising CPEC.[67] Officials accuse Indian intelligence agencies of trying to stir up anti-state sentiment in the region, implying that dissidents and protesters are Indian spies, contributing to a generally restrictive environment where criticism of CPEC is especially fraught. Replicating familiar conspiracy theories about Indian sabotage, in February 2018, the federal Interior Ministry notified Gilgit-Baltistan's Home Department of alleged Indian plans to use Muslim recruits trained in Afghan-

[63] "CPEC to benefit Gilgit-Baltistan the most: Chinese envoy", *Dawn*, 1 April 2018.

[64] Crisis Group interview, Karachi, December 2017.

[65] "CPEC in Gilgit-Baltistan", *The News*, 22 August 2017; "'Thousands' protest govt's negligence of Gilgit-Baltistan under CPEC", *Dawn*, 15 May 2017. See also Crisis Group Report, *Discord in Pakistan's Northern Areas*, op. cit.

[66] The region, which has a major Shia population, has witnessed violent sectarian conflict in the past. On Gilgit-Baltistan's sectarian dynamics, see Crisis Group Report, *Discord in Pakistan's Northern Areas*, op. cit. Also, "Scepticism in Gilgit-Baltistan over China-Pakistan Economic Corridor", Deutsche Welle, 3 January 2018.

[67] Crisis Group interviews, journalists reporting on CPEC in Gilgit-Baltistan, Islamabad, June 2018. "Gilgit-Baltistan protests", *Dawn*, 29 December 2017; "Pervasive militarisation undermining democratic system, rights", Human Rights Commission of Pakistan (HRCP), 3 April 2016; "Five BNF activists arrested in Gilgit Baltistan", *The Nation*, 10 September 2016; "GB police arrest two people for 'anti-state' activities", *Dawn*, 12 February 2017; "HRCP reports rights abuse in Gilgit Baltistan by agencies", *The Nation*, 3 March 2017; Ammar Rashid, "Gilgit-Baltistan's prisoner of conscience", *The Daily Times*, 15 May 2017.

istan to attack CPEC installations on the Karakoram highway and other routes. This allegation provoked heightened security measures and stricter monitoring of foreigners and visiting Pakistanis, including searches in hotels and guesthouses, and more patrolling of the route and exit and entry points.[68]

Tensions with Islamabad have also risen as the result of the May 2018 promulgation of the Gilgit-Baltistan Order 2018, with the Pakistani prime minister retaining significant authority, with only some powers delegated to a council headed by an appointed governor to the elected Gilgit-Baltistan legislative assembly. In ongoing protests throughout the region, thousands of its inhabitants are demanding full democratic rights and representation. Protesters have regularly clashed with police, who have used tear gas and shot in the air to disperse crowds.[69] According to a former senator, locals ask why CPEC passes through their region when Islamabad denies them fundamental rights.[70]

While the last government's hasty, flawed reforms, with limited local buy-in, have aggravated longstanding grievances in Gilgit-Baltistan, anti-Chinese sentiment also is on the rise. In 2016, China detained around 50 Chinese Uighur women married to Gilgit-Baltistan residents, reportedly on suspicions of links to Islamist militants in Xinjiang; the Gilgit-Baltistan legislative assembly has urged the federal government to work for their release, though as yet to no apparent avail. Asked about their detention, Chinese Ambassador Yao Jing said, "the women are being interrogated as Chinese citizens".[71] These actions will likely further fuel local alienation from both Islamabad and Beijing, with inevitable implications for CPEC.

CPEC's Gilgit-Baltistan component also has geopolitical implications. India claims the region as part of its Jammu and Kashmir territory, rejecting Pakistan's cession of part of the region to China under the 1963 border agreement.[72] Former Indian Foreign Secretary S. Jaishankar argued, "China is very sensitive about its sovereignty. The economic corridor passes through an illegal territory". Indian Prime Minister Narendra Modi contended, "connectivity in itself cannot override or undermine the sovereignty of other nations".[73] Beijing seems sensitive to these concerns, but equivocates. Briefing a visiting Pakistani media delegation, a Chinese

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68 "India may target CPEC installations, interior ministry tells GB", *Dawn*, 5 February 2018.

69 "Many injured during protest against new Gilgit-Baltistan law", *Dawn*, 27 May 2018; "Protests held across GB against new order", *Dawn*, 26 May 2018.

70 Former Senator Farhatullah Babar said, "the people of GB have been fed on false hopes, broken promises and utter lies". "Farhatullah warns of emergence of GB Tahafuz (Protection) Movement", *The News*, 17 May 2018.

71 Quoted in "CPEC to benefit Gilgit-Baltistan the most: Chinese envoy", *Dawn*, 1 April 2018. See also "Women victims of cross-border marriages", *The News*, 25 March 2018; "Call for release of Chinese wives of GB men in Xinjiang", *Dawn*, 4 March 2018.

72 Article 6 of the treaty acknowledged a need for Pakistan and China to formally renegotiate their boundary after the "settlement of the Kashmir dispute between Pakistan and India". "The boundary agreement between China and Pakistan, 1963", signed by Marshal Chen Yi, plenipotentiary of the government of People's Republic of China and Zulfikar Ali Bhutto, plenipotentiary of the government of Pakistan. See also Crisis Group Report, *Discord in Pakistan's Northern Areas*, op. cit. New Delhi protested the Gilgit-Baltistan Order 2018.

73 Harsh V. Pant, "Responding to the China-Pakistan Economic Corridor", *Live Mint*, 1 December 2017. That China neglected to negotiate with India over the launch and branding of CPEC meant it got off to a rough start from Delhi's perspective. Crisis Group discussion, Chinese scholar, Shanghai, April 2018.

foreign ministry official said, "India's accusation of Chinese occupation of any part of Kashmir is baseless". Yet in a pointed reference to tense relations between Pakistan and India, he also said, "the CPEC is neither the way to achieve political aims nor to be used in regional conflicts".[74]

C. *CPEC's Entry Point: Gwadar*

1. Developing Gwadar

Purchased by Pakistan from Oman in 1958, Gwadar is a fishing town on the Arabian Sea not far from the Iranian border. General Pervez Musharraf's military regime (1999-2008) sought assistance from China and other countries to develop the town into a modern deep-sea port, along with a master plan for refineries, power plants and industrial estates. The Port of Singapore Authority assumed control over Gwadar port in January 2007, and inaugurated it in March that year. Yet because of a mix of insecurity in Balochistan, nationwide political instability and economic crises – all largely the result of the regime's policies – none of the elements of the master plan materialised.[75]

In February 2013, Pakistan transferred leasing rights from the Port of Singapore Authority to the China Overseas Port Holding Company-Pakistan.[76] Gwadar subsequently became integral to CPEC, with proposed energy pipelines, and road and rail links connecting it to China's Xinjiang province through Gilgit-Baltistan via the Karakoram highway, aimed at turning it into a bustling commercial hub.[77]

In a November 2017 briefing to the Senate, Hasil Bizenjo, then federal minister for ports and fisheries, confirmed that China would receive 91 per cent of Gwadar port-generated profits over 40 years and the Gwadar Port Authority, controlled by the federal government, the remaining 9 per cent; Balochistan's provincial government would get nothing.[78] The Port of Singapore Authority, the previous Gwadar port operator, had the same lopsided terms but many local officials and business community representatives believed that Islamabad should have renegotiated them with the Chinese operator. "As details emerge, there is more alarm about how much CPEC actually offers Balochistan", said an expert with deep knowledge of Gwadar.[79]

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[74] "China trying to convince India CPEC is for prosperity", *The Express Tribune*, 16 November 2017.

[75] For Crisis Group's analysis of Balochistan's security dynamics, see Asia Briefing N°69, *Pakistan: The Forgotten Conflict in Balochistan*, 22 October 2007; and Report N°119, *Pakistan: The Worsening Conflict in Balochistan*, 14 September 2016.

[76] See website at http://cophcgwadar.com. Gwadar Port became formally operational in November 2016 and can now berth 50,000-tonne oil tankers. Fu Mengzi and Xu Gang, "New Silk Roads: Progress, Challenges and Countermeasures", *China International Studies*, July/August 2017.

[77] "Chinese-Pakistan project tries to overcome jihadists, droughts and doubts", *Wall Street Journal*, 16 April 2016.

[78] Unveiling his National Party's election manifesto, Senator Bizenjo called for consultations with Baloch leaders before signing any CPEC project in Balochistan, and to give the provincial government control over Gwadar port. The National Party is a Baloch nationalist party. "NP vows to struggle for empowerment of federating units", Dawn, 25 June 2018; "China to get 91pc Gwadar income, minister tells Senate", *Dawn*, 25 November 2017; "The Baloch concerns", *The News*, 31 December 2017.

[79] Crisis Group interviews, Karachi, December 2017.

In November 2015, the China Overseas Ports Holding Company-Pakistan assumed control over Gwadar's free trade zone. A prominent Karachi-based financial sector representative said this change would disadvantage Pakistani businesses: "If I want to set up a factory there, I would have to approach a Chinese manager".[80] In November 2017, Beijing asked for its currency, the renminbi, be given legal tender in Gwadar's free trade zone, which Pakistan rejected.[81]

Gwadar suffers from acute water and electricity shortages, major challenges to transforming it into a commercial hub. Iran exports electricity to Gwadar, but outages can extend up to ten hours a day.[82] With pipelines running dry, privately owned tankers supply water at high prices.[83] The Mirani dam in Kech/Turbat to Gwadar's north, inaugurated in 2008, is meant to irrigate some 30,000 acres but instead is being used to channel water to Gwadar, provoking resentment in Turbat, already a hub of Baloch dissent, with regular clashes between Baloch insurgents and the military.[84] Attacks on tankers carrying water from the dam to Gwadar have provoked strikes by owners and drivers and strikes in thirsty Gwadar's markets and businesses.[85] Two desalination plants have been built with Chinese support in Gwadar, and the military intends to build another. Yet several local officials complained that the existing plants benefit the port, not the city's residents. A resident said: "They say that Gwadar will be a major hub of industry; for the people who live here, it is Karbala".[86]

Gwadar's apparently limited commercial potential is raising suspicions about China's real intentions. Some Pakistani security analysts believe that China is less interested in developing a road and logistical network that would enable access to the Arabian Sea and Persian Gulf from Xinjiang via Gwadar than in using the port for military purposes.[87] One analyst wrote, "Gwadar will be a critical addition to Bei-

[80] Crisis Group interview, Karachi, December 2017.

[81] Pakistan's State Bank has approved the yuan for bilateral imports, exports and financial transactions with China. A bilateral currency swap agreement (10 billion yuan) from the Chinese side and Rs. 140 billion from Pakistan ($1.6 billion) was signed in December 2011 by exporters and importers but was seldom used by traders. Since the private sector is playing a major role in both CPEC bilateral trade and SEZ industrialisation, there are concerns that Pakistani businesses might still be resistant to trading in Chinese currency. Pakistani businesses do not want to trade in Chinese currency. They would much rather continue to use currencies such as the U.S. dollar. "Doors open to yuan-based trade with China: SBP", *Dawn*, 31 January 2018.

[82] Crisis Group interviews, officials, business representatives and residents, Gwadar, January 2018.

[83] A Baloch analyst wrote: "The situation as it stands is in stark contrast to the images of a pulsating sea and a bustling port that are often used to describe Gwadar. Truth be told, Gwadar's water emergency puts any gains to be made out of CPEC projects in jeopardy – after all, how can an industrial city survive without potable water? Are we being set up for a fall?" Muhammad Akbar Notezai, "Thirsty in Gwadar", *Dawn*, 10 September 2017.

[84] Crisis Group interview, former senior Balochistan government official, December 2017. See also "Mirani Dam termed a big disaster", *Dawn*, 13 June 2011; Crisis Group Briefing, *The Forgotten Conflict in Balochistan*, op. cit.

[85] "Attack on water tankers prompts protest in Gwadar, Turbat", *Dawn*, 12 November 2017.

[86] Crisis Group interviews, government officials, Gwadar, January 2018. In the battle of Karbala (680 AD), the Umayyad commander blocked access to the Euphrates so that Imam Hussain and his followers would have nothing to drink. See also "Thirsty to thriving? Parched Pakistani port aims to become a new Dubai", Thomson Reuters Foundation, 25 April 2018.

[87] Crisis Group interviews, Islamabad, Lahore and Karachi, November 2017-January 2018. When a June 2017 Pentagon report implied that Gwadar could become a Chinese military base, a Chinese

jing's so-called string of pearls: a ring of ports around the Indian Ocean, including in Sri Lanka, Djibouti and the Seychelles, which are intended to outflank China's nuclear-armed rival for supremacy in Asia: India".[88] As it is, the ongoing militarisation of Balochistan's coastal belt by the Pakistani army and navy, justified in part on the grounds of safeguarding CPEC assets, is holding back commercial activity in the district.[89] "The cost of securing CPEC projects in Gwadar", said a political economist, "could far exceed economic gains".[90]

2. Leaving Gwadar's Communities Behind

Alienation is fast increasing as locals in Gwadar's inner city fear their homes could become the first casualty of the CPEC port and free (trade) zone project. While the Gwadar city master plan has yet to be finalised, according to several Gwadar officials, the federal government plans to expropriate land, bulldoze the old city and resettle residents; it is already prohibiting the Gwadar Development Authority from allocating any funds for the inner city's development. A senior Gwadar official said, "right now, the idea that residents will be forced out is not a myth".[91]

A federal government directive to the development authority to stop approving new housing and commercial developments until the master plan is finalised came after 103 housing schemes had already been approved, with some 100 private firms acquiring 14,500 acres of land.[92] The navy has launched its housing scheme on some of the most attractive land overlooking Gwadar's east and west bays, and speculators and developers are pushing property prices out of reach for locals.

A state-led land expropriation is now underway in and around Gwadar under the 1894 Land Acquisition Act, including over 2,200 acres for CPEC's free trade zone, with an estimated 290,000 acres of land required for Gwadar city and 160,000 acres for residential purposes. An urban planner and expert on Balochistan said: "No consultation on land use has been held, even with local officials, not even a cosmetic consultation".[93] Landowners say properties have been expropriated without advance notice as required under the Land Acquisition Act.[94]

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defence ministry spokesman said such talk was "pure guesswork". "China lavishes aid on Pakistan's Gwadar", Reuters, 17 December 2017.

[88] Saim Saeed, "China's plans to rule the seas hit trouble in Pakistan", *Politico*, 17 August 2017.

[89] Crisis Group observations, interviews, officials, Gwadar, January 2018.

[90] Crisis Group interview, Karachi, December 2017.

[91] Crisis Group interviews, Gwadar, January 2018. See also "Short-term consultancy required for study and preparation of PC1 document for expropriation and resettlement of old town Gwadar", Gwadar Development Authority, September 2016.

[92] "Plea to launch Gwadar housing, commercial societies rejected", *Dawn*, 29 January 2018. According to one report, "Pakistani real estate giant Rafi Group made a ten-fold profit last year from its sale of hundreds of acres of land in the remote fishing town of Gwadar, acquired soon after the government announced plans for a deep-sea port there". Maqbool Ahmed, "Unreal estate: The boom in Gwadar's property market", *Herald*, June 2017.

[93] Crisis Group interview, Karachi, December 2017.

[94] The urban planner said that the government and contractors are likely to adopt a "take it or leave it" approach to acquiring land from locals. They will make offers, but if locals refuse to sell, they will simply seize the land. Crisis Group interview, Karachi, December 2017; Crisis Group interviews, Gwadar officials and businesses, Gwadar, January 2018. See also "Violation of land acquisition act", *Dawn*, 5 September 2010.

As local alienation increases, so does security surveillance and control. Several intelligence agencies monitor movement within and around the city. Residents, even local officials, are subjected to frequent and demeaning questioning by soldiers at checkpoints. Even children are not exempt. A schoolgirl said: "CPEC has given us nothing; we can't even walk freely in our own city". A Gwadar official added, "the plan seems to be to make life so miserable for the residents that they leave on their own".[95]

Instead of improving the lives of locals, CPEC's presence is depriving them of their livelihoods. According to a Baloch analyst: "Around 70-80 per cent of the locals there are dependent on fishing, and at the moment they fear being crushed under the weight of the CPEC flagship".[96] Local fisher folk and other stakeholders say the project will close Gwadar's jetty. Fisher folk, whose daily catch provides them just enough to feed their families, already have been denied access to the sea for days on end on security grounds. During the Gwadar Expo in the free trade zone in January 2018, boats were beached for three days during a critical season of calm waters.[97] Fishing communities are also being relocated to nearby fishing areas along the coast, such as Sur Bandar, with some resisting pressure to move.[98] In the long run, such resistance is unlikely to halt the development of the port, but the cost of ignoring it would be further local alienation.

Locals also resent exclusion from employment in the port and in construction. Many criticise the military-run Frontier Works Organization, which dominates construction contracts in Balochistan and elsewhere, for using labour from central and northern Punjab. A former senior Balochistan official said, "everyone sees the Baloch as uneducated so they won't invest in them".[99] Although some programs are underway to train and employ locals, the backlash against CPEC in Balochistan is already apparent.[100] If Baloch unskilled and semi-skilled workers are deprived of the benefits of the planned mega-development in Gwadar, Baloch insurgents potentially could expand their outreach and appeal by recruiting such workers.

3. Gwadar and the Baloch Insurgency

Over the past two decades, Baloch alienation has reached new heights. During Musharraf's regime (1999-2008), the military and paramilitary Frontier Corps attempted to suppress Baloch dissent, abducting, torturing and killing hundreds, if not thousands, of Baloch nationalists and sympathisers. Even after the restoration of democracy, torture, enforced disappearances and extrajudicial killings continue

[95] Crisis Group interviews, Gwadar, January 2018.
[96] Shah Meer, "The plight of the Gwadar fishermen", *The Diplomat*, 8 August 2016.
[97] Crisis Group interviews, Gwadar-based officials, business representatives, civil society activists, Gwadar, January 2018.
[98] A representative of the fisher folk said, "we will not leave .... This is the spot where we can fish all the year round; at Sur, there are three months – June, July and August – when fisher folk cannot go to the sea due to high waves". Quoted in Zofeen T. Ebrahim, "Gwadar fisherfolk worry about One Belt, One Road", *Dawn*, 8 December 2017.
[99] Crisis Group interviews, Gwadar, Karachi, December-January 2017.
[100] Gwadar's Pak-China Technical and Vocational Training Institute is reportedly training 5,000 locals, who will complete their courses in mid-2018. "Will CPEC alter Balochistan?", *The News*, 22 February 2018; "Blossoming Gwadar", *Dawn*, 29 January 2018.

unabated.[101] In mid-2017, a major monthly commented that the "security forces' scorched-earth tactics" seem to have pushed more youth "to take up arms against the state", joining the ranks of insurgents fighting for Baloch rights.[102]

The state has made few attempts to address Baloch calls for greater political and economic autonomy, which underpin the insurgency. It has also failed to prevent various jihadist groups, including Lashkar-e-Jhangvi and Lashkar-e-Tayyaba/Jamaat-ud-Dawa, from expanding their presence in Balochistan. As such groups expand their presence, Chinese nationals could soon become high-value targets, as demonstrated by the 2017 abduction and killing of two Chinese Christian missionaries in Quetta.[103]

A prominent political economist said: "The military's response to discontent in Balochistan is extremely heavy-handed".[104] Balochistan's militarisation – the army's southern command is de facto the supreme authority in the province, sidelining an already dysfunctional civilian administration – has imposed enormous pressures on local populations. Those populations are also threatened by Baloch militants. "If anyone cooperates with the military, if anyone shares information with them, the militants interrogate them and attack them. Many have ended up fleeing to Karachi", said an informed observer.[105]

With animosity toward Islamabad heightening, Baloch insurgent groups such as the Baloch Liberation Army have condemned CPEC projects as another attempt by the state to exploit Balochistan's resources while giving little back to the province and its citizens. "Anywhere the Chinese are working will be perceived as a CPEC project and could hence be subject to attack", said Kaiser Bengali, a prominent economist and former senior adviser to the Balochistan government.[106]

Baloch militants have killed scores of Pakistani workers employed on CPEC projects, including three labourers in Turbat district working for the military-run Frontier Works Organization on the Gwadar-Quetta highway in May 2017, and ten construction workers in Gwadar earlier the same month, also working on CPEC road

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[101] "Pakistan: End enforced disappearances now", Amnesty International, 6 November 2017; "No More 'Missing Persons': The Criminalisation of Enforced Disappearances in South Asia", International Commission of Jurists, August 2017; "Balochistan war: Pakistan accused over 1000 dumped bodies", BBC, 28 December 2018. See also Crisis Group Briefing, *The Forgotten Conflict in Balochistan*; Crisis Group Report, *The Worsening Conflict in Balochistan*, both op. cit.

[102] "The simmering conflict in Balochistan", *The Herald*, June 2017. See also Siraj Akbar, "Beijing to Balochistan", *The News*, 4 March 2018.

[103] The Islamic State claimed credit for the killings, claiming that the Chinese were proselytising. "Murder of Christians", *Dawn*, 4 April 2018; "Risky road: China's missionaries follow Beijing west", BBC, 4 September 2017; "Crackdown on Christians in China after killing of two missionaries in Balochistan", *Dawn*, 5 September 2017; "Two Chinese nationals kidnapped from Quetta", *Dawn*, 24 May 2017; "Abducted Chinese nationals killed, claims IS", *Dawn*, 9 June 2017.

[104] Crisis Group interview, Karachi, January 2018. Between November 2017 and early January 2018, at least nine Baloch students at Karachi University were illegally abducted, allegedly by security officials. Five online activists, including critics of enforced disappearances in Balochistan, had been abducted a year earlier, in January 2017, again allegedly by security officials. Four were subsequently released. "Two KU students among three picked up from their houses by 'masked men'", *The News*, 5 January 2018; "Fifth activist reported missing in Pakistan, alarming rights groups", Reuters, 11 January 2017.

[105] Crisis Group interview, Karachi, December 2017.

[106] Crisis Group interview, Karachi, December 2017.

projects. "Though the Baloch insurgents are not strong enough to counter an overwhelming military presence", an analyst said, "these attacks are a message to the Chinese that the state will not always be able to protect them".[107]

Frequent killings of police and paramilitary personnel – by both Baloch insurgents and jihadist groups – including in normally safe areas such as the provincial capital Quetta, have raised questions about whether the state, even with a heavy military and paramilitary presence, can maintain security. Even if such attacks do not deter Chinese enterprises, they could be used to justify an even greater security presence, which, in turn, would risk feeding Baloch dissent and fuelling the insurgency.[108]

[107] Crisis Group interview, Karachi, December 2017.
[108] An analyst who works on Balochistan warned: "If the Chinese conclude that the military is not effective [in providing security], they'll increase pressure [on Pakistan] to either provide better security or come up with an alternative plan to maintain their own security. It will start with calls to 'do more', then joint surveillance and patrols. That would be even more disastrous". Crisis Group interview, Karachi, December 2017.

V. Punjab and Sindh: Land Grab in the Heartland?

The CPEC Long-Term Plan outlined a focus on agricultural modernisation, setting as goals, among others, "to strengthen agricultural construction" and "to promote the systematic, large-scale, standardised and intensified construction of agricultural industry".[109] These aspirations dovetail with Islamabad's pleas to Beijing to encourage Pakistani food imports as one way to mitigate a sizeable trade imbalance.[110] A Lahore-based agriculturalist and food business representative, who was close to the PML-N government, said that Pakistani land and labour would be used, with Chinese enterprises introducing better technology and marketing efforts. "We currently meet 7 per cent of the world's food needs", he said. "We could be meeting 20 to 25 per cent".[111]

While CPEC advocates expect that Pakistan's "untapped agricultural potential" can be realised through such cooperation with China, there is still little clarity about CPEC's agricultural component. "What has the government promised the Chinese in this sector?" queried a political economist.[112] Moreover, CPEC's focus on agricultural development could result in opposition similar to that in Gwadar in other parts of the country, including in the Punjab heartland and Sindh, where most land is privately owned.[113] Chinese agricultural projects in Central Asia have sparked protests over agricultural deals and reforms perceived as friendly to Chinese enterprises.[114] The same could occur in Pakistan.

A. *Agricultural Cooperation: Punjab's Challenges*

Any ambitious agricultural modernisation project will require the acquisition and consolidation of large tracts of cultivated or cultivable land but such state-owned lands are in short supply. Small farmers own much of central Punjab's cultivated agricultural land, the most fertile in the country. There are large private landholdings in southern Punjab and Sindh but these are the currency of political fortunes; landowners would risk losing political influence should they sell up. An analyst noted: "Many of these landlords won't be able to get elected to a local body if they sell".[115]

One model, a high-level Punjab official said, could entail purchasing smaller farmers' properties and leasing them back, while guaranteeing the supply of high-quality seeds, low-cost fertiliser and agricultural machinery, as well as good prices for their crops, thus reducing the risks of landlessness and displacement.[116] The lure

[109] "Long-Term Plan for China-Pakistan Economic Corridor", op. cit.
[110] "China urged to encourage imports from Pakistan", *Dawn*, 17 January 2018.
[111] Crisis Group interview, Lahore, November 2017.
[112] Crisis Group interview, Lahore, November 2017. "Agriculture's golden promise", "CPEC 2018 Summit", op. cit.
[113] Crisis Group interviews, Lahore, November 2017; Karachi, January 2018.
[114] In Kazakhstan, the protests "became a vehicle for airing other grievances, including fears of an influx of Chinese migrants and distrust of Chinese companies, particularly their labour and environmental practices". Crisis Group Report, *Central Asia's Silk Road Rivalries*, op. cit.
[115] The average holding in central Punjab is around 5-6 acres. Nationally, only 10 per cent of owners own more than 12.5 acres of land. Crisis Group interview, Lahore, November 2017. See also Agricultural Census 2010, Pakistan Bureau of Statistics, government of Pakistan.
[116] Crisis Group interview, Lahore, November 2017.

of cash compensation might convince many to sell their lands and/or accept relocation. But the availability of such land, and the provision of quality inputs and guaranteed prices, could attract entrepreneurs seeking to maximise profits in a short timeframe with little interest in the long-term viability of such projects.[117]

Large-scale displacement and dispossession, were they to accompany CPEC agricultural projects, would increase social and political tensions. Tenant and small farmers have resisted past attempts by the state to deprive them of their land or their rights to cultivate it, a notable example being the mobilisation of tenant farmers on military-run farms in Punjab's Okara district, a dispute that has lasted for years. Despite arrests and harassment, the Tenant Associations of Punjab (Anjuman Muzareen Punjab), spearheading the resistance, continues to fight for ownership rights for tenant farmers of lands claimed by the army.[118] "If the state forces small farmers to sell", said a human rights activist, "there will be local resistance and conflict".[119]

There are three broad categories of land ownership: individual; collective (ten or more owners); and land whose transfer or sale was not completed officially and whose ownership and property rights therefore are not clear. Tenants and farmers on land in the last category are particularly vulnerable to expulsion; according to activists, journalists, economists and other close observers, they will likely resist pressure by officials to vacate their lands.[120] According to the Land Acquisition Act of 1894, under which the state can acquire land "needed for a public purpose or for a Company", compensation is only given to formal owners of land, and excludes tenant farmers and those without deeds.[121] Absent measures that recognise the right to compensation of tenant farmers and those lacking formal ownership documentation, whether through legal reform or, in its absence, executive decision, lands acquired for CPEC projects under the 1894 act could devastate pastoral communities. Given otherwise limited job opportunities and the inadequate shelter provided by the state, land dispossession will have a particularly adverse impact on women-led households.

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[117] Crisis Group interview, Punjab-based agriculturalist, Lahore, November 2017.

[118] Under the Musharraf regime, in 2000, the army tried to force around 200,000 tenants in the Okara military farms to pay rent, instead of a share of the crop, which would have given the army ownership rights. Leased in 1930 for twenty years to the army, the lease since then had not been renewed. Farmers cultivating lands with unclear property rights for 25 years have the first right of ownership. Though Okara tenant farmers were forced to sign contracts for the cash rent system in early 2018, the Tenants Association continues to support their struggle for ownership rights. "Harvest of hope: The struggles of tenant farmers in Okara Military Farms, Pakistan", La Via Campesina, 15 June 2018; Kunwar Khuldune Shahid, "This land is our land: Peasants in Okara fight for their rights", *Newsline*, June 2016; "Soiled Hands: The Pakistan Army's Repression of the Punjab Farmers' Movement", Human Rights Watch, 20 July 2004; Shahrukh Rafi Khan and Asim Sajjad Akhtar, *The Military and Denied Development in the Pakistani Punjab* (London/New York, 2014). See also Basim Usmani, "The peasants' revolt", *The Guardian*, 4 November 2007.

[119] Crisis Group interview, Lahore, December 2017. In May 2018, a lawyer filed a petition in the Supreme Court to bar Chinese citizens from purchasing land in Pakistan. "Pakistan: Lawyer files petition in Supreme Court to stop Chinese citizens from buying land", *The Nation*, 8 May 2018.

[120] Crisis Group interviews, Lahore, Karachi, November-December 2017.

[121] Text of the Land Acquisition Act, 1894 at www.punjablaws.gov.pk.

B. *CPEC and Sindh's Tharparkar District*

Sindh's impoverished Tharparkar district is the site of Pakistan's largest coal mining and power project, now a high-profile element of CPEC. The CPEC envisages mining thirteen blocks, covering 9,000 sq km, and doing so will likely displace many locals. As speculators enter the property market, many locals also could sell their lands and join the ranks of the unemployed. This reliance on coal for power projects will also pose serious environmental risks.[122]

One component of the Tharparkar mining and power project, run by a Pakistani multinational firm, provides a model for mitigating the disruptive effects of such development by giving locals stakes in the enterprise. The firm, which has the contract for one of the thirteen blocks, mainly employs locals on the mining site, with Chinese workers only providing technical expertise.[123] It is building model villages, including homes, places of worship and markets, to resettle some 450 displaced families, and making long-term investments in skills development, training, jobs, education and health, including for women and girls. In a region with high maternal and child mortality, the company has set up a free health clinic for women, operated by a well-regarded hospital. Local women work for the mine, including as dump truck drivers and engineers.[124]

The next mine to come online will be run and staffed by a Chinese company. A well-informed coal industry professional said that thus far the project envisages no guarantees of employment for locals and has involved limited consultation with communities potentially affected.[125] The federal and provincial governments should develop a socially and economically responsible regulatory framework, including through local consultations and with input from civil society organisations, for all companies awarded contracts for coal mining and power projects in Tharparkar. That framework should include employment guarantees for locals, including women, mitigation of environmental damage and protection of local culture. Employing non-residents would provoke resentment and disrupt the region's delicate religious, demographic and socio-cultural balance.

Tharparkar is one of the few regions in Pakistan with a Hindu majority and has a sensitive location bordering India. As a result, locals claim, security agencies doubt their loyalty to the state.[126] As in Gwadar and Gilgit-Baltistan, the security presence

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[122] A Thar-based coal engineer said, "[Sindh Chief Minister] Murad Ali Shah knows that coal is Sindh's only major resource. His government knows that it has to maximise now because the world later won't let us rely on coal-powered projects". Crisis Group interview, Tharparkar, February 2018.
[123] Sindh Engro Coal Mining is a joint venture of the Sindh government and six private companies, Engro Energy, Habib Bank Ltd, Hubco and two Chinese companies, CMEC and SPIC. "First layer of Thar coal extracted five months ahead of schedule", *Dawn*, 11 June 2018.
[124] The provincial government provides the land and the firm, Engro, builds the houses. If the locals agree, the houses will be transferred to women family members. Crisis Group interview, company representative, Tharparkar, February 2018. Quality education is being provided through a well-regarded privately owned network of low-cost formal schools. Crisis Group visited these and other projects. Crisis Group interviews, Engro employees, woman engineer working on Engro coal project, Tharparkar, February 2018. See also "In Pakistan's coal rush, some women drivers break cultural barriers", Reuters, 29 September 2017.
[125] "This company (Engro) has been socially responsible", said an analyst, "but what will other companies do?" Crisis Group interviews, Karachi, December 2017, Tharparkar, February 2018.
[126] Crisis Group interviews, Tharparkar, February 2018.

is overbearing, with agencies keeping a close eye on activists and others that question CPEC developments. In late 2016 and 2017, enforced disappearances of activists and journalists in the district became common. Some observers suspect that opposition to CPEC was a factor. A writer and researcher in Umerkot town said, "the intelligence agencies treat [the critics of CPEC] as their enemies".[127] A representative of a company working in Tharparkar added, "the security presence in the region is already overbearing. In this atmosphere of intimidation and fear, locals do not dare openly criticise any CPEC project".[128] Stifling democratic debate could result in anti-CPEC sentiments assuming a far more hostile form in the future.

[127] Quoted in Moosa Kaleem, "Reasons behind the increase in missing persons in Sindh", *Herald*, 13 November 2017. See also Editorial, "Missing in Sindh", *Dawn*, 8 August 2017; and "Sindh abductions: Three more activists go missing in Thar", *Dawn*, 8 August 2017.
[128] Crisis Group interview, Karachi, December 2017.

VI. Conclusion

If properly carried out, CPEC could promote economic development and growth and thus have a profound impact on Pakistan and its citizens. Yet, as a high-profile business representative rightly warned, "if there are opportunities, there are also serious risks".[129] Unless there is a serious rethink in policy circles, CPEC could inflame tensions between the centre and federal units, and could trigger or worsen conflict within provinces.

To avoid such outcomes, Pakistan's CPEC projects and programs should be guided by diligent planning and policy. Islamabad should determine the direction of Pakistan's CPEC policy, based on its – and not Beijing's – economic and political interests. It should place CPEC in the context of a broader strategic vision for modernising its economy in ways that do not destabilise the polity.

The best chances for the country's stability – and indeed CPEC's success for Pakistan and, by extension, China – lie in giving provinces and communities a voice in shaping CPEC projects and thus helping promote local buy-in. Rather than suppressing criticism and dissent, the federal and provincial governments, as well as the security institutions, should recognise that the viability of CPEC projects rests on stakeholder ownership. Unequal prosperity, favouring outsiders over local communities, would aggravate social and political divides, fuelling tension and potentially conflict.

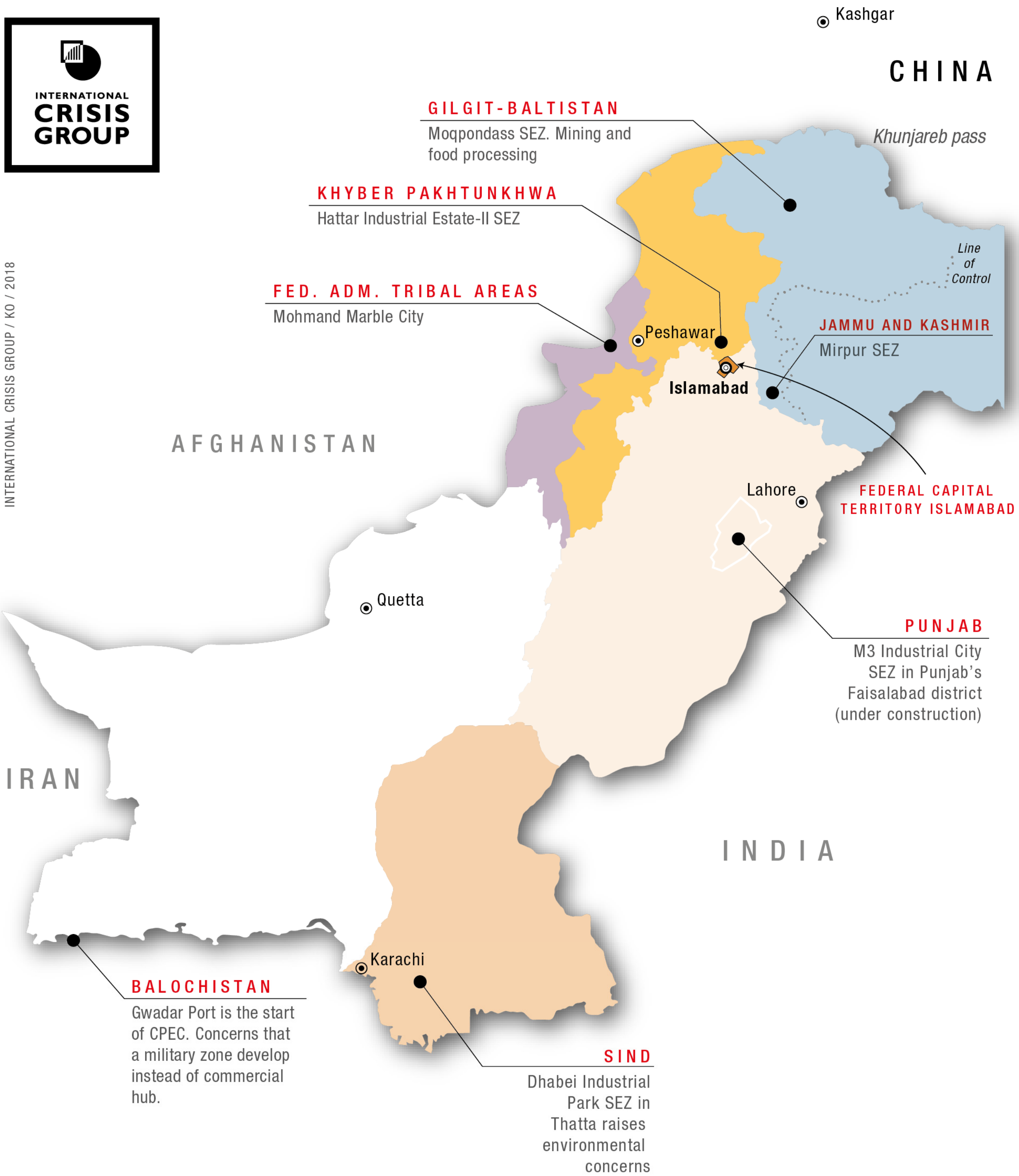
Beijing and Chinese companies face a steep learning curve with CPEC, but many problems could be mitigated through consulting and engaging the full spectrum of Pakistani stakeholders, from competing elites to the grassroots, and conducting comprehensive risk and political analysis to balance competing priorities. Efforts to ensure benefits are shared equitably need to be complemented by effective and extensive communication to illustrate common interests.[130]

As Pakistan's democratic transition approaches another milestone, with a second consecutive elected government completing a full term and a successor assuming power in August 2018, the new parliament should seize the opportunities of a fresh mandate by shaping public debate on CPEC, and informing government policy. That policy should have the well-being of Pakistani citizens at its heart, rather than treating it as something that can be negotiated away in the pursuit of mega-development or perceived strategic interests.

Brussels, 29 June 2018

[129] Crisis Group interview, Karachi, December 2017.
[130] Crisis Group discussions, Beijing and Shanghai, April 2018; "Opportunities and Challenges for Constructing CPEC", and "Opportunities and Challenges of Implementing the "Belt and Road" Initiative", both op. cit.

Appendix A: CPEC Special Economic Zones



Appendix B: Acronyms

ANP	Awami Nationalist Party
CPEC	China-Pakistan Economic Corridor
ETIM	East Turkestan Islamic Movement
FATA	Federally Administered Tribal Areas
FATF	Financial Action Task Force
FTA	Free Trade Agreement
GDA	Gwadar Development Authority
IMF	International Monetary Fund
JUI-F	Jamiat Ulema-e-Islam (Fazlur-Rehman)
PML-N	Pakistan Muslim League-Nawaz
SEZ	Special Economic Zone

Appendix C: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown. Its Vice Chair is Ayo Obe, a Legal Practitioner, Columnist and TV Presenter in Nigeria.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in ten other locations: Bishkek, Bogota, Dakar, Kabul, Islamabad, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Sanaa, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Instrument contributing to Stability and Peace, European Commission, Directorate General for Neighbourhood Enlargement Negotiations, Finnish Ministry for Foreign Affairs, French Development Agency, French Ministry of Europe and Foreign Affairs, Irish Aid, Japan International Cooperation Agency, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, and the Swiss Federal Department of Foreign Affairs.

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June 2018

Appendix D: Reports and Briefings on Asia since 2015

Special Reports

Exploiting Disorder: al-Qaeda and the Islamic State, Special Report N°1, 14 March 2016 (also available in Arabic and French).

Seizing the Moment: From Early Warning to Early Action, Special Report N°2, 22 June 2016.

Counter-terrorism Pitfalls: What the U.S. Fight against ISIS and al-Qaeda Should Avoid, Special Report N°3, 22 March 2017.

North East Asia

Stirring up the South China Sea (III): A Fleeting Opportunity for Calm, Asia Report N°267, 7 May 2015 (also available in Chinese).

North Korea: Beyond the Six-Party Talks, Asia Report N°269, 16 June 2015.

Stirring up the South China Sea (IV): Oil in Troubled Waters, Asia Report N°275, 26 January 2016 (also available in Chinese).

East China Sea: Preventing Clashes from Becoming Crises, Asia Report N°280, 30 June 2016.

China's Foreign Policy Experiment in South Sudan, Asia Report N°288, 10 July 2017 (also available in Chinese).

The Korean Peninsula Crisis (I): In the Line of Fire and Fury, Asia Report N°293, 23 January 2018 (also available in Chinese).

The Korean Peninsula Crisis (II): From Fire and Fury to Freeze-for-Freeze, Asia Report N°294, 23 January 2018 (also available in Chinese).

South Asia

Mapping Bangladesh's Political Crisis, Asia Report N°264, 9 February 2015.

Women, Violence and Conflict in Pakistan, Asia Report N°265, 8 April 2015.

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Southern Thailand: Dialogue in Doubt, Asia Report N°270, 8 July 2015.

Myanmar's Peace Process: A Nationwide Ceasefire Remains Elusive, Asia Briefing N°146, 16 September 2015 (also available in Burmese).

The Myanmar Elections: Results and Implications, Asia Briefing N°147, 9 December 2015 (also available in Burmese).

Thailand's Lengthening Roadmap to Elections, Asia Report N°274, 10 December 2015.

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Myanmar's New Government: Finding Its Feet?, Asia Report N°282, 29 July 2016 (also available in Burmese).

Southern Thailand's Peace Dialogue: No Traction, Asia Briefing N°148, 21 September 2016.

Myanmar's Peace Process: Getting to a Political Dialogue, Asia Briefing N°149, 19 October 2016 (also available in Burmese).

Myanmar: A New Muslim Insurgency in Rakhine State, Asia Report N°283, 15 December 2016 (also available in Burmese).

Building Critical Mass for Peace in Myanmar, Asia Report N°287, 29 June 2017 (also available in Burmese).

Buddhism and State Power in Myanmar, Asia Report N°290, 5 September 2017 (also available in Burmese).

Jihadism in Southern Thailand: A Phantom Menace, Asia Report N°291, 8 November 2017 (also available in Thai and Malay).

Myanmar's Rohingya Crisis Enters a Dangerous New Phase, Asia Report N°292, 7 December 2017 (also available in Burmese).

The Long Haul Ahead for Myanmar's Rohingya Refugee Crisis, Asia Report N°296, 16 May 2018 (also available in Burmese).

Appendix E: International Crisis Group Board of Trustees