

CHAPTER – 5

CHINA'S REGIONAL PERIPHERAL POLICY

The earlier chapters have brought out in fair details the many challenges & complexities confronting China which have the tendency to exacerbate fear in the minds of the ruling elite about loss of control & resultant descent into chaos followed by subjugation by external powers. This mindset is so deep rooted that the CPC under no circumstances is willing to allow dilution of its central authority over all of China. To this end, as has already been described earlier, the CPC has subverted the judicial systems, the educational institutions & even the mind space by blocking social media & replacing it with one of its own. However, this alone is not enough to stymie dissent as there are the other issues of disparity on account of uneven distribution of wealth & ethnic strife.

The above has its roots in the lopsided industrial & economic development favouring the east coast. As one moves westwards, the depth & scale of poverty & disparity keeps increasing alarmingly. Besides the economic disenfranchisement, the large sparsely populated provinces (or buffer zones) on to her west & south suffer from an acute sense of alienation on account of Han domination over ethnically different Uyghur & Tibetan people indigenous to these regions.

Apparently, the most important pending action meant to achieve the desired state of stability is to bridge this economic disparity. CPC's answer to that is to spread development & economic fruits thereof westwards to these impoverished peripheral regions in the hope that gainful employment &

alleviation of poverty will buy their loyalty to Chinese central authority. *These then are the underpinnings of the 'Go West' policy.*

Achievement of China's dream of '*great national rejuvenation*' is not restricted to her ability to ensure domestic calm/stability alone, but is contingent on insulating the peripheral regions from any destabilising external influence as well (especially Xinjiang which is susceptible to Turkic & fundamentalist Islamic terrorist sympathies). This to the Chinese leadership's thinking can only be achieved by extending her influence beyond the border (at least) into the neighbourhood.

Given its lack of a liberal political setup at home & soft power draw abroad, the only viable alternative is to grow its money & military power & use it to buy peace & influence both at home & abroad. ***This has been the origins of the regional peripheral policy which has found expression in the form of 'One Belt One Road' initiative.***

One Belt One Road (OBOR)

While reducing internal disparity remains the bedrock of the *regional peripheral policy* there are many more reasons that have contributed to the construct of OBOR. The same are examined in subsequent paragraphs.

Chinese Official Construct

The official version of the OBOR was publicised in a Xinhua publication in Mar 2015 entitled – 'Vision and Actions on jointly building Silk Road Economic

Belt and 21st-century Maritime Silk Road'. A generic gist of this document is as under¹²¹: -

- The document begins by invoking the spirit of the historical 'Silk Road' which promoted the progress of human civilization through "peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit".
- As can be seen above & elsewhere in the document, great emphasis has been laid through out to portray the initiative as *inclusive*. Words such as harmony, peace, development, mutual benefit, cooperation are oft repeated clearly with a view to project a benign & peaceful rise of China.
- The document then invokes Xi Jinping as the initiator of the project. The project comprises of two broad components viz The Silk Road Economic Belt (overland portion) & The 21st-Century Maritime Silk Road (ironically the maritime portion) which is officially also referred to as the 'Belt & Road'. It says, "accelerating the building of the Belt and Road can help promote the economic prosperity of the countries along the Belt and Road and regional economic cooperation, strengthen exchanges and mutual learning between different civilizations, and promote world peace and development. It is a great undertaking that will benefit people around the world."
- *The Silk Road Economic Belt.* It talks of two main land links, one through Mongolia & Russia to North Europe and the other through

¹²¹ Xinhua (Mar 2015). 'Vision and Actions on jointly building Silk Road Economic Belt and 21st-century Maritime Silk Road', Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China, with State Council authorization.

Central Asia to West Asia and on to West Europe. In addition, it mentions two other links specifically as 'closely related' to the belt & road viz The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor.

- *The 21st-Century Maritime Silk Road.* This is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.
- Along these routes, it seeks coordination of fiscal, transport, and customs policies.
- Envisages construction of multi modal 'transport corridors' with 'special economic zones' all along & talks of removing bottlenecks by addressing & rationalising issues concerned with transport, procedures, tariff & non-tariff barriers. Envisions inclusion of all sectors to include agriculture, industry & services.
- The area of coverage is restricted to Asia, Europe and Africa. This when seen in the context of repeated references to "countries along the belt & road" clearly reflects the *intent to keep the US out of the entire scheme.*
- The statement, "China is committed to shouldering more responsibilities and obligations within its capabilities, and making greater contributions to the peace and development of mankind" is indicative of portraying China's arrival as a world power. In addition, the document also talks about a multipolar world – posing a question mark over US's pre-dominant position.

- There is also talk of enhancing 'people to people' contacts in the fields of education, tourism, sports, medicine, science & technologies as well as legislative body exchanges.
- Cooperation mechanism is envisaged to be hinged on bilateral as well as multilateral mechanisms & institutions duly indicating China's willingness to work within established frameworks.
- *Xinjiang has been projected as a core area – "We should make good use of Xinjiang's geographic advantages and its role as a window of westward opening-up to deepen communication and cooperation with Central, South and West Asian countries, make it a key transportation, trade, logistics, culture, science and education centre, and a core area on the Silk Road Economic Belt." Hence, there is no doubt as to the centrality of Chinese intentions to assimilate this region under a strong central authority.*

On the whole, the document projects OBOR as a 'win-win' for all participants with mutual benefit & cooperation as the bedrock, but China at the core & heart of it. The underlying theme is to create connectivity through infrastructure development, trade through economic zones, mutual cooperation through bilateral & multilateral platforms, and trust through people to people contacts.

Broad Contours

OBOR is a very long term project involving an enormously ambitious plan to build and upgrade highways, railways, ports, and other infrastructure throughout Asia and Europe designed to enrich the economies of China and

some 60 of its nearby trading partners.¹²² Spanning 65 countries and 60 percent of the world's population, it aims to redraw the trade routes for Chinese products. One arm, the Silk Road Economic Belt, extends from China to Europe through Central Asia, and the other, the 21st-Century Maritime Silk Road, links China to Southeast Asia, the Middle East, and Africa along sea routes. In addition to the 65 countries in Asia, Africa, the Middle East, and Europe that are already part of the Chinese initiative, the European Commission has signed a memorandum of understanding on the so-called EU-China Connectivity Platform, created in June 2015, coordinating the European Commission's Trans-European Networks strategy with new Belt and Road projects.¹²³

Considering the scope & size of the project it will take decades to achieve complete fruition if at all, & along the way will face many challenges. Hence, its final shape will depend on a number of factors some of which are the response elicited by the participating countries, geography, economics, politics & political stability, governance, security, social dynamics, laws & labour issues besides the actual implementation on ground. At this stage, it is possible to only indicate the broad directions of flow of goods & people as envisaged by the Chinese state. The same are depicted in the following map:

¹²² Simeon Djankov and Sean Miner (2016). 'China's belt and road initiative motives, scope, and challenges', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

¹²³ Simeon Djankov (2016). 'The Rationale Behind China's Belt and Road Initiative', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

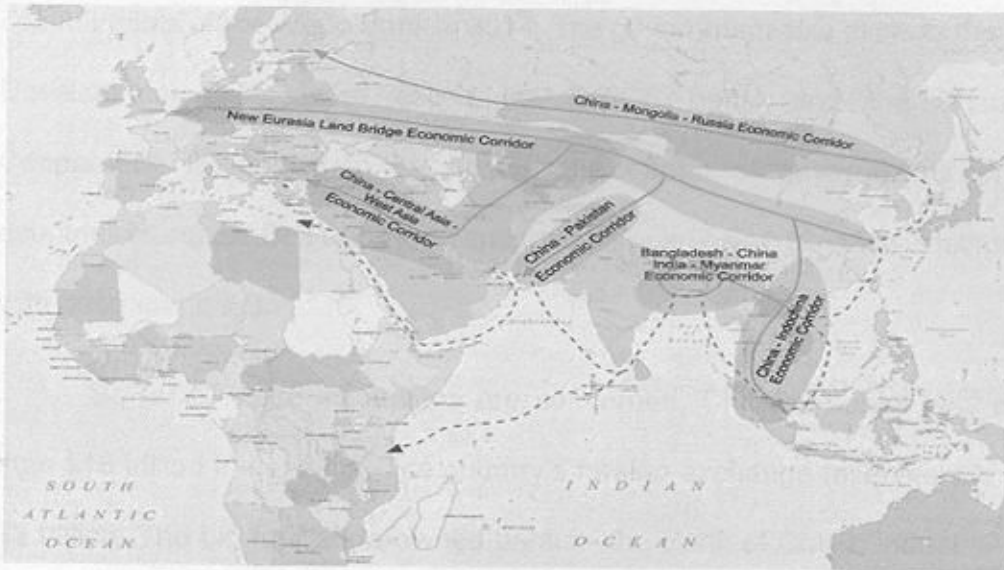


Figure 21. CPEC routes and major projects. Source¹²⁴

Financing

With respect to financing, China proposes to use the AIIB, the New Development Bank (NDB), and potentially a Shanghai Cooperation Organization (SCO) financing institution as far as multilateral institutions are concerned. Otherwise it plans to rely on Chinese-only institutions such as its Silk Road Fund, the China Development Bank, Export-Import Bank of China, and other policy banks. The role of financing from the private sector is undetermined.¹²⁵

The multilateral Asian Infrastructure Investment Bank, has contributed \$12 billion to the initiative, and its founders expect that it will eventually be able to lend \$20 billion to \$25 billion a year, similar to the \$24 billion annual loan

¹²⁴ <http://www.hindustantimes.com/world/from-china-to-pakistan-a-well-thought-out-3-000km-lifeline/story-ms4lozCLW0IPwwsLAvMYWI.html>. Accessed 29 Feb 2017.

¹²⁵ Edwin M. Truman (2016). 'Governance Challenges', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 23 Feb 2017.

commitments of the World Bank in 2014. The government also expects the New Development Bank (also called the BRICS bank) and the Shanghai Cooperation Organization to “support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit rating.”¹²⁶

So far Chinese institutions are concerned, Chinese banks hold more than \$15 trillion in deposits. The country's foreign exchange reserves are over \$3 trillion. The big four state-owned banks—the Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China—have all evolved from government organizations into semi-corporate entities and are the main channels for financing the Belt and Road Initiative. The Bank of China has already paid out \$82 billion to three policy banks supporting Belt and Road projects: \$32 billion to China Development Bank, \$30 billion to Export-Import Bank of China, and \$20 billion to the Agricultural Development Bank of China. The Chinese government has also earmarked \$40 billion for the state's Silk Road Fund, money that comes directly from the national budget.¹²⁷

Economic Motives

The official construct notwithstanding, a closer analysis points to a number of other compulsions & strategies.

¹²⁶ Simeon Djankov (2016). 'The Rationale Behind China's Belt and Road Initiative', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

¹²⁷ *ibid*

Structural Weakness of Chinese Economy. Chinese economic growth story has been built on an export oriented model. This model worked very well till it could produce competitively priced goods based on cheap labour, massive public sector fuelled subsidy & infrastructure. At the other end of the spectrum were the advanced western economies which generated enough demand for these goods. However, the 2008 global slow down changed the dynamics. Yet another challenge came in the form of crash in the commodity markets dealing a blow to the financials of the resource rich countries in Middle East, Africa & Latin America. The consequent slowdown in the demand for Chinese goods & construction projects abroad rendered the Chinese enterprises with massive over capacity. The best way to convert this vicious cycle into a virtuous one is the conversion from an export orientation to a consumption orientation. However, kick-starting a consumption boom in the near term is not a possibility given the high individual savings & a soaring public & private debt (refer Chapter 3).

Over capacity. The Chinese over capacity by now is legendary. Today, China's steel sector idle capacity alone is double that of America's steel production, with iron, cement, aluminium, glass, coal, shipbuilding, solar panels, and other industries all facing similarly slumping demand and profit losses.¹²⁸ The Chinese escaped the 2008 crisis by resorting to \$500 billion stimulus package which only exacerbated the inefficiencies & diminished accountability in the largely state owned & funded enterprises. *OBOR provides an opportunity to gainfully utilise this over capacity.* "He Yafei, currently vice minister for foreign

¹²⁸ Jiayi Zhou, Karl Hallding, and Guoyi Han (26 Jun 2015), 'The Trouble With China's 'One Belt One Road' Strategy', *The Diplomat*. Available at <http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/>. Accessed 27 Feb 2017.

affairs, penned an opinion article last year in which he explicitly mentioned the opportunity to use China's excess steel and iron for OBOR infrastructure building."¹²⁹

Rising Unemployment. On the one hand, the CPC wants to reduce economic disparities to preserve its own power, while on the other, there is rising unemployment as over capacities are inevitably leading to lay-offs. This can be only arrested & reversed by creating additional demand. *OBOR envisages creating & developing new markets (demand) along the belt & road.*

Maintaining Competitiveness. China's competitiveness was based on low wages & credit-fuelled subsidies. The first is getting compromised due to rising wages (an inevitable by-product of long term growth) coupled with adverse demographics and the latter is getting increasingly unviable due the already distorted structure of the economy. In order to remain competitive, it has to find other means to reduce costs. One way is to strengthen logistics by reducing cost of transportation. *Transportation infrastructure creation is the very foundation of OBOR.*

Greater International Stature for the Renminbi. The infrastructure focus helps China in its quest for greater international stature for the Renminbi, to achieve the status of a global reserve currency. In this effort, China has the backing of Russia and other emerging markets, as the volatility of their currencies has troubled politicians. With the aim of financing projects where the Chinese currency is used in loans, China in 2015 joined the European Bank for Reconstruction and Development and founded the Asian Infrastructure

¹²⁹ *ibid*

Investment Bank (AIIB). These steps yielded success, and the International Monetary Fund added the renminbi to the basket of global currencies.¹³⁰

Strategic Motives

The stated objectives of OBOR are primarily economic in nature. However, there is also a strategic underpinning to the whole project.

- US Strategy

China's rise has obvious implications for the US & has therefore not gone un-noticed by it. There have been definite moves by the US to counter & contain China from growing her dominance & influence.

China's rise has been powered by unprecedented economic growth. This growth has been centred on an export oriented model which entails that goods manufactured in China be transported to consuming destinations mostly in advanced western economies over long distances primarily through the seas. *This creates two vulnerabilities – one, continuous demand (markets) & two, movement of raw materials, energy & finished goods on the sea lanes of communication.* The US strategy is targeted at these very vulnerabilities.

Markets. In this sphere the US strategy hinges on trading alliances. In specific it revolves around two trade pacts viz the *Trans-Pacific Partnership (TPP)* & *Trans-Atlantic Trade and Investment Partnership (TTIP)*. The TTP is a regional trade agreement involving the US & 11 other countries all bordering

¹³⁰ Simeon Djankov (2016). 'The Rationale Behind China's Belt and Road Initiative', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

the Pacific. Besides the US the other member states are: Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. Together they represent roughly 40% of the world's economic output & 30% trade. The agreement was designed so that it could eventually create a new single market, something like that of the EU. The pact aimed to deepen economic ties between these nations, slashing tariffs and fostering trade to boost growth also hopes to foster a closer relationship on economic policies and regulation. These countries signed up to the TPP in February 2016. But all 12 nations needed to ratify it, before it can come into effect.¹³¹ *In the context of this document, there are three important issues here – one, China is excluded (so is India); two, the agreement sought to level the playing field by imposing rigorous labour and environmental standards on trading partners, and supervision of intellectual property rights¹³²; three it provided for a dispute redressal mechanism which would enable even non-govt investors to seek arbitration which are not subject to national jurisdiction. All of these provisions are totally unsuited to the Chinese style of commerce as Chinese manufacturing is rooted in transgression of these provisions. Unfortunately, the deal is as good as dead as the new US President has refused to ratify it. TTIP is a similar agreement between the US & the EU which amongst them account for another 30% of world trade. As can be seen the effort was to shut China out of 60% of world trade. By doing so the US was also attempting to re-write the*

¹³¹ BBC (23 Jan 2017). 'TPP: What is it and why does it matter?'. Available at <http://www.bbc.com/news/business-32498715>. Accessed 20 Feb 2017.

¹³² Kevin Granville (23 Jan 2017). 'What Is TPP? Behind the Trade Deal That Died', *The New York Times*. <https://www.nytimes.com/interactive/2016/business/tpp-explained-what-is-trans-pacific-partnership.html>. Accessed 21 Feb 2017.

contours of the world economic order by stalling & in fact rolling back the Chinese growth momentum.

Movement. The strategy here is based on the so called 'Malacca Dilemma' already explained in an earlier Chapter. The US is easily the most powerful maritime power in the world. The strategy is to ensure their overwhelming dominance & keep the Chinese shipping beholden to the US for protection against maritime security challenges such as piracy as also to perpetuate the spectre of serious threat in case of hostilities. The figure below gives an idea as to the extent of US deployment targeted at the PLAN.

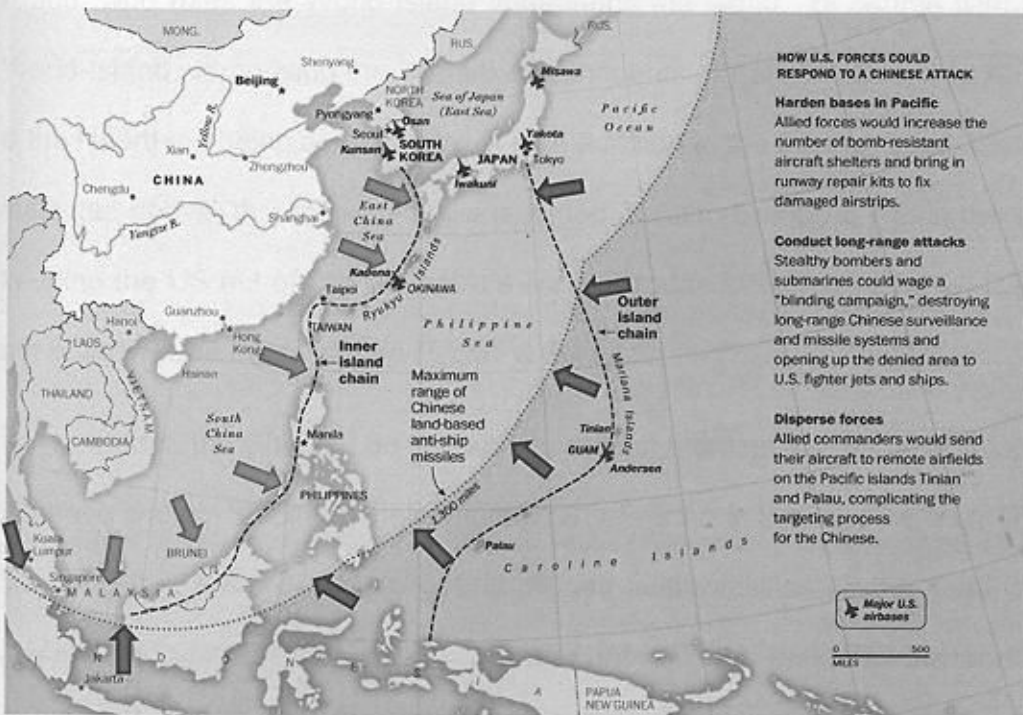


Figure 22. Source¹³³

¹³³ Greg Jaffe, Gene Thorp, Bill Webster (01 Aug 2012). 'Center for Strategic and Budgetary Assessment', *The Washington Post*. Available at https://www.washingtonpost.com/world/national-security/what-is-air-sea-battle/2012/08/01/gJQAIGr7PX_graphic.html?utm_term=.17baa3c474f4. Accessed 01 Mar 2017.

- Chinese Counter Strategy

At the other end of this power struggle, the Chinese side too is planning & plotting their moves well. China is attempting to find a place of pre-eminence in a new emerging world order where the old powers are losing some of their sheen & strength. The Chinese are trying to outflank the US by circumventing their global maritime dominance by way of spreading their influence into the Eurasian landmass. In a way adding flesh to the famous British geographer Sir Halford Mackinder construct of the Heartland - "who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the world," of course with the World-Island, comprising the interlinked continents of Europe, Asia, and Africa & the Heartland being at the centre of it. In addition to the foregoing, as already indicated above, the entire initiative is aimed at Asia, Europe & Africa thereby keeping the US out of this project – *a counter to the US efforts to keep China out of their trade deals in Asia-Pacific & Europe.*

In fact, the Chinese do not wish to restrict themselves to the land alone but have chosen to extend their influence & power on to the seas as well. They are clear that the only way to get rid of their vulnerabilities on the seas is to acquire the capabilities of a *true-blue water navy*. To this end, they are working assiduously by acquiring assets as well as bases to extend the reach of these assets. The "string of pearls" is a *manifestation of the same*. The Chinese have been able to secure interests in a number of IOR ports to include Gwadar, Hambantota, Djibouti. Meanwhile in a way confirming this Chinese intent the

Reuters reported thus on 26 Feb 2017,¹³⁴ "PLA Navy is likely to secure significant new funding in China's upcoming defence budget as Beijing seeks to check U.S. dominance of the high seas and step up its own projection of power around the globe." It further reports, "Now, with President Donald Trump promising a U.S. shipbuilding spree and unnerving Beijing with his unpredictable approach on hot button issues including Taiwan and the South and East China Seas, China is pushing to narrow the gap with the U.S. Navy."

As is evident the US & Chinese moves are nothing but a manifestation of jockeying for ascendancy in a new great game for power.

The other Chinese strategic imperatives aimed at ensuring internal stability & greater integration of peripheral regions as well as attainment of the 'China Dream' have already been explained earlier.

Current Status

OBOR in a sense has been envisioned by Xi Jinping & projected as the *primary vehicle to realise the Chinese Dream of 'great national rejuvenation'*, another one of Xi Jinping's personal constructs. To that extent Xi Jinping has invested his political capital in the project which, if succeeds, will be seen as his defining legacy. Given this context, it is only natural that the entire Chinese officialdom led by Xi Jinping himself is completely devoted towards promoting OBOR.

¹³⁴ Ben Blanchard and Michael Martina (26 Feb 2017). 'Wary of Trump unpredictability, China ramps up naval abilities', *Reuters*. Available at <http://in.reuters.com/article/china-defence-navy-idINKBN16501Q>. Accessed 22 Feb 2017.

While one can say for sure that the Chinese are not leaving any stone unturned in their endeavour, it is extremely difficult to arrive at an estimate of the actual implementation on ground. There are two monumental difficulties here viz the extreme rhetoric & the Chinese proclivity towards fudging data. Hence, it will need an entirely separate study devoted exclusively for this purpose to gauge the real progress. At this stage the following broad indicators should suffice: -

- Most countries have exhibited great enthusiasm towards OBOR. The glaring exceptions being India & EU. Even the Russians who were initially sceptical have started giving positive statements.
- Almost to a fault, this enthusiasm is motivated in anticipation of receiving Chinese investments.
- China has traditionally been a big overseas investor. As per the China Global Investment Tracker (CGIT) the combined value of Chinese investment and construction since 2005 exceeds \$1.2 trillion.¹³⁵
- In 2015, the Chinese investments topped \$110 bn. However, the top four destinations were US, Australia, Italy & Malaysia (in that order)¹³⁶ out of which the first three can't really be counted towards OBOR. Given these complexities, it is extremely difficult to sift OBOR specific expenditure out of the total basket.
- There have been a number of big ticket announcements. However, how many have gone beyond being mere statements of intent is unclear.

¹³⁵ Derek Scissors (Jan 2016). 'The Double-Edged Sword of China's Global Investment Success', American Enterprise Institute. Available at <http://www.aei.org/wp-content/uploads/2016/01/Double-Edged-Sword-of-China%E2%80%99s-Global-Investment-Success.pdf>. Accessed 21 Feb 2017.

¹³⁶ *ibid*

- It goes without saying that Chinese investments have attracted a lot of media attention. Some reports suggest the following: -
 - Chinese media reports say that China has announced investments of 1.04 trillion yuan (\$150 billion) in OBOR projects that are already under construction or planned. Nearly half of it, or 500 billion yuan (\$75 billion), is earmarked for railways. Road building accounts for 123.5 billion yuan (\$18.4 billion); airports, 116.7 billion yuan (\$17.5 billion); and ports and waterways, 170 billion yuan (\$25.4 billion).¹³⁷
 - Some of the largest recent Chinese lending include: a \$3 billion loan to the governments of Cambodia, Myanmar, Thailand and Laos, to be used for infrastructure projects and trade finance purposes; a \$2.2 billion Cexim facility extended to the Kenya Railways Corporation for a new rail link between the Indian Ocean port of Mombasa and the Kenyan capital of Nairobi; and two facilities to companies in Indonesia for power plants, one totalling \$1.5 billion and another worth \$1.2 billion.¹³⁸
 - China has signed project contracts worth \$926 billion along the belt and road. A series of cross-border infrastructure projects are under way – such as a new China-Laos railway, a highway in

¹³⁷ Liu Qin (10 Sep 2016). 'China's New Silk Road Could Expand Asia's Deserts', *The Diplomat*. Available at <http://thediplomat.com/2016/09/chinas-new-silk-road-could-expand-asias-deserts/>. Accessed 22 Feb 2017.

¹³⁸ Mukul Sanwal (29 Sep 2016). 'Model of Global Governance', IDSA. Available at http://www.idsa.in/idsacomments/china-one-road-one-belt-initiative_msanwal_290916. Accessed 21 Feb 2017.

Pakistan and a port in Vietnam – and are expected to expand quickly.¹³⁹

- China's Ministry of Commerce (MOFCOM) figures show that in the first three quarters of 2016 alone, China, purportedly, directly invested \$11 billion in OBOR countries.¹⁴⁰

Challenges

Given the size & scale of the initiative, it is beset with a number of challenges. Described hereunder are some of them:

Economic Lynchpin. China no doubt is the economic lynchpin of the OBOR initiative. However, to be the driver of the collective growth & prosperity as envisioned in the OBOR official document, it will also have to become the economic fulcrum as well by not just exporting but also importing goods & services higher up in the value chain. "To truly be an engine of global growth, a country should be a net purchaser rather than a net seller of global products. In 2015 China had one of the largest merchandise trade surpluses in history at over \$450 billion."¹⁴¹ It needs to be recalled that thus far the US has performed this role by acting both as a major exporter as well as importer. It is here that

¹³⁹ Lan Shen (13 Dec 2016). 'Xi Jinping's 'One Belt, One Road' strategy is showing the way to a new world order', *South China Morning Post*. Available at <http://www.scmp.com/comment/insight-opinion/article/2054143/xi-jinpings-one-belt-one-road-strategy-showing-way-new-world>. Accessed 23 Feb 2017.

¹⁴⁰ Adrian Raftery (04 Feb 2017). 'Many Belts, Many Roads: How China's Provinces Will Tweak a Global Project', *The Diplomat*. Available at <http://thediplomat.com/2017/02/many-belts-many-roads-how-chinas-provinces-will-tweak-a-global-project/>. Accessed 21 Feb 2017.

¹⁴¹ Sean Miner (Aug 2016). 'Economic and Political Implications', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

the Chinese economy will have to surmount its structural imbalance & transit to a consumption oriented growth model.

Middle Income Trap. This is somewhat related to the above challenge. Today China is confronted with the classical symptoms – decline in cheap labour, ageing population, decline in capital formulation, high expenditure on replacement/maintenance & decline in productivity. If trapped she won't be able to perform the role of economic driver.

Investment Model. China's investment model is **predatory** in nature. There are multiple instances of countries falling into a debt trap while dealing with Chinese investments. Their so called 'concessional loans' are anything but. The most recent example of this can be found closer home – *The Hambantota Case.*

Forbes reported thus on 08 Jan 2017:¹⁴²

"Earlier today, as the ceremonial first brick of what has now been dubbed the Southern Industrial Zone was laid in Hambantota, the place erupted in violent protests which left more than ten people hospitalized and many others incarcerated."..... "On the eve of the second anniversary of Sri Lanka's President Maithripala Sirisena coming to power, a ground-breaking agreement was to be finalized with China that would dictate the future of the country's southern Hambantota region for generations. *According to the plan, an 80% share of the Hambantota deep sea port as well as land for the massive new*

¹⁴² Wade Shepard (08 Jan 2017). 'Violent Protests Against Chinese 'Colony' In Sri Lanka Rage On', *Forbes*. Available at <https://www.forbes.com/sites/wadeshepard/2017/01/08/violent-protests-against-chinese-colony-in-hambantota-sri-lanka-rage-on/#1e90b91513dd>. Accessed 19 Jan 2017.

industrial zone would be ceded to China for the next 99 years in exchange for \$1.1 billion in debt relief."....."The main reasons for the protests against the impending Chinese handover was the perceived loss of autonomy to a foreign power as well as the potential land grab that could be necessary to build the 15,000-acre industrial zone."

"Together with a 15,000 acre Chinese-led industrial zone nearby, Shepard says Hambantota "seems well on the way from being a Sri Lanka national project financed by China to a full-fledged Chinese enclave at a very strategic position on the Indian Ocean."¹⁴³

This state of affairs is a result of rosy picture painted by the Chinese at the time of accepting the contract for building & developing the Hambantota Port granted to them by the then Sri Lankan President Rajapaksa in 2007. Once ready this port located amongst jungles turned out to be a disaster with hardly any shipping touching the port & the associated infrastructure decaying for want of use & maintenance. With no revenues & continuous bleeding the Sri Lankans are finding it almost impossible to repay the debt incurred in the port's construction.

Jeff M. Smith wrote thus in *The Diplomat* about Chinese investments in Sri Lanka:¹⁴⁴

"Of the \$5 billion China issued between 2005-2012, only two percent took the form of outright grants; the rest were loans at or near "commercial interest rates as high as Libor plus six percent." Meanwhile, the loans from China's Ex-Im Bank were "mainly offered to buy Chinese products and

¹⁴³ Jeff M. Smith (18 Nov 16), 'China and Sri Lanka: Between a Dream and a Nightmare', *The Diplomat*. Available at <http://thediplomat.com/2016/11/china-and-sri-lanka-between-a-dream-and-a-nightmare/>. Accessed 19 Jan 2017.

¹⁴⁴ *ibid*

services," according to one Sri Lankan financial analyst, while the laborers and subcontractors are all Chinese and "all raw material is imported from China." "Unsurprisingly, Sri Lanka's foreign debt soared from 36 percent of GDP in 2010 to 94 percent in 2015. Today, more than a third of government revenue goes toward servicing Chinese loans, with total foreign debt-service reaching \$8.2 billion annually. Meanwhile, Sri Lanka's trade deficit with China has soared, with in imports (\$3.8 billion) exceeding exports (\$250 million) by a factor of 15."

Sri Lanka's is not an isolated case. The same story has been repeated in Africa & Latin America as well.

Now that China's economy has slowed, many countries, and politicians have realized that their dependence on China may be excessive; the economic downturn in Latin America is increasingly being tied to the region's connection with China.¹⁴⁵

As regards Africa, Codrene Arsene pointed out the following:¹⁴⁶

"The real Chinese investment in Africa is only 1% of China's business. The rest is 'concessional loans'; the loans are harsh with large interest rates & smallest grace periods; Chinese infrastructure projects stipulate that 70% contracted persons will be Chinese who live in segregated townships reminding of apartheid; African markets have become dumping ground for cheap Chinese products forcing Africans out of business."

¹⁴⁵ Sean Miner (Aug 2016). 'Economic and Political Implications', Peterson Institute for International Economics. Available at <https://pie.com/publications/pie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

¹⁴⁶ Codrin Arsene 'Top 10 misconceptions about Chinese investment in Africa', Congo Forum. Available at <http://www.congoforum.be/en/analysedetail.asp?subitem=&id=146236&analyse=selected>. Accessed 27 Sep 2016.

Financing. Many comparisons have been drawn between the Marshall Plan & the OBOR. It is true that at the fundamental level both the plans envisage kick-starting growth by massive infusion of funds. However, where they differ is in the scope & scale of the operation. Marshall plan involved infusion of \$13 bn (estimated at approximately \$ 130 bn in today's value), the OBOR on the other hand is staggering.. just one of its components will reportedly develop 81,000 kilometres of high-speed rail, more than doubling the world total. If the Chinese government reaches its pie in-the-sky funding target of \$4 trillion, the investment would be roughly 31 times larger than the Marshall Plan.¹⁴⁷ Raising funds at this scale is not a simple matter especially when the prime motive driving participation is the cheap capital from China. Let us not forget that while China today sits on a more than \$ 3 trillion foreign exchange surplus, per capita income wise she still ranks a lowly 121¹⁴⁸ & in the HDI Index her ranking is 90 out of 188 countries.¹⁴⁹ Such circumstances restricts her ability to splurge money thoughtlessly.

Diligence. It also appears that due diligence is not a forte. Consider this - the CGIT documents more than \$270 billion in troubled transactions that

¹⁴⁷ Cullen S. Hendrix (Aug 2016). 'Rough Patches on the Silk Road? The Security Implications of China's Belt and Road Initiative', Peterson Institute for International Economics. Available at <https://piie.com/publications/piie-briefings/chinas-belt-and-road-initiative-motives-scope-and-challenges>. Accessed 21 Feb 2017.

¹⁴⁸ Index Mundi. Available at <http://www.indexmundi.com/g/r.aspx?v=67>. Accessed 27 Feb 2017.

¹⁴⁹ Reuters (01 Dec 2016). 'China's per-capita touches \$ 8000, 70% poverty eradicated', *The Economic Times*. Available at <http://economictimes.indiatimes.com/news/international/business/chinas-per-capita-touches-8000-70-poverty-eradicated/articleshow/55722673.cms>. Accessed 01 Dec 2016.

have experienced cost overruns, lengthy delays, or just outright failure after terms were supposedly finalized and activity begins. The causes include Beijing's own review process, but are mainly local political requirements and errors by the Chinese firms themselves. These have kept China's investment and construction below their potential levels.¹⁵⁰ Most of China's overseas investments have come from State Owned Enterprises (SOE). Like elsewhere even China's SOEs leave a lot to be desired in terms of efficiency & efficacy as well as in planning & delivery. Till China moves to a more market oriented & market driven business model, diligence will remain an issue. In view of the CPC's tendency to exercise tight control over all affairs of the State, SOEs will continue to play some significant role & the economies of the recipient countries will keep haemorrhaging.

Limitations of Land based Transportation. It has been established that the 'belt' portion of the OBOR focuses on developing overland multi modal transportation infrastructure for movement of goods. These modes are road, rail & pipelines. The last of the lot has proven to be a major success for transporting oil & gas. But, the same cannot be said about either road or rail. Road, in fact, can be straight away discounted due to severe capacity constraints leaving aside only rail as a serious contender. Sea based transportation is by far the cheapest form of freight movement. Accordingly, rail transportation will find preference only in case it offers overwhelming advantage

¹⁵⁰ Derek Scissors (Jan 2016). 'The Double-Edged Sword of China's Global Investment Success', American Enterprise Institute. Available at <http://www.aei.org/wp-content/uploads/2016/01/Double-Edged-Sword-of-China%E2%80%99s-Global-Investment-Success.pdf>. Accessed 21 Feb 2017.

in some other ways. One clear advantage is faster travel leading to faster turnaround & savings in time. However, a deeper analysis of the railway reveals that this advantage is compromised due to a number of shortcomings.¹⁵¹ *One*, different gauges - The rail systems in Kazakhstan, Russia, and Belarus use a wide gauge of 1.52 meters, a Soviet legacy, while the Chinese and European systems use a standard gauge of 1.435 m which raises serious bottlenecks related to transshipment & associated complexities; *two*, comparatively very high maintenance, infrastructure & costs; *three*, more susceptible to disruptions as it traverse multiple sovereign domains over which no one authority can exercise direct control; *four*, for the same reasons the problems related to co-ordination get exacerbated; *five*, soft target for separatist & terror elements as compared to sea; *six*, the time advantage acquires serious overtones only in the cases involving perishable items which by themselves do not constitute bulk of the trade. In so far as passenger traffic is concerned, air will remain the preferred mode due to savings in time. *It would not be incorrect to state that the success of the 'Belt' in the final analysis hinges on the success of the railways which in itself is highly doubtful because of the many disadvantages cited herein.*

Security Issues. OBOR passes through countries & regions tormented by sectarian, extremist, secessionist & ethnic strife. Securing the corridor & assets therein will pose a major challenge to development as well as subsequent operations.

¹⁵¹ Shang-su Wu (13 Jan 2017). 'The Limits of China's 'Silk Road' to Europe', *The Diplomat*. Available at <http://thediplomat.com/2017/01/the-limits-of-chinas-silk-road-to-europe/>. Accessed 23 Feb 2017.

Limited Maritime Capability. China is yet to acquire a blue water navy status which will constrain her efforts in rolling out the 'Maritime Road'

Misgivings. Misgivings amongst participating nations can arise on multiple counts. To name a few:

- China's increasingly muscular foreign policy. South China Sea is a case in point.
- Fears of debt trap.
- Propensity for corruption amongst Chinese officials & SOEs.
- Lack of soft power. Chinese claims at harmony, openness and inclusiveness, mutual learning and mutual benefit" sound like empty rhetoric in the face of its own record on human rights & freedoms at home.
- The battle for influence & power-play involving China, Russia (under Putin), India & Iran.
- China's refusal to accept the International Arbitration Court's award indicating scant respect for multilateral institutions.
- Historical experiences. Colonisation at the hands of the Europeans was almost always preceded by solicitation followed by imposition of trade.
- The ever-expanding scope & emphasis on 'core interests' with underlying ambiguity. There is apprehension that China could modulate her actions citing defence of core interests to the detriment of the weaker nations.
- OBOR has been conceived & its contours worked out unilaterally by China to suit its own ends.

- All roads lead to China.

There are two connect segments of the OBOR which are of singular significance to India for obvious reasons viz CPEC & BCIM. These deserve special attention.

China-Pakistan Economic Corridor (CPEC)

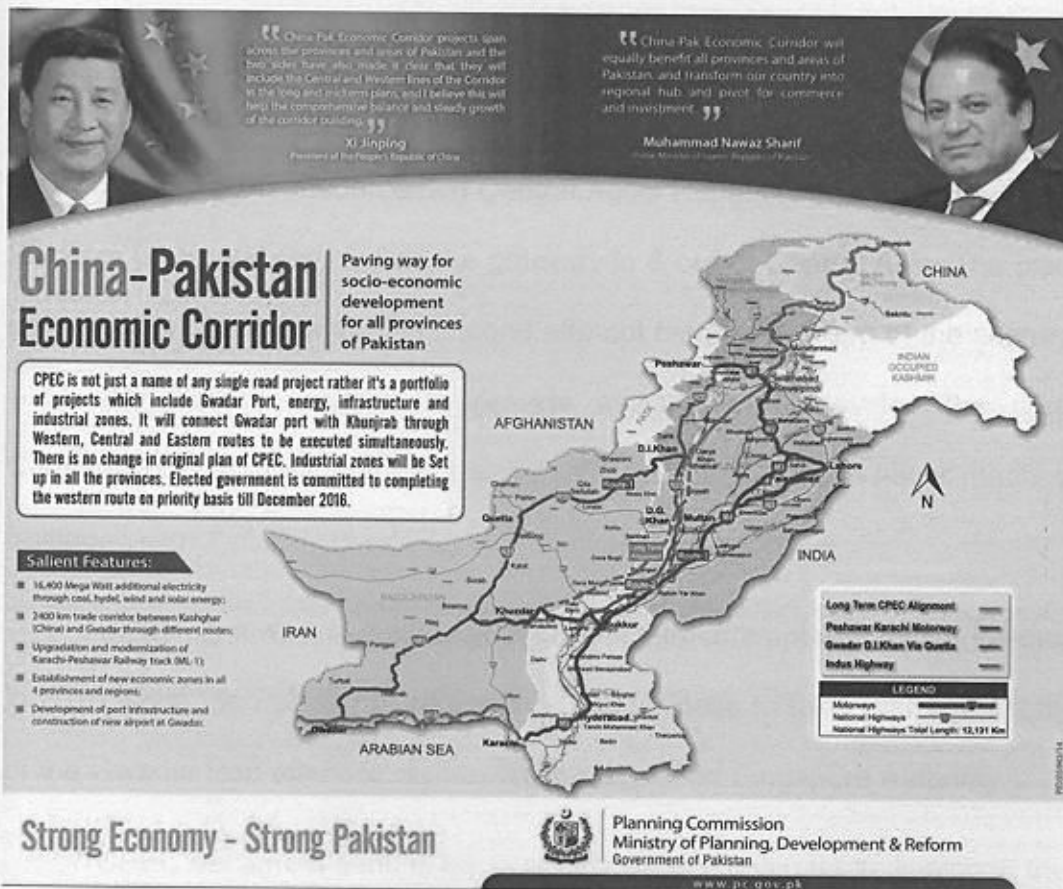


Figure 23. Source¹⁵²

¹⁵² 'Complete and Final Route Map of Pak-China Economic Corridor' (12 May 2015). Travel, Tourism, Transport and Maps of Pakistan. Available at <https://www.mappk.com/complete-and-final-route-map-of-pak-china-economic-corridor/>. Accessed 29 Feb 2017.

General

The formal & historical announcement of the CPEC, envisioned to connect the *disturbed* peripheral province of Xinjiang (Kashgar) through the 15500 feet Khunjerab Pass to the Gwadar Port in Pakistan's *disturbed* western province of Balochistan, was made during Chinese president Xi Jinping's Apr 2015 visit to Pakistan.

Pakistan had been touting Gwadar as the 'gateway' to Central Asia or vice versa for more than two decades. In this regard their two previous unsuccessful attempts at leveraging the said construct come to mind. The first attempt was made in mid 1990s soon after the collapse of the USSR leading to the secession of the resource rich Central Asian Republics (CAR). At that time Pakistan portrayed Gwadar as the gateway in & out of Central Asia. The plan suffered an unsung burial. The second attempt came at the turn of the century when the Chinese agreed to provide assistance to develop the port. Construction work took place but successful operationalisation never reached fruition.

CPEC, in a way, is a culmination of the third attempt which commenced in 2010 when the Pakistanis approached the Chinese to take over operations of the Gwadar Port after the controversial exit of Port Singapore Authority.

CPEC became a serious issue after a speech given by Xi Jinping at the Nazarbayev University in Kazakhstan where he announced the OBOR concept. During the years 2013 & 2014 some concrete shape was given to CPEC. It was advertised by Pakistan as western China's closest access to sea for movement of supplies & goods into & out of China.

The Broad Contours

CPEC is a long-term plan covering a 15-year period (2015-30). It has been publicised as a comprehensive package of cooperative initiatives and projects, which covers key areas including connectivity, information network infrastructure, energy cooperation, industries and industrial parks, agricultural development, poverty alleviation, tourism, financial cooperation as well as livelihood improvement including municipal infrastructure, education, public health and people-to-people communication. Under CPEC, China has promised to invest \$45.6 billion in Pakistan in return for access to the Gwadar Port. Beijing will inject around \$33.8 billion into energy projects and \$11.8 billion into infrastructure schemes¹⁵³

A further breakdown as per media reports indicates that the investment includes \$33.79bn for energy projects, \$5.9bn for roads, \$3.69bn for railway network, \$1.6bn for Lahore Mass Transit, \$66m for Gwadar Port and a fibre optic project worth \$4m. Some of these projects have been prioritised apparently with a view to complete them during the term of the present Pak Govt (i.e. 2018). These short-term projects involve over \$17bn in investment and include 720MW Karot hydropower project (\$1.65bn), upgrading of the 1,681km Peshawar-Lahore-Karachi railway line (\$3.7bn); Thar coal-fired power plants worth 1,980MW (\$2.8bn); development of two Thar coal mining blocks (\$2.2bn); the Gwadar-Nawabshah natural gas pipeline (\$2bn); imported coal-based power plants at Port Qasim worth 1,320MW (\$2bn); a solar park in

¹⁵³ 13 Mar 2015. 'Economic corridor: Pakistan, China to step up work on framework accord', *The Express Tribune*. Available at <https://tribune.com.pk/story/852339/economic-corridor-pakistan-china-to-step-up-work-on-framework-accord/>. Accessed 23 Feb 2017.

Bahawalpur worth 900MW (\$1.3bn); the Havelian-Islamabad link of the Karakoram Highway (\$930m); a wind farm at Jhimpir for 260MW (\$260m); and the Gwadar International Airport (\$230m).¹⁵⁴

The issue that catches your attention is the disproportionately high levels of investment in the power sector as compared to the transport infrastructure per say. Pakistan's power crisis & its debilitating effect on its industry & economy is quite well known. Apparently therefore, these power projects are meant to ensure the viability of the SEZs planned to be set up along the CPEC route.

The above are the broad contours of the CPEC as portrayed by the Pak officialdom. Now let us try to look into the many challenges & realities that confront the rolling out & fructification of this mega-project.

The Reality Within

- **Finance.**

It was reported by Dawn in Nov 2014¹⁵⁵ that out of the total investment-cum-loan package of \$45.65bn, \$34bn would come in the form of private sector investment by Chinese companies, insurers and banks & the remaining \$11bn will be in the shape of 'very concessional loans' and some grants. Dawn again reported in Sep 2016¹⁵⁶ that the cost of the project has now been upgraded to \$ 51.5 bn. This happened because Beijing has agreed to provide Pakistan with

¹⁵⁴ Engr Hussain Ahmad Siddiqui (13 Jul 2015). 'CPEC projects: status, cost and benefits', *Dawn*. Available at <http://www.dawn.com/news/1194014/cpec-projects-status-cost-and-benefits>. Accessed 23 Feb 2017.

¹⁵⁵ Khaleeq Kiani (17 Nov 2014). 'Issues in China's offer for investment', *Dawn*. Available at <http://www.dawn.com/news/1144932/issues-in-chinas-offer-for-investment>. Accessed 23 Feb 2017.

¹⁵⁶ Khaleeq Kiani (30 Sep 2016). 'With a new Chinese loan, CPEC is now worth \$51.5bn', *Dawn*. Available at <http://www.dawn.com/news/1287040>. Accessed 23 Feb 2017.

a \$5.5bn concessional loan to upgrade and modernise the Karachi-Lahore main railway line called ML-1 due to which the original \$3.56bn financing for the railway network has now increased to \$8bn.

However, there remains some confusion & scepticism over the financing of the entire project. In November 2014, the Chinese President announced the formation of a \$40 billion Silk Road Fund, the primary purpose of which was to “break the connectivity bottleneck” in Asia and beyond. The first project for which funds were sanctioned from the Silk Road Fund was the Karot hydel project in Pakistan. During the visit of President Xi Jinping, the joint statement declared that the Silk Road Fund would be “willing to actively seize opportunities to invest in and provide financing for other projects under the framework of CPEC”. Interestingly, the Silk Road Fund, whose shareholders include top Chinese government-owned banks like Export-Import Bank of China, China Investment Corp and China Development Bank is not an aid agency but is looking for ‘reasonable returns’ on its investments. The Chinese banks will extend loans to Chinese companies which will then invest in commercial ventures in CPEC, i.e. power projects, etc. And most of these loans are backed by insurance fees, sovereign payment guarantees and other such instruments, which in turn make it difficult to assess what the final rate of return on investment will be and what these commercial ventures will cost Pakistan.¹⁵⁷

In the above context, it would be interesting to look at the financing of the power projects, which, as already indicated above, contribute between 65% to 74% of the entire project cost.

¹⁵⁷ Sushant Sareen (Mar 2016). ‘Corridor Calculus China Pakistan Economic Corridor & China’s Comprador Investment Model in Pakistan’, *Vivekananda International Foundation*, New Delhi.

A report in the Dawn newspaper sheds some light on the nature of power project financing & the costs thereof. It reported, that a major chunk of \$35-37bn was purely Chinese investment in IPPs (independent power projects) mode. Pakistan will purchase electricity from these projects. Given the timeline for completion, these power projects could possibly add reasonable generation capacity to the national grid by 2017-18, but they would hardly provide any relief to the nation in terms of the fast-growing demand for electricity. And there is no silver lining for consumers as far as the cost of the electricity is concerned. All the Chinese loans will be insured by the China Export and Credit Insurance Corporation (Sinasure) against non-payment risks, and the security of the loans is guaranteed by the state. Sinasure is charging a fee of 7pc for debt servicing, which will be added to the capital cost of a project. For instance, the capital cost of a 660MW project at Port Qasim is \$767.9m. But it goes up to \$956.1m by adding Sinasure's fee of \$63.9m, its financing fee and charges of \$21m, and interest during construction of \$72.8m; a 27.2pc return on equity is guaranteed. Ironically, interest during construction is allowed at the rate of 33.33pc for the first year; 33.33pc for the second; 13.33pc for the third; and 20pc for the fourth year. The scenario presents a bleak picture, as the availability of affordable energy will likely remain a pipedream.¹⁵⁸

Another report in The Express Tribune stated, "in a meeting of the Senate Standing Committee on Water and Power chaired by Senator Zahid Khan here on Tuesday, member of the committee Mohsin Leghari expressed surprise that the government would pay a 20% to 50% return on 200 to 1,000-

¹⁵⁸ Engr Hussain Ahmad Siddiqui (13 Jul 2015). 'CPEC projects: status, cost and benefits', *Dawn*. Available at <http://www.dawn.com/news/1194014/cpec-projects-status-cost-and-benefits>. Accessed 23 Feb 2017.

megawatt power projects, which would be developed with the assistance of China. "Chinese power companies will get back all their investment in energy projects in four years," he remarked and underlined the need for disclosing the proposed terms and conditions of Pakistan-China energy projects. "Initially, the rate of return for Chinese investors was set at 17%, but it has now been increased to 27%," Leghari claimed.¹⁵⁹

In this regard, even the IMF has warned Pakistan that the \$46 billion economic corridor, have the potential to lift the cash-strapped economy's potential output, but the repayment obligations that come with it will be serious.¹⁶⁰

The above is indicative of the predatory nature of Chinese investments, which are first meant to secure their end in terms of profits/returns; benefit to the recipient country are apparently a secondary concern, if at all.

- ***The Security Conundrum.***

There are two important challenges as regards the security of the corridor is concerned. The first originates from the politics over the alignment & the second of course is the terrorism issue

¹⁵⁹ 'Power requirement: Higher return on energy projects surprises senators' (17 Sep 2014). *The Express Tribune*. Available at <https://tribune.com.pk/story/763170/power-requirement-higher-return-on-energy-projects-surprises-senators/>. Accessed 23 Feb 2017.

¹⁶⁰ 'IMF warns Pakistan of looming China-Pak Economic Corridor bill' (17 Oct 2016). *The Economic Times*. Available at <http://economictimes.indiatimes.com/news/international/business/imf-warns-pakistan-of-looming-china-pak-economic-corridor-bill/articleshow/54902281.cms>. Accessed 17 Oct 2016.

Alignment Politics. Gwadar is located in the restive Balochistan province. The Baloch people have historically felt alienated from main stream Pakistan citing exploitation of their natural resources for economic benefits to the Punjabis & brutal repression in return from Pakistani security forces (the Army in particular). Development of Gwadar had always been full of controversies as it caused displacement of locals, destruction of local fishing, unwelcome influx of 'outsiders' & attendant problem of jacking up land prices. The original route of the CPEC was to pass through Balochistan as well as Khyber Pakhtunkhwa (KPK) however, the final agreed alignment now excludes all of KPK & most of Balochistan. No wonder the Baloch & KPK people feel cheated yet again as the development of the Gwadar Port & the CPEC was originally sold to them as being the catalyst for development in these poverty stricken backward impoverished provinces.

There has been bitter opposition to the above change in alignment. In Feb 2015, the Awami National Party (ANP) raised the issue in Pakistani parliament. "The initial route [of the economic corridor] was proposed by China. If it is changed, the country will not remain united," warned Senator Ilyas Bilour of the ANP while expressing concerns over the possible move on behalf of the opposition senators from Balochistan and Khyber-Pakhtunkhwa. According to them, the original route of the economic corridor passes through Dera Ismail Khan, Zhob and Quetta before reaching the Gwadar deep seaport. However, Baloch and Pakhtun populated areas along the route have been excluded from the modified route which passes through Hasanabdal, Lahore, Multan, Sukkur, Hyderabad and Rattu Dero. Senator Abdul Rauf of the Pashtunkhwa Milli

Awami Party said the route was being diverted to Punjab.¹⁶¹ The senators were obviously referring to the Govt's bias in favour of Punjab. There was a major political uproar. In order to diffuse the crisis, in May 2015, Planning and Development Minister Ahsan Iqbal, indicated that there would be three alignments of the route - the *western route* originating from Gwadar will pass through Turbat, Panjgur, Nag, Basima, Sorab, Qalat, Quetta, Qilla Saifullah and Zhob and reach Dera Ismail Khan before leading to Islamabad (passing through the relatively underdeveloped areas of Khyber-Pakhtunkhwa and Balochistan). The *central* route will originate from Gwadar and reach Dera Ismail Khan via Basima, Khuzdar, Sukkur, Rajanpur, Layyah, Muzaffargarh and Bhakkar (passing partly through Khyber-Pakhtunkhwa, and hitherto unconnected parts of Punjab and Sindh), and the *eastern* route will include Gwadar, Basima, Khuzdar, Sukkur, Rahimyar Khan, Bahawalpur, Multan and Lahore/Faisalabad and then reach Islamabad (passing mainly through central Punjab and Sindh). These alignments were meant to pacify the Baloch & KPK provinces.

Later in Jul the same year, the Balochistan government came out with a report¹⁶² which alleged "despite denials the route has been changed to pass through central Punjab", Islamabad is primarily focusing on the Eastern Corridor. The report also challenged the government's claim that it will build all the three alignments. "The resources to build all three routes are not available

¹⁶¹ Qamar Zaman (04 Feb 2015). 'Pak-China Economic Corridor: Senators issue ominous warning over route change', *The Express Tribune*. Available at <https://tribune.com.pk/story/832574/pak-china-economic-corridor-senators-issue-ominous-warning-over-route-change/>. Accessed 23 Feb 2017

¹⁶² Shahbaz Rana (26 Jul 2015). 'Eastern CPEC route unfeasible: report', *The Express Tribune*. Available at <http://tribune.com.pk/story/926582/economic-corridor-eastern-cpec-route-unfeasible/>. Accessed 23 Feb 2017.

and China would certainly not allocate resources to pander to political disagreements in Pakistan," it added.

The controversy will likely continue as the corridor as yet indeed is focusing only on the eastern alignment. Development of Gwadar Port & surrounding areas will be affected.

Terrorism. There is no need to elaborate on the scale of terrorism rampant in Pakistan. This will surely have an impact on the progress/operation of the CPEC projects no matter which alignment the corridor follows.

Another security dimension that needs to be kept in mind is that the Gilgit Baltistan area through which the CPEC is to pass en-route from Pakistan into China is a Shia majority area leading to lot of sectarian violence not always connected to mainstream fundamentalist Islamic terrorism usually associated with Pakistan.

In order to allay the fears of the Chinese, the Pakistan Govt has raised a Special Security Division (SSD). Pakistan Senator Mushahid Hussain Sayed, chairman of the Parliamentary Committee on CPEC, said, 15,000 military personnel, as part of the SSD and Maritime Security Force (MSF), to protect projects under the umbrella of the CPEC.¹⁶³ How the impact of terrorism pans out in the future is an issue that will remain a concern for the Chinese business investments.

¹⁶³ PTI (21 Feb 17). '15,000 Pak military personnel protecting CPEC'. Available at http://www.ptinews.com/news/8430735_-15-000-Pak-military-personnel-protecting-CPEC-.html. Accessed 20 Feb 2017.

- *Terrain/Geology.*

The big worry for China is that the Karakoram Highway (KKH) which really is the spine of the corridor in the mountainous north of Pakistan traverses through an extremely treacherous terrain via an area where the three highest mountain chains in the world – the Karakoram, the Hindu Kush and the Himalayas – meet. The region is webbed with fault lines, making seismic activity a frequent and deadly reality. The epicentre of the 1974 Hunza earthquake that killed over 5,000 people was located less than 10 kilometres from the highway. In 2005, the Kashmir earthquake killed over 100,000 people; its epicentre was only a few dozen kilometres from the highway. These earthquakes demolished infrastructure and blocked parts of the highway for weeks at a time. In this area, as on the Indian side, landslides are a common feature which have a debilitating effect on efforts to keep the road open. Since much of the KKH is narrow, even a small landslide will immobilize traffic in both directions until the debris can be cleared. Floods are another natural hazard plaguing the highway. Glacial runoff during the summer wash out bridges, stranding freight and passenger traffic occasionally for more than a month at a time.¹⁶⁴

It would be interesting to point out here that the Karakorum Highway remains closed at this point for up to four months, i.e. from December to April because of rain & snow.¹⁶⁵ Such conditions would severely limit the usability of both rail & road link for any major freight movement effort i.e. if it would be possible to build a railway line in the first place. As of now there has been no

¹⁶⁴ Adam Hodge (30 Jul 2013). 'Karakoram Highway: China's treacherous Pakistan corridor', *The Diplomat*. Available at <http://thediplomat.com/2013/07/karakoram-highway-chinas-treacherous-pakistani-corridor/>. Accessed 22 Feb 2017.

¹⁶⁵ *ibid*

concrete plan that has yet been put out in the public domain regarding such a railway line.

No wonder a lot of misgivings have been expressed about the technical feasibility of both building & operating a **railway line** through the Khunjerab Pass located at an altitude of 4733 meters (15528 feet).



Three images of the Karakorum Highway.

Figures 24, 25 & 26. Source¹⁶⁶

¹⁶⁶ Khunjerab Pass. Dangerous roads the world's most spectacular roads. Available at <http://www.dangerousroads.org/asia/pakistan/2655-khunjerab-pass.html>. Accessed 22 Feb 2017.

Evidently, from the geological point of view, the feasibility of upgrading the KKH for sustained heavy goods traffic & building an additional railway line (if not two lines) on this alignment is highly suspect.

- **Economic Viability.**

The CPEC has often been portrayed, especially by Pakistan, as the game changer for China since it would significantly shorten the route its energy supplies have to take from middle east to reach the Chinese ports on its east coast (through the Straits of Malacca). The big question therefore is whether the CPEC will effectively rid China of her '*Malacca Dilemma*'. In order to reach a conclusion, let us look at the composite volume of sustainable traffic on the CPEC. A very good analysis of this particular aspect has been done by Sushant Sareen. A brief look at the same is quite revealing: ⁻¹⁶⁷

In the first few months of 2015, China's total oil imports were over 7 million barrels per day (bbl/d). Around 80% of these were routed through the Malacca Straits. Over the years, China has tried to build pipelines to reduce its dependence on the Malacca route. But the three main oil pipelines — Kazakhstan, Russia and Myanmar — currently supply only around 1.1 million bbl/d. Even after the Russian pipeline capacity is doubled to 6,00,000 bbl/d, the total pipeline supply of oil will be just around 1.5 million bbl/d out of over 7 million bbl/d of imports. Assuming a pipeline can be built from Gwadar, unless it can pump around 3 million bbl/d, it cannot take care of 50% of oil imports through Malacca. Let alone 3 million, even a pipeline with a huge capacity of 1 million bbl/d will not

¹⁶⁷ Sushant Sareen (Mar 2016). '*Corridor Calculus China Pakistan Economic Corridor & China's Comprador Investment Model in Pakistan*', *Vivekananda International Foundation*, New Delhi.

obviate China's Malacca dilemma. As for transporting oil through rail or road, obviously, those advocating this have no idea of the logistics or costs involved. A very large crude carrier (VLCC) ship can carry around 2 million barrels of oil. If the same amount of oil has to be carried by train, it will need around 28 trains of 100 cars each (assuming again that a train running across the formidable Karakoram range can cater for such a big train). It will take over 10,500 trucks to carry the same amount of oil by road — clearly, not a workable or economically practical option. As for containerised cargo, the World Shipping Council has estimated that if all the containers on an 11,000 TEU ship were to be put on a train it would be 77-km long. According to calculations made by two American scholars, a rail corridor across the Khunjerab pass would have at least one track each way (though given the terrain and costs involved, it is more likely that it will be a single track) and if all trains were to only carry oil, around 1,75,000 barrels could be carried in a day. Even if the number of trains were increased by double, not more than 3,50,000 barrels could be carried in a day. Once this oil reaches Kashgar, it would then have to be transported another 5,000 miles to the eastern heartland of China.

Similarly, Sushant Sareen has also commented on transportation costs of oil moved through such a pipeline & concluded that the same could be as high as \$12.4 to \$ 15 as compared to \$ 2 by sea.¹⁶⁸ Clearly an unviable proposition from the economic point of view.

¹⁶⁸ *ibid*

- **Technical Viability.**

As regards the proposed Gwadar – Kashi (Xinjiang) pipeline, The Global Times reported¹⁶⁹ that the proposed construction hasn't started yet, and "will not likely take place" due to the high cost and complicated geographic conditions, Mei Xinyu, a research fellow at the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce, told the Global Times. Such pipelines would need to climb the Karakorum mountain range with an altitude of 5,000 to 6,000 meters, where temperature fall as low as -30 C and earthquakes also happen frequently, Mei said, noting "the pipelines need extra heating and insulating equipment as well as high-power pumping stations." But those expenses will drive up the cost. Mei estimates that the cost of delivering oil through the Gwadar-Kashi pipeline is about 16.6 times more than shipping from Saudi Arabia to a port in Ningbo, East China's Zhejiang Province. "For the same amount of investment, it's more economically viable to build very large crude carriers than oil pipelines," Mei said.

In addition to the pipeline, there are technical limitations of the **Gwadar Port** as well which has a current depth of only 12.5 meters which restricts its capacity to handle ships beyond 50,000 DWT. Global Times recently had this to report regarding the same: -¹⁷⁰

Gwadar's inner port is currently dredged to 11.5 meters, a depth that is eclipsed by "major international ports, like the Shanghai Port, which generally

¹⁶⁹ Li Xuanmin (23 Nov 2016). 'Gwadar Port benefits to China limited', *Global Times*. Available at <http://www.globaltimes.cn/content/1019840.shtml>. Accessed 20 Feb 2017.

¹⁷⁰ *ibid*

have a water depth of 14 to 15 meters and are compatible with heavy loaded ships that carry hundreds of thousands of tons of goods," Wu Minghua, a Shanghai-based independent shipping industry analyst, told the Global Times, noting that the vessels docked in the Gwadar Port are only able to carry cargo weighing less than 100,000 tons. With an expected handling capacity of 1 million tons in 2017, it is better to describe the port as "medium-sized," Wu noted. Traffic at large ports generally averages 600 million tons per year. Additionally, the port would not be able to handle China's demand for petroleum imports. In 2015, the country's total crude oil imports stood at 335.5 million tons, according to China's General Administration of Customs, 310 times the handling capacity of Gwadar Port. Against this backdrop, "Gwadar will not become China's main trade hub with Persian Gulf countries, not to mention serve as an alternative route to the Malacca Straits," Wu said.

As of now Gwadar is not technically ready to handle large quantum of cargo moving into or out of CPEC. Even if it were to acquire that capability in the future, its suitability as the preferred mode of energy & freight movement would render it un-competitive because of very high logistics cost.

In sum, it can be said that CPEC is a good idea on paper for its immense propaganda value. However, on merit it appears more a case of the Chinese wanting to exploit opportunities available in Pakistan to invest its surplus cash pile & industrial capacity for its own advantage. For Pakistan, it appears more a case of moving from one donor-recipient relation to another where the identity of the giver has changed from the US to China.

- **Strategic Dimension**

Strategically, CPEC poses a challenge to India. Any major upgradation in the transit infrastructure has implications in the form of speedier & more efficient movement of military forces & logistics within Pakistan as well as from China to Pakistan to the detriment of India. Additionally, creation of China owned assets on Pakistani territory impedes India's strategic options inside Pakistan somewhat. Besides this, in the maritime domain, Gwadar offers PLAN the possibility of developing Gwadar as a logistic or even a full-fledged naval base. Such an eventuality will give a significant boost to China's maritime presence & capability in the IOR in general & the Arabian Sea in particular. This has ramifications not only for India but also the US & other littoral states on the IOR rim. Recently, the media reported handing over of two maritime patrol boats (christened PMSS Hingol & PMSS Basol) by China to Pakistan Navy. In this regard the Times of India reported thus, "The ships have become part of the Pakistan Navy from today and the (Pakistan) navy would become stronger with the induction of these maritime vessels," Hussaini (*Vice Admiral Hussaini*) was quoted as saying by the Dawn. He added that the Pakistan-China friendship was becoming stronger and deeper than the ocean, day by day. China is expected to provide two more ships "Dasht" and "Zhob" to the Pakistan navy. It is already working on them and they are expected to be completed soon."¹⁷¹

¹⁷¹ TNN (2017). 'China gives Pakistan two ships for security of CPEC sea route', *The Times of India*, 15 Jan.



PMSS Hingol (600 Ton)

PMSS Basol (600 Ton)

Figures 27 & 28. Source¹⁷²

Pakistan has been a major & regular beneficiary of military hardware from China. However, given the latest developments, India should now be prepared to see a larger quantum & additional variety of military hardware coming to Pakistan as inducements to further China's maritime interests at Gwadar.

Yet another issue that needs careful consideration is the actual strategic advantage that is likely to accrue to China in overcoming potential interdiction of energy flows from middle-east. Movement of freight from Gwadar in any case does not completely secure Chinese shipping emanating from African west coast as well as Latin America. So far as Gulf is concerned, the Chinese shipping can yet be interdicted at Hormuz Straits. The only efficient & workable counter to that for China is to build & develop naval capability for operating & influencing outcomes thousands of miles away from home. Till such a capability is acquired her shipping will remain threatened. However, importantly once in

¹⁷² Asian Defence New. Available at <http://asian-defence-news.blogspot.in/2016/12/pakistan-maritime-security-agency-pmsas.html>. Accessed 25 Feb 2017.

possession of it, Malacca itself will turn into a safe option rendering an uneconomical venture like Gwadar automatically redundant.

Before concluding let us try & see the actual movement that has taken place on CPEC thus far. On the one hand, there is tremendous buzz & enthusiasm in Pakistani media & businesses at the prospect of receiving large scale investments from China & its potential in triggering additional FDI from other sources & countries, while on the other, opposition & misgivings in Balochistan, KPK & Gilgit Baltistan (GB) continue unabated. Seth Oldmixon and Prateek Joshi writing for *The Diplomat* as recently as in Jan 2017 have reported that Provincial leaders in Punjab and Khyber Pakhtunkhwa (KP) have publicly clashed over the route.¹⁷³ The authors have also highlighted the sectarian strife & sense of alienation in the GB region which Pakistan is now trying to address by projecting the CPEC as an economic panacea as also to reinforce Pakistani nationalism. In addition, there is yet another challenge – that of Islamic terrorist support spilling over into the ethnic Islamic Uighur community of the Xinjiang province on the back of improved communication facilitated by an upgraded surface communication link. The Tehrik-i-Taliban Pakistani extremist outfit has already claimed the killing of some Chinese in Pakistan. Several separatist outfits in Balochistan are against the CPEC and proclaim that it is against the interests of the state. They say they would not allow this project to be implemented.¹⁷⁴ All of this is making the Chinese uncomfortable.

¹⁷³ Seth Oldmixon and Prateek Joshi (28 Jan 2017). 'The China-Pakistan Economic Corridor: A Game Changer for Gilgit-Baltistan', *The Diplomat*. Available at <http://thediplomat.com/2017/01/the-china-pakistan-economic-corridor-a-game-changer-for-gilgit-baltistan/>. Accessed 25 Feb 2017.

¹⁷⁴ Jai Kumar Verma (01 Nov 2016). 'China-Pakistan Economic Corridor Spells More Trouble for India', *The Quint*. Available at <https://www.thequint.com/opinion/2016/11/01/china-pakistan-economic-corridor-spells-more-trouble-for-india>. Accessed 25 Feb 2017.

The World Bank has ranked Pakistan 144 (out of 190 countries) on ease of doing business which is not encouraging from the point of view of triggering FDI. In this regard, a look at the FDI figures indicates that the same was restricted to a mere \$ 1.9 Bn in the Financial year 2015-16 (maximum FDI in a single year thus far has been \$ 5.4 bn in 2007-08).¹⁷⁵ This is not indicative of any serious ground level traction on the CPEC yet. There is some concern being voiced from the business community as well. In this connection, The Times of India carried a story on 03 Feb 2017 which amongst other things pointed out, "But not everyone is excited by China's growing role in the Pakistan economy, including trade unions, who said Chinese companies' alleged mistreatment of local workers in Africa in the past had alarmed them. "We have concern and reservations that the Chinese might use the same methods in Pakistan," said Nasir Mansoor, deputy general secretary of National Trade Union Federation, Pakistan, the national trade union body."¹⁷⁶ There have also been reports about Chinese concern with Pakistan's rising fiscal deficit which will could snowball into a financial crisis in the country where they have lined up investments for CPEC.¹⁷⁷ Clearly there is growing concern even within China about the risks involved in investing large sums in Pakistan's fragile economy. On the same issue the state run Global Times reported thus, ".....According to a recent report by Pakistan newspaper Dawn, Pakistan's fiscal deficit surged to around 2.4 percent of GDP during the first half (July-December) of the fiscal year 2016-17, the highest in four years.....The worst-case scenario is the last

¹⁷⁵ Reuters (2017). 'Amid Beijing's 'Silk Road' splurge, Chinese firms eye Pakistan'. *The Times of India*, 03 Feb.

¹⁷⁶ *ibid*

¹⁷⁷ PTI (21 Feb 2017). 'China should ensure Pakistan avert debt default: Chinese media', *The Economic Times*. Available at <http://economictimes.indiatimes.com/news/international/business/china-should-ensure-pakistan-avert-debt-defaultchinese-media/articleshow/57270025.cms>. Accessed 21 Feb 2017.

thing China would desire in Pakistan. A surge in the country's deficit would make it vulnerable to external shocks and would increase Pakistan's chances of a debt default. As a major creditor and the largest investor in Pakistan, China has an obligation to safeguard its investments in Pakistan and ensure it can recoup its loans..... Meanwhile, China may need to diversify its ways of financing the CPEC projects. Currently, many projects are financed by Chinese government concessional loans. It is unrealistic and unsustainable to pin all hopes on government loans from China. Such a lending model is likely to drive up the debt level of the recipient country and toss it into a vicious cycle of inflation and currency devaluation. After all, economic and fiscal sustainability cannot be achieved by relying on concessional loans and aid. That requires China and Pakistan to develop a market-based model to finance these projects and improve loan efficiency."¹⁷⁸ The following cartoon accompanying the article in *Global Times* conveys the concern quite appropriately:

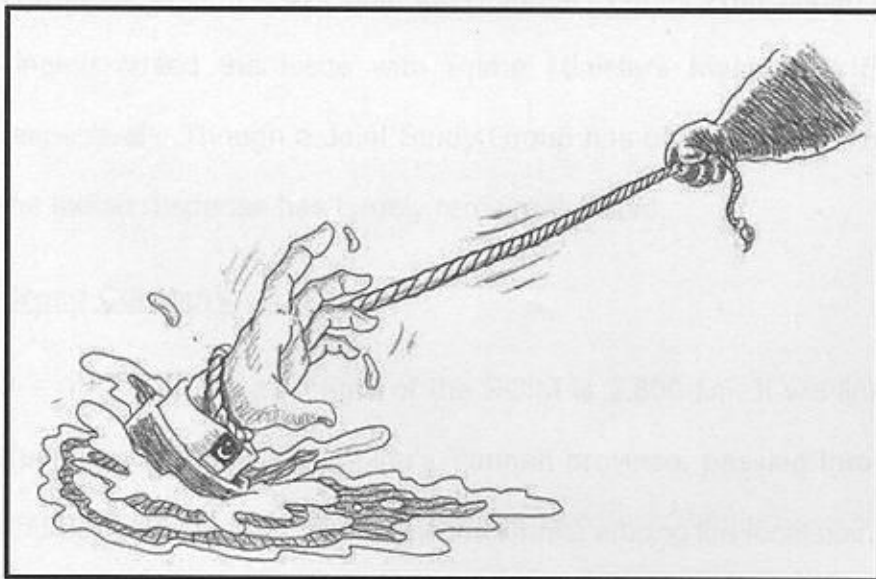


Figure 29.
Source¹⁷⁹

¹⁷⁸ Song Shengxia (21 Feb 2017). 'China should ensure Pakistan doesn't face financial crisis', *Global Times*. Available at <http://www.globaltimes.cn/content/1033997.shtml>. Accessed 25 Feb 2017.

¹⁷⁹ *ibid*

The above-mentioned complexities & challenges raise a huge question mark over the eventual shape & form that CPEC evolves into. It would be fair to estimate at this stage that China is unlikely to invest the promised resources in toto. Also, that the final CPEC will be substantially smaller in scope compared to the grand vision projected by the China-Pak combined propaganda.

Bangladesh-China-India-Myanmar Corridor (BCIM)

BCIM in its initial conception was known as the 'Kunming Initiative' named after Kunming city, the transportation hub & capital of China's southern Yunnan province. In the beginning, it was a track II initiative which later acquired formal colour in 1999 at the BCIM Forum for Regional Cooperation.

It remained low key till it was raised at the very highest levels by China & included in the OBOR. Both the Chinese Premier Wen Jiabao & President Xi Jinping raised the issue with Prime Ministers Manmohan Singh & Modi respectively. Though a Joint Study Group has been in place since Dec 2013, the Indian response has largely remained muted.

Broad Contours

The proposed length of the BCIM is 2,800-km. It will link Kolkata with Kunming, the capital of China's Yunnan province, passing through Myanmar and Bangladesh, with Mandalay and Dhaka among the focal points. Most of the road is motorable except for a stretch of less than 200 km, from Kalewa to

Monywa in Myanmar which needs to be upgraded as an all-weather road.¹⁸⁰ China wants the Kaladan Multi-modal Transit Transport Project connecting Mizoram with Kolkata via the Kaladan river and Sittwe port in Myanmar to become part of the EC. Besides multi modal physical connectivity, just as elsewhere in OBOR, the project envisages providing digital connectivity, trade facilitation and lowering barriers for smooth and seamless movement of goods, services, investment and people.¹⁸¹



Figure 30. BCIM Route. Source¹⁸²

Current Status

As already mentioned, India has been less than enthusiastic about the project. Consequently, there has been little or no progress. Indian reservations stem from the following:

- Deep mistrust of China.

¹⁸⁰ Atul Aneja (26 Jun 2015). 'China, India fast-track BCIM economic corridor project', *The Hindu*. Available at <http://www.thehindu.com/news/national/china-india-fasttrack-bcim-economic-corridor-project/article7355496.ece>. Accessed 25 Feb 2017.

¹⁸¹ Ashok Sajjanhar (Jun 2016). 'Understanding the BCIM Economic Corridor and India's Response', ORF Issue Brief, Observer Research Foundation.

¹⁸² Dr Rupak Bhatta (30 Sep 2015). 'North East In Bcim-Ec: Challenges And Prospects', *The Assam Chronicle*. Available at <http://assamchronicle.com/news/north-east-bcim-ec-challenges-and-prospects>. Accessed 25 Feb 2017.

- China has preferred to connect to India via Myanmar while leaving the border dispute unsettled.
- Most of the benefit will go to China in terms of trade with fears of cheap goods dumping.
- CPEC will ensure regular Chinese presence on India's western sea board. With BCIM providing overland access to the Bay of Bengal (from Bangladesh's coast), China will be able maintain presence on the eastern sea board as well.
- India's north east is yet not fully integrated with the mainland. BCIM will provide better integration with Myanmar & China which in turn may tilt local feelings & affinity away from India duly exacerbating fissiparous tendencies.
- Strategic implications in terms of Chinese ability to build-up military forces against Arunachal Pradesh.

In view of the above, despite Chinese pressure & insistence, India is not ready for the BCIM project as of now.

OBOR is yet in its infancy. A project of this size & magnitude has never been attempted before. To that extent credit must be given to the Chinese for the magnificence of their vision. However, the real test will ultimately lie in its delivery, which on all accounts, will remain a slow & tortuous process given the multiplicity of subjects & players involved. Meanwhile, its progress will be watched by many across the world with great interest as it has the portends to re-shape the world order dramatically.