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Reports

Imran Khan CPEC Diplomacy: Remodelling Trade Politics between Pakistan, Iran, Saudi Arabia and China

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[Getty]

Pakistani Prime Minister Imran Khan lands in Beijing on November 3, the latest head of government to seek a renegotiation of commercial terms and/or focus of projects related to China's infrastructure and energy-driven Belt and Road initiative. He follows in the footsteps of his Malaysian counterpart, Mahathir Mohamad, who has suspended US\$26 billion in Chinese-funded projects; while Myanmar is negotiating a significant scaling back of a Chinese-funded port project on the Bay of Bengal from one that would cost US\$ 7.3 billion to a more modest development that would cost US\$1.3 billion in a bid to avoid shouldering an unsustainable debt. China has also witnessed pushback and rising anti-Chinese sentiment in countries as far flung as Kazakhstan, Nepal, and Denmark.

Khan's insistence on expanding the focus of the China Pakistan Economic Corridor, a US\$45 billion plus Belt and Road crown jewel, to include agriculture, manufacturing, and job creation takes on added significance as Pakistan seeks an approximately US\$8 billion International Monetary Fund (IMF) bailout to help it avert a financial crisis and discusses with Saudi Arabia investments of up to US\$10 billion in investments that would be separate but associated with CPEC.

In doing so, Khan is manoeuvring multiple minefields that stretch from likely demands by the International Monetary Fund IMF and the United States for transparency on the financial nuts and bolts of CPEC projects to compliance with requirements of the Financial Action Task Force (FATF), an international anti-money laundering and terrorism finance watchdog that has threatened to blacklist Pakistan, to managing relations with Saudi Arabia at a time that the kingdom's international standing hangs in the balance as a result of the killing of journalist Jamal Khashoggi in the Saudi consulate in Istanbul.

Refocusing the Belt and Road

Preparing for his first visit to China as Pakistan's prime minister, Imran Khan insisted that the focus of the China Pakistan Economic Corridor (CPEC), a US\$45 billion plus crown jewel of the Belt and Road, shift from infrastructure to agriculture, job creation and foreign investment. "Earlier, the CPEC was only aimed at construction of motorways and highways, but now the prime minister decided that it will be used to support the agriculture sector, create more jobs and attract other foreign countries like Saudi Arabia to invest in the country," said information minister Fawad Chaudhry, ignoring the fact that the CPEC plan already made reference to those issues. (1)

Khan's determination to be seen as ensuring that more benefits accrue to Pakistan from Chinese investment comes at a time that various Asian and African countries worry that Belt and Road-related investments in infrastructure risk trapping them in debt and forcing them to surrender control of critical national infrastructure, and in some cases media assets. (2)

Malaysia has suspended or cancelled US\$26 billion in Chinese-funded projects (3) while Myanmar is negotiating a significant scaling back of a Chinese-funded port project on the Bay of Bengal from one that would cost US\$ 7.3 billion to a more modest development that would cost US\$1.3 billion in a bid to avoid shouldering an unsustainable debt. (4)

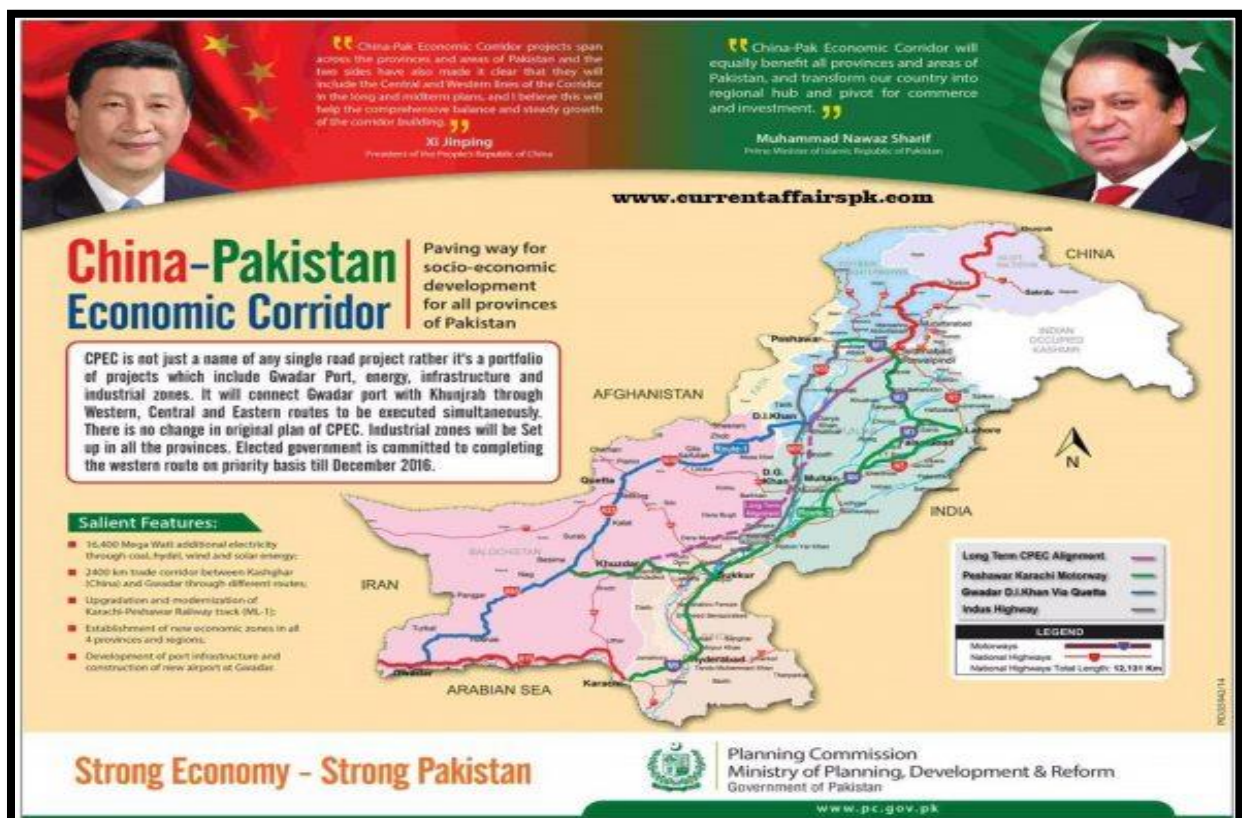
CWE Investment Corporation, a subsidiary of China Three Gorges is considering pulling out of a 750MW hydropower project citing high resettlement and rehabilitation costs in the wake of protests against the planned evacuation of eight Nepali villages. (5) Fears of a debt trap started late last year when unsustainable debt forced Sri Lanka to hand China an 80% stake in Hambantota port. (6) China has written off an undisclosed amount of Tajik debt in exchange for ceding control of some 1,158 square kilometres of disputed territory (7) close to the Central Asian nation's border with China's troubled north-western province of Xinjiang. Zambia saw itself left with no choice but to [hand over control of its international airport](#) as well as a state power company. (8)

Pakistan, even before Khan called for a refocusing of CPEC, was becoming more cautious about Chinese investment. Pakistani Water and Power Development Authority chairman Muzammil Hussain charged that "Chinese conditions for financing the Diamer-Bhasha Dam were not doable and against our interests." China and Pakistan were also at odds

over ownership of the \$14 billion, 4,500 megawatts (MW)-hydropower project on the Indus River in the country's problematic region of Gilgit-Baltistan near disputed Kashmir. (9) Earlier, a State Bank of Pakistan study concluded that exports of marble to China, Pakistan's foremost rough-hewn, freshly-excavated marble export market, and the re-export to Pakistan of Pakistani semi-processed marble was "hurting Pakistan's marble industry to a significant extent." (10)

Khan's chances of refocusing CPEC may be boosted by domestic and foreign blowback China is experiencing. Chinese President Xi Jinping's pledge in September of US\$60 billion in new loans to Africa triggered a wave of grumbling in China. Censors quickly moved to delete critical posts that proliferated online after Xi announced the fresh commitments to counter assertion that the Belt and Road amounted to debt trap diplomacy. (11)

China too is apparently becoming more cautious. Reduced Chinese investment in Pakistan accounted for a 42 percent drop in foreign direct investment in the first quarter of this fiscal year. The central bank reported that investment from China, Pakistan's largest foreign investor had dropped in the period from July to September to US\$439.5 million compared to US\$765 million in the previous year. The decline fuelled concern and contributed to Pakistan's decision to ask the IMF for support.



[Reuters]

Tackling Key Issues

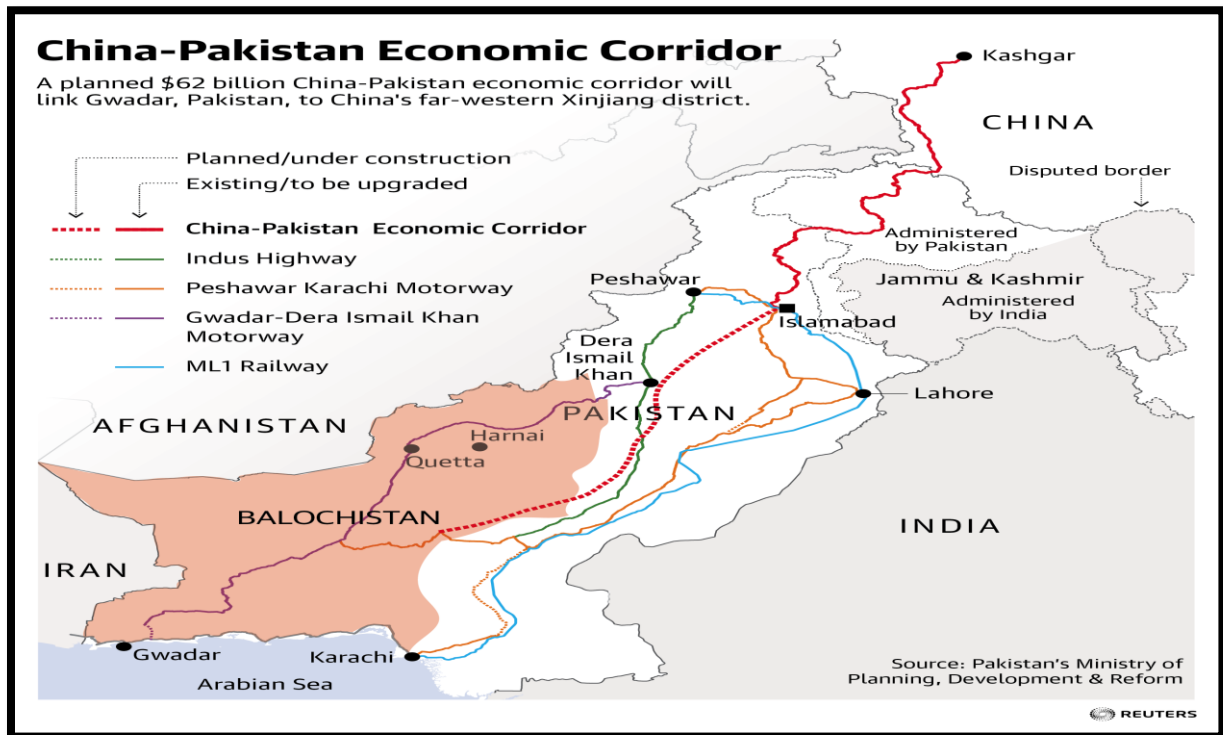
The Khan government's desire to refocus CPEC tackles key issues raised by critics of the project that potentially could impact China's plan to pacify its troubled north-western province of Xinjiang through a combination of economic development and brutal repression and re-education of its Turkic Muslim population. The initial plan for CPEC appeared to position Pakistan as a raw materials supplier for China, an export market for Chinese products and labour, and an experimental ground for the export of the surveillance state China is rolling out in Xinjiang. (12)

The plan envisioned Chinese state-owned companies leasing thousands of hectares of agricultural land to set up "demonstration projects" in areas ranging from seed varieties to irrigation technology. Chinese agricultural companies would be offered "free capital and loans" from various Chinese ministries as well as the China Development Bank. It further projected the Xinjiang Production and Construction Corps introducing mechanization as well as new technologies in Pakistani livestock breeding, development of hybrid varieties, and precision irrigation. Pakistan effectively would become a raw materials supplier rather than an added-value producer, a prerequisite for a sustainable textiles industry.

The plan saw the Pakistani textile sector as a supplier of materials such as yarn and coarse cloth to textile manufacturers in Xinjiang. "China can make the most of the Pakistani market in cheap raw materials to develop the textiles & garments industry and help soak up surplus labour forces in (Xinjiang's) Kashgar," the plan said. Chinese companies would be offered preferential treatment with regard to "land, tax, logistics and services" as well as "enterprise income tax, tariff reduction and exemption and sales tax rate" incentives. (13) For Khan to ensure that Pakistani agriculture benefits, the very concept of Chinese investment in Pakistani agriculture would have to renegotiated.

Similarly, Khan has yet to express an opinion on the plan's incorporation of a full system of monitoring and surveillance that would be built in Pakistani cities to ensure law and order. The system would involve deployment of explosive detectors and scanners to "cover major roads, case-prone areas and crowded places...in urban areas to conduct real-time monitoring and 24-hour video recording." The surveillance aspect of the plan that identifies Pakistani politics, such as competing parties, religion, tribes, terrorists, and Western intervention" as

well as security as the greatest risk to CPEC could, if unaddressed, transform Pakistani society in ways that go far beyond economic and infrastructure development. (14)



[Government of Pakistan]

The Saudi Factor

Khan's insistence on a refocus of CPEC takes on added significance given that Pakistan is turning to the International Monetary Fund (IMF) to help it avert a financial crisis with a loan of up to US\$12 billion (15) and its agreements with Saudi Arabia involving US\$ 6 billion in financial support and could produce some US\$10 billion in investments that would be separate but associated with CPEC. (16)

China worries that Saudi investments would reduce Pakistani dependence on the People's Republic and is believed to have persuaded Pakistan to backtrack on its initial announcement that Saudi Arabia would become a partner in CPEC rather than invest separately from the People's Republic. (17)

Lijian Zhao, China's deputy chief of mission in Islamabad sought to smoothen potentially ruffled feather by insisting that his country welcomed Saudi investments as part of any effort to develop Pakistani infrastructure, raise living standards and create jobs. (18) In an interview (19) as well as a series of tweets (20) Zhao insisted that China welcomed Saudi investment and "always supported & stood behind @ Pakistan, helping [#develop](#) it's [#infrastructure](#) &

raise [#living](#) standards while creating [#job](#).” Zhao’s comments followed a statement in September by Chinese foreign minister Wang Ji after talks with Khan in Islamabad that appeared to indicate that China, while acknowledging Pakistani demands, would not address them immediately. Wang suggested that CPEC would only “gradually shift to industrial cooperation.” (21)

In a further implicit recognition that at least some of its Belt and Road-related projects risk trapping target countries in debt or fail to meet their needs, has conceded that adjustments may be necessary. "It's normal and understandable that development focus can change at different stages in different countries, especially with changes in government. So [China can also make some strategic adjustments](#) when cooperating with these countries, but it's definitely not a reconsideration of the B&R (Belt and Road) initiative," Wang Jun, deputy director of the Department of Information at the China Center for International Economic Exchanges told the Chinese Communist Party’s Global Times newspaper. (22)

Said Financial Times columnist Jamil Anderlini:” China is at risk of inadvertently embarking on its own colonial adventure in Pakistan— the biggest recipient of BRI investment and once the East India Company’s old stamping ground... Pakistan is now virtually a client state of China. Many within the country worry openly that its reliance on Beijing is already turning it into a colony of its huge neighbour. The risks that the relationship could turn problematic are greatly increased by Beijing’s ignorance of how China is perceived abroad and its reluctance to study history through a non-ideological lens... It is easy to envisage a scenario in which militant attacks on Chinese projects overwhelm the Pakistani military and China decides to openly deploy the People’s Liberation Army to protect its people and assets. That is how ‘win-win’ investment projects can quickly become the foundations of empire.” (23)

A Linchpin of Chinese Policy

China, moreover, frets that in a worst-case scenario, Saudi investment rather than boosting economic activity and helping Gwadar get out of starting blocks, could ensnare it in one of the Middle East’s most debilitating conflicts. China is further concerned that there would be a set of third-party eyes monitoring activity if and when it decides to use Gwadar not only for military purposes but also as a naval facility. Saudi investment would also thwart potential

Chinese plans to link the ports of Gwadar and Chabahar, a prospect that Pakistani and Iranian officials have not excluded.

Indeed, Khan's involvement of Saudi Arabia could complicate tensions in Balochistan where China is already a target for nationalist and/or religious militants by potentially drawing Pakistan into the escalating rivalry between Saudi Arabia and Iran and putting Saudi investments in the firing line. A Balochistan Liberation Army (BLA) suicide bomber driving an Iranian manufactured Zamyad oil transporter killed three Chinese engineers and two Pakistani frontier guards in August when he attacked a bus carrying them to the Saindak copper and gold mine that is operated by the Metallurgical Corporation of China. (24)

A Rand Corp study asserted in 2014 that Pakistan is "the linchpin of China's South Asia policy." (25) "Islamabad is considered a key capital to help Beijing deal with the challenge both in terms of cracking down on radical Islamic groups supporting and training Uighurs in Pakistan as well as helping to cast China as friend of the Muslim world... Pakistan is also important to China because it is considered critical to stabilizing neighbouring Afghanistan—a country that has become of growing concern to China as a source of terrorism and heroin... From China's perspective Pakistan has a key role to play...in actively advancing China's economic relations with the region and the world. Beijing seeks a government in Islamabad that can maintain order inside Pakistan and also help stabilize Afghanistan," the study said.

Another Rand Corp research paper noted that Pakistan is China's largest military hardware export market. Pakistan accounted for 42 per cent of China's total arms sales in the years between 2000 and 2014. (26) In a move designed as much to strengthen Pakistani counter-terrorism capabilities as a gesture towards the armed forces, made Pakistan the second country after Saudi Arabia to receive killer drones and the associated technology. (27) The US has refused to sell its more advanced killer drones to either Saudi Arabia or Pakistan

Pakistan's powerful military and intelligence service, Inter-Services Intelligence (ISI) is determined to play an important role in Khan's manoeuvring of the Chinese and Saudi minefields. Handpicked by Chief of Army Staff General Qamar Javed Bajwa, ISI's new head, Lieutenant General Asim Munir, garnered experience in dealing with both China and the kingdom while he served in the province of Gilgit-Baltistan that borders on the People's Republic and when he was seconded to Saudi Arabia. (28)

Saudi Arabia is considering investing in a refinery in the Baloch Arabian Sea, Chinese-operated port of Gwadar that is a key node in China's strategy to fuel economic development in its troubled north-western province of Xinjiang. Saudi Arabia is also looking at putting money into the Reko Diq copper and gold mine, that like Gwadar is close to Iranian border and a mere 70 kilometres from Iran's Indian-backed port of Chabahar.

Ironically, the death of Saudi journalist Jamal Khashoggi has turn out to be a blessing in disguise for Khan. After two visits to Riyadh in the first two months of his prime ministership that did not persuade the Saudis to give him the cash relief he needs, Khan earned brownie points by attending a high-profile in October in Riyadh that was boycotted by Western CEO's and government officials. Khan was received in private audience by King Salman and his embattled son, Crown Prince Mohammed bin Salman.

Speaking in an interview before leaving for Riyadh, Mr. Khan said he was attending the conference despite the "shocking" killing of Mr. Khashoggi because "unless we get loans from friendly countries or the IMF, we actually won't have in another two or three months enough foreign exchange to service our debts or to pay for our imports. So we're desperate at the moment." (29) Pakistan's foreign reserves dropped this month to US\$8.1 billion, a four-year low and barely enough to cover sovereign debt payments due through the end of the year. The current account deficit has swelled to about \$18 billion. (30)

The potential Saudi investments were only part of Khan's shopping list presented to the Saudis on two visits to the kingdom since he came to office in August. Ironically, the killing in Istanbul of Jamal Khashoggi got the Pakistani prime minister what the chastened Saudis had denied him earlier as a reward for his participation in a major investors' conference in Riyadh that Western leaders, politicians and company boycotted in the wake of the Saudi journalist's gruesome murder: US\$6 billion in deferred oil payments and a deposit in the central bank to alleviate Pakistan's cash crunch. (31)

Conclusion

Armed with the Saudi aid, Khan arrives in Beijing more confident that he can secure similar Chinese support. His talks are likely to be clouded by the question whether and, if so, what geopolitical price he may have paid for the Saudi aid. Ensuring that Pakistan, home to the

world's largest Shiite minority, does not snuggle up too much to Iran has become even more crucial for Saudi Arabia as it seeks in the wake of Khashoggi's death to enhance its indispensability to US President Donald J. Trump's effort to isolate and cripple Iran economically, if not to engineer a change of regime in Tehran. Trump sees Saudi Arabia as central to his strategy aimed at forcing the Islamic republic to halt its support for proxies in Yemen and Lebanon, withdraw its forces from Syria, and permanently dismantle its nuclear and ballistic missiles programs.

Saudi financial support means that Khan may find it more difficult to shield Pakistan from being sucked into the US-Saudi effort with potentially far-reaching consequences for Chinese investment, particularly in Balochistan. "There will be at a minimum Saudi expectations and perhaps even demands, when it comes to Pakistan's support for issues that are of interest to the Saudi monarchy.

When he was an opposition figure, Mr Khan seemed to understand that and hence decried the secret deal that the previous PML-N (Pakistan Muslim League-Nawaz) rulers had struck with the Saudis in return for a loan," Dawn, Pakistan's leading English-language daily, said in an editorial. (32)

Pakistani finance minister Asad Umar denied that the Saudi support came with political strings. "The Saudis did not make any demands that we refused to meet. They made no demands. And this is the Pak-Saudi relation; it's a people-to-people connection. They will stand by Pakistan's side during our time of need," Umar said. (33) Khan is moreover likely to argue in Beijing that Saudi and Chinese aid would reduce his need to turn for help to the IMF that would demand insight into the financial terms of CPEC-related projects.

Insurgents [kidnapped a week before Khan's visit to Saudi Arabia 14 Iranian security personnel](#), reportedly including Revolutionary Guards on the Iranian side of the border with Pakistan. Pakistan pledged to help liberate the abductees who are believed to have been taken across the border into Balochistan, long a militant and Baloch nationalist hotbed. (34) "Members of terrorist groups that are guided and supported by foreign forces carried this out through deceiving and bribing infiltrators," the Guards said in a statement that appeared to blame Saudi Arabia and the United States without mentioning them by name.

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