

PAKISTAN AND CHINA: IS THE 'ALL WEATHER ALLIANCE' SUSTAINABLE, OR A MAGIC CARPET MIRAGE?

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Abstract

Pakistan has long been a beneficiary of straightforward Chinese security assistance, and Islamabad is accustomed to relying on China as an "all-weather ally" against military pressure from India. China has placed remarkably few political demands on Pakistan for its assistance and has not thus far visibly interfered in Pakistan's domestic affairs. China's rise as an emerging world power is naturally seen in Pakistan, therefore, as a uniquely congenial condition supporting Pakistan's independence, economic outlook, and regional aspirations. Pakistan is conscious that its role as a large Muslim country and its own pivotal geography are strategically valuable to China both as an intermediary with the oil-producing countries of the Middle East and as an alternate, overland route for the transport of energy supplies and commerce with countries bordering the Arabian Sea and Persian Gulf. From Pakistan's standpoint, the mutual strategic benefits of this relationship suggest that it can be counted on to remain durable indefinitely. Only one other foreign relationship, that with Saudi Arabia, offers Pakistan a similar steadfastness, and Saudi assistance is not comparable with China's in strategic security value and is somewhat more intrusive in internal affairs.

China's rise and the deepening of its relationship with Pakistan – emphasizing energy transport infrastructure – may offer further economic benefits but may also impose tradeoffs for Pakistan on its freedom of maneuver internationally and on its socio-political development that have not been foreseen or understood. What seems to be a straightforward relationship could become something of a straitjacket that constrains Pakistan's ability to define its own future. China supplies Pakistan with military technology, may modestly enlarge Pakistan's nuclear power program, and has invested in cellular communications. Noticeably missing in China's approach to Pakistan thus far, however, are economic

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investments in Pakistani manufacturing and trading capabilities, or in the modernization of water management and agriculture, not to speak of modern education, social uplift or poverty reduction, or the rule of law – all critical areas for Pakistan's future economic development and social capacity. This essay seeks to explore the potential benefits and also the tradeoffs and potential pitfalls for Pakistan in the ramping up of the broader Sino-Pakistani relationship. Its aim is to help clarify the ways Pakistan can attempt to manage this relationship for optimal results in national political and economic development, and modernization, as well as constructive Pakistani leadership in regional and international affairs.

This essay further seeks to raise issues for discussion of how Pakistan can take charge more effectively of its destiny – utilizing the opportunities China may offer, but employing them to generate momentum for long-range solutions to national and social needs. These would certainly include a more harmonious integration of Pakistan's social and cultural diversity, a progressive reinforcement of civil society and reduction of political and religious extremism, the nurturing of democratic political institutions and the rule of law, the promotion of equality and poverty reduction, a progressive tax system that puts a fair portion of the concentrations of landed wealth into public education and social development, and the strengthening of modern norms against gross corruption. Long-range solutions may also include a normalization of relations with India and opening of trade and investment across South Asia – including Afghanistan, prospectively reducing military confrontation and external security burdens, and permitting a more balanced allocation of national revenues and budgetary resources. This would put Pakistan in a more confident and sustainable position to finance development and investment from its own internal sources while reducing international indebtedness.

Pakistan's relationship with China, this essay suggests, will be no magic carpet that lifts Pakistan out of its chronic, roller-coaster problems. But if the benefits that relationship can provide are intelligently broadened and rationally employed, Pakistan surely will have a much better chance than without them to put its domestic house in order, improve its wider relations

with neighbors, and move onto a track of economic growth that merges it with Asia's growing prosperity. If Pakistan instead banks on China's relationship and proffered resources reflexively, taking them for granted as its main remedies for internal and external difficulties, it may well find they narrow Pakistan's choices downstream.

Introduction

China has long been proclaimed Pakistan's most valued foreign ally on security matters, particularly on Pakistan's concerns about India. Commentators in Pakistan often refer to China as an "all-weather ally." This formulation is in contrast to the United States, which bolstered Pakistan during the Cold War but through a security relationship that has been fraught at times with severe difficulties, and that the Pakistani establishment has come to view emotionally as needed but unreliable and prone to disappointment. The US has never been able to side with Pakistan against India, and its global opposition to nuclear proliferation has landed hard on Pakistan. China's approach to Pakistan has been comparatively one-dimensional and uncomplicated, usually backing Pakistan's position against India on Kashmir diplomatically, and filling gaps in Pakistan's military acquisition needs. Having been an early target of the non-proliferation regime itself, China is more understanding and supportive of Pakistan's nuclear energy and weapons programs. Moreover, as an authoritarian state with its own allergies to external political intrusions, China has placed remarkably few "political" demands on Pakistan in return for its assistance and has not visibly interfered in Pakistan's domestic affairs. The Pakistan-China relationship has been, thus far, a politically dispassionate and pragmatic relationship that both are comfortable with.

China's rise as an emerging world power is naturally seen in Pakistan, therefore, as a uniquely congenial condition supporting Pakistan's independence, economic outlook, and regional aspirations.¹ India's apprehension about China's rise as an economic

and potentially formidable, great military power -- with the resulting balancing of Indian power and the implicit Asian continental rivalry this portends -- give Pakistan's strategic managers a source of comfort that Pakistan is not entirely alone against what it perceives as Indian hegemonial aspirations. With the added factor of demonstrated nuclear weapons of its own after 1998, Pakistan is aware of an unspoken but real mutual interest with China in resisting undue geopolitical expansion of Indian military power.

Pakistan is conscious that its role as a large Muslim country and its own pivotal geography are also strategically valuable to China both as an intermediary with the oil-producing countries of the Middle East and as an alternate, overland route for the transport of energy supplies and commerce with countries bordering the Arabian Sea and Persian Gulf. From Pakistan's standpoint, the mutual strategic benefits of this relationship and China's geopolitical orientation suggest that it can be counted on not only to remain durable indefinitely but also to appreciate in value as China's economy continues to grow. Only one other foreign relationship, that with Saudi Arabia, offers Pakistan a similar steadfastness, and Saudi assistance is not comparable with China's in strategic security value and is -- due to sectarian strife among and within Muslim countries -- somewhat more intrusive in internal affairs.

That China's supportive relationship with Pakistan is of high value to Pakistan's leadership establishment is not debatable, and there is little doubt its material value is likely to grow apace as China becomes richer. But will it be a magic carpet that lifts Pakistan out of its cumulative problems and put it on a path towards stability and prosperity? Will it do much to lift Pakistan out of persistent poverty and low levels of social development, internal strife, mounting energy and water shortages, and a system of government and society that fails to generate decisive and visionary national leadership, and whose system of governance is regrettably plagued by notorious corruption? China's interests in Pakistan do not appear to be

altruistic, nor culturally empathetic. Rather they seem to be wholly expedient. Their long term value to Pakistan may therefore depend on whether Pakistan can shape prospective transactions in the relationship to productively invest in and develop its society and economy and move them onto a sustainable footing for the future. China cannot be expected to be a solicitor of Pakistan's best nation-building interests or good governance; it will be passive in that regard. But neither will it necessarily stand in their way. The challenge for Pakistan is one of stewardship, to utilize inventively what rising China offers, in ways that serve the public good.

This essay seeks to review and inventory the material value of China's growing relationship with Pakistan -- acknowledging its positive dimensions and the opportunities it offers. But the analysis also attempts to characterize its shortcomings and certain prospective pitfalls. The objective is to look ahead and suggest not only ways that Pakistan can make best use of the opportunities presented but also strategies for shaping the content and focus of the relationship to strengthen Pakistan and nourish its own potential for sustained growth and development. China's rise presents opportunities that should not be missed, but the keys to making best use of them are clear headed advance work and planning, substantive public debate and enlistment of responsible media exposure of options, and dedicated political effort to generate consensus on objectives that can support efficient utilization of those opportunities. They may also depend on an authentic unleashing of the private business and financial sector.

This essay offers, first, a review and evaluation of the primary areas of China's involvement in Pakistan – security, physical infrastructure, and trade. Second, it points to potential areas of modernization activity that are not yet part of the relationship, but arguably should be given some priority, and strategies this may suggest. Third, it discusses Pakistan's options for beneficial change in relations with other neighbours and the related implications for

Pakistan's long-term success. Finally, it offers suggestions on how Pakistan might take advantage of the momentum of Chinese projects to reform its own political system and decision-making capacities.

China and Pakistan's Security Requirements

China and Pakistan's security relationship dates to the early 1960s when Zulfikar Bhutto was Foreign Minister under the Ayub Khan regime. It has expanded incrementally since that time. In 1971, Pakistan's ties with China helped the Nixon administration's then Secretary of State Henry Kissinger visit China secretly, opening a path to US-PRC rapprochement. The United States had been Pakistan's most important security partner throughout the Cold War years as well as in the effort during the 1980s to vacate Soviet occupation from Afghanistan.

The US has come back into play since 2001 with unique support to the Pakistan Army and Air Force related to the war on terrorism in Afghanistan, including combat helicopters and counter-terrorism gear and training. The US has also resumed sale of up to date F-16s and precision-guided armament, as well as upgrade kits for Pakistan's original purchase of older F-16 models, most of which are still in service. The cumulative financial value of US arms transfers to Pakistan since 1954 – particularly on grant or concessional terms -- dwarfs that of any other supplier, even China.

Pakistan has had a number of other important arms suppliers since the 1950s, including the UK, France, Germany, Italy and Sweden, and since the 1990s also Ukraine and Turkey. It has also purchased used but still serviceable and compatible equipment from other countries. At the same time, China's own military modernization has taken hold and its assistance to Pakistan has steadily grown over the last 15 years so that today it is a primary source for Pakistan of second and third generation arms and advanced military technology. Its assistance now makes a difference in each branch of Pakistan's

armed forces – army, air force, and navy.

It should be noted parenthetically that China's security relationship with Pakistan has been arms length in one key respect. While China has supported Pakistan diplomatically on its position on the Kashmir dispute, China refrained from bringing its own forces into play on Pakistan's behalf against Indian forces, either in shows of force on its Himalayan borders with India or in any direct military intervention in Pakistan's armed conflicts with India. China declined to help Pakistan directly, for instance, when East Pakistan rebelled and seceded with Indian help to become the separate nation of Bangladesh in 1971.

Furthermore, China and Pakistan do not have a treaty or public agreement – no formal alliance -- calling for mutual assistance against aggression. Under the Musharraf government, however, Pakistan and China signed a "Treaty of Friendship, Cooperation and Good-Neighborly Relations" in April 2005, and that treaty went into effect on January 4, 2006. The main obligation in this treaty is to refrain from "joining any alliance or bloc which infringes upon the sovereignty, security and territorial integrity of the other side".² Among other things, this links Pakistan formally to China's "one China" policy vis-à-vis Taiwan. The parties also undertake to "cooperate on both bilateral and multilateral basis to crack down on terrorism, separatism and extremism, as well as ... organized crimes, illegal immigration and illegal trafficking in drugs and weapons." China has referred to it as "an important legal foundation for the Strategic Partnership."

In arms and military technology transfer, the relationship is largely a one-way street, with China the patron and donor and Pakistan the recipient.³ But in the evolution of the relationship, China has been willing to transfer not only conventional arms but also what international non-proliferation and arms control regimes define as "sensitive technology". Beginning in the late 1970s, China sold two

types of solid-fuel ballistic missiles to Pakistan along with the know-how for Pakistan to manufacture additional units on its own, service and maintain the systems, and presumably begin its own R&D programs for experimentation with and modification of those systems. Apart from Pakistan's ground-strike aircraft, these Chinese-origin mobile missiles – export versions designated by China as M-11 and M-9 – provided the initial delivery system for Pakistan's nuclear deterrent against India. Pakistan has since acquired longer-range liquid-fuel missile systems from North Korea that increase confidence in its deterrent.

A key value to Pakistan in its military supply relationship with China has been the ability to circumvent US and Western sanctions not only on sensitive nuclear or missile-related technology, but also on advanced conventional arms. From Pakistan's point of view, it probably is not possible to put a price on this aspect of the relationship. It has apparently been strategically invaluable to Pakistan – of vital importance – and therefore may be deemed incalculable.

On the matter of sensitive technology, there are widely believed allegations that China made a Highly-Enriched Uranium (HEU) nuclear weapon design available to Pakistan in the late 1970s or early 1980s,⁴ along with a quantity of HEU sufficient for two nuclear weapons,⁵ as critical enablers of Pakistan's then nascent, uranium-based nuclear weapons development program. However uncertain these historical allegations may be, there has been no doubt about China's affirmative support of Pakistan's civilian nuclear power program. Although initial planning for a 137 MWe nuclear power plant and plutonium reprocessing facility at Chashma began with France in the early 1970s, France pulled out in 1978. China took France's place as the primary supplier of equipment for Chashma, building the 325 MWe Chashma-I pressurized, Light-Water Reactor (LWR) based on a modified Chinese design of its own first LWR, and that unit came into full electric-supply operation between November

1999 and June 2000. China has also been building a second LWR at the site, Chashma-II, rated at 340 MWe, which was expected to come into operation this year, in 2010. China's supply agreement with Pakistan required that the Chashma power reactors each be placed under International Atomic Energy Agency (IAEA) facility-specific safeguards.

Meanwhile, China pledged in visits to Beijing by President Zardari in late 2008 and early 2009 to build two more units, Chashma-III and Chashma-IV of 340 MWe output each, at the same site, providing financing (loans) for up to 85% of the cost.⁶ These Chinese-design nuclear units were expected to cost about \$2 billion each in 2009 currency terms, far less than would be charged by Western, Japanese or South Korean suppliers for their products. They are also about one-third the capacity, however, of the typical 1,000 MWe nuclear power plants currently being installed elsewhere. Plans for Chashma III and IV could be delayed by the international controversy over China's obligations under the Nuclear Suppliers Group (NSG) guidelines to which China subscribed as a new NSG member in 2004. China has asserted that the reactors it built at Chashma are grandfathered under earlier terms of supply that did not require NPT-related fullscope (comprehensive) safeguards, and that the same applies to plans for Chashma III and IV.

China is also believed to have helped Pakistan construct at Khushab a Heavy-Water (HWR) reactor of 50 MWt estimated capacity that uses natural uranium fuel and can produce weapons-grade plutonium.⁷ Recent reports indicate that construction on two other HWRs of similar thermal capacity is underway alongside the first at the same site. There are no IAEA safeguards at the Khushab site; it is understood to be a weapons production facility. It is suspected that China may have also helped Pakistan complete a reprocessing plant and, more recently, a heavy-water production plant at the same site, likely enabling a complete fuel cycle there. The Khushab reactor went into initial operation in 1998 – the same year that India and

Pakistan demonstrated nuclear weapons by underground test explosions. By its nature and assuming the reprocessing plant can handle the full spent fuel output, the Khushab reactor could have produced enough weapons-grade plutonium each year for at least 1 to 2 weapons, and, depending on how large its actual capacity is, how efficiently it is operated, and how much material is actually consumed in weapon design, perhaps enough for as many as 3-5 weapons each year. The additional reactors under construction would each offer a similar plutonium production capacity.

In short, China has been sympathetic to and generally facilitated Pakistan's acquisition of nuclear power facilities and building of a nuclear weapons program, delivery systems, and deterrent against India. It is not clear whether or to what extent China may have subsidized its nuclear and missile equipment supplies to Pakistan. China may have obliged Pakistan to pay what China regards as a fair commercial price for its products, and some reasonable but low rate of interest on its financing arrangements. But China's prices to Pakistan, even if commercial, would have been considerably lower than world market prices for equivalent products. A significant part of China's added value to Pakistan, then, is the offset of higher prices for equivalent equipment from other suppliers. China's supplies are more affordable. In the nuclear and solid-fuel ballistic missile categories, moreover, the same products may not have been available to Pakistan from any other supplier at any price.

Conventional arms supply and so-called co-production arrangements for military equipment – in which Pakistan is enabled to manufacture or at least assemble (from kits) additional units of a major military equipment system it initially purchases – have been highly valuable features of Chinese commercial military assistance to Pakistan. Table 1 on Chinese Supplied Major Weapons Systems in Pakistan's Inventory, 2009 (see page 29) lists some of the more prominent conventional arms in Pakistan's inventory that are of Chinese origin, illustrating the scope and magnitude of these items.

They are now dominant as the Main Battle Tanks (MBTs) in Pakistan's ground forces, and they are likely to become similarly dominant, at least numerically, in Pakistan's fixed wing air forces.

Chinese transfers of major military equipment and technology and joint development and co-production projects over the last two decades have enabled Pakistan to become increasingly capable of manufacturing as well as the older functions of rebuilding (overhauling) and maintaining the equipment obtained from China – including aircraft airframes -- as well as being able to assemble components into a complete weapons system. In addition, they give Pakistani defense industry managers hope that they will be able before too long to be able to export major military equipment derived from the relationship with China to less advanced nations in Central Asia, the Middle East, and Africa. The Pakistani defense industry is predominantly public sector, with large enterprises. It covers aircraft, armoured systems, shipbuilding, ballistic missiles, small arms, ordnance of many kinds, and assorted other products.⁸

Chinese Assistance with Major Pakistani Infrastructure

China has made a physical and financial difference to Pakistan on major infrastructure in four areas, defense production, nuclear power technology, road and tunnel development through the Karakorum mountains, and deep-water port construction at Gwadar on the Makran Coast in Pakistan's Baluchistan province, not far from the eastern border of Iran. The roads through the Karakorum and the Gwadar port developments are actually related. They anticipate the overland transport of energy and commerce from the Arabian Sea to China in its least developed western regions, bypassing a much longer maritime journey through the Indian Ocean to the Chinese coasts on its Pacific Ocean rim. The Karakorum-Gwadar corridor is also incentive for China to help Pakistan with railroad development – with the supply of locomotive equipment and high-speed rail technology that China has recently developed and, it may be added,

demonstrated at home to a world class standard. These are, or have been, long-gestation projects, not money-makers in the short term.

Karakorum Highway Development and Planned Railway

From Pakistan's standpoint, the Karakorum Highway (KKH) and Gwadar Port developments have immense potential importance for the future, supporting Pakistani trade and energy transit fees not only with China but also with Central Asia, and the dream that the Gwadar Port could someday be a maritime shipping and financial hub resembling Abu Dhabi-Dubai and Qatar today in the Persian Gulf. The KKH-Gwadar corridor as envisaged currently bypasses landlocked Afghanistan, but could also be articulated with branches into and through Afghanistan. The KKH links up with recent Chinese railroad developments in Tibet and road and rail connections to Xinjiang province, which has a restive Uighur (Turkic Muslim) population.

China's direct involvement in the KKH has strategic ramifications for India as well as Pakistan in that it runs through the north western (Gilgit-Baltistan) territory of the former princely state of Jammu and Kashmir (J&K). The larger J&K is divided de facto between India and Pakistan, but each formally claims the entire region. The KKH runs close by the Pakistani side of the "line of control" (LOC), originally a ceasefire boundary, skirting the Indian-held portion of J&K that abuts China in the Ladakh region of Tibet. The highway runs down through thinly-populated regions of Gilgit-Baltistan (that Pakistan calls the "northern territories") and Pakistan-held Azad Kashmir into the Punjab province of Pakistan proper and connects with the national highway system just west of Rawalpindi. China's KKH access is reassuring to Pakistan as a counterweight to Indian assertion of control over the entire J&K region. The highway supports bilateral trade overland between the two countries.

The Karakorum highway project was conceived in the late 1950s and constructed over two decades between 1966 and 1986 by engineering units from the Chinese People's Liberation Army (PLA) and Pakistan Army. The KKH is a metalled road averaging 10 meters width that connects Kashgar in China's Xinjiang province with Pakistan. Its mountainous course, one of the ancient Silk Road routes, goes over the 15,000 foot Khunjerab Pass at the border with China, and descends towards Pakistan proper with hairpin loops for just over 500 miles to Abbotabad and connects with the GT Highway just west of Rawalpindi. It carries heavy truck traffic but closes totally for 4 months of the winter when heavy snow falls, and is closed on occasion by landslide and flooding.⁹ In June 2006 Pakistan and China signed an MOU to upgrade the road to 30 meters width and expand its transport capacity three-fold and reduce its vulnerability to bad weather and landslides, including boring and reinforcing some 22 tunnels that will also shorten and straighten segments of the road.¹⁰

Pakistan and China have also discussed for more than a decade the building of a railroad from Gwadar to Dalbanin in Baluchistan, and north to Rawalpindi. This project has not started yet, and still remains a paper concept. Meanwhile, China and Pakistan have discussed building a railroad link between Kashgar and Pakistan following the KKH route, and China is conducting a feasibility study of this proposal. China has been building railroads at a steady clip within China and also into Tibet region and Xinjiang province, so the Chinese side of this concept may well be implemented – strengthening the Chinese infrastructural links between Tibet and Xinjiang. But it remains to be seen whether the rail connection into Pakistan is seen by China as anything like a high priority. The Karakorum road and rail links have merit on their own in enabling overland trade between Pakistan and China, but their full potential would only be realized if the KKH and any parallel railroads are connected through upper Pakistan to Gwadar in the south, providing what has long been conceived of as a transit trade and,

more importantly, an “energy corridor” through Pakistan to western China.

Gwadar Deep Water Port Development and the Energy Corridor

Chinese assistance in the development and construction of the deep water port and shipping facilities at Gwadar, with prospective Chinese naval use of and presence at the port as a refuelling and provisioning facility, also provides Pakistan with some strategic reassurance that Indian air and naval power – which can more easily reach Karachi – could not be used easily during wartime to cut Pakistan off from the sea entirely. Similar concerns led Pakistan to contract with Turkish and Belgian firms to build the Jinnah Naval Base (JNB) about 150 miles west of Karachi at Ormara, with construction between 1994 and 2000; JNB is also the site for Pakistani missile tests and supports the space program. Gwadar is located another 145 miles west of Ormara, or nearly 300 total miles from Karachi. The Balochistan interior of the Makran coast is a relatively desolate and forbidding region with negligible infrastructure.

The urgency for China of building an energy corridor through Pakistan has probably diminished somewhat during this last decade -- due to extraordinarily rapid and successful construction of gas and oil pipelines from Turkmenistan and Kazakhstan in Central Asia to China – on routes well north of the warfare and instability in Afghanistan.¹¹ The urgency also may have diminished due to Chinese disappointment since the performance of Gwadar as a deep water port or stimulus to regional economic development in the three years since the first phase of port construction was completed in 2007 (the facility came into formal operation in December 2008), has been poor to negligible. In combined grant and financing, technical assistance, and supply of construction laborers, China put up 80 per cent of the cost of the first phase of construction of the Gwadar port. Furthermore, the Chinese appear to recognize that the security problems in Balochistan – and even beyond that in Pakistani

Taliban forays from FATA and adjoining districts of Khyber-Pakhtunkhwa into the heart of Pakistan – may jeopardize the building and safe use of roads and a railroad north.

This does not mean China's interest has disappeared. China remains keenly interested in developing and diversifying alternate geographical routes of energy and mineral supply to its interior.¹² What it does mean is that Gwadar, for which Pakistani planners once had very high expectations (akin perhaps to a local version of Dubai), is thus far a failure as a deep water port for transshipments and regular maritime trade, or as a maritime terminal for energy delivery.

The reasons for that go far beyond either China's or Pakistan's capacity to change matters quickly, let alone affordably. Very little external demand for this port has risen thus far – other Arabian Sea littoral countries do not seem to need it. And Iran, with some assistance from India, has built a competing port nearby at Chah Bahar with overland connections to landlocked Afghanistan and Central Asia. Furthermore, at Gwadar the annual monsoons and dynamics of the sea recurrently silt up the port and its shipping berths so they are only half the depth needed for contemporary deep draught cargo ships and large oil or LNG tankers. As a result, the ships that visit are modest in size and importance. The hoped for role of a deep-water port alternative to Karachi, and its neighbour port Qasim, simply has not taken off.

Moreover, although the first phase of a port has been built at Gwadar, its expansion with additional berths, ancillary warehousing and support facilities, and the development of a modern airport nearby, modern roads, and a railroad to support the concept of the Gwadar-Karakorum energy corridor are still distant dreams.¹³ These require heavy upfront capital investments and the port itself is not providing an increasing revenue stream to help support financing of such infrastructure. The Singapore Port Authority which was

contracted to run the port for ten years has showed signs of withdrawing. (See Appendix A for a discussion of the timelines and technical characteristics of the Gwadar development plans and the status to date.)

China-Pakistan Trade and Investment

Traditionally, Pakistan's foreign trade has been primarily with the United States, Western Europe, the Middle East, and Japan. The United States today is still Pakistan's largest trading partner. Chinese commercial trade with Pakistan and direct investment in manufacturing – leaving the big KKH and Gwadar infrastructure projects aside – has been diminutive by comparison historically. Over the last decade, this has begun to change somewhat due to a series of so-called free-trade agreements (FTAs) concluded between Pakistan and China, especially after 2006. In reality, these FTAs are mechanisms by which both sides seek to “manage” as well as promote their trade. Annual trade between Pakistan and China was worth about \$2 billion in 2002 and rose more than three-fold to about \$6.9 billion in 2009 (this will soon exceed Pakistan's \$10 billion annual bilateral trade with the European Union, but is about one-tenth of the over \$60 billion value of annual trade between India and China that year). The hope is to ramp up that \$6.9 billion figure twofold to about \$15 billion worth of bilateral trade with China by 2014.¹⁴

As bare statistics, these figures suggest great economic progress. But what they conceal is considerable grounds for frustration on Pakistan's side regarding the balance and quality of this commercial trade with China. China's exports to Pakistan make up the lion's share of these figures, and Pakistan's exports to China are dwarfed by comparison, at about one fifth (or less) of the annual bilateral trade value. China's exports to Pakistan were worth about \$5.5 billion in 2009, versus Chinese imports from Pakistan of \$1.3 billion. This 1:5 ratio of commercial trade imbalance is not so promising for

Pakistan and reflects asymmetries in the scope and quality of manufacturing that are not so easily addressed by Pakistan. In effect, China is flooding Pakistan with cheap manufactured goods, a Chinese pattern that has also taken hold in the global economy.¹⁵ The free trade agreements have opened up a torrent of Chinese goods that reveals the non-competitiveness and gaps in Pakistani manufacturing capability and they actually work – at least in the near term -- to shrink the domestic market share for related Pakistani manufacturing sectors.¹⁶

Pakistan apparently aims to engage Chinese companies in developing new water control and hydropower projects in the mountainous northern territories on Pakistan's side of the disputed region of Jammu and Kashmir – specifically the Bunji and Basha dams and the Kohala and Neelum-Jhelum hydro-electric power projects. These projects have their own compelling economic (and, of course, security) logic to Pakistan, inasmuch as it desperately needs augmented electricity supply and the inhabitants of Gilgit-Baltistan theoretically should benefit from electricity, water control and economic development.¹⁷ Nevertheless, these infrastructure projects using Chinese engineering and construction companies do little or nothing to create jobs or stimulate manufacturing in the heart of the country. They do not satisfy what is also arguably of high priority, the opportunities to stimulate indigenous Pakistani manufacturing by foreign direct investment (FDI) through joint ventures in the heartland of Pakistan, outside the disputed Kashmir region.

Moreover, Pakistan's deterioration in internal security from Taliban and other extremist attacks since 2006 on government and military facilities, sectarian facilities, the entire Swat Valley, and urban society at large in Punjab and Karachi, Sindh as well as chronic frictions in Balochistan, are taking a toll on the willingness of private sector Chinese business firms to continue to do business or expand their activities in Pakistan. There have been a number of incidents in Balochistan, Khyber-Pakhtunkhwa, and even Islamabad of attacks

on Chinese engineers, workers or proprietors since 2003. Some Chinese investors have been pulling out from Pakistan. According to one report, the number of Chinese companies in Pakistan has plummeted in 2010 to about 60, involved in 122 projects, from about 145 private businesses operating in 2003.¹⁸

There are some other “managed trade” developments whose long-range importance remains to be determined. China has announced it would support the construction of an Iran-Pakistan gas pipeline, on which Iran and Pakistan finally agreed in June 2010. Such a pipeline would be a boon to Pakistan given its chronic electricity shortages. China and Pakistan have also established a joint investment company for direct investment and joint ventures, but it remains to be seen whether this public sector company will produce any transformative results.

Back in 2006, Chinese President Hu Jintao inaugurated the Pakistan-China Haier Ruba Economic Zone (HREZ) in Lahore, the first industrial park outside China intended exclusively for Chinese investment. Under the FTA deal, China is committed to consider duty-free access into China for all products manufactured in the park.¹⁹ There is a great proliferation of bilateral FTAs in Asia these days, and China is one of the biggest practitioners. There is reason to be skeptical, however, that private firms in Pakistan will either be interested in or successfully take advantage of the complex terms of a bilateral FTA and thereby succeed in expanding Pakistan’s private business sector and employment in that sector.²⁰

China’s leading cellular phone company, China Mobile, has invested about \$1.6 billion in Pakistan since 2007, creating a Pakistan-specific cellular service called Zong that competes with Mobilink and UFone.²¹ Cheap cell phone service is one authentic “public good” that is affordable to and serves millions of customers in Pakistan, as well as nearly all countries in South and Southeast Asia. Ordinary “unlocked” cell phones are available in Pakistan for as little as \$20,

and rechargeable SIMs for about \$10, with the cost of domestic calls under 2 cents a minute. The economic spin-off value and multiplier effect of very cheap mobile telecommunications services to small businesses and service technicians who travel on short notice or have to contend with heavy road congestion in satisfying customers (e.g., plumbers, electricians, package delivery, taxicabs) in a developing economy is impossible to calculate directly, but is certainly significant as a management tool and time saver for entrepreneurs, and is a huge economic stimulus to small private enterprise in that context.

Economic and Social Development Deficiencies in Chinese Assistance to Pakistan

When one examines the big picture of the Pakistan-China relationship, what stands out are the military and transport infrastructure elements, along with the strategically sensitive civil and military nuclear components. The transport infrastructure components represent significant capital investments but have a long way to go to become economically stimulative, let alone transformative. So the major benefits to Pakistan thus far are on the security dimension, based on how security requirements have been understood and evolved since 1947. In that regard, the state of Pakistan and its peoples must be deemed the overall beneficiaries. The Pakistani claim to the disputed region of Kashmir has been sustained. And the state of Pakistan with significant Chinese assistance has been able to develop and maintain a nuclear deterrent against major Indian aggression.

In institutional terms, however, the most important and obvious beneficiary of realized value from the relationship is the Pakistani armed forces. The military not only controls the nuclear deterrent, but has been able to equip itself sufficiently to maintain a robust conventional level of defense (and deterrence) against much larger Indian military forces across the border. Given Pakistan's limited

resources, this is no small achievement. While Gwadar has yet to fulfil its original promise, it does provide a backstop for maritime supply that realistically limits India's potential threat to cut Pakistan off from the sea by blockading Karachi.

It could also be argued, however, that the dominance and effectiveness of these military components in the relationship with China have raised and constantly reinforce a firewall that virtually prevents Pakistani decision makers from seriously exploring ways to improve Pakistani security (and regional stability) by economic as well as diplomatic deal-making with India. Notwithstanding the Sino-Indian boundary disputes and underlying Asian rivalry, China itself pursues a positive and multi-dimensional relationship with India. This relationship entails rapidly broadening trade and investment, and certain aspects of cultural and educational exchange. While China undoubtedly appreciates Pakistan's capacity and determination to balance India militarily in the subcontinent, its own example of relations with India demonstrates that there are many ways to approach this objective, and with much greater sophistication. It is important for Pakistanis to weigh tradeoffs in the relationship with China on how Pakistani security is viewed and managed this issue may well be the biggest elephant in the room.

Of equal if not greater importance, what stands out when one steps back from the ritual publicity about the "all-weather relationship" to look at it frankly, is that the economic and social benefits from big infrastructure that could make a difference to Pakistani society, such as social development, steady employment, and future prosperity – a transformative difference -- are still largely prospective, and yet to be delivered. There is joint China-Pakistan work in the north on small-scale hydropower projects and dams for local flood control and irrigation, but where does the relationship deal with reforestation or the fundamental improvement of Pakistan's agriculture in the heartland? Where does the relationship practically address large-scale creation of jobs for the massive numbers of young people on

the lower rungs of the income scale or whose educational attainments stop at the elementary or matriculation levels? And, speaking of education, where does it contribute materially to, let alone offer real improvement in, Pakistan's constitutionally-promised but notoriously deficient free public education sector? China has significant accomplishments of its own in women's education and economic empowerment. Why is this not a goal and proactive part of the relationship? Where does the framework of cooperation deal with the fundamental advancement of public health? The relationship in recent years speaks superficially to business and trade development, but where does it really give a leg up to Pakistani private entrepreneurs to invest, diversify and improve Pakistani manufactured products for foreign markets, including markets in China?

Ways Forward

The deficiencies in the Pakistan-China relationship are partly but not wholly of Chinese making. The almost exclusively public sector orientation China brings to its dealings with Pakistan limit the scope of the relationship, but so does Pakistan's past public sector preoccupation with Chinese help on security and infrastructure. The deficiencies are also reflections of Pakistan's lack of clear vision of a progressive national future. They reflect, ironically, a history of Pakistani dependency on external financial inputs from a large variety of sources – and the instinct to transfer this burden to China. They also reflect an inexcusable inertia and phobia for domestic taxation of Pakistan's landed wealth. This is rooted in Pakistan's agrarian social and political structure, which retards those leaders who come to power through political parties and elections taking domestic charge of advancing basic social and educational development. This is in large part because they are united in opposing taxes that would tap their own inordinate wealth even minutely to advance Pakistan's future. In addition, military security

priorities have long pre-empted the allocation of existing federal government resources to organic national development.

This needs to be changed by giving genuine and sustained backing to basic social and educational needs – which by their nature will in turn give new energy to broader and more sustainable economic growth and development. The basic reason this is now a feasible path is that Pakistan's well-established conventional military capacity coupled with the nuclear deterrent is in fact, today, a monumental check on pre-motivated major Indian conventional military aggression. Terrorist attacks emanating from Pakistan are the only crack in that nuclear deterrence. This fact should be a basis for confident Pakistani diplomacy in seeking a normalization of economic and trade relations with India. That confidence is an objective basis and should be made a subjective basis for Pakistan giving high priority to overcoming domestic shortcomings (including extremism) that otherwise will keep Pakistan weak, ever falling short of the needs of a steadily growing and more youthful population.

Giving priority to transforming domestic shortcomings into strengths does not mean losing out on external opportunities either; it actually provides a firmer basis for making efficient use of them. It also argues for an approach by Pakistan to Afghanistan that seeks its genuine stabilization by means other than draconian Taliban or surrogate Pashtun rule where multi-ethnic accommodation is inescapable – though there is insufficient space to elaborate on this subject here.

China's rise and the deepening of its relationship with Pakistan – emphasizing energy transport infrastructure – may offer vital macro-economic benefits but may also impose tradeoffs for Pakistan on its freedom of maneuver internationally and on its socio-political development that have not been foreseen or understood. What seems to be a straightforward relationship could become something of a

straitjacket that constrains Pakistan's ability to define its own future and interact positively with the global setting. The issue is not whether to deny the existing components of that relationship with China and its obvious benefits. It is, rather, how to broaden the relationship proactively, at Pakistan's initiative, to give greater scope to Pakistan's entrepreneurial potential – and specifically to enlarge the space for modern manufacturing activity and receptivity in China to imports from Pakistan.

This also calls for Pakistani inventiveness in directing a reasonable share of the benefits, whether by Chinese subsidy or Chinese direct investment, towards Pakistan's organic social and economic development needs. Bringing basic education, public health and agricultural modernization into the loop could by itself do a lot to rebalance the relationship. But for that to happen, Pakistan has to develop its own commitment to reform its own tax and revenue structure and ensure external resource transfers and technical support go into effective programs, not the personal pockets of an intermediating elite of elected and administrative officials. With such commitments, it seems highly likely that the Chinese would be enthusiastic in their reciprocation.

Pakistan's efforts to generate new dimensions in the relationship should go hand in hand with overtures to India to normalize relations and open economic cooperation and trade. On paper, these objectives and overtures already exist, and India bureaucratically has always been a hard sell. But making them happen may well be one of the available keys to generating Pakistani entrepreneurial expansion and broadening the flow of foreign direct investment into Pakistan. Normalizing economic and trade relations would not, of course, guarantee that adversarialism and risks of conflict would disappear from relations with India, but they would provide counter-incentives on both sides to frictions getting out of hand. Reducing the threat by such threat-reduction means would have greater salience over time. They could be expected eventually to

allow the Pakistan armed forces to go along with an enlarged space for private sector expansion in Pakistan.

In general, and this is the basic point, the benefits of the relationship with China should be used both to broaden that relationship and empower Pakistan to be more self-confident and therefore more self-reliant and proactive in moving society forward. This should also be seen both as an opportunity and a requirement to rebalance interests within Pakistani society both to ensure that inherent wealth is tapped fairly for the public good, and extremism tamped down. There is no doubt that the intellectual talents in Pakistan today are capable of conceptualizing how to operationalize these strategies. There will remain a need to develop the political consensus to operationalize and support them effectively.

Pakistan's relationship with China, this essay suggests, will be no magic carpet that lifts Pakistan out of its chronic, roller-coaster problems. But if the benefits that relationship can provide are intelligently broadened and rationally employed, Pakistan surely will have a much better chance than without them to put its domestic house in order, improve its wider relations with neighbors, and move onto a track of economic growth that merges it with Asia's growing prosperity. If Pakistan instead banks on China's relationship and proffered resources reflexively, taking them for granted as its main remedies for internal and external difficulties, it may well find they narrow Pakistan's choices downstream.

References

¹ For one recent Pakistani overview of the Pakistan-China relationship that also works in recent analysis by other Pakistani as well as US and Indian sources, see Jamal Afridi, "China-Pakistan Relations," August 20, 2009, viewed on *Pakistan Talk* web portal, at: <http://www.pakistantalk.com/forums/strategic-issues/3953-china-pakistan-relations.html>.

² For Chinese publication of the treaty text, see *People's Daily Online*, at http://english.peopledaily.com.cn/200504/06/eng20050406_179629.html.

³ There probably are specific exceptions to this general pattern. Pakistan may well have played some part in increasing the sophistication of Chinese military technology, most of which has been based, historically, on emulating or reverse-engineering Russian (or former Soviet) military equipment transferred or sold to China in the earlier post-war years in the field of strategic and medium-range ballistic missiles, and in the areas of armored ground force equipment and military fixed-wing aircraft, as well as in Chinese absorption of Russian sales of more advanced equipment to China after the collapse of the Soviet Union in 1991. With regard to Pakistani influence on Chinese military production capabilities, Pakistan has provided technical feedback from demonstrating and providing test data from fighter aircraft radar and avionics that it acquired from Western sources as a stimulus to Chinese R&D and upgrades of its own fighter aircraft component design, integration and production. This benefited Pakistan in enhanced capability of aircraft equipment it purchased from China later. Chinese nuclear industry technicians visiting the Khan Research Laboratories (KRL) at Kahuta in the 1980s almost certainly absorbed uranium gaseous centrifuge technology design and operating information from equipment originally of Dutch and German origin, filling former gaps in Chinese knowledge of this technology.

⁴ As an example of global reporting on this as an established fact, see "Clouds of Hypocrisy: Pakistan, India and the anti-nuclear rules," *The Economist*, June 24, 2010.

⁵ Ahmed Rashid writes, although himself not a nuclear expert of any kind and with no supporting citations: "In 1982 China gave Pakistan the complete design of a twenty-five-kiloton nuclear bomb and enough weapons-grade uranium for two bombs." See *Descent into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia* (New York: Viking, the Penguin Group, 2008), p. 287. China's sharing with Pakistan of some form of nuclear weapon design information is one key theme in the prolific literature that has emerged since 1996 on the A.Q. Khan network of proliferation activities.

⁶ On occasion one may see reports of a higher capacity rating, for example of 650 MWe each for Chashma 3 and 4, but this may confuse the total combined output of the two reactors with the output of each reactor. According to the Wikipedia compilation, "On April 28, 2009 a general engineering and design contract for CHASNUPP-3 and CHASNUPP-4 was signed with Shanghai Nuclear Engineering Research and Design Institute. The units will both have generation capacity of 340Mwe and a design lifetime of 40 years." Viewed at: http://en.wikipedia.org/wiki/Chashma_Nuclear_Power_Complex.

⁷ On the Khushab complex, see Wikipedia at: http://en.wikipedia.org/wiki/Khushab_Nuclear_Complex.

⁸ See the compilation of documents on Pakistan's defense industrial organizations, capabilities, and products at: <http://www.scribd.com/doc/32200133/Pak-3-Pakistan-Defence-Industry>

⁹ A huge landslide in Attabad area in January 2010 dammed up the flow of the Hunza River and created a 13-mile long lake which inundated and submerged twelve miles of the KKH, closing the road indefinitely. See information and references at: http://en.wikipedia.org/wiki/Attabad_Lake.

¹⁰ The Karakorum upgrade on the Pakistan side commenced in February 2008, when President Musharraf laid the foundation stone in Islamabad to initiate the Rs. 30 billion (about \$430 million) project for the 335 km segment in Pakistan from Railkot to Khunjerab, which is supposed to be completed in 2011. According to the National Trade Corridor (NTC) Unit of the Pakistan Planning Commission, the project covers improvement of grades, construction of snow galleries, improvement of 27 bridges, construction of 480 meter long tunnels, 18 open-cut tunnels and construction of 1050 culverts, 5 aqueducts and retaining walls. See website visited on Oct. 26, 2010: <http://www.pc.gov.pk/NTCIP/news.html#>.

¹¹ The first phase (conduit A, about 3.5' diameter) of the Central Asia-China (CAC) gas pipeline connecting gas fields in Turkmenistan with Xinjiang in China –transiting through both Uzbekistan and Kazakhstan – for a total length of 1,139 miles, began operation in September 2010, with a Turkmenistani capacity and commitment to supply 5 billion cubic meters (BCM) of gas per year to China initially. Conduit A was constructed in record time of four years. A twin conduit B is to be completed by 2012. The

total cost of the twin pipeline is expected to be about \$7.3 billion. If sufficient gas treatment plants are built on schedule at the upstream end, this pipeline is expected by 2013 to move between 30 and 40 BCM of natural gas per year to China. See "Central Asia-China Gas Pipeline" at the Hydrocarbons Technology website: <http://www.hydrocarbons-technology.com/projects/centralasiachinagasp/>, and Edward C Chow and Leigh E. Hendrix, "Central Asia's Pipelines: Field of Dreams and Reality," in Edward C. Chow, et. al., *Pipeline Politics in Asia: The Intersection of Demand, Energy Demand, and Supply Routes*, National Bureau of Asian Research, Special Report 23, September 2010. China also persuaded Kazakhstan beginning in 2004 to support an oil pipeline to China and this pipeline traversing 1,750 miles from western Kazakhstan to China began operating in 2009. Chow and Hendrix, *Ibid.*, pp. 36-38.

¹² See Geoffrey Kemp, *The East Moves West: India, China, and Asia's Growing Presence in the Middle East* (Washington, DC: Brookings Institution Press and the Nixon Center, 2010), pp 5-15, and 103-119.

¹³ Pakistan: Balochistan Economic Report, From Periphery to Core, Volume II, Full Report, World Bank and Asian Development Bank, 2008, pp. 70ff, accessed at: <http://www.adb.org/Documents/Reports/Consultant/39003-PAK/39003-PAK-TACR.pdf>.

¹⁴ Syed Fazl-e-Haider, "Pakistan's trade bear-hug with China," *Asia Times* online, April 21, 2010, viewed at: http://www.atimes.com/atimes/South_Asia/LD21Df01.html.

¹⁵ Sargodha's Professor Rashid Khan writes: "China-Pakistan trade has registered a substantial increase in the last five years but it is largely in the form of Chinese exports of electronics, plastic, textiles, leather goods and garments that have flooded Pakistani markets. Both China and Pakistan are keen to correct this imbalance of trade by encouraging the Pakistani business community to explore the Chinese market, familiarize itself with the Chinese business environment and win the confidence of Chinese businessmen, importers and investors through increased contacts." See his "New Paradigm in Pak-China Relations," *Daily Times*, July 23, 2010.

¹⁶ Critics of the FTA arrangements say, according to Syed Fazl-e-Haider, that the bilateral figures given here understate the actual volume of Chinese manufactured goods penetrating the Pakistani market, and include

products from Hong Kong that are not part of the FTA provisions. *Ibid.*

¹⁷ There are a growing number of distressed reports from the region that suggest, however, that the employment resulting from these infrastructure projects, as with the KKH construction, goes almost exclusively to in-migrating Punjabis and Pashtuns rather than the indigenous inhabitants.

¹⁸ *Ibid.*

¹⁹ Syed Fazl-e-Haider, "China opening trade doors to Pakistan," *Asia Times* online, June 18, 2010, viewed at: http://www.atimes.com/atimes/South_Asia/LF18Df02.html.

²⁰ "[E]conomists caution that the proliferation of FTAs is unlikely to do wonders for the [Asian] region's trade. Aaditya Mattoo, of the World Bank, points out that because trade barriers in Asia are already relatively low, the benefit of a small further reduction in barriers in one market is tiny. Bilateral deals come laden with complicated rules about where products originate—rules which impose substantial costs of labeling and certification on firms. The more overlapping deals there are, the more complex the rules and the higher the costs. Those who follow Asia's FTA mania refer to this as the "noodle bowl". No wonder few firms actually want to use FTAs. An ADB survey of exporters in Japan, South Korea, Singapore and Thailand in 2007-08 found that only 22% took advantage of them. Certainly, the huge rise in trade deals seems to have done nothing to boost the share of the continent's trade that is intra-Asian." See "The Noodle Bowl: Why Trade Agreements are all the Rage in Asia," *The Economist*, Sept. 3, 2009, viewed on line at: http://www.economist.com/research/articlesBySubject/displaystory.cfm?subjectid=682268&story_id=E1_TQPRQPRQ.

²¹ Fazl-e-Haider, *op. cit.*

Table 1. Chinese Supplied Major Weapons Systems in Pakistan's Inventory, 2009*

Military Service and Arms Types	PRC Designation	Units	In Service	Commercial Value	Significance and Notes
Strategic Arms					
Ballistic Missiles & Launchers					
Haif-3	M-11	50			Nuclear deterrent. Stored in peacetime; mated with warheads in crisis; range of 280-300 kilometers with 450 kg warhead Nuclear deterrent. Stored in peacetime; mated with warheads in crisis; range of 600 kilometers with 450 kg warhead
Haif-4 (Shaheen 1)	M-9	10			
Army Equipment					
Major Battle Tanks (MBTs)					
Al-Khalid	T-98	45	2006		Built in Pakistan; three-way development with Ukraine and China. Ukraine was manufacturer and supplier; sturdy diesel engine Older MBTs supplied by China
T-80 UD	T-80	320	1997		
T-85, T-69, T-59, T-54/55	Same	1,825	Various		
Air Force Equipment					
Fighter and Ground Attack					
F-6 (Fighter)	Chengdu-J-6	40	1965-2002	<\$2 mil/unit	Chinese modified MiG-19 PF (ex-Soviet design) Chinese modified MiG-21 (ex-Soviet design); Italian radar Chinese modified MiG-19 (ex-Soviet design) Jointly developed with China; similar to MiG-23; Mikoyan Project Izd33 design; Russian RD-93 engine; final assembly in Pakistan; initially to have SD-10/PL-12 BVRAAM; Pak may try to integrate US-sold AIM-120C5 BVR 4th-gen fighter in joint development with Pakistan; aims to export to Mid-East states; profile similar to US F-16A/B, PRC J-11 is entirely different platform; derivative of heavier Russian 2-engine SU-27.
F-7PG, MG, P (Fighter)	Chengdu J-7	129	late-1980s	>\$2 mil/unit (1984)	
A-5C (FGA)	Q-5III Fantan	41	1970s		
J-17 Thunder (Multitrole)	FC-1	14 (150 on order)	2010	>\$15 mil/unit	
FC-20B	J-10	150-250?	2015	\$30-40 mil/unit	
Airborne Early Warning					
ZDK03 AEW&C	ZDK03	TBD			Sino-Pak cooperation on technologies; either Boeing or Ilyushin platform.
Naval Equipment					
F22P Frigates	Type 053B3	4 (8)	2010		Last 4 to be built at Karachi shipyard. Derived from Russian Riga Class frigate.

Note: ISS, Military Balance 2010, and Internet searches. List is not exhaustive.

Appendix A

Gwadar Port Development Plans, Timeline, and Current Status

TBD – content to be developed.

Placeholder: See Asian Development Bank's "Baluchistan Economic Report", May 2008, and section on Gwadar Port from page 70 on, at:
[http://www.adb.org/Documents/ Reports/Consultant/39003-PAK/39003-PAK-TACR.pdf](http://www.adb.org/Documents/Reports/Consultant/39003-PAK/39003-PAK-TACR.pdf)