

Paper

## Silk route monitor

# A review of developments on China-Pakistan Economic Corridor

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During Chinese President's visit to Pakistan in April this year, both countries signed several agreements including those linked to China-Pakistan Economic Corridor (CPEC). CPEC is one component, albeit a major one, of an investment understanding between the two countries, worth of \$45 billion. According to preliminary understanding, Chinese banks and companies will provide soft loans and grants to Pakistan to develop its infrastructures and undertake energy and communication projects, along the corridor's track.<sup>1</sup> It is proposed that around a dozen industrial zones will be set up from Khunjerab in the north to Gwadar in the south. The government anticipates creation of economic opportunities in the next four to five years, besides alleviating Pakistan's energy woes.

Political and strategic analysts are describing CPEC as a game changer for Pakistan and wider region in many ways. First, the corridor will significantly contribute towards Pakistan's social and economic development. Besides establishing huge road and rail infrastructure, the CPEC projects will also address Pakistan's lingering power crisis.

Secondly, it will open up trade routes for China and Pakistan to Middle East and Central Asia. Thirdly, the corridor could also improve prospects for regional economic interdependence as well as for peace and stability.

For Pakistan, two key imperatives or compulsions of the emerging regional dynamics in that context are to work for establishing friendly relations with its neighbours and achieving security and stability in the country and wider region.

Pakistan's refusal to send its troops to Yemen, which would have annoyed a neighbour Iran, and efforts to contribute towards political reconciliation in Afghanistan can be seen as major steps towards achieving fulfilling the first imperative. With regard to the second imperative, the country has been actively engaged in countering terrorism, particularly since July last year when the military operation Zarb-e-Azb was launched. The action gained an impetus after the December 2014 terrorist attack on an army-run school in Peshawar. Pakistan has taken some CPEC-

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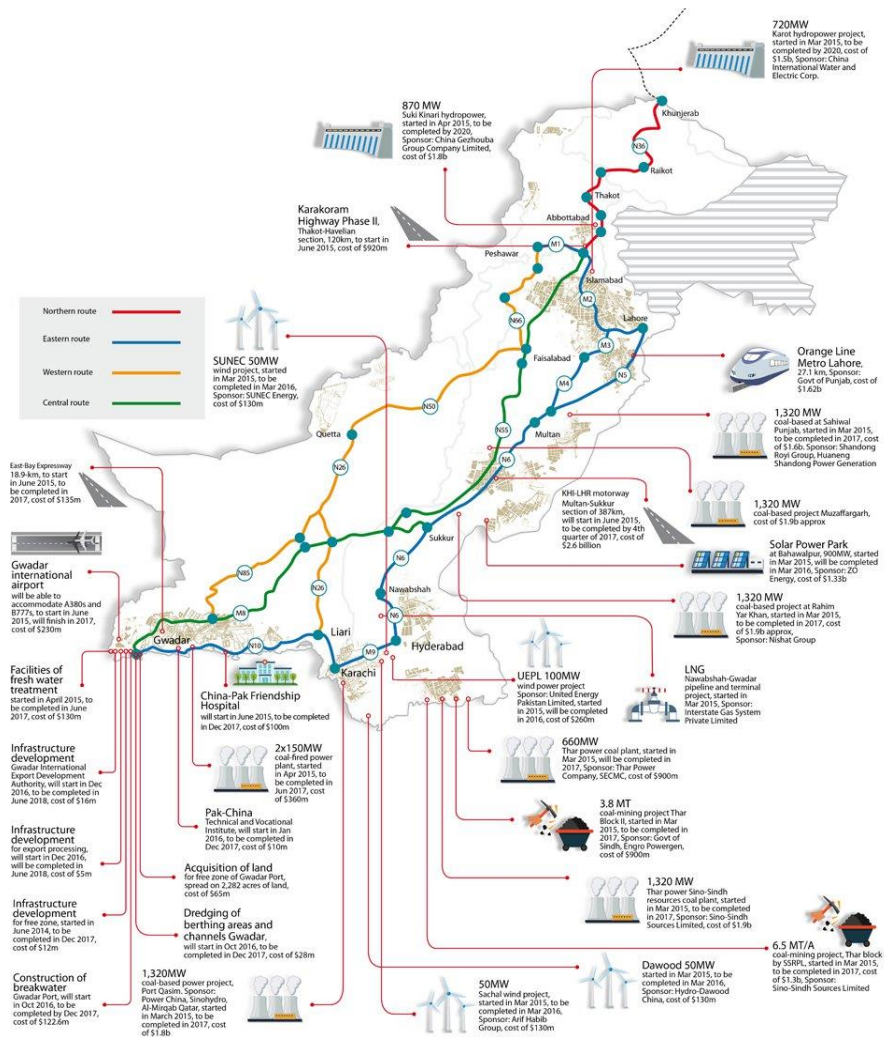
<sup>1</sup>*Dawn*, Islamabad, May 1, 2015.

specific measures as well, which will be described later.

This report reviews recent CPEC-linked developments, mainly on political, security, socio-cultural and developmental fronts. Apart from discussing key challenges, the report

Figure 1: A sketch of CPEC projects (Source: *Express Tribune*, May 27, 2015)

also tries to assess government's efforts to address those challenges and to ensure the implementation of the CPEC projects according to stipulated timeframe.



## 1. Political response towards CPEC

Even before the visit of Chinese President to Pakistan in April and both countries' signing of agreements related to China-Pakistan Economic Corridor, the project had generated controversy in Pakistan, with political leaders particularly of smaller provinces alleging that the original route of the corridor has been altered to benefit Punjab. Pakistan Muslim League-Nawaz (PML-N), which currently rules at the centre and in Punjab, was strongly criticized, particularly by political leaders and parties of Khyber Pakhtunkhwa and Balochistan. Some of the general allegations put on the PML-N government and also perceptions about the CPEC were as under:

- Manifesting a secretive approach, the government does not seem willing to share its plans and policies on the CPEC with governments and political leaderships of other provinces except Punjab. As a result, the government has failed to properly communicate with smaller provinces and take them into confidence on the project.
- The government has changed the original (western) route of the corridor, which was designed to

pass through many parts of Balochistan and Khyber Pakhtunkhwa, apparently with a view to benefit Punjab.

- As the new route is largely aligned in Punjab, the CPEC-linked industrial zones will also be established in Punjab discriminating other provinces.
- Federal government only invited Punjab Chief Minister Shahbaz Sharif, younger brother of prime minister, in the meetings and visits related to CPEC, and ignored other chief ministers.
- As security is also a responsibility of provinces, federal government did not discuss with provinces about how to ensure security of the CPEC projects and Chinese and local workers.

It was against this backdrop that the federal government tried to reach out to political parties in and outside parliament to address their concerns and evolve a consensus on the CPEC project. Apart from holding individual consultations with representatives of political parties and issuing repeated statements, the government also held two all-party conferences (APCs). During the second APC held on May 28, all

political parties gave a go-ahead to the CPEC project. While it was decided in the first APC to establish a parliamentary committee to oversee the progress on CPEC projects, it was decided in the second that western route that passes through main areas of Balochistan and Khyber Pakhtunkhwa provinces will be constructed first.

On repeated requests by political parties to explain the planned routes of the CPEC, Federal Minister for Planning, National Reforms and Development Ahsan Iqbal described the three routes as following:<sup>1</sup>

- “The western route originating from Gwadar will pass through Turbat, Panjgur, Nag, Basima, Sorab, Kalat, Quetta, Qilla Saifullah and Zhob and reach Dera Ismail Khan before leading to Islamabad.”
- “The second (central) route will originate from Gwadar and reach Dera Ismail Khan via Basima, Khuzdar, Sukkur, Rajanpur, Layyah, Muzaffargarh and Bhakkar.”

- “The third (eastern) route will include Gwadar, Basima, Khuzdar, Sukkur, Rahimyar Khan, Bahawalpur, Multan and Lahore/Faisalabad and then reach Islamabad.”

According to details revealed on Planning Commission’s website, all provincial capitals are included in the CPEC as nodes. These nodes, which are the key cornerstones on which the corridor will be constructed, are at Peshawar, Islamabad, Lahore, Sukkar, Karachi, Gwadar and Quetta.<sup>2</sup>

As mentioned earlier, almost all parties expressed their satisfaction on government’s stance on the CPEC in the May 28 all-party conference. It was indeed a big achievement. One can only hope that that political consensus is not short-lived. There are however certain factors that will influence and determine political response of parties and provinces towards the CPEC in future. These factors are described below:

- i. Implementation of the projects on the three CPEC routes will

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<sup>1</sup> “Ahsan reveals three routes of corridor,” *Dawn*, Islamabad, May 15, 2015.

<sup>2</sup> Shahbaz Rana, “China-Pakistan Economic Corridor: Lines of

development - not lines of divide,” *Express Tribune*, Islamabad, May 18, 2015.

determine whether or not all provinces are satisfied with the corridor progress. If political parties and leaders from small provinces feel that budgetary allocations and implementation are more oriented towards the eastern route and that other routes are being ignored, they could again start protesting.

- ii. It will also be important to see how the announced parliamentary committee for the CPEC oversight is established and functions. Analysts described the agreement as a positive move and noted that if the proposed committee becomes an active forum, it will certainly help address the concerns of all the provinces and political parties. Nonetheless, some feared that “a non-functional oversight committee will also be detrimental for policy and the execution sustainability of the CPEC project.”<sup>3</sup>
- iii. Federal government’s relations with provinces, mainly those linked to aspects of internal

security, politics, and political economy or NFC awards,<sup>4</sup> could also impact the future of political consensus achieved on the CPEC. At the moment, significant political tensions exist between federal government and two main political parties of Sindh, i.e. Muttahida Qaumi Movement (MQM) and Pakistan People’s Party (PPP). Pakistan Tehrik-i-Insaaf (PTI) that rules in Khyber Pakhtunkhwa is the main rival party of the PML-N ruling at centre and in Punjab. Although the provincial government of Balochistan is currently at good terms with the PML-N-led federal government, but the province’s relationship with Islamabad and security establishment has always remained uneasy. A feeling among Balochistan’s government and political parties that Gwadar and CPEC projects are not benefitting their province and Baloch people, could put those parties in opposition to these projects. If that happens, it will also strengthen Baloch

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<sup>3</sup> Muhammad Amir Rana, “Economic corridor challenges,” *Dawn*, Islamabad, May 17, 2015.

<sup>4</sup> As per Constitution, NFC awards formulate financial formulas of economic distribution to provincial and federal government for five consecutive years.

- insurgents' anti-mega projects stance.
- iv. Political culture in Pakistan has not yet matured, which could create a crisis in the country at any point of time. In recent times, we have seen episodes of political immaturity creating a political turmoil. Political protests and sit-ins organized by the PTI and a religious cleric Tahirul Qadri against the government in Islamabad during last year are one example of that. Also, a culture of political intolerance is growing in Pakistan as it was evident in Khyber Pakhtunkhwa's local government elections held on May 30, 2015. The elections entailed a string of incidents of political violence among members and workers of political parties contesting these elections. As many as 12 incidents of political and election-related violence claimed 22 lives and injured 68 others, just in three days.<sup>5</sup>
- v. Finally, civil-military relations will also account for sustained political stability in the country, which is fundamental for the

smooth implementation of CPEC. Pakistani army is extensively engaged in counterterrorism operations and needs civilian support for that. After the announcement of National Action Plan (NAP), military's role in internal security policy has increased. Military is also concerned about what it says 'political problems' hindering the implementation of NAP. Nonetheless, there is a growing perception in Sindh and Balochistan that military is overstepping its constitutional role and interfering in matters of civilian administrations there.

Following pages describe political reactions of different political parties towards the China-Pakistan Economic Corridor expressed in recent months, and how the federal government addressed their concerns and created an environment of political agreement on the CPEC project.

### 1.1 Khyber Pakhtunkhwa

Khyber Pakhtunkhwa-based political parties vociferously opposed the project's proposed route through

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<sup>5</sup> Statistics are based on Pak Institute for Peace Studies' database on security.

eastern Pakistan, arguing that the original route was meant to pass through the western part of the country, from Balochistan and KP. The Awami National Party (ANP) and the Qaumi Wattan Party (QWP) in particular expressed their reservation on what they thought was alteration in the route.

The ANP was on the forefront and even went to the extent of saying that it will protest against a change in the CPEC route like it has been protesting against Kalabagh Dam. The party head said he was ready to be better tagged as a 'traitor' than compromise on the rights of his people. The party believed, at least until its concerns were addressed by the government, that PML-N government wanted to give maximum benefit of CPEC to Punjab. "Punjab is political constituency of PML-N. The party is in minority in other provinces. That is why it wants CPEC to benefit most Punjab," ANP leaders were quoted by media as saying.<sup>6</sup>

Addressing a multi-party conference, against the alteration in the route, in Quetta, ANP's chief Asfandyar Wali Khan said, "The problem is in Islamabad. When Pashtun and Baloch prosper, is that Pakistan's

prosperity or destruction?"<sup>7</sup> Later, he argued that the federal government was trying to include Lahore, Punjab's capital, in the CPEC: "Lahore was not part of the original corridor project, but the federal government is making way to include it in the project at the cost of militancy-stricken KP and Balochistan."<sup>8</sup>

Meanwhile, an ANP delegation, led by Mian Iftikhar, had a detailed meeting with political leaders in Balochistan, warning that should the route change, the federal government will bear responsibility for any unrest.<sup>9</sup>

ANP leaders believed that the PPP, leading opposition party, was also toeing the government's line on the project. By changing the route to the eastern side, the dividends will be felt in Sindh, PPP's bastion, they argued.

Similarly, Jamiat Ulema-e-Islam-Fazl (JUI-F) chief Fazlur Rehman frequently issued statements against the alleged change in the route and said the government was responsible for making the CPEC controversial.

Pakistan Tehrik-i-Insaaf (PTI) of Imran Khan, which rules in Khyber

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<sup>6</sup> BBC Urdu, April 20, 2015, [http://www.bbc.com/urdu/pakistan/2015/04/150420\\_ahsan\\_china\\_agreement\\_sq?ocid=socialflow\\_facebook](http://www.bbc.com/urdu/pakistan/2015/04/150420_ahsan_china_agreement_sq?ocid=socialflow_facebook).

<sup>7</sup>*Express Tribune*, Islamabad, May 16, 2015.

<sup>8</sup>*Dawn*, May 24, 2015, <http://www.dawn.com/news/1183913/inclusion-of-lahore-in-corridor-route-to-be-resisted-asfandyar>.

<sup>9</sup>*Dawn*, Islamabad, May 1, 2015.



Pakhtunkhwa, also protested against a change in the CPEC route. KP Chief Minister Pervez Khattak said in a press conference on April 22: "We will launch a legal as well as political battle if the federal government changed the original route of the PCEC."<sup>10</sup> He asked the federal government to share details of the agreements and MoUs signed with China. Mr Khattak said KP had huge potential for hydel power generation, but the federal government preferred coal, wind or solar energy in the CPEC's power projects. He complained that projects worth \$11 billion would be set up in Punjab, and KP would get only \$2.7bn projects, while it deserved three times more. He also expressed serious reservations over the presence everywhere of the prime minister's brother and Punjab Chief Minister Shahbaz Sharif during the visit of the Chinese president.<sup>11</sup>

A PTI leader Asad Umar noted that the government intended to carry out power generation projects under the CPEC in KP, but the head of the provincial energy board was not invited to any of the many meetings held far that.<sup>12</sup>

PTI chief Imran Khan said while addressing journalists at the inauguration ceremony of a girls' school in Peshawar on May 26 that changes in the route would weaken the federation as less developed regions of the country would be left behind. "Changes in the corridor are likely to stoke hatred of Punjab in other provinces," he argued.<sup>13</sup> Imran Khan also said on May 15 that Gwadar-China [original] route of the CPEC should be constructed first, as it is the shortest and would help reduce economic burden on big cities.<sup>14</sup>

Nationalist elements in KP also resisted the alleged change in the CPEC route. A conference was organized in that regard by Pakhtunkhwa Ulasi Tehreek in Peshawar press club on April 12. Representatives of political parties (mainly ANP, PTI, and QWP) and activists of civil society and trade bodies participated. Participants took serious notice of the federal government's proposed plan to divert the CPEC route and constituted a committee to take up the issue with Senate chairman and Chinese government.<sup>15</sup> The Ulasi Tehreek also organized a seminar in

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<sup>10</sup> Zulfiqar Ali, "KP warns of protests if Pak-China corridor route changes," *Dawn*, Islamabad, April 23, 2015.

<sup>11</sup> Ibid.

<sup>12</sup> Khawar Ghumman, "Parliament watch: Is better PR the solution to PML-N's corridor problems?," *Dawn*, May 15, 2015.

<sup>13</sup> *Express Tribune*, Islamabad, May 27, 2015.

<sup>14</sup> *Express Tribune*, Islamabad, May 15, 2015.

<sup>15</sup> "Any change in Economic Corridor route opposed," *The News*, Islamabad, April 3, 2015.

DI Khan titled “Kashgar-Gwadar Economic Corridor” on April 19. Representatives of different political parties participated and vowed to oppose the CPEC if government did not abandon the plan to change the route of the project.<sup>16</sup>

## 1.2 Balochistan

Balochistan is the least developed province of Pakistan. Many claim that if the CPEC and Gwadar port projects ignore Baloch people and the development of the province, it would be difficult to counter the appeal of Baloch insurgent movements that propagate that federal government wants to capture Balochistan’s resources.

This concern was frequently raised by Balochistan’s Chief Minister Abdul Malik Baloch. “Whether it is Gwadar port or CPEC roads, it is essential that the people of Balochistan first benefit from these projects. If that does not happen, people of Balochistan will not support Gwadar and CPEC-related development projects,” he said in an interview with BBC Urdu.<sup>17</sup>

Balochistan CM also said on May 3 that he was not taken into confidence by anyone with regards to CPEC and he was not aware of the CPEC route(s).<sup>18</sup> He reiterated his stance while addressing a press conference in Lahore on May 17: “The CPEC is not just a route... it has multiple aspects. It includes the Gwadar port, roads, railway tracks, energy projects and industrialization (along the corridor) and it should be ensured that Baloch people benefit from it.”<sup>19</sup>

On April 21, lawmakers in the Balochistan Assembly denounced ‘modifications in the Gwadar-Kashgar route’ and threatened to hold indefinite protest sit-in in Islamabad if federal government’s ‘biased policy’ continued to ignore Balochistan in the CPEC project.<sup>20</sup> The original route, they claimed, passed through major parts of Balochistan including Khuzdar, Quetta and Zhob. Lawmakers however noted that the CPEC is a positive development but “presence of Punjab CM in functions gave an impression that agreements were being signed between Lahore and Beijing and not federation of Pakistan and China.” They said that Balochistan government was not

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<sup>16</sup> *The News*, Islamabad, April 20, 2015.

<sup>17</sup> BBC Urdu, April 20, 2015, [http://www.bbc.com/urdu/pakistan/2015/04/150420\\_ahsan\\_china\\_agreement\\_sq?ocid=socialflow\\_facebook](http://www.bbc.com/urdu/pakistan/2015/04/150420_ahsan_china_agreement_sq?ocid=socialflow_facebook).

<sup>18</sup> Syed Ali Shah, “Balochistan CM says not taken into confidence on Pak-China corridor,” *Dawn*, Islamabad, May 4, 2015.

<sup>19</sup> Meeran Khan, “Reconciliation plan sent to Centre: Dr Malik,” *The News*, Islamabad, May 18, 2015.

<sup>20</sup> Amanullah Kasi, “MPAs criticize change in economic corridor route,” *Dawn*, Islamabad, April 22, 2015.

consulted although the main agreements that were signed during Chinese president's visit were linked to Gwadar seaport.<sup>21</sup> Balochistan Assembly had also adopted a unanimous resolution on February 28 against perceived modification of the CPEC route.

Like in KP, the Balochistan chapter of ANP also repeatedly opposed any change in the original design of the CPEC route and warned that the development plan would become controversial if ANP's demand was ignored. The ANP made the demand in a resolution passed at a public meeting held at the hockey ground in Quetta on April 28.<sup>22</sup>

A multi-party conference was held in Quetta on April 29 at the office of JUI-N (Nazriati faction of JUI) that announced to hold protests across Balochistan on May 5 and shutter-down strike on May 6 to oppose the proposed change in the CPEC route. The APC constituted a 12-member committee to meet Prime Minister Nawaz Sharif and Chinese ambassador to resolve the issues with dialogue. JUI-F, ANP, Pakistan Muslim League-Quaid (PML-Q) Balochistan, PPP, and representatives of traders association participated.<sup>23</sup> Later, a shutter-down

strike was observed in parts of Quetta on May 6 to protest the alleged change in route of the CPEC.<sup>24</sup>

Another non-government multi-party conference was held on CPEC in Quetta on May 16. The conference welcomed the corridor as a game changer for the region but opposed any change in its original route that passes through northern parts of Balochistan and southern districts of Khyber-Pakhtunkhwa. Politicians from PPP, PTI, PML-Q, JUI-F, JUI-S (Sami-ul Haq faction), Jamaat-e-Islami, Pakhtunkhwa Milli Awami Party, National Party, Balochistan National Party and Hazara Democratic Party attended the conference convened by the ANP. The ruling Pakistan Muslim League-Nawaz, however, stayed away from the conference.<sup>25</sup> Participants noted that only \$2 billion have been provided to Balochistan in the \$45 billion Pak-China agreements.

Balochistan's nationalist leaders also have concerns about the demographic change that the mega projects like Gwadar and CPEC could bring in the province. They have been raising their voice against non-Baloch settlements in Gwadar. Baloch insurgents also frequently

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<sup>21</sup> Ibid.

<sup>22</sup> Amanullah Kasi, "ANP opposes change in route of corridor," *Dawn*, Islamabad, April 29, 2015.

<sup>23</sup> *Express Tribune*, Islamabad, April 30, 2015.

<sup>24</sup> *Express Tribune*, Islamabad, May 7, 2015.

<sup>25</sup> Muhammad Zafar, "APC opposes detours in economic corridor route," *Express Tribune*, Islamabad, May 17, 2015.

attack non-Baloch workers and settlers in the province. A prominent leader of ruling National Party (NP) Hasil Bizenjo was reported by media to have said in the May 28 APC chaired by Prime Minister Nawaz Sharif that with more investment coming into Balochistan under the CPEC, more non-Baloch will come to Balochistan in search of jobs, squeezing the Baloch population further.<sup>26</sup>

Hasil Bizenjo also presided over a two-day meeting of NP's Central Committee in Quetta on May 25-26, which was attended by Chief Minister Dr Abdul Malik Baloch, senators, MNAs, MPAs and members of the party from the four provinces. Participants sought a 50 percent share for Balochistan in the Gwadar Port Authority and announced that a committee would be formed to draft legislation for claiming revenue to be generated from the CPEC in the province.<sup>27</sup>

### 1.3 Sindh

Main political parties of Sindh including PPP and MQM although welcomed the CPEC projects but also raised voice in support of KP and Balochistan's concerns about the corridor. Apparently, the alleged change in the CPEC route did not

affect Sindh. Karachi and parts of interior Sindh remain parts of different CPEC projects.

The PPP participated in almost all meetings and multi-party conferences held by political parties on the CPEC. At the same, its leaders mainly the party chief and former president Asif Ali Zardari tried to convince political leaders that they should not make the CPEC controversial. Also, the party asked the government to address genuine concerns of political parties.

Mr Zardari hosted leaders of political parties at a dinner in Islamabad on April 23 reportedly to create a broad-based political ownership of the CPEC. The government representatives, present in the meeting, assured that the prime minister will take all parties and provinces into confidence on the CPEC project.<sup>28</sup>

Later on April 26, Zardari said in Karachi while addressing a large party rally that the PPP would not allow the Chinese investment coming under the CPEC projects to become a victim of political point-scoring and there would be no politics or opposition on the subject of Chinese investment coming to Pakistan. "The incoming investment

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<sup>26</sup> *Dawn*, May 29, 2015, <http://www.dawn.com/news/1184917>.

<sup>27</sup> Saleem Shahid, "China-Pakistan corridor: NP criticizes centre for not

taking Balochistan govt on board," *Dawn*, May 27, 2015.

<sup>28</sup> Asim Yasin, "Zardari paving way for Pak-China corridor," *The News*, Islamabad, April 24, 2015.

will secure future of coming generations of Pakistan," he argued.<sup>29</sup> He, however, held out the assurance that all the fears and reservations of the Pashtun and Baloch communities on the CPEC would be addressed in accordance with the Constitution.

#### 1.4 Gilgit Baltistan

It is at Gilgit Baltistan that Pakistan connects with China. GB and its capital Gilgit, therefore, will be the gateway of the corridor. When it comes to Gilgit Baltistan, below are two key corridor-related initiatives:

1. The existing Karakorum Highway (KKH) will be expanded, from the border point at China to Islamabad. A portion of the KKH has already been expanded from Khunjerab, GB, to Thakot, Khyber Pakhtunkhwa. About 500 km of this expanded highway falls under GB, from Khunjerab to Kohistan.
2. A 700-km long railway track will be laid from Kashgar, China's bordering city, to Islamabad, Pakistan's capital. Again, this track will go through GB.

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<sup>29</sup> Azeem Samar, "Politics won't be allowed on Chinese investment: Zardari," *The News*, Islamabad, April 27, 2015.

Political and community leaders and people of Gilgit Baltistan (GB) welcome the idea of CPEC in their area, but complain that their concerns and interests have not been taken into account. They desire of more direct participation in steering the project. In their conversation with one of the authors, Peer Muhammad, local stakeholders reminded that despite the project's direct significance for the GB, the federal government didn't take the area's people and their representatives into confidence. The region's top political representative is the Chief Minister of Gilgit Baltistan. Yet, several noted, unlike Punjab's or Balochistan's CM, Gilgit Baltistan's CM was never invited to the internal meeting on the project nor was he taken to China for discussing and signing of the MoUs in the past two years. One noted that many came to know about the project only after the Chinese President's visit.<sup>30</sup>

After the visit of Chinese president to Pakistan, an amalgamation of all GB-based political and religious parties, the Awami Action Party (ACC), convened a special All Parties Conference in Hunza Aliabad, on April 26. Participants expressed serious concern that the federal

<sup>30</sup> Peer Muhammad's interview with Shahid Ashraf Tarrar, chairman NHA, May 29, 2015. (The NHA is the leading executing agency of motorway projects under the CPEC).

government had completely neglected the GB's leadership on the CPEC, to pass through GB. They demanded that the government declare special economic zones in GB under the project, to compensate those affected by it. The conference linked the project with the constitutional rights of GB and said without fulfilling this demand, the project will not be allowed to implement through GB.<sup>31</sup>

Members of GB Council officially wrote to the Minister for Planning and Development Mr. Ahsan Iqbal for a briefing so that they too are on board. However, the minister has so far not answered the demand.

Some see the corridor having impact on the GB's constitutional status, a state of limbo. GB is awarded special status in the Constitution of Pakistan, dissimilar to the ones granted to Pakistan's four provinces. Until recently, the area was known as Federally Administered Northern Areas (FANA). Instead of administering the region through the constitution, as most of the rest of the country is, GB is governed through Gilgit Baltistan Empowerment and

Self-Governance Rule, 2009. The area's politicians therefore wondered if the federal government can use the territory for an international project, at all.

Any major investment involving GB, with an undecided constitutional status, can cost the region economically and politically.<sup>32</sup> Already, partly because of this status, the region continues to rank lower in the socio-economic development ladder of the country.

Local stakeholders believe that if Gilgit Baltistan is given proper constitutional status like much of the rest of the country, they could raise their voice in support of their rights at national forums (such as NFC and Council of Common Interests) and therefore could get more benefits from projects such as the CPEC.

Some said if the project fails to engage youth, and rather render them jobless, several of them can be exploited towards radicalization.<sup>33</sup> Some pointed that should the area not be accommodated in the CPEC, the possibility that the areas' youth may rise [against it] cannot be denied. Under such a circumstance, young people can be used in the

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<sup>31</sup>Daily *Bang-e-Sahar* (Urdu), Gilgit-Baltistan, [http://www.bangesahar.net/popup.php?r\\_date=04-27-2015&img=04-27-2015page-1-10](http://www.bangesahar.net/popup.php?r_date=04-27-2015&img=04-27-2015page-1-10).

<sup>32</sup>Peer Muhammad's interview with Advocate Amjad Hussain, a PPP leader

and former GB Council member, Gilgit, April 2015.

<sup>33</sup>Peer Muhammad's interview with political analyst Aziz Ali Dad on telephone.

hands of saboteurs to destabilize the project.<sup>34</sup> A few made a reference to how exploitation of resources in Balochistan resulted into a movement there in past. This, they said, can create insecurity too. The local insecurity, however, they said, can be overcome by satisfying the locals about their share in the project.<sup>35</sup>

The authors observed that the dominant economic concern in GB was that once the corridor project is completed, with rail track and motorways laid down, the existing economic trade activities of GB's people with China's will halt.

As cargo trains will depart from China to the proposed dry port in Havalian directly, located in Khyber Pakhtunkhwa, the existing Sost Dry Port will turn useless.

As of now, annual trade with China via Khunjerab stands at PKR 1.5 billion, with 700 to 800 containers passing through the border. Over 5000 people from GB are involved, directly or indirectly, with the Chinese trade through the Sost Dry Port. The trade volume was even higher before a natural disaster shook Attabad in 2010. With 4,000

containers transiting annually through the border, the trade volume fell in the range of PKR 2.5 billion to 3 billion. Many, therefore, fear that the vibrancy of Sost Dry Port will further diminish after the completion of the CPEC project.<sup>36</sup> Bypassing this dry port means denying livelihoods to the area's 5,000 traders, businessmen, transporters, hoteliers and labourers.<sup>37</sup>

Former finance minister of GB Legislative Assembly Mirza Hussain argued that if the rapid train service is directly linked from Kashgar (China) to Havalian (KP, Pakistan), the project is a disaster for the existing economic and commercial activities in GB. The future for GB is bleak, Hussain, who is also a leading trader, argued. GB, he said, will be used to tread rails and trucks, the goods of which will be uploaded in China and reach to Havalian, bypassing GB.<sup>38</sup>

Although the Karakorum Highway has been expanded, as discussed above, the highway will draw less attraction in the presence of the fast train service. Traders will prefer the train service due to less transportation costs. The train, on which goods will be loaded in

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<sup>34</sup> Peer Muhammad's interview with former Finance Minister GB Legislative Assembly Mirza Hussain, Nager, April 2015.

<sup>35</sup>Peer Muhammad's interview with Inayatullah Shumali, Caretaker Information Minister of GB, Chillas.

<sup>36</sup>Peer Muhammad's interview with Javed Hussain, president of GB Chamber of Commerce and Industry, Gilgit, May 2015.

<sup>37</sup> Ibid.

<sup>38</sup>Peer Muhammad's interview with Mirza Hussain.

China's Xinjiang province, will snake through mountains and tunnels, leaving nothing for the GB territory.

GB leaders and people are also concerned that the government has not planned to establish any trade or industrial zone in the GB. Only then will the CPEC shower benefits upon GB, as other parts of the country. Some said that the corridor terminal be established in Gilgit.

Locals fear that the construction of motorways and railway tracks in the area will decrease landholding of the people, who would be forced to settle elsewhere. A conference, attended by political leaders and community representatives of Hunza, Nager and Gujal on April 26, as cited earlier, demanded the federal government to immediately announce a special package under the CPEC demand that the government declare special economic zones in GB under the project, to compensate those affected by it.<sup>39</sup>

### **1.5 Government efforts to achieve political consensus**

- Leaders of the ruling PML-N including ministers and prime

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<sup>39</sup>Daily *Bang-e-Sahar* (Urdu), Gilgit-Baltistan, [http://www.bangesahar.net/popup.php?r\\_date=04-27-2015&img=04-27-2015page-1-10](http://www.bangesahar.net/popup.php?r_date=04-27-2015&img=04-27-2015page-1-10).

<sup>40</sup> BBC Urdu April 20, 2015, <http://www.bbc.co.uk/urdu/pakistan/>

minister frequently issued statements to dispel the impression that the route of CPEC is being changed. Federal Minister Ahsan Iqbal told BBC Urdu in April that the CPEC alignment passing through Balochistan and KP will be completed first. The minister also provided details about the three planned routes of the CPEC including eastern, western and central.<sup>40</sup>

- Ahsan Iqbal again told the National Assembly on April 29 in a policy statement that there was no plan to change the CPEC route and all three routes were being constructed simultaneously.<sup>41</sup> Later, on May 11, Ahsan stated: "I assure you that I will quit and not defend [the decision] if someone could prove that the route, as agreed on July 5, 2013 [during the PM's visit to China], has been changed."<sup>42</sup>
- Government frequently assured leaders of political parties that

2015/04/150420\_ahsan\_china\_agreement\_sq?ocid=socialflow\_facebook.

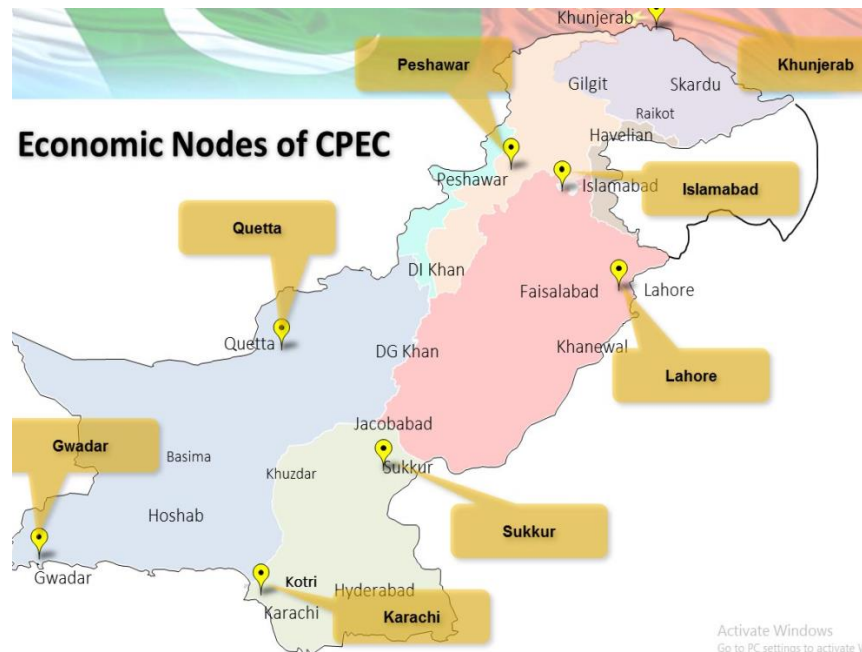
<sup>41</sup> Azam Khan, "Economic corridor: In policy statement, govt denies change in route," *Express Tribune*, April 30, 2015.

<sup>42</sup> Qamar Zaman, "Economic passageway: Senators seek briefing on trade route by PM," *Express Tribune*, May 12, 2015,



the CPEC takes less developed areas into the folds of active development (particularly Gilgit-Baltistan, Thar and Gwadar regions). The CPEC would benefit all provinces and bring peace, harmony, cooperation and economic development in the entire country.

- The government provided a detailed map of the CPEC showing the provincial capitals (Quetta, Peshawar, Karachi and Lahore) among the major nodes of the project. The map is given below:



Source: <http://www.pc.gov.pk/wp-content/uploads/2015/04/cpecs.jpg>

- Prime Minister Nawaz Sharif chaired an all-party conference (APC) on CPEC at the PM House Islamabad on May 13. One of the key outcomes of the conference was an agreement among parties to set up a special bicameral

parliamentary committee for regular oversight of the CPEC project.<sup>1</sup>

- Responding to small provinces' concerns about establishment of industrial zones in Punjab, Federal Minister Ahsan Iqbal wrote in his special column in a leading Urdu newspaper *Jangon* May 21: "Baloch and Pashtun people are being misguided [on CPEC] by telling them that industrial zones are to be established in Punjab only. In fact, establishment of only one industrial zone has been decided so far under the CPEC project and that will be in Gwadar. The establishment of more industrial zones in the future will be decided by the China-Pakistan Joint Working Group, which will be formed in the next two months. I had assured leaders of all political parties in a meeting that all provinces will be consulted for the establishment of industrial zones."<sup>2</sup>
- Another APC was held at the Prime Minister's Office on May 28 that gave a go ahead to the

CPEC project. The meeting decided to first build the western alignment of the route, which runs from Gwadar to D.I. Khan before entering Punjab, which in large helped in subsiding the political opposition. It was decided that the remaining concerns of parties will be addressed by a bicameral parliamentary committee which the government had already agreed to constitute for a regular oversight of the project. The government also agreed to set up joint working groups having representation of all provinces to give their views and suggestions on economic and industrial hubs to be built along the corridor.<sup>3</sup>

- Before the May 28 conference, government put extra efforts and gave separate briefings to senior political leaders at their doorsteps. In this regard, meetings were held with the leaders of Pakhtunkhwa Milli Awami Party (PkMAP), PTI, Qaumi Wattan Party-Sherpao, JUI-F and ANP. The consultation process completed

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<sup>1</sup>Khawar Ghumman, "Special committee to oversee CPEC project," *Dawn*, Islamabad, May 14, 2015.

<sup>2</sup>Daily *Jang* (Urdu), Rawalpindi, May 21, 2015.

<sup>3</sup> Khawar Ghumman, "Parties give go-ahead to China-Pak corridor," *Dawn*, May 29, 2015.

just minutes before the APC.<sup>4</sup>

## 2. Security dimension

This section discusses the security situation in the country in recent months, particularly since start of the year 2015, as well as government's efforts to achieve peace and maintain law and order in different parts of Pakistan, including conflict zones. It also describes CPEC-specific security measures taken by the government.

### 2.1 Security situation of Pakistan in 2015<sup>5</sup>

There has been relative improvement in the country's security situation since start of this year. The number of terrorist attacks has gradually declined over the months. One of the key factors for that were the extensive security operations conducted against militants in North Waziristan and Khyber agencies of FATA as well as other parts of the country. Also, since December 2014 attack on a school in Peshawar, which had killed over 100 children, federal and provincial governments have been more vigilant and have increased surveillance against the

militants. Thirdly, government evolved and announced a National Action Plan (NAP), which, though being implemented partly, has put pressure on extremist and militant groups in the country.

Military operations in North Waziristan and Khyber agencies have significantly damaged militant's networks and infrastructure. But threat of militancy is still there, although with a lesser intensity. Militants have been successful in carrying out some major attacks this year including a suicide blast in an *imambargah* in Shikarpur (Sindh) in January; suicide attacks on Shia worshippers in Peshawar in February; suicide attacks on churches in Lahore in March; targeted killing of 20 non-Baloch workers in Kech (Balochistan) in April; lethal attacks on Ismaili community in Karachi and Pashtun community in Balochistan in May; and suicide bombings that killed Punjab Home Minister and 18 others in Attock, Punjab in August.

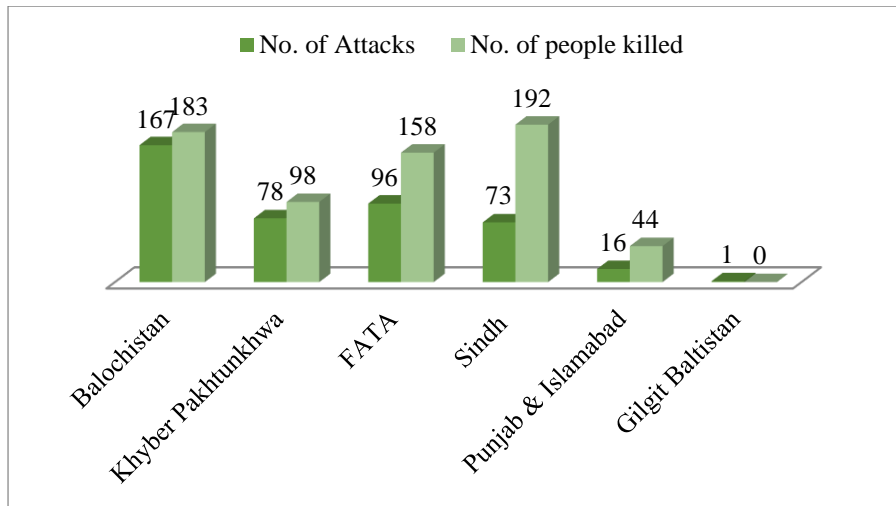
On the whole, 431 terrorist attacks took place across Pakistan between January and July this year, which claimed 675 lives and injured 855 others. Regional distribution of these attacks is given at Chart 1.

**Chart 1: Terrorist attacks and fatalities in Pakistan (1 Jan. to 31 July 2015)**

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<sup>4</sup> Qamar Zaman, "China-Pakistan Economic Corridor: Backdoor meetings helped forge consensus," *Express Tribune*, May 29, 2015.

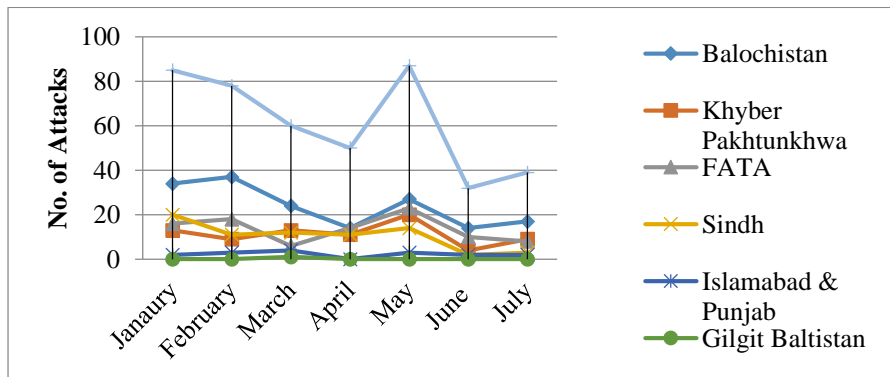
<sup>5</sup> All statistics used in this section are based on Pak Institute for Peace Studies' (PIPS) database on conflict and security, unless otherwise described.



There had been a declining trend in terrorist attacks in Pakistan from January to April, but in May the number of terrorist attacks rose once again. In May, the number of attacks increased in all regions of Pakistan.

Trends of terrorist attacks in different regions of Pakistan since January this year are given at Chart 2.

Chart 2: Trend of terrorist attacks in Pakistan since January 2015



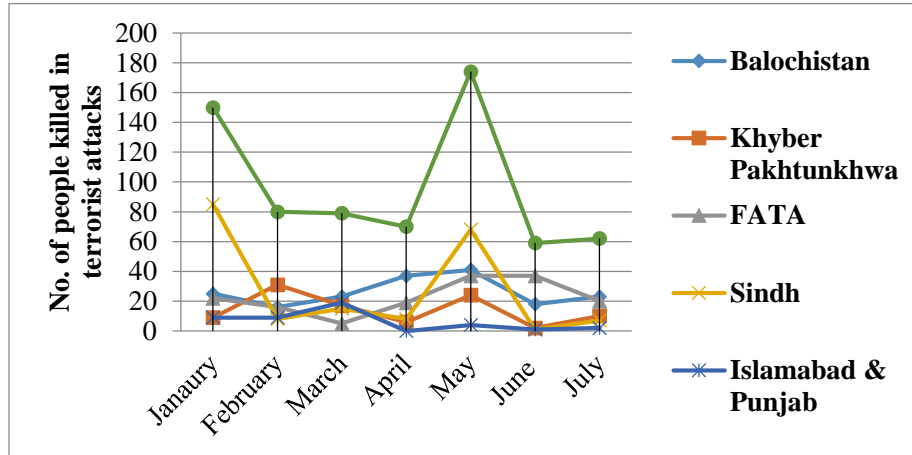
As for terrorist attacks, the number of people killed in these attacks also fell

from January to April, but the number rose in May, followed by a

significant decline in subsequent months Balochistan, FATA and Karachi figure high in terrorism-

related fatalities since January this year. (See Chart 3)

Chart 3: Trend of fatalities in terrorist attacks in Pakistan since January 2015



### 2.1.1 Balochistan

Balochistan’s security remains volatile where many militant, sectarian and insurgent groups are active. Highest number of terrorist attacks for any one region of the country in 2015 was reported from Balochistan. (See Chart 1) If property security measures are not taken, the implementation of CPEC projects could be relatively more affected in Balochistan as compared to other regions. The province has a history of attacks on state installations, development projects, and non-Baloch workers and settlers. Many incidents of kidnapping of foreigners including Chinese and government

officials have also been reported from the province in past.

Baloch insurgent groups see mega projects in Balochistan including Gwadar and the CPEC as a conspiracy to capture Balochistan’s resources. That implies there is risk of attacks on the CPEC project sites and workers. An insurgent commander Harbiyar Marri, chief of the Baloch Liberation Army (BLA) said in a recent interview with a local newspaper: “Pakistani security forces have increased operations in Makran and Gwadar regions for paving the way to implement Pak-China agreements... Enforced disappearance of Baloch people in

the name of security operations and presenting Baloch people as insurgents cannot be fool the world... China has expansionist designs and wants to capture resources of Balochistan to extend its outreach to Middle East. Pakistan is supporting China by killing the Baloch people in the name of providing security for [CPEC] projects.”<sup>1</sup>

In recent months, Baloch insurgents have increased attacks on non-Baloch workers as well. In May, 22 Pashtuns were target killed in Mastung reportedly by a Baloch insurgent group United Baloch Army (UBA). In the month of April, too, militants of Baloch Liberation Front (BLF) had shot dead 20 non-Baloch laborers hailing from Punjab and Sindh. Most analysts are convinced that these targeted killing are an effort by Baloch insurgents to give a message that Balochistan is not safe for projects like China-Pakistan Economic Corridor. Many also see a foreign hand behind these attacks which want to disrupt China-

Pakistan Economic Corridor. Pakistan has since long blamed India for fueling insurgency in Balochistan by supporting Baloch insurgent groups.

Security forces have also increased their security and search operations in the province in recent months, mainly in areas close to Gwadar and Makran coastal belt. There were also reports that a Karachi-like operation could be launched in Balochistan after the Mastung killings.<sup>2</sup> However, it would be indeed a great challenge for provincial government, federal government and army to come on one page and evolve a consensus security policy for Balochistan. Historically, Balochistan’s nationalist leaders and also people have seen Islamabad and security establishment with an eye of suspicion and mistrust. Besides military operation, extensive political efforts are also needed to restore peace in the province.

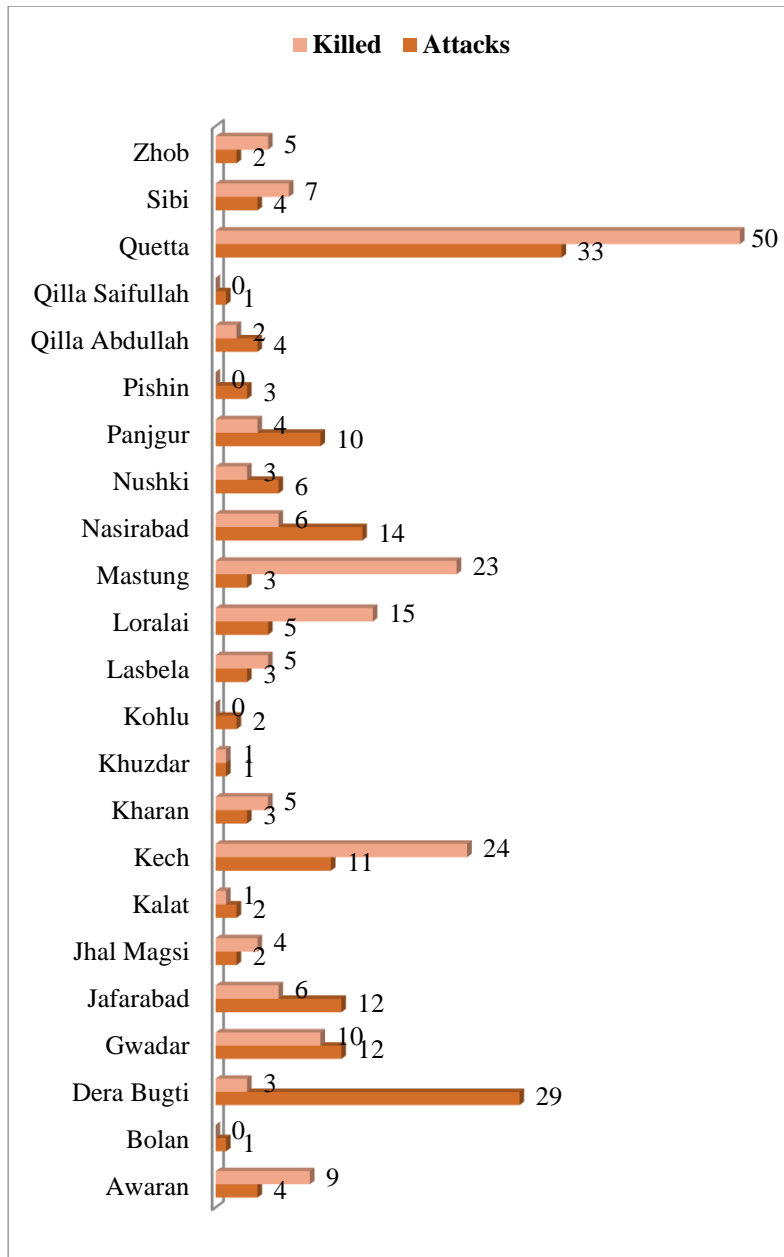
**Chart 4: Regional distribution of terrorist attacks in Balochistan (1 Jan. to 31 July 2015)**

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<sup>1</sup> Daily *Azadi* (Urdu), Quetta, April 16, 2015.

<sup>2</sup> Abdul Mateen, “Curbing violence: Karachi-style operation planned for

Balochistan,” *Express Tribune*, May 31, 2015.



### 2.1.3 FATA and KP

A total of 174 terrorist attacks took place in KP and FATA between January and July this year, which claimed 256 lives. This is a significant decrease in terrorist attacks (53 percent) and fatalities (about 48 percent) when compared to previous year's corresponding months. During the same period of previous year (i.e. January to July 2014), as many as 372 reported terrorist attacks had killed 491 people across KP and FATA.

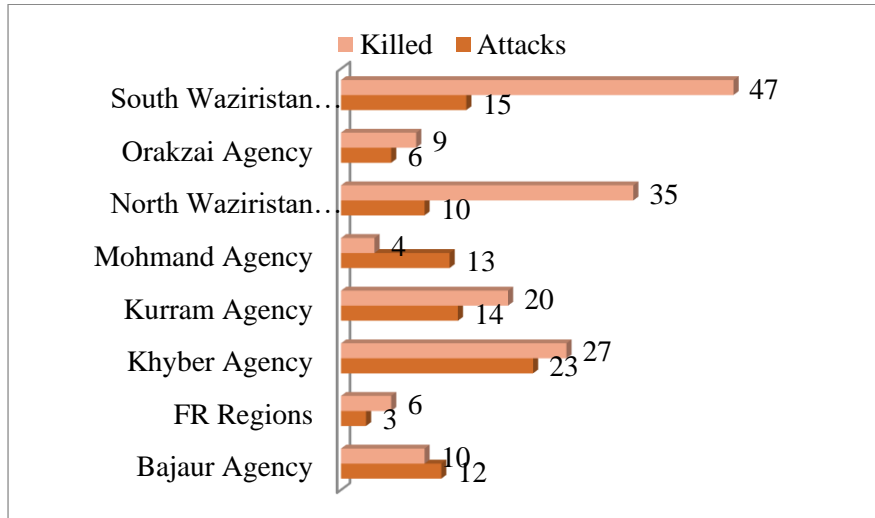
That suggests that military operations in FATA have weakened militants' capacity to strike in these two regions. But the threat is not completely eliminated. Indeed, militants have been successful in carrying out terrorist attacks in almost all seven agencies of FATA since January this year (*See Chart 5*).

Militants' launch of terrorist attacks in agencies other than North Waziristan and Khyber was apparently intended at distracting security forces from those two agencies where the latter are engaged in military operations against militants. For instance, the militants' activities have increased in South Waziristan in recent months. Armed clashes between militants and the security forces were reported from there in July, which indicates that militants have started to regroup there.

Militants' ability to have cross-agencies movement in FATA, mainly relocations from North Waziristan and Khyber agencies due to military operations there, could pose a threat to security forces and also to peace and security of tribal areas and also parts of KP province which will be traversed by CPEC routes.



Chart 5: Regional distribution of terrorist attacks in FATA (1 Jan. to 31 July 2015)

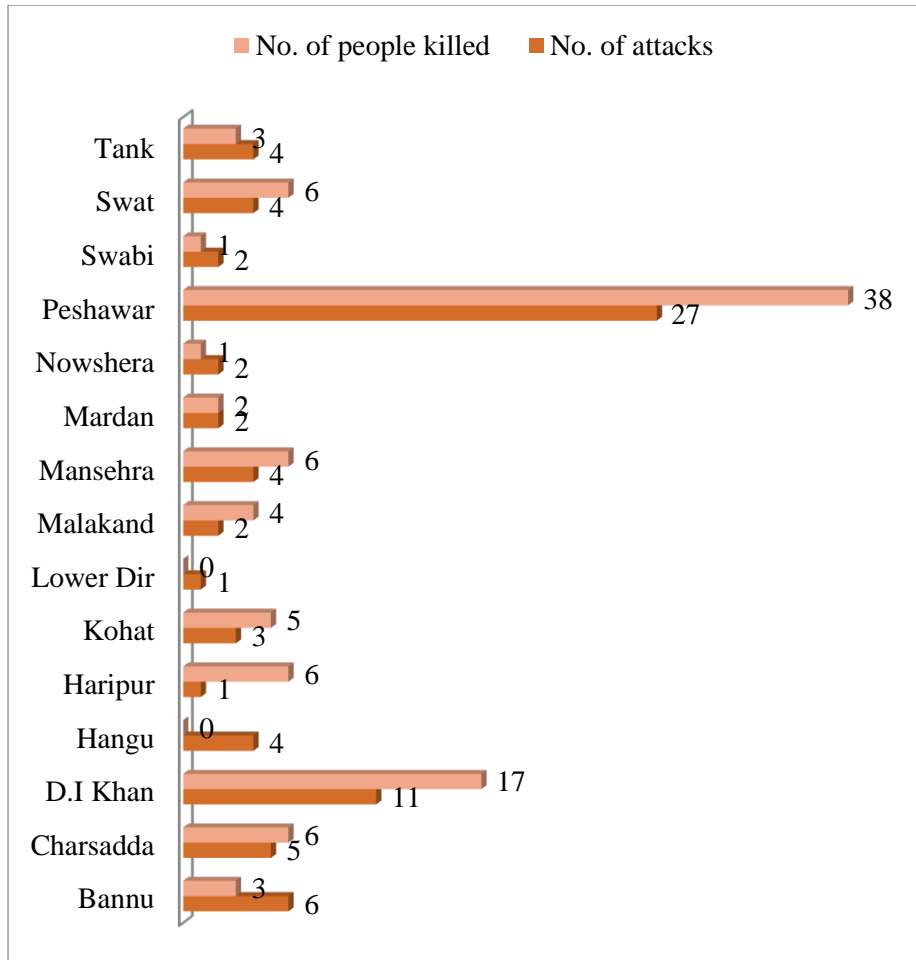


The security situation in Khyber Pakhtunkhwa has also relatively improved but law enforcement agencies need to be more vigilant to prevent any major attack in the future. As the military operations have frustrated the militants they could try to retaliate in form of some major attacks such as they carried out on a school in Peshawar in December last year. Also, militants have shown an increased presence in recent months in the KP districts bordering on North and South Waziristan

agencies such as Bannu, Tank and Dera Ismail Khan.

Militants carried out 78 terrorist attacks in 15 districts of Khyber Pakhtunkhwa (See Chart 6) between January and July this year. That implies militants' outreach in Khyber Pakhtunkhwa, including to areas where CPEC projects will be aligned, is not fully broken; nor is their operational capability completely destroyed.

**Chart 6: Regional distribution of terrorist attacks in KP (1 Jan. to 31 July 2015)**

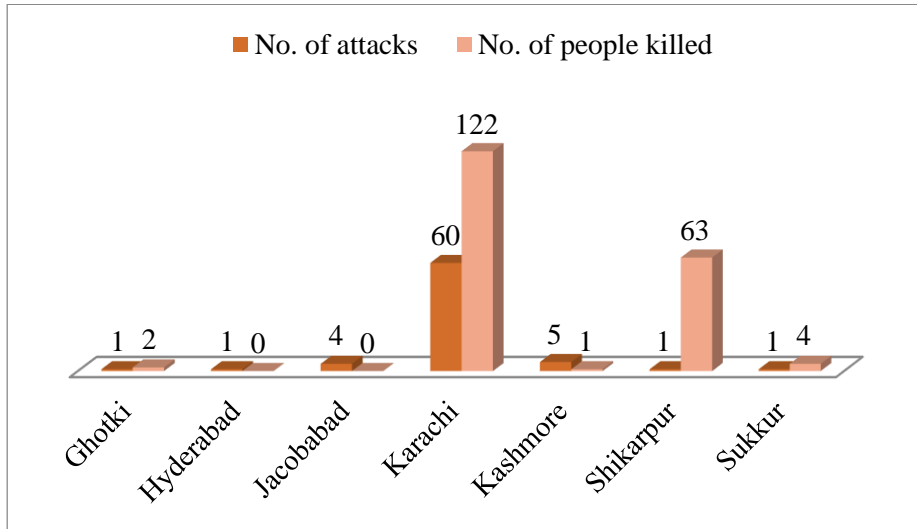


### 2.1.4 Karachi and Interior Sindh

In terms of terrorism-related fatalities, Sindh, mainly Karachi, was the worst affected region of Pakistan

between January and July (2015). A total of 192 people lost their lives and another 137 were injured in Sindh over the mentioned period of time. Most of these casualties concentrated in two cities of Sindh, i.e. Karachi and Shikarpur. (See Chart 7)

Chart 7: Regional distribution of terrorist attacks in Sindh (1 Jan. to 31 July 2015)



Yet, Karachi has been relatively peaceful in 2015, particularly in recent weeks and months, compared to previous years. Apparently, surgical operations against militants and criminal elements have significantly weakened the infrastructure of terrorists and criminal gangs in Karachi. According to a recent report compiled by the Sindh police and submitted to the provincial home department, “the murders and targeted killings in Karachi are all-time lowest.” The report said that the analysis of first six months of 2015 “shows that average murders reported in 2015 are

2.7 per day as compared to 5.7 murders per day in 2014 and 8.9 murders per day in 2013 [for the same period]”.<sup>1</sup>

Yet, militants have at times managed to show their presence by carrying out either high-profile targeted killings or terrorist attacks like the one on Ismaili community in May this year. A long existing nexus among Sunni sectarian and other local and international terrorist organizations in Karachi is a huge challenge for security agencies.

<sup>1</sup> Hasan Mansoor, “971 killed in first six months of 2015 in Karachi,” *Dawn*, July 22, 2015.

Meanwhile, interior Sindh is apparently next target of militant and sectarian outfits, which have been strengthening their positions there since long. A lethal suicide blast in Shikarpur in January this year targeted an *imambargah* and killed 63 people. Sectarian tensions and militant violence are not new in this part of Sindh (Shikarpur, Sukkur and Khairpur).

Although most of the recent major terrorist attacks in Sindh have been sectarian-oriented, however in past, sectarian militant organizations, as well as Taliban militants, have carried out major attacks against state interests and security agencies in the province. Sectarian organizations' nexus with Taliban and Al-Qaeda makes them dangerous for the projects like CPEC.

On the whole, although militants and sectarian groups have been weakened in the province including in interior Sindh, they still have the capacity to attack the CPEC project sites; they can also kidnap workers engaged at those sites.

### **2.1.5 Punjab and Islamabad**

Punjab is apparently the safest region of Pakistan in terms of incidence of terrorist attacks. But the province, mainly its capital Lahore, has faced at

least 30 major attacks since 2004 including attacks on Sri Lankan cricket team in 2009, attacks on Ahmadi worship places in 2010, and an attack on Wagah border last year.<sup>2</sup> That means terrorists have support bases in parts of Punjab from where they can operate to hit their targets.

After the announcement of NAP, Punjab government has enhanced surveillance and police has conducted dozens of search operations in different parts of the province. Hundreds of militants and their supporters have also been arrested. Supporters of militants are apparently under immense pressure.

In July, Malik Ishaq, the main leader and chief of the core/main group of Lashkar-e-Jhangvi (LeJ) was killed along with his two sons and others in Muzaffargarh, in south Punjab, in an alleged police encounter.<sup>3</sup> The assassination was described by many as a severe blow to the LeJ. Also it indicated that the government Punjab, which has since long been criticized for its alleged inaction against sectarian groups, is becoming serious in eliminating the militant groups operating in the province.

In the following month, Punjab Home Minister Shuja Khanzada was killed along with 18 others in a suicide blast in his home town in district Attock. Reportedly militants

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<sup>2</sup>Sabir Shah, "30 major terror attacks in Lahore since 2004," *The News*, February 18, 2015.

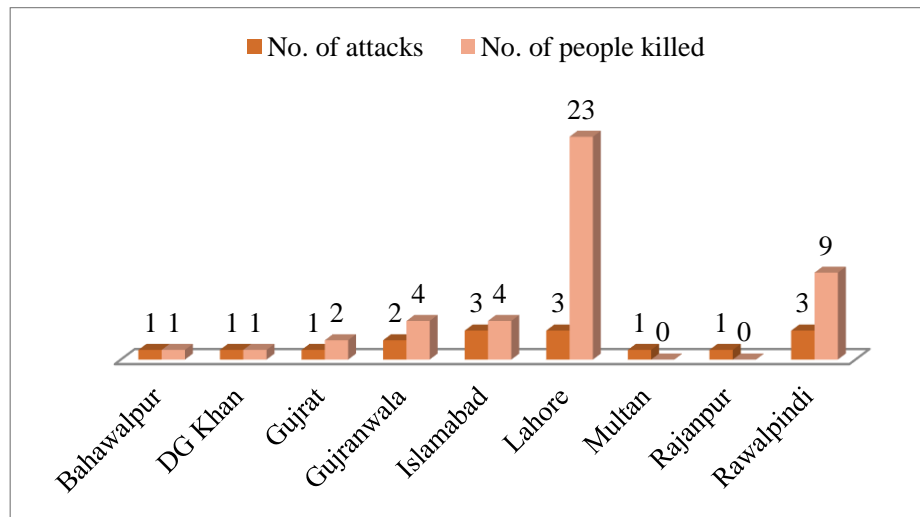
<sup>3</sup>*Dawn*, July 29, 2015, <http://www.dawn.com/news/1197098>.

of Lashkar-e-Jhangvi was involved in the attack; a TTP splinter group Jamaatul Ahrar had claimed the responsibility for the attack.

Although the province has witnessed fewer - as compared to previous year's corresponding months - and mostly low scale attacks this year, but the militants and their supporters in

the province might be keeping low profile and have not been eliminated. That implies the threat of major attacks including on CPEC project sites and workers still exists. For that, the provincial government needs to enhance its implementation of NAP. There is also need for enhanced coordination among civilian and military intelligence agencies.

**Chart 8: Terrorist attacks in Punjab & Islamabad (1 Jan. to 31 July 2015)**



### 2.1.6 Gilgit Baltistan

Only one terrorist attack was reported from the region during 2015, which did not cause any fatality. However, the region has seen plenty of sectarian violence in past. Some high intensity attacks in recent years on security forces and foreigners also revealed TTP and other militants' outreach to northern

areas. However an almost absence of militants' bases and support structures in Gilgit and Baltistan suggests the threat level to the CPEC in this region will be low. However sporadic attacks on the CPEC-linked sites and personnel cannot be ruled out. Some terrorist attacks from the region in recent years, which hit high value targets such as 2013 attack on tourists at Nangaparbat base,

attracted the world attention and also raised concerns that the Pakistani militants, mainly the TTP, in collaborations with ETIM and Chinese Uighur militants could try to entrench themselves in this region. Other than that most of the violent incidents reported from this region have been sectarian-related.

## 2.2 Government's efforts to achieve security

- The National Assembly and the Senate unanimously passed the 21st Constitutional Amendment Bill 2015 in January this year by more than a two-thirds majority, paving the way for the constitution of military courts to conduct the speedy trials of terrorists.
- The government also established National Action Plan in January to crack down on terrorism and to supplement the ongoing anti-terrorist offensive in north-western Pakistan. But the government and independent reports suggest that implementation on the 20 points of NAP has been slow.
- The government itself is not happy with the level of achievement on the front of implementation of NAP. The 20 points of the NAP have a wide scope. The challenges towards

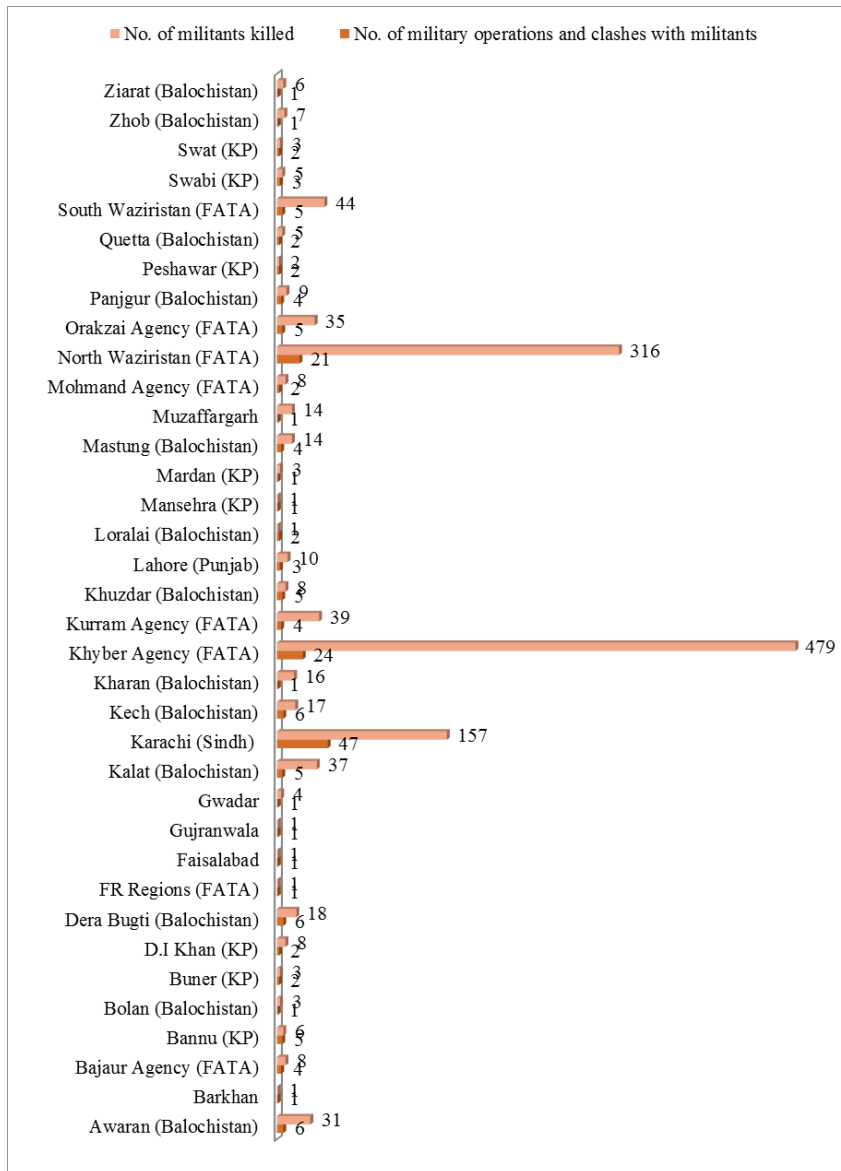
implementing these points are mainly institutional including lack of capacity of related institutions and departments and also lack of coordination among civil and military intelligence agencies. Also, lack of political will is a factor. Political leadership has yet to fully take the ownership of the country's war against terrorism.

- National Counter Terrorism Authority (NACTA) has yet to be fully empowered and the establishment of joint intelligence directorate is only a proposal so far.
- However, in accelerated counterterrorism efforts in KP and FATA, three zones of counterterrorism departments (CTD) were established in March. The provincial government pledged to fight impending militants' activities through CTDs.

### 2.2.1 Security Operations

Pakistan's security and law enforcement agencies have killed a total of 1,312 militants between January and July this year in as many as 183 operational strikes and clashes with militants, across 41 districts of all four provinces.

**Chart: Militants killed in operations and clashes with security forces (Jan. to Jul. 2015)**



### 2.2.3 Specific security measures for CPEC

- Pakistan Army has created a special security division for the protection of Chinese engineers, project directors, experts and workers employed on various Chinese funded projects across Pakistan. According to military sources quoted in media, a total of 10,000 troops have been dedicated to this purpose and a two-star senior military officer, who would report directly to the General Headquarters (GHQ), would head this security division. Out of 10,000 troops, over 5,000 will be from the special services group of Pakistan Army who are specially trained for counter-terrorism and security.<sup>1</sup>
- Even before the decision to establish special security division, an estimated 8,000 personnel of police and paramilitary forces have been deployed across the country for the security of more than 8,112

Chinese working in Pakistan on around 210 development projects.<sup>2</sup>

- Government has in principle agreed that military will take leading role in formulating and implementing security plan for the CPEC in close collaboration with the interior ministry.
- The government has also allocated Rs3.5bn under the latest PSDP (Public Sector Development Program) for special security forces to protect Chinese engineers, project directors, experts and workers employed on various Chinese-funded projects across Pakistan.<sup>3</sup> On the whole, the budget plan for 2015-16 describes that as many as 28 wings of Civil Armed Forces will be raised, at the cost of 7.5 billion rupees, to provide security for CPEC and Chinese workers.

### 3. Developmental progress on CPEC

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<sup>1</sup>Mateen Haider, "Army's special security division to protect Chinese workers in Pakistan," *Dawn*, Islamabad, April 21, 2015.

<sup>2</sup> Zahid Gishkori, "Economic corridor: 12,000-strong force to guard Chinese

workers," *Express Tribune*, Islamabad, March 30, 2015.

<sup>3</sup>*The News*, Islamabad, Saturday, June 06, 2015.



- Pakistan and China signed 51 agreements and memorandums of understanding (MoUs) of bilateral cooperation in different fields during Chinese president's visit to Pakistan in April 2015. The \$28bn financing agreements will immediately come into the implementation phase because necessary processes have already been completed. These include:<sup>4</sup>
  - 1000MW solar power park in Punjab;
  - 870MW Suki Kanari (Khyber Pakhtunkhwa) hydropower project;
  - 720MW Karot (AJK) hydropower project;
  - Three wind power projects at Thatta of United Energy Pakistan (100MW), Sachal (50MW) and Hydro-China (50MW);
  - Chinese government's concessional loans for the second phase up-gradation of Karakorum Highway (Havelian to Thakot);
  - Karachi-Lahore Motorway (Multan to Sukkur), Gwadar Port east-bay expressway project and Gwadar international airport;
- Provision of material for tackling climate change; and
- Projects in the Gwadar Port region and establishment of China-Pakistan Joint Cotton Biotech Laboratory and China-Pakistan Joint Marine Research Centre.
- There were reports that development funds and loans from China for the CPEC project could get delayed due to the issue of double taxation and absence of an agreement on exempting Chinese companies from taxes on the profits they make in Pakistan. Federal Board of Revenue argues that it cannot achieve the government-provided targets if complete tax exemption will be provided to Chinese companies.<sup>5</sup> Pakistani officials were to hold further negotiations with Chinese tax officials and companies in August 2015.
- Similarly there could be issues of bureaucratic hurdles, which might affect smooth functioning of CPEC implementation. Mr Zu Young, president of a Chinese company Zonergy said in

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<sup>4</sup>Khaleeq Kiani, "\$28 billion accords for fast-track projects," *Dawn*, April 21, 2015.

<sup>5</sup> *Daily Dunya* (Urdu), Islamabad, May 19, 2015.

Islamabad on April 22 while sharing his views on the Bahawalpur power project: "These projects can be completed within the stipulated timeframe only when the concerned ministries and departments in Pakistan exhibit a matchless coordination at every phase.<sup>6</sup>

- In this backdrop, government is trying to put in place a **multi-tier mechanism** to ensure that CPEC projects do not fall victim to bureaucratic hurdles and delays. 'Prime Minister Delivery Unit' has been established at the PM's Office comprising professionals from public and private sectors and having expertise in CPEC-related projects.<sup>7</sup> Supervised by the prime minister, the unit will monitor the CPEC projects and provide daily, weekly and monthly progress reports to the prime minister. The Ministry of Planning, Development and Reform, currently headed by Federal Minister Ahsan Iqbal, has a leading role in the unit

while the Cabinet Committee on Energy is also a part of it. Chinese and Pakistani working groups have already conceptualized, structured and time-framed all the CPEC projects

- **Budgetary allocations:** Headed by Prime Minister Nawaz Sharif, the National Economic Council (NEC) approved 2015-16's federally funded development program including over two and a half dozen CPEC-related projects. The approved NEC plan shows that the government has included Rs942 billion worth of CPEC projects in the 2015-16 budget and allocated Rs171 billion for spending in the year.<sup>8</sup> Budgetary allocations for CPEC routes are described below:<sup>9</sup>

- Rs20.8 billion worth of CPEC projects will go to the western route. However the Senate standing committee on finance and revenue later recommended to enhance allocation for the western

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<sup>6</sup> Khalid Mustafa, "High degree of coordination required for making CPEC a success story," *The News*, Islamabad, April 23, 2015.

<sup>7</sup> Ansar Abbasi, "Multi-tier mechanism in place for timely completion of CPEC

projects," *The News*, Islamabad, May 8, 2015.

<sup>8</sup> Shahbaz Rana, "Budget 2015-16" 12% of approved funds goes to CPEC's western alignment," *Express Tribune*, Islamabad, June 2, 2015.

<sup>9</sup> Ibid

route by Rs100 billion under the CPEC so as to fulfill the consensus decision of May-28 All Parties Conference (APC) and the Prime Minister's promise to build this route on a priority basis.<sup>10</sup>

- A lion's share of Rs95 billion, or 57% of total CPEC allocations, will go to projects on the eastern corridor. The NEC has approved Rs60.2 billion for the construction of a 387km Multan-Sukkur section of the eastern route. The total cost of this project is Rs259.3 billion. For the 296km Sukkur-Hyderabad section of the eastern route, the NEC allocated Rs10.5 billion. The total cost of the project is Rs148 billion. It approved Rs20 billion for a 230km Lahore-Abdul Hakeem road section.<sup>11</sup>
- An amount of Rs31.8 billion is proposed for the northern alignment, which is the link

for all the routes. For the construction of 120km Thakot to Havelian section, the NEC approved Rs23.5 billion. The total cost of the project is Rs95.4 billion. For the acquisition of land for this project, the NEC allocated another Rs6 billion.

- Similarly, for construction of the Islamabad-Mianwali-Dera Ismail Khan road, which will link eastern and central routes, the NEC approved Rs10 billion. The total cost of the project is Rs68 billion.<sup>12</sup>
- In order to complete work on the Gwadar Port, the NEC approved eight projects worth Rs41.6 billion and allocated Rs6.8 billion for the next year. These projects include construction of break way waters, capital dredging of berthing areas, infrastructure development for the Export Processing

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<sup>10</sup> Mehtab Haider, "Senate panel demands Rs100 bn more for CPEC western route," *The News*, June 12, 2015.

<sup>11</sup> Shahbaz Rana, "Budget 2015-16" 12% of approved funds goes to CPEC's

western alignment," *Express Tribune*, Islamabad, June 2, 2015

<sup>12</sup> Ibid.

Zone Authority, Pak-China Technical and Vocational Centre and upgrading of the existing 50-bed hospital to 300-bed at Gwadar. The NEC also approved Rs4.7 billion allocation for the construction of Eastbay Expressway that will link Gwadar with the coastal highway.<sup>13</sup>

- Meanwhile work on different parts of the CPEC projects continues. The Planning Commission and other related departments do not provide some specific information about these projects on their websites. However the following paragraphs describe progress on different CPEC projects based on information drawn from media reports, online sources and official statements.
- The work on M-8 (motorway from Gwadar to Rattodero) is underway and is expected to conclude by December 2015. M-8 is connecting Gwadar to Turbat, Panjgur and Khuzdar regions in Balochistan and further

connects to Rattodero, in Sindh.

- The road linking Gwadar to Khuzdar, Quetta and DI Khan is under construction and is expected to be completed till next year, i.e. 2016.<sup>14</sup> The road will further link to Karakorum Highway.
- A couple of sections of the road between Gwadar and Quetta are currently at an advanced stage of construction.
- Work on Peshawar-Karachi motorway project started over 20 years back and effort is being made to complete it in next few years.
- Prime Minister Nawaz Sharif inaugurated in Karachi the first phase of the Karachi-Lahore (M-9) Motorway on March 11, 2015 which will cost Rs. 36 billion. M-9 will facilitate people commuting between Karachi and major cities including Sukkur, Badin, Ghotki, Rohri, Dadu, Pannu Aqil, Abro, Sadiqabad, Rahim Yar Khan, Zahir Pir, Jalalpur Peerwala,

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<sup>13</sup> Ibid.

<sup>14</sup> Federal Minister Ahsan Iqbal was quoted as saying in a report by Asif Iqbal published on BBC Urdu on April 20, 2015.

Abdul Hakim, Mamu Kanjan and Nankana Sahib.

- A feasibility study is underway for the upgrading of Karachi-Peshawar Main Line.
- Survey for route of KKH-I from RaiKot to Khunjerab, which will ultimately link up to the Kashgar, is underway.
- According to details provided by National Highway Authority, Havelian to Khunjerab railway track was approved in September 2014.<sup>15</sup> Currently the work is going on the track.
- E35 Expressway, or the Hazara Motorway, is under construction. Prime Minister Nawaz Sharif had inaugurated it in November 2014. The motorway will link Hassan Abdal in Punjab with the cities of Haripur, Havelian, Abbottabad, and Mansehra in Khyber Pakhtunkhwa.
- Feasibility study is underway for the Havelian Dry Port.

- The work on 900 MW solar project at Bahawalpur, South Punjab, is going on with 150 Chinese and 100 locals working on the site. This and other similar solar power stations will become a 'solar oasis' in the CPEC.<sup>16</sup>

#### 4. Regional perspective

The corridor will certainly improve prospects for regional cooperation in trade and economic projects as well as for peace and stability. Pakistan's refusal to send its troops to Yemen in support of Saudi Arabia, which would have annoyed a neighbor Iran, and efforts to support Afghanistan's reconciliation with the Afghan Taliban are being seen by many as a paradigm shift in Pakistan's regional strategic outlook. Chinese investment and the CPEC are playing a key role in that regard.

There is a perception in Pakistan that China is supporting Pakistan's efforts in establishing good ties with Afghanistan. There were reports in media before Chinese president Xi Jinping's visit to Pakistan on April 20 that Beijing has asked Islamabad to upgrade the proposed plan to construct a road network under the CPEC from six to eight lane arteries

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<sup>15</sup> <http://nha.gov.pk/wp-content/uploads/2012/09/Confirmed-Minutes-of-238-Executive-Board-Meeting.pdf>.

<sup>16</sup> Khalid Mustafa, "High degree of coordination required for making CPEC a success story," *The News*, Islamabad, April 23, 2015.

extending them to Afghanistan. "That is why Pakistan has decided to increase the number of trade routes with Afghanistan to 16 from the existing four," a report published in a leading English newspaper said.<sup>17</sup> Five new trade routes would be opened in Balochistan and seven in Khyber Pakhtunkhwa.<sup>18</sup>

Iran has recently expressed its interest in becoming part of the China-Pakistan Economic Corridor with a view to become part of restoration and expansion of the ancient Silk Route which has historically been a means to transfer trade products and also culture from east to west linking India, China and Pakistan to Mediterranean Sea.<sup>19</sup>

Pakistan has also welcomed the agreement on Iran's nuclear program, recently reached between Iran and the six world powers. Pakistan believes that the easing of international sanctions on Iran in the aftermath of the deal could allow Pakistan to complete its part of Iran-Pakistan gas pipeline section, as per the agreement signed in 2013.

At the same time, Iran has again asked India to invest in Iranian Chabahar port,<sup>20</sup> which many believe will not only open up Indian access to Afghanistan and Central Asia but also prove a competition for Pakistan's Gwadar port, currently being operated by Chinese companies. In that context, it yet remains to be seen to what extent CPEC and Gwadar port could develop cooperation and connectedness among countries in the region.

India raised objections on the CPEC by summoning Chinese envoy in Delhi to the Ministry of External Affairs, days before the Indian Prime Minister Narendra Modi's visit to China in May. India's objections were linked to CPEC route passing through areas which India believes are still contested including Kashmir and Gilgit-Baltistan.<sup>21</sup> However, a few weeks before this development, India's high commissioner to Pakistan had said that India had no worries over the construction of CPEC as an economically-strong

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<sup>17</sup> Khalid Mustafa, "China tells Pakistan CPEC success depends on peaceful Pak-Afghan ties," *The News*, Islamabad, April 19, 2015.

<sup>18</sup> The existing four trade routes between Pakistan and Afghanistan include Chaman, Torkham, Ghulam Khan and Miran Shah. The Miran Shah route is currently non-functional due to a military operation going on in North Waziristan.

<sup>19</sup> Muhammad Waziri, "Iran's interest in restoration of Silk Route" (as translated from Urdu), BBC Urdu, June 8, 2015, [http://www.bbc.com/urdu/world/2015/06/150608\\_iran\\_slik\\_road\\_sr?ocid=socialflow\\_facebook](http://www.bbc.com/urdu/world/2015/06/150608_iran_slik_road_sr?ocid=socialflow_facebook).

<sup>20</sup> "Iran has offered India bigger role in strategic port, says envoy," *Dawn*, July 18, 2015.

<sup>21</sup> *Express Tribune*, Islamabad, May 12, 2015.

Pakistan would bring stability to the region.<sup>22</sup>

Security experts believe that India is using Baloch insurgents against the development of the CPEC. 'One India', an Indian propaganda website reportedly managed by Indian intelligence agency RAW published an interview of Allah Nazar Baloch – leader of a Baloch insurgent group Baloch Liberation Front (BLF) which is mainly active in areas close to Gwadar including Kech, Awaran and Panjgur – early April this year. The contents of the interview revolved around allegations against Pakistan's security forces, intelligence agencies and Pak-China relations.<sup>23</sup> Analysts claimed that uploading of interview of a Baloch insurgent commander on an Indian website suggested that India had sort of links with the Baloch insurgents, which it could use in future to create security problem for the implementation of CPEC-related projects.

Others believe that despite its instantaneous protest, India will be in the long run influenced positively by the CPEC, and may wish to start or become part of similar projects of regional connectivity in the future. Chinese also think that a successful completion of the CPEC will make easy for China "to pursue India, Bangladesh and Myanmar for the East Asian corridor".<sup>24</sup>

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<sup>22</sup> "Indian not threatened by Pakistan-China economic corridor: envoy," *Express Tribune*, Islamabad, April 23, 2015.

<sup>23</sup> Mian Saifur Rehman, "RAW website hits at Pak-China corridor," *The News*, Islamabad, April 5, 2015.

<sup>24</sup> Muhammad Amir Rana, "Economic corridor challenges," *Dawn*, May 17, 2015.

