

Responding to the China-Pakistan Economic Corridor challenge

Given the challenges that China-Pakistan Economic Corridor is facing, India will need to do much more to provide an effective counter-narrative

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China-Pakistan Economic Corridor gives China a foothold in the western Indian Ocean with the Gwadar port, located near the strategic Strait of Hormuz. Photo: Bloomberg

The China-Pakistan Economic Corridor (CPEC) has been attracting a lot of attention lately and for all the wrong reasons. Pakistan has reportedly rejected China's offer of assistance for the \$14 billion Diamer-Bhasha Dam, asking Beijing to take the project out of the \$60 billion CPEC so that Pakistan can build the dam on its own. Because the project was in a disputed territory, the Asian Development Bank had refused to finance it. So China was keen to step in but Pakistan realized that the tough conditions being imposed by Beijing pertaining to the ownership of the project, operation and maintenance costs, and security of the dam would make the project politically and economically untenable. It gravitated, therefore, towards self-financing.

This was followed by differences on the use of the Chinese yuan in Pakistan along the lines of the US dollar. Pakistan had to reject this demand as well,

arguing that common use of the yuan in any part of Pakistan, exchangeable like the dollar, has to be on a reciprocal basis.

As the initial euphoria surrounding CPEC gives way to a more realistic appraisal of the costs of the project, both Beijing and Islamabad seem to be reassessing the terms of their engagement. While China is demanding greater autonomy and security in operationalizing the project, Pakistan is finding it difficult to accede to most of these demands. There are growing voices in Pakistan that China seems to be a bigger beneficiary from CPEC than Pakistan, with its modus operandi of importing goods and labour for the projects at the expense of the local market and Islamabad carrying the burden of paying interest on loans to Chinese banks way into the future.

Chinese ambassador to Pakistan Sun Weidong made it clear recently that Pakistan is not producing the goods that are needed in China. Only when Chinese companies start producing such products in Pakistan would the trade balance be rectified, according to him. This has reinforced the perception that all China wants is to use the infrastructural advancement of CPEC for the benefit of Chinese companies.

Meanwhile, China's overtures to India on joining One Belt, One Road (Obor) have continued. The Chinese ambassador to India, Luo Zhaohui, said during a recent speech that China "can change the name of CPEC" and "create an alternative corridor through Jammu and Kashmir, Nathu La pass or Nepal to deal with India's concerns". It is getting clearer by the day that the viability of CPEC requires India's participation.

India so far has steadfastly refused to participate in the Belt and Road Initiative, maintaining opposition to China's investment in CPEC, which passes through Pakistan-occupied Kashmir. India, boycotting the Belt and Road Forum in May, announced: "No country can accept a project that ignores its core concerns on sovereignty and territorial integrity." Indian foreign secretary S. Jaishankar articulated this position at the 2017 Raisina Dialogue: "China is very sensitive about its sovereignty. The economic corridor passes through an illegal territory, an area that we call Pak-occupied Kashmir. You can imagine India's reaction at the fact that such a project has been initiated

without consulting us.” Prime Minister Narendra Modi too asserted that “connectivity in itself cannot override or undermine the sovereignty of other nations”.

The long-term strategic consequences of Obor for India could also allow China to consolidate its presence in the Indian Ocean at India’s expense. China may use its economic power to increase its geopolitical leverage and, in doing so, intensify security concerns for India. CPEC gives China a foothold in the western Indian Ocean with the Gwadar port, located near the strategic Strait of Hormuz, where Chinese warships and a submarine have surfaced. Access here allows China greater potential to control maritime trade in that part of the world—a vulnerable point for India, which sources more than 60% of its oil supplies from the Middle East. What’s more, if CPEC does resolve China’s “Malacca dilemma”—its over-reliance on the Malacca Straits for the transport of its energy resources—this would give Asia’s largest economy greater operational space to pursue unilateral interests in maritime matters to the detriment of freedom of navigation and the trade-energy security of several states in the Indian Ocean region, including India.

Indian opposition has now galvanized those who remain suspicious of Chinese motives behind Obor in Pakistan as well as in the rest of the world. The West is now more vocal in its concerns and voices in Pakistan are demanding a reappraisal of the project. But India needs to do more than just articulate its opposition. It needs to provide a new template for the world on global connectivity projects. New Delhi has moved in that direction recently with an articulation of the Asia Africa Growth Corridor (AAGC). The AAGC, structured to connect East Asia, South-East Asia and South Asia with Africa and Oceania, provides a normative alternative to Obor with its promise of being more consultative and inclusive. With the AAGC, India and Japan have underscored the “importance of all countries ensuring the development and use of connectivity infrastructure in an open, transparent and non-exclusive manner based on international standards and responsible debt financing practices, while ensuring respect for sovereignty and territorial integrity, the rule of law, and the environment.”

This is a welcome first step but given the challenges that CPEC is facing, India will need to do much more to provide an effective counter-narrative.

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