Executive Summary

The China Pakistan Economic Corridor (CPEC) is one of the six main economic corridors being developed under China’s Belt and Road Initiative (BRI). Adopted in 2013, the economic corridor is meant to improve the development situation of Pakistan through investments in the energy sector, industrial areas (the SEZs), infrastructure, such as the construction of roads and railways, and the development of the deep-sea port of Gwadar. Through China’s vision of ‘mutual development for all’ and shared development goals, the CPEC has come to be known as the ‘flagship project’ of the BRI.

Despite the various challenges arising from the implementation of the CPEC, it is clear that the initiative holds great promise for the national development of Pakistan. However, the Indian government and indeed a segment of Indian policy makers and analysts assert that the CPEC is China’s device to ‘encircle India,’ and Pakistan is only a collaborator in this scheme. Pakistani policy makers, on the other hand claim that it is a ‘game changer’ and a pivot of the China-Pakistan strategic partnership. It is noteworthy that China has demonstrated enormous skill in managing territorial disputes with India, while continuing to expand their trade and commerce. In fact, India-China economic relations are booming with the volume of trade and investment estimated at over 80 billion US dollars. China-Pakistan trade and investment is less than 18 billion US dollars.

Both India and Pakistan are nuclear powers, driven by a rivalry that entails territorial disputes that are rooted in the partitioning of ‘British India’, influencing significantly Pakistan’s own ‘threat syndrome’, economic development and security policies. The Kashmir dispute, driven by conflicting claims of both India and Pakistan has complicated the nature of Indo-Pak relations. Indeed, the history and legality of the dispute is both complex and difficult to deconstruct, but has lead the two countries into wars three times since their independence in 1947. Most recently on 5th August 2019, the BJP government of Prime Minister Narendra Modi by abrogating Article 370 of the Indian Constitution that had granted special status to the state of Jammu and Kashmir, has provoked yet another crisis surrounding the status of Jammu and Kashmir. The decision was made unilaterally, avoiding any consultative or participatory processes in including any representative body of the over eight million people of Kashmir.1 Secondly, this step to scrap Jammu and Kashmir’s special status also violates international law and UN resolutions including the Security Council’s Resolution 47 of 21 April 1948, which called for a “democratic method of a free and impartial plebiscite” by both the Pakistani and Indian governments—something that has not yet taken place. Thirdly, the Simla Agreement of 1972 has also been set aside in which both Pakistani and Indian leaders (Zulfikar Ali Bhutto and Indira Gandhi, respectively) agreed to the following terms: “In Jammu and Kashmir, the line of control resulting from the ceasefire of December 17, 1971, shall be
respected by both sides without prejudice to the recognized position of either side. Neither side shall seek to alter it unilaterally, irrespective of mutual differences and legal interpretations...”

The current dispensation of Indian and Pakistani leadership suggests that the Kashmir issue will continue to strain Pakistan-India relations. Yet, one does wonder whether both nations will be able to look beyond their security-centric foreign policies and give priority to regional interdependence and economic growth?

While the CPEC may not be the solution to conflict resolution between India and Pakistan, it does provide a chance for India to reduce the opportunity cost of not engaging with Pakistan through this medium. This means increased trade and commerce, a reduction in informal/black-market trading, and greater economic growth. Currently trade between India and Pakistan stands at a mere two billion US$, this is several times less than the estimated potential. Reducing trade barriers and engaging in a mutually rewarding manner by reviewing tariff rates and exporting directly to each other (rather than through third-party countries such as the UAE) can significantly improve the trade volume between the two countries. The present study clearly shows that there is a significant number of Indian academia, policy analysts, and former civil and military officers who do not view CPEC as ‘threat’ or a ‘sovereignty issue.’ Indeed, they welcome it as a vehicle of economic interdependence and appreciation of regional and cultural links between the two countries and across South Asia.

As a first step, it is imperative that the curfew in Kashmir be immediately lifted so that, in the least, an environment of mutual respect and trust is created. In this spirit, we also recommend and encourage the international community and the government of Pakistan to demand a restoration of Articles 370 and 35-A of the Indian Constitution. No decision should be taken to alter the status of Kashmir without the consent of people living there. Furthermore, this study recommends that the CPEC could help India and Pakistan attain peace dividends in South Asia by adopting the following few steps:

1. Learning from the Chinese-Indian experience of border management and the agreements that the two countries have signed between 1993-2013, Pakistan could also pursue, similar confidence-building measures with India. China, through the CPEC can help facilitate that process, thereby gaining credibility as an effective peace builder in Asia.

2. By adopting a people-centered approach towards the development of the regions that fall under the BRI, India and Pakistan can help in boosting the positive spill-over effects of Chinese investments including in areas such as, employment, vocational skills development, labor training and technology transfer—all of which have proven to contribute towards long-term sustainable growth.

3. It might help India to see the CPEC as a business model that is apolitical and regional, rather than a bilateral diplomatic initiative between China and Pakistan. As interdependence between the India and Pakistan’s economies improve, the two can establish backward and forward linkages to complement the Chinese investments, local industries and their production network. Such linkages can closely be sewed into the CPEC framework. There is great scope for the Small and Medium Enterprises industry within this agenda, an industry that makes up a significant component of both countries’ economies. Thus, by formalizing their economic relations and facilitating greater interaction between various economic
interests and stakeholders, India and Pakistan could achieve the estimated 27 billion US$ of potential trade.  

4. The BRI, inclusive of the CPEC, has provided a novel opportunity for nations to rethink the global economic and strategic order—an innovative synergy of geo-economic factors superseding geo-political considerations is already panning out. We conclude that the CPEC remains, and must be sustained as, an economic opportunity and not a strategic challenge or threat to anyone, India included.

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1 The estimated total population of Jammu and Kashmir in India is around 12.5 million however the number of those affected by the curfew and communications blockade range from seven to eight million.