

# CPEC:

## **Macro and Micro Economic Dividends for Pakistan and the Region**



Islamabad Policy Research Institute (IPRI)



Hanns Seidel Foundation (HSF)

# **CPEC:**

## **Macro and Micro Economic Dividends for Pakistan and the Region**

**President**

Ambassador (R) Sohail Amin

**Conference Coordinator**

Muhammad Hanif

**Editor**

Sarah Siddiq Aneel

**Assistant Conference Coordinator**

Khurram Abbas



Islamabad Policy Research Institute (IPRI)



Hanns Seidel Foundation (HSF)

© Islamabad Policy Research Institute  
2017

ISBN 978-969-8721-57-2  
E-ISBN 978-969-8721-58-9

**Views and opinions expressed in the papers read and the extempore speeches made at the conference are those of the authors and speakers concerned and do not necessarily reflect IPRI's position on the respective issues.**

All rights reserved. No portion of the contents may be reproduced or reprinted in any form without the written permission of the Editor/Publisher.

**Islamabad Policy Research Institute (IPRI)**

Fifth Floor  
E. T. Complex  
Sir Agha Khan Road  
Sector F-5/1, Islamabad, Pakistan.  
Ph: +92 (0)51 9211346-9; Fax: +92 (0)51 9211350  
Email: [ipri.editor@gmail.com](mailto:ipri.editor@gmail.com)  
Website: [www.ipripak.org](http://www.ipripak.org)

**Title Design & Composed by**

Noreen Hameed

**Printed by**

Abdul Mansar Graphics  
Blue Area, Islamabad  
Cell: 0300-5601056

**Price:** Pakistan Rs. 500/-  
Foreign US\$ 10

## Contents

**Acknowledgements**

**Acronyms**

**Preface**

## PART I

**Welcome Address**

*Ambassador (R) Sohail Amin* 1

**Keynote Address**

*Mr Zhao Lijian, Charge d' Affairs,  
Embassy of the People's Republic of China, Islamabad* 4

**Concluding Address**

*Engr. Khurram Dastgir Khan,  
Federal Minister for Commerce, Government of Pakistan* 7

**Vote of Thanks**

*Ambassador (R) Sohail Amin* 11

**Recommendations** 12

## PART II

**CPEC Dividends for Pakistan**

1. **The Geonomics of CPEC**

*Dr Kamal Monnoo* 17

2. **Implications of CPEC on Domestic and Foreign  
Investment: Lack of Feasibility Studies**

*Dr Syed Irfan Hyder and Tazeen Arsalan* 36

|   |     |
|---|-----|
| <b>3. Sectoral Impacts of CPEC on Pakistan's Economy</b>  |     |
| <i>Dr Ather Maqsood Ahmed</i>   | 55  |
| <b>4. CPEC's Role in the Services Sector: Prospects for Pakistani Entrepreneurs and Workers</b>           |     |
| <i>Dr Saima Shafique</i>  | 70  |
| <b>CPEC Dividends for China and South Asia</b>  |     |
| <b>5. What Does China Get Out of the Corridor?</b>  |     |
| <i>Mr Khalid Rahman</i>   | 81  |
| <b>6. To Join or Not to Join: The Corridor Conundrum for India</b>  |     |
| <i>Dr Tughral Yamin and Mr Waseem Iftikhar Janjua</i>   | 96  |
| <b>7. Pak-China Ties with Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka: Doubling Trade Dividends</b> |     |
| <i>Dr Pervez Tahir</i>  | 119 |
| <b>8. Afghanistan and Iran: On Board CPEC's Lucrative Train</b>   |     |
| <i>Mr Syed Ghulam Qadir</i>   | 132 |
| <b>Annexures</b>  |     |
| • <b>Conference Speakers and Authors' Biographies</b>   | 155 |
| • <b>IPRI Publications</b>  | 159 |

## **Acknowledgements**

This book is based on the papers presented at the two-day National Conference on 'CPEC: Macro and Micro Economic Dividends for Pakistan and the Region' held on 20-21 September 2016 in Islamabad, Pakistan. The Conference was jointly organised by the Islamabad Policy Research Institute (IPRI) and the Hanns Seidel Foundation (HSF), Islamabad.

Given the critical importance of the subject, IPRI is thankful to Mr Kristof Duwaerts, Resident Representative of HSF, for sharing the financial expenses of the event.

We are also especially grateful to the speakers who revised their papers based on the reviews and feedback given to them under very tight publication deadlines. For his keynote address Mr Zhao Lijian, Charge d' Affaires, Embassy of the People's Republic of China in Pakistan is deeply acknowledged as well as Chief Guest Dr Mujahid Kamran, Vice Chancellor, Punjab University for delivering the inaugural address. The organisers are also indebted to Engr. Khurram Dastgir Khan, Federal Minister of Commerce who delivered the concluding address of the Conference.

Dr Salman Shah, former Finance Minister of Pakistan also presented his views as did Dr Sultan Ali Adil and Dr Jahangir Khan. However, they were unable to submit formal papers. Their presentation summaries are shared in the Preface.

The various panels saw significant attendance of scholars, students and professionals, without whom the Question/Answer sessions would not have been so thought provoking. The successful completion of the Conference also owes much to the efforts and logistical support provided by IPRI and HSF staff. ■

Organized by



ISLAMABAD POLICY  
RESEARCH INSTITUTE

**National Conference**  
**CPEC: Macro and Micro Economic Dividends**  
**for Pakistan and the Region**

September 20-21, 2016

Islamabad Hotel, Islamabad



## Acronyms

|              |   |
|--------------|---|
| <b>ADB</b>   | Asian Development Bank                      |
| <b>AIIB</b>  | Asian Infrastructure Investment Bank        |
| <b>BoI</b>   | Board of Investment                         |
| <b>BDB</b>   | BRICS Development Bank                      |
| <b>BCIM</b>  | Bangladesh-China-India-Myanmar Corridor     |
| <b>BRICs</b> | Brazil, Russia, India and China             |
| <b>CAB</b>   | Current Account Balance                     |
| <b>CARs</b>  | Central Asian Republics                     |
| <b>CAD</b>   | Current Account Deficit                     |
| <b>CBM</b>   | College of Business Management              |
| <b>CDB</b>   | China Development Bank                      |
| <b>CPEC</b>  | China-Pakistan Economic Corridor            |
| <b>EU</b>    | European Union                              |
| <b>EPZs</b>  | Economic Processing Zones                   |
| <b>FDI</b>   | Foreign Direct Investment                   |
| <b>FD</b>    | Fiscal Deficit                              |
| <b>GDP</b>   | Gross Domestic Product                      |
| <b>GoP</b>   | Government of Pakistan                      |
| <b>GGS</b>   | General Government Services                 |
| <b>HDI</b>   | Human Development Index                     |
| <b>HEC</b>   | Higher Education Commission                 |
| <b>ICAC</b>  | International Cotton Advisory Committee     |
| <b>ICBC</b>  | Industrial and Commercial Bank of China Ltd |
| <b>IoBM</b>  | Institute of Business Management            |
| <b>IPP</b>   | Independent Power Producers                 |
| <b>IRR</b>   | Internal Rate of Return                     |



|                  |  |
|------------------|--|
| <b>IT</b>        | Information Technology                               |
| <b>ITC</b>       | International Trade Centre                           |
| <b>KPK</b>       | Khyber Pakhtunkhwa                                   |
| <b>MFN</b>       | Most Favoured Nation                                 |
| <b>NTDC</b>      | National Transmission and Dispatch Company Limited   |
| <b>NAFTA</b>     | North America Free Trade Agreement                   |
| <b>NPV</b>       | Net Present Value                                    |
| <b>OBOR</b>      | One Belt, One Road                                   |
| <b>O &amp; M</b> | Operations and Maintenance                           |
| <b>PHDEC</b>     | Pakistan Horticulture Development and Export Company |
| <b>PIA</b>       | Pakistan International Airlines                      |
| <b>PKR</b>       | Pakistani Ruppee                                     |
| <b>PPP</b>       | Purchasing Power Parity                              |
| <b>PR</b>        | Pakistan Railways                                    |
| <b>PSEs</b>      | Public Sector Enterprises                            |
| <b>ROI</b>       | Return on investment                                 |
| <b>SAARC</b>     | South Asian Association for Regional Cooperation     |
| <b>SEZs</b>      | Special Economic Zones                               |
| <b>SMEs</b>      | Small and medium sized enterprises                   |
| <b>SMEDA</b>     | Small and Medium Enterprise Development Authority    |
| <b>SREB</b>      | Silk Road Economic Belt                              |
| <b>SAFTA</b>     | South Asian Free Trade Agreement                     |
| <b>SWOT</b>      | Strengths, Weaknesses, Opportunities, and Threats    |
| <b>TDAP</b>      | Trade Development Authority of Pakistan              |
| <b>USD</b>       | United States Dollar                                 |
| <b>WPO</b>       | World Packaging Organization                         |

# To Join or Not to Join: The Corridor Conundrum for India

Dr Tughral Yamin\* and Waseem Iftikhar\*\*

## Abstract

From the poor relationship existing between India and Pakistan, it is highly unlikely that the former will make a bid to join the economic corridor linking China and Pakistan within the framework of the Chinese One Belt, One Road (OBOR) policy. Political problems notwithstanding, there are obvious economic advantages that India stands to gain should it become part of this enterprise that has the potential of providing huge financial benefits to all stakeholders. Linking India with CPEC will require immense political capital and great diplomatic tact. India will have to put aside its objections to CPEC and Pakistan will have to find ways to open up transit trade with India in a manner that its goods can access CPEC highways without undue hindrance. The most obvious advantage that India will have in linking up with CPEC would be an upgraded communication infrastructure and easy access to markets in Central Asia and beyond. Hopefully such collaboration would lessen tensions in the region and bring more prosperity to its people. The purpose of the paper is to highlight the economic advantages that India will reap by investing in CPEC.

## Introduction

CPEC is part of the larger Chinese economic strategy based on inter- and intra-regional connectivity. The vision of building a Silk Road economic belt and Maritime Silk Road was developed

---

\* The author is the founding member and Associate Dean of the Centre for International Peace and Stability (CIPS) at the National University of Sciences and Technology (NUST) in Pakistan.

\*\* The co-author is a PhD Scholar at the Centre for International Peace and Stability (CIPS), National University of Sciences and Technology (NUST) in Islamabad, Pakistan.

by the Chinese National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce (NDRC 2015). With five layers of connectivity including policy, physical, economic, financial and human, the concept aspires to revive the once vibrant Silk Route connecting ancient civilisations of Asia, Africa and Europe. Marked by the theme of peace, development, cooperation and mutual benefit, the idea of building the Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road (also known as One Belt, One Road or OBOR) was proposed by President Xi Jinping in 2013 during his visit to Central and South Asia (FMPRC 2013).

The concept of Belt in OBOR has a northern dimension as shown in Figure 1 (Rudolf n.d.). Originating from Xian in central China, it goes through Central Asia, with one branch going through Kazakhstan, and the other one through Mongolia, linking up with Trans-Siberian Railway, only to branch off again with one artery going to Moscow, another one to Rotterdam in Netherlands and a third one to Venice in Italy. The geostrategic nature of this road encompasses a system of highways, rail links, oil and gas pipelines along with other infrastructural projects. There is a maritime dimension to it consisting of a series of ports and allied maritime infrastructure. Originating from Eastern China, meandering through South China, South East Asia, South Asia, the Gulf, East Africa, the maritime silk route passes through the Mediterranean, terminating at ports in Mombasa (Kenya), Piraeus (Greece), Venice (Italy) and northern European port of Rotterdam in The Netherlands. Besides these major economic corridors, a number of linking loops have been planned to connect Belt and Road. In this complex maze of OBOR, Gwadar Port plays the role of a lynchpin. Within this maze of über-connectivity, there exists a gaping hole and that is the absence of any or very little links between Pakistan and India. CPEC promises to bridge this gap and create a net of dependencies that can auger well for the two countries.

**Figure-1**  
**One Belt, One Road - The Silk Road**



Source: Rudolf n.d.

## Theories of Dependencies

Within the existing corpus of international relations and economics, two theories make a case for linking economies to improve foreign relations. The first one is the theory of Complex Interdependence that suggests that the fortunes of states are inextricably tied together through the instrument of economy and trade. Robert Keohane and Joseph Nye were the foremost advocates of this theory in the realm of international relations.

The second theory was propounded by Thomas Friedman in his book *Lexus and the Olive Tree*. In his theory of the Golden Arches, Friedman suggested that rapid globalisation has decreased the chances of war. He gave the example of the Mcdonald franchise. Characterised by its iconic golden arches, Friedman suggested that no two countries with the Mcdonalds international chain have gone to

war (Friedman 2000). As an economist Friedman's panacea for preventing conflict was to become part of the globalised world. Unfortunately, these theories of dependencies have eluded India and Pakistan because they continue to examine their mutual relations with suspicion and mistrust.

### **One Belt, One Road (OBOR)**

OBOR involves almost 60 per cent of the world population (4.4 billion people), with one third of the global collective wealth and a GDP of USD 21 trillion (Rolland 2015). This grand initiative involves 60 countries and links three continents. Extending from Pacific to the heart of Europe, it is predicted to generate USD 4 trillion in investment over the next three decades and draw in countries that account for 70 per cent of world's energy reserves (Luft 2016). According to Zhang Gaoli, the first Vice Premier of China and head of the group piloting this project, the main objectives of the OBOR are:

- Enhancing policy coordination across the Asian continent
- Trade liberalisation
- Financial integration
- Connectivity, including people-to-people links (Saran 2015).

China's grand economic strategy for the 21<sup>st</sup> Century involves creation of six economic corridors:

- New Eurasian Land Bridge
- China – Mongolia – Russia Corridor
- China – Central Asia – West Asia Corridor
- China – Indochina Peninsula Corridor
- China – Pakistan Economic Corridor
- Bangladesh – China – India – Myanmar Corridor (Ge, Christie and Astle 2016).

India is also investing in transnational infrastructure plans such as BCIM (Bangladesh, China, India, and Myanmar). The path of this corridor is shown in Figure 2. It is worth noting that that this route passes through troubled Eastern India.

**Figure-2**  
**BCIM (Bangladesh, China, India, and Myanmar)**



Source: Hasib 2015.

### **Indian Dilemma**

Geopolitical scholars tend to make their analysis through the lens of economy and strategy (Cohen 2015). In this context, it is pertinent to note that traditionally in the Western Hemisphere, America dominates the North Atlantic and North Pacific Ocean – a maritime realm around European Union. A land-based Eurasian region is dominated by Russia. OBOR initiative by China has altered this notion significantly. Economic space will now have to be shared between the traditional contestants. While China has clearly stated this to be an integrative and inclusive initiative, some nations will certainly view it with a degree of suspicion. India is no exception. With such large capital and political investment, China has little option for India to exert itself as a regional competitor.

Indian policy-makers have expressed their concerns about this project. In a conference organised by Indian Ministry of External Affairs and think-tank Observer Research Foundation, held in New Delhi in March 2016, Indian officials openly expressed their suspicions and worries about the Chinese initiative of such large proportions. In

her speech stating the challenges and opportunities for India, at this forum, Indian External Affairs Minister Sushma Swaraj without mentioning China stated that such projects involving inter-connectivity should not be undertaken unilaterally. Instead it should be based on a spirit of cooperation, after creating an environment of trust and confidence (Swaraj 2016). India continues to see OBOR primarily as a Chinese initiative and has complained about not being engaged in extensive dialogues on the issue. Speaking at another public forum in Singapore, Indian Foreign Secretary Subrahmanyam Jaishankar expressed his concerns by stating that one could not ignore that initiatives with regional and international scope have national interests embedded in them. Therefore, he would like greater consultations with India on this subject, which had not happened thus far.

Besides many other issues hindering Indian acceptance of this inevitable reality, a major issue is that by enthusiastic involvement in the OBOR project, India would implicitly accept Pakistan's claim on portions of Kashmir that CPEC passes namely the Gilgit-Baltistan region. India is also wary of the Chinese presence and influence in the Indian Ocean, thereby shrinking space for larger Indian designs to remain a key player partnering with USA to counter China. For the same reason, India has shown its skepticism to allow Chinese-led Asian Infrastructure Investment Bank to smoothly finance OBOR projects (Krishnan 2016).

Confusion persists in Indian policy quarters, whether to view OBOR as an opportunity or as a challenge. There have been suggestions to tick both boxes and move on because there has been no worthwhile decision in this regard by Indian policy-makers (Saran and Passi 2016). Foreign statesmen friendly to India insist that their country stands to benefit by linking up with the neighbours through the Chinese connectivity regime. Prominent among those suggesting such a course of action are former Presidents of Sri Lanka and Afghanistan Chandrika Kumaratunga and Hamid Karzai (Madan 2016). It is a difficult decision for India to make. India is suspicious of the growing Chinese influence on smaller countries in its neighbourhood. Its current position is to prevent the Chinese from doing so.

China, on the other hand, wants India to join various regional ventures e.g. it has welcomed both India and Pakistan into the Shanghai Cooperation Organization (SCO). Chinese officials have held talks with their Indian counterparts at different forums in order to engage with them and to dispel their worries and explain China's good intentions encompassing their entire economic progress strategy for the region. Nonetheless, India eyes all this activity with suspicion. Simultaneously, USA is investing in India in order to balance out the expanding Chinese economic initiative.

For China, involving more than 60 countries in a mega project involves a great deal of diplomacy and capital investments to outbid any potential competition by a single nation or a combination of countries. In January 2016, Iran was the first port of call as President Xi Jinping of China embarked on a tour of the Middle East. The timings of the visit were significant because Iran had just come out of a debilitating sanctions regime. In a clear display of impartiality and peace for all, he proceeded to Saudi Arabia and Egypt.

There has been abundant criticism of the Chinese project from USA and that could be one possible reason for Indian indifference to this initiative. Some China watchers in USA have made light of the Chinese move as a publicity stunt to depict itself as a benevolent power, and to add gloss to the legacy of Xi's legacy, as he struggles to control his unwieldy country (Luft 2016).

India has a lot to level up with China, as shown in Table 1 i.e. it had the largest trade deficit with China amounting to over USD 48 billion in 2014-15:

**Table-1**  
**Top 5 Trade Partners of India (2013-14)**

| Rank | Country       | Exports    | Imports    | Total Trade | Trade Balance |
|------|---------------|------------|------------|-------------|---------------|
| -    | All Countries | 310,338.47 | 447,964.38 | 758,301.08  | -137,625.92   |
| 1    | China         | 11,934.25  | 60,413.17  | 72,347.42   | -48,478.91    |
| 2    | United States | 42,448.66  | 21,814.60  | 64,263.26   | 20,634.05     |
| 3    | UAE           | 33,028.08  | 26,139.91  | 59,167.99   | 6,888.17      |
| 4    | Saudi Arabia  | 11,161.43  | 28,107.56  | 39,268.98   | -16,946.13    |
| 5    | Switzerland   | 1,068.58   | 22,133.16  | 23,201.74   | -21,064.58    |

Source: Government of India n.d.



India is already using Sri Lankan ports developed by China (Samaranayake 2015). However, in order to redraw its lines of economic benefit and influence, India needs to think long-term and act short-term.

### **India's Economic Aspirations**

India has been working hard on increasing its domestic economic outlook as well as inviting foreign investments. To this end, it has developed multiple bilateral and multilateral economic alliances within the immediate region and beyond. Besides affording India a reasonable degree of economic advantage, it has accrued multiple political and commercial advantages. The general trend of Indian economic activity gives the drift of its aspirations and ambitions. Some of these tendencies have been identified as excluding Pakistan and concluding bilateral and multilateral treaties with other countries of the region:

#### ***Indian Ocean Rim Association (IORA)***

India is very possessive about the Indian Ocean. It considers it its preserve. Pakistan has been kept out of this association. The Indian Ocean Rim Initiative was launched in March 1995, and the creation of the Indian Ocean Rim Association (then known as the Indian Ocean Rim Association for Regional Co-operation) two years later, in March 1997. IORA has currently 21 Member States and seven Dialogue Partners, including countries as far away as South Africa and Australia. This organisation has been created with a view of undermine the potential influence of SAARC.

#### ***Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)***

BIMSTEC is the second initiative that excludes Pakistan. It joins countries of South and South East Asia. These are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

### ***Chabahar Port Project***

The Modi government has promised to invest a sum of USD 500 million in the Iranian port of Chabahar. The India - Afghanistan - Iran agreement of trade through this port can actually benefit both India and Pakistan through the Chabahar - Gwadar connection (Sachdeva 2016). Many in Pakistan interpret this as a bid to belittle the Pakistani port of Gwadar. At the highest official levels the feeling is different. Pakistan would like Chabahar - Gwadar to develop as sister ports (ANI 2016). This concept was proposed by Balochistan Chief Minister Nawab Sanaullah Zehri in a meeting with the Iranian delegation (Zafar 2016). At a recent UN summit, Iranian President Rouhani had assured the Pakistani Prime Minister that the Chabahar Port is not meant to rival Gwadar but to complement it. There is already a proposal to link the Iranian port with the Pakistani port through a railway line.

### ***International North - South Transport Corridor (INSTC)***

INSTC was proposed in 2012 to enhance trade and transportation between the Central Asian States, Russia, Iran and India. As shown in Figure 3, the hub of activities will be the port of Bandar Abbas (Dikshit 2012). While the timing was not good from the Iranian point of view at that time because it was heavily sanctioned by USA and the European Union etc., the proposed agreement took place despite US pressure.

**Figure-3**  
**INSTC**



***Mekong – Ganga Project***

India's Look East policy is symbolised by a number of ventures. Arndt has stated in his 2013 book *India's Foreign Policy and Regional Multilateralism* that India seeks cooperation for economic development beyond South Asia and its immediate neighbours. Mekong – Ganga project is one such example which involves the nations of Ganga and Mekong Rivers. This project has been ongoing since November 2000. For the development of tourism, culture, transportation and education, India has partnered with Thailand, Myanmar, Cambodia, Laos and Vietnam. Multiple meetings are held on regular basis to promote and continue the cooperation.

### ***Project Mausam***

Indian maritime project *Mausam* (literal meaning season or weather) derives its name from age-old traditional maritime trade practices. In pre-modern times, sailors moving west from Indonesia etc. heading to Africa, and the Middle East and others moving towards the eastern edge, made use of the so-called trade winds blowing steadily towards the equator from the north-east in the northern hemisphere or the south-east in the southern hemisphere. In an effort to reach their destination, they used to stop at Indian ports to wait for the next monsoon with a new crew to sail to the other side (Pillalamarri 2014). This allowed sailors to reside in India, conduct business and exchange culture. Project *Mausam* is an effort to revive that old cultural and trade practice. China's new proposed maritime route envisions Gwadar as a trade hub, allowing other nations to utilise existing and newly developed infrastructure. The India project seems to fit into this option and increase its economic activity on the ocean front.

### ***Regional Comprehensive Economic Partnership (RCEP)***

This is a free trade agreement (FTA) between ten member states of ASEAN (Brunei, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and the six states with which ASEAN has existing FTA relationship (Australia, China, India, Japan, South Korea and New Zealand). As trade intensifies under this agreement, India fears that China, being better placed economically and in a position to use this integration to its advantage, might start arm twisting other nations. In any FTA venture, countries need to pay attention to tariff barrier reduction, impact of FTA non-trade issues such as labour and the environment. Finally, an FTA can only flourish and benefit a nation if special attention is paid to medium, small and micro enterprises and regulations are updated accordingly. China is best placed in this regard with abundance of production (at times production overflow and reduced consumption) and desirably lesser markets – a major driving factor behind OBOR. India has a long way to go in its domestic industrial capacity building to be able to compete with China. This forum is also viewed as an alternative to the

Trans-Pacific Partnership (TPP) in which India and China are not included. According to *The Economic Times*, multiple rounds of negotiations have been held so far making improvements on issues of contention.

### ***Asia Pacific Economic Cooperation (APEC)***

For years, India has been struggling to be part of the forum comprising rim of 21 Pacific nations. This forum has clearly refused to allow India in for multiple reasons, the major one – India is not part of the Pacific Rim. Due to immense economic activity involving few major economies of the world, India has (unsuccessfully thus far) been aspiring and pushing for membership as late as June 2016 (Business Standard 2016). The forum on the whole has been a target of criticism as well (Gerhardt 2011). The forum for promotion of free trade infringes on national and local laws which regulate and promote labour rights (usually absent and appalling in India), environmental protection and safe and affordable access to medicine (debatable issues in case of India).

### ***Eurasian Economic Union (EAEU)***

Russia, Kazakhstan and Belarus formed this economic union in 2014. Some view this as a Russian effort to counter balance the economic impact of EU and USA in the region (Hauslohner 2014). Russia has joined the Chinese OBOR initiative and will capitalise on already existing trade pacts such as this one. In face of US sanctions against Russia, this has been a robust initiative on Putin's behalf. India opened negotiations aspiring to join EAEU in July of 2015 (India Briefing 2015). Indian aspirations to make EAEU-India a free trade zone can get a major economic boost if the country joins OBOR/CPEC projects.

### ***Shanghai Cooperation Organization (SCO)***

SCO is the joint initiative of China and Russia to basically address counterterrorism issues, but it has ventured into the fields of economics as well. China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan are members of this organisation, while Pakistan and India have been

principally added to the forum (AFP 2016). This forum provides an excellent opportunity for India to link up with Pakistan and Central Asia. Perhaps it can become a platform for India to eventually join OBOR.

### ***South Asian Association for Regional Cooperation (SAARC)***

Unlike other regional organisations, SAARC has failed to realise its full potential. It has been marred by very high political and very low economic activity due to traditional rivalry between India and Pakistan. The organisation involving eight South Asian nations of Pakistan, Afghanistan, India, Bangladesh, Bhutan, Sri Lanka, Maldives and Nepal, has failed on one of the major goals to achieve economic integration. Bilateral politics has fostered creation of smaller groups within the larger SAARC region such as the South-Asian Sub Regional Economic Cooperation (SASEC) including Bhutan, Bangladesh, Nepal and India. Another such group is BIMSTEC (Yamin 2013). These platforms aspire to achieve a free trade zone by 2017.

SAARC capacity to boost any trade or economic relationship has been visible by failure and non-implementation of terms adapted under South Asia Free Trade Agreement (SAFTA) in 2006. A major goal of SAFTA has been to make the region a Free Economic Trade Zone by 2020, a rather long shot given existing relationships. Indian involvement in CPEC as a trading partner will certainly be an immense lift to all these and many other existing treaties and organisations.

### ***India – Pakistan Trade***

Historically, trade between both neighbours has been low or insignificant because of poor relations. Immediately after Partition, trade almost stopped. The 1965 War brought another low in bilateral relations. Another dip in activity was observed after the Indian Parliament attack of 2001 and yet another was seen in 2013 due to cross-border exchange of fire. Currently, India and Pakistan are again experiencing a deep freeze in their economic relations.

Overall trade relations between the two have remained far from substantial. In 2012–13, total trade amounted to USD 2.4 billion which is a fraction of total business they conduct around the globe

(Kumar n.d.). Transit trade has limited Pakistan's use of Indian land for trading with Nepal, Sri Lanka, and Bangladesh, while India's ability to access Afghanistan through Pakistan has been limited by reciprocal hindrance. While India granted Most Favoured Nation (MFN) status to Pakistan in 1996, the favours Pakistan could receive have been seriously limited because of excessive tariffs, unnecessary delays at check points and other political reasons. Pakistan is yet to reciprocate the status of MFN to India. Immense potential in trade of textiles, automobiles, IT, health and entertainment has been identified if trade is allowed to be liberalised.

CPEC is a golden opportunity for India to tap the 180 million consumer market in Pakistan, while the latter can access almost 1.2 billion buyers. Such trade and bilateral dependence will certainly benefit both nations. Indian envoy Gautam Bambawale has expressed eagerness to conduct business with Pakistan (Siddiqui 2016). While the timings of such gestures match perfectly with India on the defensive due to its brutalities in Kashmir being internationalised and pressure being intensified globally by Pakistan, desire for genuine economic cooperation cannot be completely ruled out.

### **CPEC Advantages for India**

As mentioned above India is eager to join RCEP and APEC for the reasons of robust economic activity, simultaneously it refuses to give space to the Chinese initiative as a whole and more specifically to CPEC. While India is willing to give up some of its domestic laws and economic liberties aspiring to join other fora, it refuses to do same in case of CPEC. It needs to consider advantages that it can accrue by joining.

India's geographical location and territorial expanse is ideally suited for enhanced connectivity through modern communication infrastructure in which it may not have to invest much. Using the newly conceptualised CPEC project, India can have faster, cheaper and increased access to Afghanistan, Central Asia, China and Middle East.

Iran – Pakistan – India Pipeline will be completed on Chinese expense and will benefit India both economically as well as politically in regional affairs. China – Iran railway project further extended to

link with CPEC would allow India to connect to Iran increasing bilateral trade and geopolitical cooperation. The China – Iran railways' expense will be borne by China so India would hardly need to make huge investments on this link. Moreover, India has been aspiring to extend its rail link with Iran but has been unable to do so due to resistance from Islamabad.

India can use Chinese influence over Pakistan effectively and expand its trade activity westwards. Due to heavy Chinese investment in Pakistan through CPEC and the existing political goodwill, China is in an influential position to alter the Pak-India economic equation. This will certainly benefit both economically as well as politically.

The existing economic reckoning involving Asia – EU activity is likely to be intensified. By joining the CPEC enterprise, India in collaboration with China can significantly alter the existing Asia – EU trade activity and secure a greater portion of the EU economic pie. This is also likely to modify dependence and power shift from existing US-EU relations in favour of a stronger EU-Asia economic alliance.

Russia, a traditional Indian partner is integrating into OBOR. With the realisation that the Chinese project will benefit the larger Asian continent, they have allowed the linkages with Trans-Siberian railway, Moscow and passage deep inside the EU. Existing Russian-Indian partnership can further strengthen through active Indian involvement in the project, economically benefitting them and the neighbourhood. Moreover, closer Russia-China-Pakistan ties are not a beneficial scenario from Indian point of view and would only drive India further away from Russia while Pakistan seizes the opportunity to strengthen its new-found bond with the latter.

Increase in Indian-Afghan trade relationships by using CPEC instead of bypassing Pakistan is obviously a better option. By safeguarding their vital national interests, both India and Pakistan would be very well placed economically if such a venture materialises. Economic dependence and involvement of other nations could certainly bar both nations from frequent military stand-offs or other such misadventures.

India should not sit silent as China invests in Pakistan, Sri Lanka, Myanmar, Bangladesh and its other neighbours. Resistance to



this call (and Chinese invitation) would only harm and to some extent isolate India economically. The sole reason that since CPEC passes through what the Indians claim to be Pakistani occupied Kashmir is insufficient for India to miss such a robust economic option. Moreover, India cannot allow unchecked Chinese influence to increase with its traditional South and South East Asian partners.

USA has been investing in India on nuclear, political, economic and military fronts for over a decade now in order to harness Chinese influence. There has been an increase in this indirect economic advantage to India since announcement of CPEC. However, OBOR involves more than USD 200 billion to be invested by AIIB (Luft 2016). USA has no plans to match such investments in India alone. While USA continues to support Indian influence in the region to keep a check on China, they would certainly not want India to become too big for its boots. India needs to realise this aspect and joining the Chinese venture would be an economically viable option.

Indian Prime Minister Modi's flagship *Project Mausam*, can seamlessly be integrated into Chinese maritime dimension of the OBOR. Building on the ports being developed by China, India can significantly add on to maritime trade through its proposed enhancement and improvement of Andaman and Nicobar Island ports. This will allow the South East Asian maritime economic flow to benefit India and others participating in OBOR. Pakistani deep seaport of Gwadar can further enhance Arabian Sea linkages.

Using Gwadar Port, India can transport its goods to Iran, Afghanistan, China and Central Asian markets which are a much more economically viable option than the existing means of transportation. The only reason that India does not want Pakistan to benefit in the economic field is a short-sighted approach and will only harm Indian economic interests.

The Digital India programme (Indian Express 2015) can benefit significantly from fibre optics linkages being developed through CPEC and within the larger gambit of OBOR. These linkages are going to significantly add on to the existing undersea cables with enhanced speed and connectivity between Asia and Europe. It reduces the dependence on limited means of digital communication and provides

alternative means of faster broadband connections, something India can not afford to miss.

'Fragile Five' is a term coined by a researcher from Morgan Stanley for economies that have been too dependent on skittish foreign investment to finance their growth ambitions. These countries include Turkey, India, Indonesia, South Africa and Brazil (Thomas 2014). India has been desperate to shed this impression and wants large-scale direct foreign investment and sale of its goods and services. In yet another step to promote manufacturing within India and allowing enhanced foreign investment, Prime Minister Modi announced the 'Make in India' project. The project is designed to transform India into a global design and manufacturing hub, it has been a response to the lowest levels of growth rate in Indian economy when Modi took office. By linking up with OBOR infrastructure, India will be better placed to link with developed economies of Europe transporting goods and services much faster and cheaper. Delinking border tensions with Pakistan and China, India can capitalise on this opportunity to expand its economy.

India cannot compete with China in developing its offshore assets as well as infrastructure in countries doing business with the former. However, its aspirations of being dominant in the Indian Ocean are being curtailed to a great extent by Chinese investment in BCIM, and smaller nations such as Maldives. By being an active part of OBOR, India can safeguard its interests better rather than remaining out of it. It will also have better prospects to negotiate its existing maritime influence in the Indian Ocean with China. Instead of placing all its eggs in the American basket, India should consider China as a reliable trading partner instead of a hostile competitor. Development of Andaman and Nicobar Islands within the framework of Project Mausam can certainly be a positive step towards alternate entry point ports into Indian sphere of influence.

Indian involvement in the affairs of immediate Chinese neighbours dates back years, as is clearly visible in the Mekong–Ganga Project. By becoming part of the OBOR initiative, India will gain even more economically by utilising the existing institutional and cooperation infrastructure. Chinese BCIM and China – Indochina Peninsula Corridor,

both amply cover the region and are open for Indian engagement. Economic benefits accrued would only enhance if they decide to give up the egocentric approach and shake hands with China.

The Chabahar–Gwadar connection will definitely enhance trade activity between Iran and Pakistan. While, some analysts have viewed India–Iran–Afghanistan trade deal through Chabahar as a counter measure to CPEC (Sachdeva 2016), the fact remains that both cannot be compared due to the investment disparity. However, there has been a realisation in Indian quarters that geoeconomics of CPEC project and linking it with Chabahar will only improve economic activity and India should not miss this opportunity. To be economically and strategically viable Chabahar and Gwadar will have to be eventually linked. Even if India refuses to utilise CPEC, China remains the largest trading partner in the region.

Yet another reason for India to gain economically would be linking INSTC to CPEC through Iran. India over the years has developed multiple trade and economic ventures and some of them are still under discussion. Prime Minister Modi in his speech at SCO meeting in Ufa, Russia had expressed his interest in lending support to improving transportation and communication networks in the region. He envisioned the creation of a vast network of physical and digital connectivity extending from Eurasia's northern corner to Asia's southern shores. He suggested that INSTC was the right step in that direction (Roy 2016). Modi's interest in improving the INSTC connectivity should convince Indians to tap into a more supportive CPEC. If the Afghanistan–Pakistan Transit Trade Agreement (APTTA) is opened to India it will be an economic boon for regional countries. In any case, there is a proposal to extend APTTA upto Tajikistan (Sachdeva 2016). Pakistan obviously needs to guard its own national interests before opening APTTA to India. It also needs to demand reciprocity for doing transit trade with Nepal and other countries.

China has roaring bilateral relations with India upto a tune of nearly USD 80 billion, but the balance of trade is heavily tilted in favour of China. It has border disputes with India which it tends to downplay. In fact, China will be more than happy to let India connect with CPEC. In the words of Chinese scholar Hu Weijia:

The CPEC is not a zero-sum game where Pakistan gains and India loses. If economic cooperation between China and Pakistan can improve infrastructure in the region, including in the Kashmir area, India will have an opportunity to expand trade routes to Central Asia (Weija 2016).

## **Conclusion**

Interdependence has eluded Pakistan and India, however, this is not to say that it is not possible. Mega projects in the nature of OBOR and CPEC, by virtue of their size can bring together odd bedfellows. Inclusion in the project will accrue economic benefits for India that have otherwise been stalled due to weak political will, absence of requisite funding, sluggish progress on building and improving infrastructure etc. In this case, China is serious in building six economic corridors and multiple maritime structures through OBOR. India seemingly has little options but to join in. Development of infrastructure in all directions bypassing India will only limit its economic space and a wise option for its policy-makers would be to think strategically and act immediately.

## **References**

AFP 2016, 'India, Pakistan Edge Closer to Joining Sco Security Bloc', *The Express Tribune*, 24 June.

ANI 2016, 'Pakistan May Link Gwadar with Chabahar: Sartaj Aziz', *The Financial Express*, 27 May.

APEC n.d. 'Member Economies', accessed 6 January 2017, <<http://www.apec.org/about-us/about-apec/member-economies.aspx>>.

Business Standard 2016, 'APEC Membership for India, Important in PM's Talks with Obama: Arvind Panagariya', *Business Standard*, 2 June.

Cohen, S.B. 2015, *Geopolitics: The Geography of International Relations*, Rowman & Littlefield, USA.

Dikshit, S. 2012, 'Despite US Opposition, Iran to Be Transport Hub for North-South Corridor', *The Hindu*, 31 May.

FMPRC 2013, 'President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries', Foreign Ministry People's Republic of China, 9 September, <[http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpfwzysiesgjtfhshzzfh\\_665686/t1076334.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml)>.

Friedman, T. L. 2000, *The Lexus and the Olive Tree*, Random House Inc. New York, USA.

Ge, I. Christie, A. Astle, J. 2016, 'A Role for UK Companies in Developing China's New Initiative', China British Business Council, <[http://www.cbbc.org/cbbc/media/cbbc\\_media/One-Belt-One-Road-main-body.pdf](http://www.cbbc.org/cbbc/media/cbbc_media/One-Belt-One-Road-main-body.pdf)>.

Gerhardt, T. 2011, 'America's Pacific Century?: Apec Summit in Hawaii Seeks to Implement Free Trade Agreement of the Asia Pacific Region', *Common Dreams*, <<http://www.commondreams.org/views/2011/11/11/americas-pacific-century-apec-summit-hawaii-seeks-implement-free-trade-agreement>>.

GoI n.d. 'Export Import Data Bank', Ministry of Commerce and Industry, Department of Commerce, Government of India, accessed 6 January 2017, <<http://commerce.nic.in/eidb/default.asp>>.

Hasib, N.I. 2015, 'China Unveils Plans on Building Silk Road Economic Belt, 21st-Century Maritime Silk Road', *BD News24*, <<http://bdnews24.com/economy/2015/03/31/china-unveils-plans-on-building-silk-road-economic-belt-21st-century-maritime-silk-road>>.

Hauslohner, A. 2014, 'Russia, Kazakhstan, Belarus Form Eurasian Economic Union', *The Washington Post*, 29 May.

India Briefing 2015, 'India Opens Talks with Eurasian Economic Union over Free Trade Agreement', 11 July, <<http://www.india-briefing.com/news/india-opens-talks-eurasian-economic-union-free-trade-agreement-10998.html/>>.

Indian Express 2015, 'Digital India Week: Digital Locker, Mygov.In, and Other Projects That Were Unveiled', *Indian Express*, 5 July.

IORA n.d. 'Indian Ocean Rim Association', accessed 7 January 2017, <<http://iora.net/default.aspx>>.

Keohane, R.O. and Nye, J.S. 2012, *Power and Interdependence*, Fourth Edition, Longman, USA.

Krishnan, A. 2016, 'The Dragon Raises a Lair: India Backs the China-Led Superbank', *India Today*, 20 January.

Kumar, R. n.d. 'India-Pakistan Trade Relations: Current and Potential', Jinnah Institute, Pakistan, accessed 7 January 2017, <<http://jinnah-institute.org/india-pakistan-trade-relations-current-and-potential/>>.

Luft, G. 2016, 'China's Infrastructure Play: Why Washington Should Accept the New Silk Road', *Foreign Affairs* 95, no. 5 (Sep.- Oct.).

Madan, T. 2016, 'What India Thinks About China's One Belt, One Road Initiative (but Doesn't Explicitly Say)', 14 March, Brookings Institution, USA, <<https://www.brookings.edu/blog/order-from-chaos/2016/03/14/what-india-thinks-about-chinas-one-belt-one-road-initiative-but-doesnt-explicitly-say/>>.

Michael, A. 2013, *India's Foreign Policy and Regional Multilateralism*, Palgrave Macmillan, UK.

NDRC 2015, 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road', National Development and Reform Commission, People's Republic of China, <[http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html#](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html#)>.

Pillalamarri, A. 2014, 'Project Mausam: India's Answer to China's "Maritime Silk Road"', *The Diplomat*, 18 September.

Rolland, N. 2015, 'China's New Silk Road', National Bureau of Asian Research, 12 February, <<http://nbr.org/research/activity.aspx?id=531>>.

Roy, M.S. 2016, 'International North-South Transport Corridor: Re-Energising India's Gateway to Eurasia', 18 August, Institute for Defence Studies and Analyses, India.

Rudolf, M. n.d. 'One Belt, One Road: The Silk Road', Mercator Institute of China Studies, accessed 8 January 2017, <<http://www.merics.org/en/merics-analysis/infographicchina-mapping/china-mapping.html>>.

Sachdeva, G. 2016, 'India and Pakistan Can Both Benefit from Chabahar', *Hindustan Times*, 1 June.

Samaranayake, N. 2015, 'India's Key to Sri Lanka: Maritime Infrastructure Development', *The Diplomat*, 31 March.

Saran, S. Passi, R. 2016, 'Seizing the 'One Belt, One Road' Opportunity', *The Hindu*, 2 February.

Saran, S. 2015, 'What China's One Belt and One Road Strategy Means for India, Asia and the World', *The Wire*, 9 October, <<http://thewire.in/12532/what-chinas-one-belt-and-one-road-strategy-means-for-india-asia-and-the-world/>>.

Siddiqui, B. 2016, 'Forget Kashmir, Let's Talk Trade: Indian Envoy', *The Express Tribune*, 6 September.

Swaraj, S. 2016, 'Speech by External Affairs Minister at the Inauguration of Raisina Dialogue in New Delhi', Ministry of External Affairs, Government of India, <[http://www.mea.gov.in/Speeches-Statements.htm?dtl/26432/Speech\\_by\\_External\\_Affairs\\_Minister\\_at\\_the\\_inauguration\\_of\\_Raisina\\_Dialogue\\_in\\_New\\_Delhi\\_March\\_01\\_2016](http://www.mea.gov.in/Speeches-Statements.htm?dtl/26432/Speech_by_External_Affairs_Minister_at_the_inauguration_of_Raisina_Dialogue_in_New_Delhi_March_01_2016)>.

The Economic Times 2016, 'RCEP Talks: Chief Negotiators to Meet on July 18-19 in Jakarta, Tariff Talks on Agenda', *The Economic Times*, 3 July.

Thomas, L. Jr. 2014, "'Fragile Five' Is the Latest Club of Emerging Nations in Turmoil", *The New York Times*, 28 January.

Weijia, H. 2016, 'India Should Adopt an Open Attitude toward the China-Pakistan Economic Corridor', *Global Times*, 16 August.

Yamin, S. 2013, 'Regional Peace in South Asia through Economic and Security Alliances', Center for International Peace and Stability, National University of Sciences and Technology, Islamabad, Pakistan.

Zafar, M. 2016, 'Gwadar, Chabahar to Be Made "Sister Port Cities"', *The Express Tribune*, 12 January.■