

# THE SINO-PAKISTANI TRADE AND INVESTMENT RELATIONS

*Dr. Ahmad Rashid Malik*

## **Abstract**

*Pakistan and China enjoy a cordial relationship over the years. However, economic relations such as trade and investment remained relatively low and they do not commensurate with the level of their strategic understanding on global and regional matters. There is an urgent need to significantly upgrade their economic relations. Pakistan needs drastic structural changes in trade and investment pattern. The country must devise strategies to attract mammoth amount of Chinese global investment, which will increase to US\$ 5.2 trillion by 2020. The new Chinese leadership has been balancing its relations with other South Asian countries to create a much favourable environment for an expanded trade and increasing investments. This will also lower down political tension in the region. The recent transfer of Gwadar Port by Pakistan to China should be seen in increasing trade and investment ties between the two countries and in the much larger economic perspective of South Asia and the Gulf.*

## **Introduction**

Pakistan's relations with China are of considerable importance. Both countries have emerged as strategic partners by the early 1950s. It is also interesting to note that the foundation of this relationship was developed during the high Cold War tension across Asia. During this period both countries further softened their ties with much deeper strategic thinking on many diverse and complicated issues. It is also a relationship to see how ideologically and culturally different nations could build a lasting model of friendship.

The mutual and highly beneficial relationship between Pakistan and China faces many challenges. This situation has

not only been generated out of diverse opinions and views that China has developed with other nations in the region, it is also because of emerging convergence and cooperation between many of these nations and China. Both China and Pakistan need to re-shuffle their mutual priorities to deal with a number of the emerging challenges in the region. Pakistani policy-makers must evaluate the emergence of the new Chinese leadership and their strategic, political, and economic policies. This will help to frame a much pro-active policy towards China. In the prevailing circumstances, strategic partnership between them must become an economic relationship. Bilateral trade needed to be expanded. Investments are in the initial stage. Gwadar Port transfer to China has been generating new economic opportunities.

This paper will look at the patterns of bilateral trade between Pakistan and China over the years. Trade relationship, however, does not commensurate with the level of political and diplomatic understanding between the two countries. The paper will also highlight China's trade with South Asia to analyse the significance of bilateral trade between Pakistan and China. More than the trading constraints, Chinese investment in Pakistan also presents a dismal situation for a number of reasons which has been dealt in this paper. Nevertheless, it has been realised that the transfer of Gwadar Port to a Chinese port and shipping company will greatly enhance the existing trade and investment between the two countries.

### **Expanding Bilateral Trade**

Trade can foster better understanding between nations. Like-minded countries could even use their bilateral trade as a useful strategic tool to promote relations. Adversaries can decrease the level of mutual hostility by promoting bilateral trade. However, even a highly structured bilateral trade could lead to disputes and frictions among partners like United States and Japan and United States and China, for instance. United States accuses both Japan and China for using unfair means of their more exports to it and lower imports from it.

Now China has replaced Japan as US 'trade foe or partner'. Trade surplus or deficit affects this relationship. Undervaluation of the exporting country's currency is being taken as of more political of the argument rather than the genuine economic concern of the importing country.<sup>1</sup> Fierce divergent views lead to levelling trade sanctions. Further, trade hostilities have never been one-sided. In spite of differences, trade is being use to foster ties between them.

Against this backdrop, Sino-Pakistani bilateral trade does not present a model to be emulated. In spite of mutual understanding and close diplomatic relations, their bilateral trade has been slowly and gradually increased over the years. Bilateral trade has crossed the barrier of nearly US\$ 12 billion by January 2013, which is expected to touch down the level of around US\$ 15 billion in coming years.<sup>2</sup> This growth was the result of the Early Harvest Program (EHP), Preferential Trade Agreement (PTA), Free Trade Agreement (FTA), and various other favourable policy frameworks that have been adopted after 2005 when trade hovered around just US\$ 3 billion.<sup>3</sup>

This commercial relationship, which was fully backed by national leadership at both ends, has gradually developed. A brief glimpse at their bilateral trade reveals that it had remained quite inconsistent over decades. For example, if one looks at the growth of bilateral trade decade-wise, it has remained rather quite low and far beyond their bilateral expectations. Trade has only improved in the past decade (see Figure 1 below). It was also interesting to note that between 1960-70 the two-way trade had remained just US\$ 18 million in 1960 and US\$ 73 million by 1970.<sup>4</sup> This was also the period when both countries laid down the strategic structure of their bilateral relations. By 1980, bilateral trade has increased to US\$ 402 million and further it increased to US\$ 424 million by 1990.<sup>5</sup> Bilateral trade has not jumped to more than US\$ 722 million in 2000. By then in the next ten years, trade rose to US\$ 11 billion (see Figure 1).

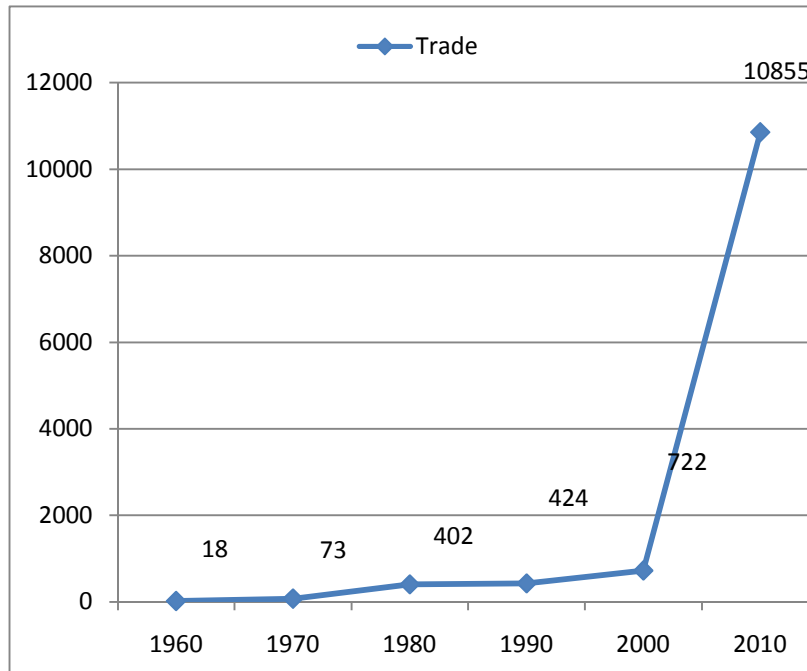
Surprisingly, Pakistan exported goods worth US\$ 15 million in 1960. In the next fifteen years, exports were rather

deteriorated and gone down to US\$ 14 million in 1975. Again in 1980, Pakistan's exports to China increased to US\$ 221 million but sharply declined to US\$ 67 million in 1990, instead of increase in this decade (see Figure 3 below). During 2000-10, exports have risen to US\$ 237 million to US\$ 1.5 billion. As far imports from China were concerned, they steadily increased from a meagre amount of US\$ 4 million in 1960 to as high as US\$ 9.2 billion by 2010 (see Figure 3 below).<sup>6</sup>

Up to 1971, trade slightly tilted in favour of Pakistan. From 1984 onward, China trade surplus against Pakistan continuously grew. By 2010, Pakistan's trade deficit vis-a-vis China stood around US\$ 7.7 billion.

**Figure 1: Decade-Wise Bilateral Trade Growth between Pakistan and China**

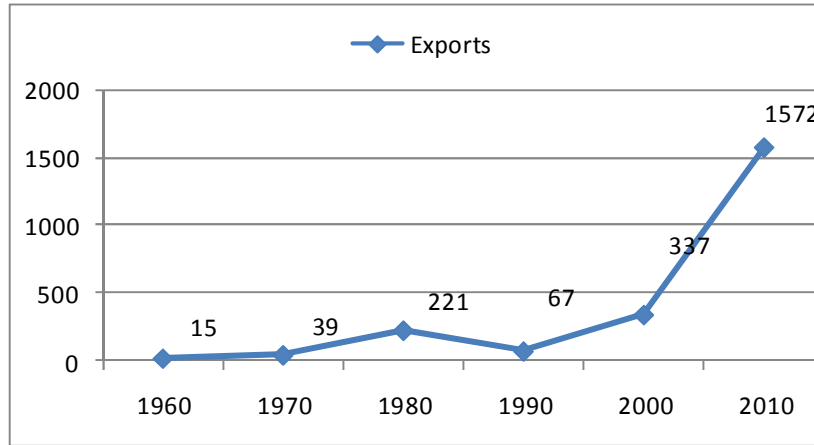
(US\$ Million)



Source: IMF, Washington: *Direction of Trade Statistics* (various issues).

**Figure 2: Decade-Wise Pakistan's Exports Growth with China**

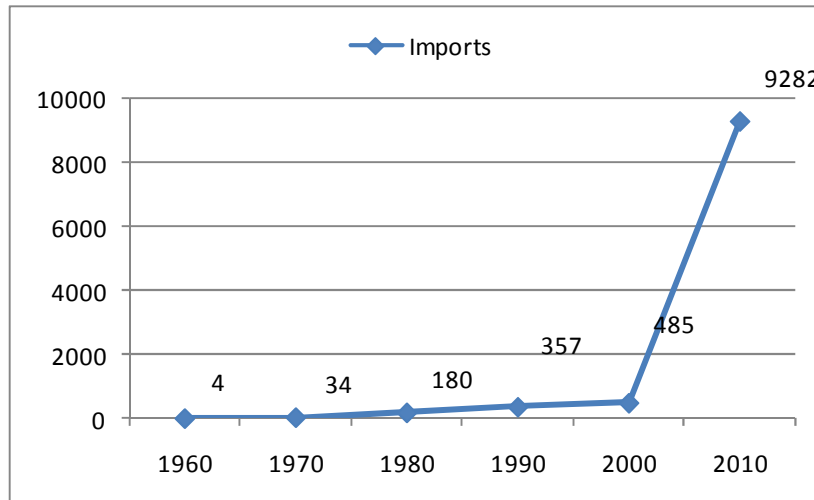
(US\$ Million)



Source: IMF, Washington: *Direction of Trade Statistics* (various issues).

**Figure 3: Decade-Wise Pakistan's Imports Growth with China**

(US\$ Million)



Source: IMF, Washington: *Direction of Trade Statistics* (various issues).

If one looks at Pakistan-China trade in the Asia-Pacific perspective, the trade has of very little value and almost invisible in front of massive trading partners. In 2011, Pakistan exports to China had remained around US\$ 1.9 billion, while imports from China were recorded around US\$ 9.2 billion, thus making the two-way trade US\$ 11 billion.<sup>7</sup> On the other hand, despite strategic divergence, the China-India trade has considerably improved and it stood around US\$ 74 billion for the same period.<sup>8</sup> This trade has been more than six-times higher than the Pakistan-China trade. China-Japan trade i.e., US\$ 345 billion has no match for the Pakistan-China trade.<sup>9</sup> Japan, United States, and China have been important trading partners of China in Asia-Pacific. Same is with true for Australia and Singapore.

Pakistan has to make enormous efforts to enhance the level of its trade with China. They need to be realistic instead of officially-led rhetoric of 'promotion of bilateral trade ties'. It is not enough. Much more ground-breaking tasks should be made to put the trading ties in the right direction. Deep structural reforms are needed in their bilateral trade especially Pakistan's industry needed to be revamped and agriculture to be highly modernised. Major investments are needed in Pakistan's economy by changing the existing industrial outlook to make it dynamic and Pakistani workers competitiveness like Chinese workers in the global economy. Accusations from either side would not serve any purpose because trade is actually beyond political intervention, diplomatic patronisation, and non-business ethics. If a devalued Yuan<sup>10</sup> could make China a rising economic power, then why a constant devalued rupee in Pakistan from 2008 to 2013 could not recover its economy? Other factors need to be look at. The real challenge is on the internal factors, which needs a constant improvement. Pakistani side has to focus upon these trading ethics and factors.

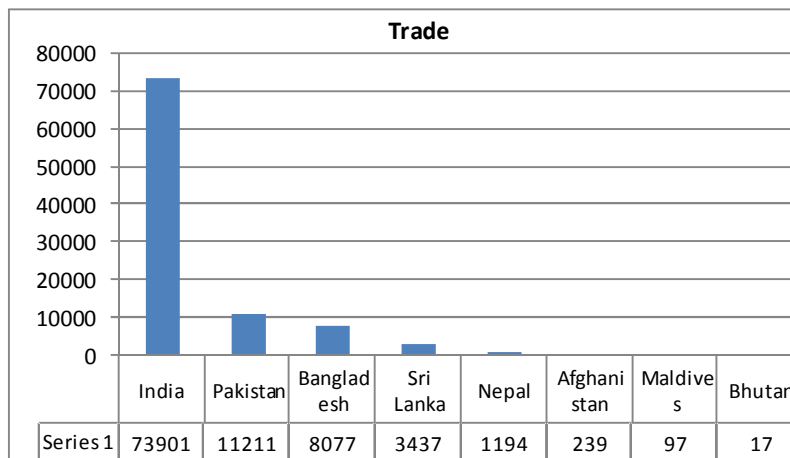
### **China's Trade with South Asia in 2011**

China's trade with the whole South Asia was recorded around US\$ 90 billion of with the big chunk was taken by

India, i.e., US\$ 73 billion in 2011.<sup>11</sup> Pakistan has been regarded the second important trading partner of China in South Asia with a trade hovered around US\$ 11 billion for the same period.<sup>12</sup> The trade of Bangladesh and Sri Lanka have recorded around US\$ 8 billion and US\$ 3 billion respectively.<sup>13</sup> Nepal got around US\$ 1 billion trade with China. Its trade with the war-toned Afghanistan estimated around US\$ 239 million.<sup>14</sup> Maldives and Bhutan have an insignificant trade with China (see Table below). Some argue that in order to enhance China's trade with as many as 33 developing countries including Nepal, Maldives, and Bhutan, China offers zero to 3.3 percent tariff to these countries, which put Pakistan in a disadvantageous position to compete with these countries in exports to China.<sup>15</sup> They say that bad business practices should also be eliminated.<sup>16</sup> In order to increase Pakistani exports to China, Pakistan has to compete with the Association of the South East Asian Nations (ASEAN). China and ASEAN have signed the ASEAN-China Free Trade Area (ACFTA) that came into effect on 1 January 2010, which makes 90 percent exports and imports to zero tariff. After 2010, tariff has been set to be zero to 5 percent.<sup>17</sup>

**Table 2: China's Trade with South Asia in 2011**

(US Million)



Source: IMF, Washington: *Direction of Trade Statistics*, August 2012.

China's trade with India and Pakistan has been on the upward trend. Much more institutional arrangements are needed to upgrade Pakistan-China trading relations. So far China has signed nine-Free Trade Agreements (FTAs).<sup>18</sup> After Hong Kong, Macau, and Chile, China signed the FTA with Pakistan. The FTA took effect in July 2007. On February 21, 2009, Chinese State Councillor Dai Bingguo and President Asif Ali Zardari witnessed the signing of the Agreement on Trade in Service of the China-Pakistan FTA, which came into effective operation on 10 October 2009.<sup>19</sup> Earlier, both countries had signed the Preferential Trade Agreement, PTA, in October 2004.<sup>20</sup> The Early Harvest Program (EHP) was launched in November 2006.<sup>21</sup> The FTA would bring tariff to minimum level in goods and services within the stipulated period of time.<sup>22</sup> The FTA had not only a mile-stone in Pakistan-China economic relations; it was a major breakthrough in China's economic relations with South Asia. So far China has not signed any other FTA with any other South Asian country. China-India FTA has been in the process of consideration along with Japan, Korea, and Switzerland.<sup>23</sup> The Sino-Pakistani FTA would serve as a basic locomotive of enhancing trade between South Asia and China. Apart from India, there is also no other FTA in the process of consideration between China and any other South Asian country at present. Admittedly, the Pakistan-China FTA shows the growing trust in furthering the cause of mutual economic relations between the two. Pakistan has to utilise the full strength of FTA.

### **Luring Investment**

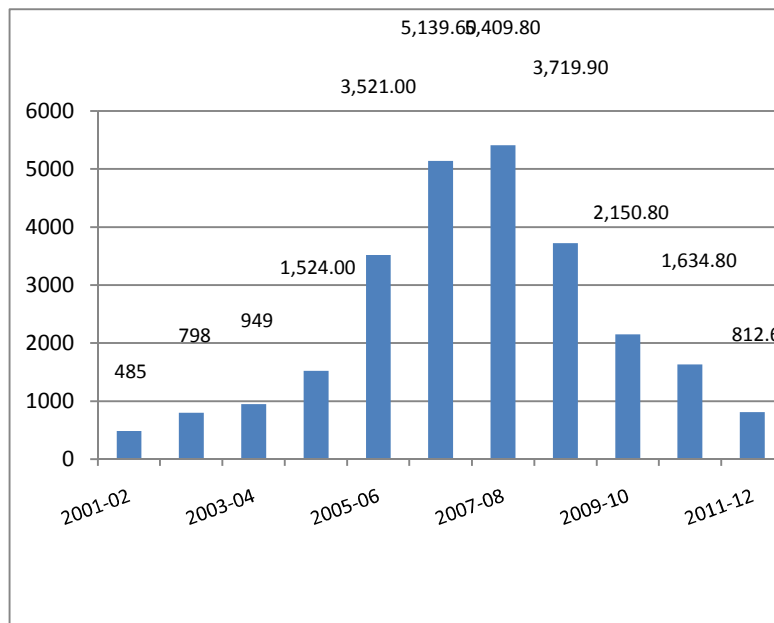
Pakistan has been facing a number of multiple challenges for the promotion of its Foreign Direct Investment (FDI). War on Terror and fast deteriorating law and order situation, besides bureaucratic corruption, red-tapism, bad governance, lack of business ethics, and utilities cost severely affect investment climate in the country. Against this background, the FDI outlook has been quite discouraging right after 2008 when the total FDI was recorded around US\$ 5.2 billion, which steadily increased from 2001-2.<sup>24</sup> Moreover, from 2008



onward, FDI declined to US\$ 3.7 billion in 2008-9. With further decline, the FDI decreased to US\$ 2 billion in 2009-10. The declining trend continued in 2010-11 by further decreasing to US\$ 1.6 billion and US\$ 812 million next year (see Table below).

**Table 3: Pakistan’s Foreign Direct Investment (FDI) during 2000-2012**

**(US\$ Million)**



Source: Islamabad, *Board of Investment*, 2013.

Country-wise, FDI trend appeared somewhat inconsistent throughout 2000-12.<sup>25</sup> Norway ranked high in Pakistan’s FDI in 2011-12 by investing as much as US\$ 275 million, while the United States ranked second by investing US\$ 233 million and the United Kingdom ranked third by investing US\$ 142 million. China ranked fourth during this period by investing US\$ 121 million. In regional term, China invested US\$ 1.4 billion in South Asia by 2009.<sup>26</sup>

**Table 4: Foreign Direct Investment in Pakistan during 2000-12**

(US\$ Million)

Country	2000-1	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7	2007-8	2008-8	2009-10	2010-11	2011-12
Norway	-	0.1	0.3	146.6	31.4	252.6	25.1	274.9	101.1	0.4	48.0	275.0
USA	92.7	325.4	211.5	238.4	325.9	516.7	913.1	1,309.3	869.9	468.3	238.1	233.0
UK	90.5	30.3	219.4	64.6	181.5	244.0	860.1	460.2	263.4	294.6	207.1	142.2
China	41.9	0.3	3.0	14.3	0.4	1.7	720.0	13.7	101.4	3.6	47.4	120.9
Switzerland	3.6	7.4	3.1	205.3	137.5	170.6	174.7	169.3	227.3	170.6	110.5	127.1
Hong Kong	3.6	2.8	5.6	6.3	32.3	24.0	32.6	330.8	156.1	9.9	125.6	80.3
UAE	5.2	21.5	119.7	134.6	367.5	1,424.5	661.5	589.2	178.1	242.7	284.2	36.6
Germany	15.5	11.2	3.7	7.0	13.1	28.6	78.9	69.6	76.9	553.0	21.2	28.2
S. Korea	3.7	0.4	0.2	1.0	1.4	1.6	1.5	1.2	2.3	2.3	7.7	25.4
Japan	9.1	6.4	14.1	15.1	45.2	57.0	64.4	131.2	74.3	26.8	3.2	22.8
S. Arabia	56.6	1.3	43.5	7.2	18.4	277.8	103.5	46.2	92.3	133.8	6.5	20.2
Total	322.4	357.3	622.0	750.2	1,600.9	1,980.7	4,873.2	5,276.6	3,719.9	2,150.8	1,634.8	812.6

Source: Islamabad, *Board of Investment*, 2013.

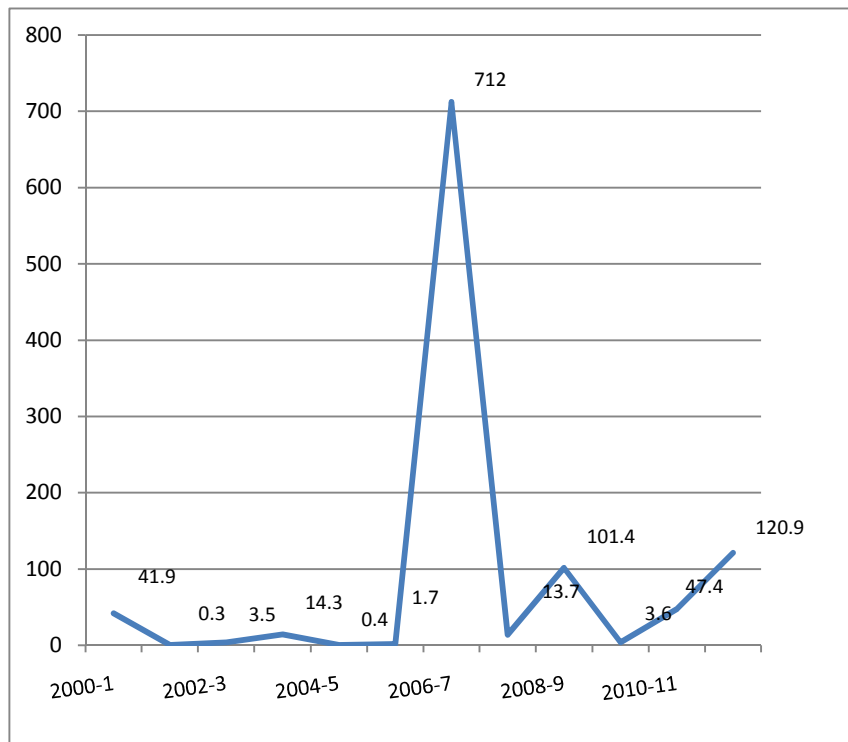
China's FDI in Pakistan has constantly declined after 2006-7 when its investment increased to US\$ 720 million.<sup>27</sup> The Pak-China Investment Company Limited (PCICL) was founded in July 2007 with equity of US\$ 200 million for promotion of trade, investment, and economic growth of Pakistan.<sup>28</sup> This was after a long time that China showed confidence in Pakistani market but that was soon shuttered. Moreover, Chinese FDI trend in Pakistan over the past decade had not been sustainable (see Figure 4 below). There is a common perception among the business community in Pakistan that Chinese shy away from investing in industry in Pakistan that could affect their trade surplus with Pakistan.<sup>29</sup> Institutional arrangements since 1963 have not much contributed in enhancing Chinese investment in Pakistan so far. China has been shifting labour-intensive industry to Africa and other Asian countries but Pakistan has been ignored in this respect too.

By 2010, China became world's fifth largest investor.<sup>30</sup> Its cumulative investment was recorded around US\$ 310 billion for the same period, which could increase to US\$ 5.2 trillion

by 2020.<sup>31</sup> Pakistan needs to devise strategies to attract this mammoth amount of Chinese global investment. The Chinese FDI flow would bolster employment, feed the tax base, generate new exports, and bring positive spill-over of relationship. Federal and Provincial Governments should provide attractive terms to Chinese firms and demonstrate their readiness to stand up for Chinese investors and address FDI impediments at the national, provincial, and local level. Now it is being expected that the transfer of Gwadar Port would be a milestone in boosting China's FDI in Pakistan in the years to come. This could be taken as the first test case to lure Chinese private investment in Pakistan for mega projects.

**Figure 4: China's FDI in Pakistan during 2000-12**

**(US\$ Million)**



Source: Islamabad, *Board of Investment*, 2013.

## **Potentials of Gwadar for Trade and Investment**

Gwadar has a long turbulent history of its ownership. The name 'Gwadar' is a Balochi word, meaning 'air corridor'.<sup>32</sup> Located in the south-western Arabian Sea coastline, in Pakistan's Balochistan province, Gwadar used to be small fisher-men town for all times. In old time, 'Gwadar' was known as 'Gedrocia' or 'Gedrosia'.<sup>33</sup> It was then the part of the Persian Empire. Then it became part of the Arab Caliphate during Hazrat Umar Farooq up to the Umayyid Caliphate. Alexander the Great and Spaniards also conquered Gwadar. Portuguese briefly occupied Gwadar during the 16th Century.<sup>34</sup> Khan of Kalat handed-over Gwadar to the Sultan of Oman in 1483 AD on temporary basis.<sup>35</sup> Gwadar was a headquarters of Assistant Political Agent from 1863-1869 during the British times. The British laid down telecommunication lines in that area. Gwadar had not been part of Pakistan when the country came into being in 1947. Gwadar became part of Pakistan on 8 September 1958. Government of Pakistan paid US\$ 3 million in getting back the territory from the Sultanate of Oman. Today Gwadar is a part of the Makran Division that consists of Districts Ketch and Punjgore.<sup>36</sup>

Since then a number of institutional arrangements were made to improve the fate of Gwadar. It became a part of Balochistan on 1 July 1977. The Government declared Gwadar the third warm-water port in 1993 and decided to lay down road and rail network.<sup>37</sup> The plan to develop a Deep Sea Port in Gwadar was commenced on 22 March 2002 and Phase-1 of the Deep Sea Port was completed in 2007 with Chinese assistance worth US\$ 220 million, 75 percent of the US\$ 250 estimated cost. National Highway Authority (NHA) constructed 653 km long Coastal Highway linking Gwadar with Pasni, Ormara, and Karachi and with the rest of the country during 2002-4. Gwadar has to be linked with Rattoderi in Sindh by building 820 km long Motorway (M-8).<sup>38</sup> The Gwadar Port Authority (GPA) was set up in 2003 to look-after the development of the port city including the availability of drinking-water. The Provincial Government of Balochistan

has also declared Gwadar a Provincial Capital in 2011.<sup>39</sup> Port area is about 64,000 sq km with three multiple berths. The port contains modern facilities for shipment and unloading. The port would carter all type of ships. The Special Economic Zone (SEZ) at Gwadar would be expected to lure investment.

With increasing trade prospects of Pakistan with China as well as Central Asia and Afghanistan, both the Karachi and Qasim ports could not handle shipment and unloading of goods at massive scale catering the needs of the above region. The Gwadar Deep-Sea Port will supplement these ports and increasing shipping needs.

The port has immense commercial and strategic value. Under the emerging free-trade environment, Gwadar Port would play the pivotal role between trade and investment postures of Pakistan and China. The port has been located 460 km west of Karachi, 75 km of Pakistan's border with Iran in the west, and 380 km northeast of the nearest point in Oman.<sup>40</sup> The port is 330 km away from the Gulf in the Strait of Hurmuz, the busiest oil shipment corridor with the two-thirds of oil reserves where 13 million barrels oil passes a day. Gwadar Port will compete with Rashid and Jebel Ali ports of Dubai, Salalah Port of Oman, Bandar Abbas and Chahbahar ports of Iran.<sup>41</sup>

For China, Gwadar Port would be a profitable business in the long-run. The port will be the only warm-water port that China would use for its overseas mercantile trade and business with its western province. For China, the Gwadar-western China route would be an alternative route and the shortest, only 2500 km instead of 16,000 km long, via the South China Sea route for oil and goods transportation from the Gulf.<sup>42</sup> At present, China imports 60 percent of its oil from the Gulf.<sup>43</sup> Some of China's industrial complexes are 4500 km away from Shanghai port. It costs China a number of taxes. Moreover, under-developed western part of China such Xinjiang and Tibet could be developed through this route to also mitigate separatists and extremist tendencies. Pakistan earnestly believes that China would make the port

commercially viable and profitable. The development of transportation via the Karakoram Highway would also indirectly boost China-Central Asia trade including oil and gas exportation from these countries to energy-deficit China.

The landlocked Central Asian States as well as Afghanistan could use the port to link up themselves to other warm-waters ports in the Gulf. The alternative port would also enhance Pakistan's deteriorating economic situation. In the long run, Pakistan could become a locomotive of trade expansion in this vast emerging region.

There have been growing provincial concerns surrounding the handover of the port first to the Port of Singapore Authority International (PSAI) on 6 February 2007, which alleged the Government (2008-13) of not fulfilling all its obligations under the agreement. The PSAI abandoned Gwadar Port by defending itself that the cost of doing business at Gwadar was more than double in comparison to elsewhere and said development of infrastructure of the port was not viable.<sup>44</sup> According to another source, Pakistan refused to provide large land allotment to the PSAI that wanted for development work around the port.<sup>45</sup> Pakistan did not transfer 236 hectares of land for development to the PSAI belonging to Pakistan Navy.<sup>46</sup> Reports revealed that PSAI failed to spend US\$ 525 million on the project in five years and made no investment because of non-fulfilment of its demand for allotment of land worth Rs 15 billion by the Government.<sup>47</sup> The PSAI failed to even attract a single commercial ship.<sup>48</sup> The Supreme Court issued a stay order on the Gwadar Port contract, barring the PSAI from transferring immovable property of the Gwadar Port Authority to a private party and allowed the Balochistan Government to become a party to the case.<sup>49</sup> According to another source, the Supreme Court took a *suo-motu* action in 2010 against the Gwadar-PSAI agreement on the ground that it was *mala-fide* and fearing court decision, the Government cancelled the agreement.<sup>50</sup>

As PSAI remained ineffective, Pakistan Government announced of the hand-over of the port to China on 6

February 2013.<sup>51</sup> The second agreement was made with the state-owned China Overseas Port Holding Company (COPHC) on 18 February 2013 on standardised terms and conditions.<sup>52</sup> The Cabinet approved the agreement on 30 January 2013.<sup>53</sup> The ownership of the port will be retained by Pakistan. The lease agreement would stay for 40 years. China will immediately invest US\$ 750 million to improve the infrastructure of Gwadar.<sup>54</sup> It was made clear in the agreement that the port will not be used for military purposes by China. It was one way of redressing the concerns of India and other countries.

As mentioned above, Balochistan's politicians and nationalists repeatedly raised their voices against the handling of the port to foreigners.<sup>55</sup> Many say that one of the reasons for unrest in Balochistan was their concerns with regard to Gwadar Port, which has been handed over to a foreign company. They insist that under the Eighteenth Amendment, Article 154(1) of the Constitution, which assured provincial autonomy to its people, the handover of Gwadar to a foreign company was thus a clear violation and breach of the spirit of the Constitution and that the Government has no constitutional authority to handover the port to a foreign company without people's consent. They lamented lack of involvement of the provincial Government in the whole affair of Gwadar.<sup>56</sup> Even the GPA was not even involved in the negotiations.<sup>57</sup> They also argue that under the Eighteenth Amendment important matters should be referred to the Council of Common Interests (CCI).<sup>58</sup> Balochs fear that they would become a minority in Gwadar when others will come there in a big number and take over their resources. With the same token, the Gwadar agreement would be a profit-sharing matter between the Federal Government and the Chinese company without any profit to the people of Balochistan, they put forward.<sup>59</sup> Therefore, the present status of Gwadar is a matter of concern and a challenge for the Federal Government and how it would look at the situation in the larger regional perspective. The agreement should be reviewed and many undue concessions including the transfer of immovable property

given to the COPHC should be revisited in accordance with the existing laws of the country.<sup>60</sup>

The Gwadar phenomenon would also alter the existing parameters of regional and global politics. Besides internal concerns in Balochistan about the handling of Gwadar port by China, there have been Indian concerns too about an asset solely belongs to Pakistan. India did not raise its concerns when Gwadar Port was handed over to PSAI because India and Singapore have special ties. India expressed its apprehension about Gwadar takeover by China. Indian Defence Minister A. K. Anthony said that the matter was a serious concern for India.<sup>61</sup> India fears China gets access to Persian Gulf and Arabian Sea to extend its military clout to these waters by using the port as a naval base.<sup>62</sup> The Sino-Pakistani strategy might encircle India and its growing ambitions in the Indian Ocean. For Pakistan, Indian allegations were baseless. India being the third-party has no right to interfere in the mutual agreement between Pakistan and China. Moreover, Pakistan is a sovereign country and has a right to promote its relations with other countries. China has already help established other ports in South Asia namely; Hambantota in Sri Lanka, Chittagong Port in Bangladesh, and Dry Port at Larcha on the Nepal-Tibet border. China is also building an energy pipeline in Myanmar that will transport gas pumped offshore and oil shipped from Africa and the Middle East to China's Yunnan province. The building of the Sost Dry Port on Pakistan-China border will facilitate the flow of China's mercantile trade through Pakistan. Besides Gwadar, China could also use Karachi and Bin Qasim ports. China has not been encircling any nation. These are China's essential commercial needs. The Gwadar idea has been incorporated in China's promoting of an economic community in Asia-Pacific. Pakistan and China have made absolutely clear that the port will not be used for military purposes.

At present, China exports its energy through the Strait of Hormuz and Strait of Malacca. Both of these sea-lanes have been dominated by the United States. The United States has built the naval base at Changi, Singapore, in May 2004, with



the potential capacity to interrupt as much as 80 percent of Chinese energy needs shipping through the Straits of Malacca.<sup>63</sup> For China, Gwadar reduces the danger posed by any untoward situation around the Strait of Malacca.<sup>64</sup> Iran would also build an oil pipeline up to Gwadar and to construct a US\$ 4 billion oil refinery at Gwadar to refine 400,000 barrels of oil per day.<sup>65</sup> Tehran also supported Pakistan's decision of its port handling to China, hitherto portrayed Gwadar as rival to Iran Chahbahar port.<sup>66</sup> China could export Iranian oil from Gwadar. This will also reduce any potential danger posed by any such situation even in the Strait of Hormuz.

As explained above, United States, India, Australia, and Japan have been trying to counterweight China in Asia-Pacific. United States and Australia have already cooperated with India in the civil nuclear field. Japan has been negotiating with India to provide its civil nuclear technology by discriminating Pakistan. The handling of Gwadar Port has brought China in the limelight in this region. It looks Pakistan's 'second rescue' of China in the post-cold and post-terrorist era, which, in turn, would also serve Pakistan's strategic interests largely through non-military means with China. Both have entered in the second phase of cordial *entente*.<sup>67</sup> In the days ahead, Pakistan's dependence on the West would also decline and much more strong partnership with China would emerge. Gwadar also counterweights the new American Asia-Pacific pivot policy. The operation of the port would help Pakistan to further capitalise its relations with the Gulf oil exporting nations and promote trade with the Central Asian Republics by providing the most efficient, direct, and shortest route to connect them. Pakistan's fishing and related industry will get a boost for exports to other destinations as the Fish Harbour was set up in 1989. Tourism would also flourish. For locals, employment opportunities will generate with an employment reaching 2.5 million within few years. Pakistan's revenue would also increase. Employment generation and speedy infrastructure development in Balochistan would help redress its grievances too. The instability factor would also fade away.

## **The Future**

The Sino-Pakistani bilateral relations between the two countries would continue to grow without any change because of the strength of this solid relationship. All the successive leaders in Pakistan whether they came through the democratic process or represented the military background, toed strategic alliance with China in all situations. This relationship does not entail suspicion and mistrust. By fostering a strong relationship with China, Pakistan could also enhance its stakes in various regional organisations across Asia-Pacific and cultivate better understandings with a number of players. These organisations would drive Pakistan in the long way.

On the other, bottlenecks surrounding the Pakistan-China bilateral trade should be addressed. China also needs to help Pakistan in developing private investment rather than strongly focusing on the State-owned enterprises. The Chinese Government needs to encourage its private investors to investment in Pakistan. Provinces and big cities must develop strategies and plans to lure Chinese FDI. This will profoundly change the existing *status-quo* of Chinese investment in the country. The new Chinese leadership would continue to value the long existing bilateral political understandings, increasing trade relations, and emerging Chinese investments in Pakistan. Gwadar Port would play the lead role. Chinese business activities in Gwadar would create new opportunities. Balochistan's economy can be invigorated by increased Chinese FDI and a model could be emulated for other provinces. By all accounts, Gwadar Port would help China to promote its business from Xinjiang and Tibet to Gwadar under the new Silk Route strategy. This would be a great shift in the Asia-Pacific trade and strategic considerations in the years to follow.

### ***Author***

*Dr Ahmad Rashid Malik is Senior Research Fellow at the Institute of Strategic Studies, Islamabad.*

## Notes

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- <sup>1</sup> Imad Moosa, *The US-China Trade Dispute: Facts, Figures and Myths* (Cheltenham, 2012) p. ix.
- <sup>2</sup> *Business Recorder* (Karachi), 28 January 2013.
- <sup>3</sup> IMF, *Direction of Trade Statistics Yearbook*. (Washington D.C.), various issues.
- <sup>4</sup> *Ibid.*, various issues.
- <sup>5</sup> *Ibid.*
- <sup>6</sup> *Ibid.*, various issues.
- <sup>7</sup> *Ibid.*, August 2012.
- <sup>8</sup> *Ibid.*
- <sup>9</sup> *Financial Sense*, 28 December 2011  
< <http://www.financialsense.com/node/7223>>, accessed 10 March 2014.
- <sup>10</sup> United States accuses China of the devaluation and undervaluation of its currency, Yuan.
- <sup>11</sup> *Direction of Trade Statistics*, August 2012, op.cit.
- <sup>12</sup> *Ibid.*
- <sup>13</sup> *Ibid.*
- <sup>14</sup> *Ibid.*
- <sup>15</sup> Fazal-ur-Rahman, 'Pakistan-China Trade and Investment Relations', *Proceedings of the Two-Day Seminar on Pakistan-China Relations 2011: Year of Friendship, 11 January 2011* (Islamabad: Institute of Strategic Studies, 2011), p. 95.
- <sup>16</sup> *Ibid.*
- <sup>17</sup> Universal Access to Competitiveness and Trade, ASEAN-China Free Trade Agreement: A Premier (Makati: n.d) <[www.mofat.gov.bn/.../free-trade-agreements.../agreements.../asean-ch..](http://www.mofat.gov.bn/.../free-trade-agreements.../agreements.../asean-ch..)> Accessed 11 March 2013.
- <sup>18</sup> *China FTA Network*  
<<http://fta.mofcom.gov.cn/topic/enpakistan.shtml>>, accessed 10 March 2014.
- <sup>19</sup> *Ibid.*
- <sup>20</sup> *Dawn* (Karachi), 6 January 2004.
- <sup>21</sup> Government of Pakistan, *Ministry of Commerce*  
<<http://www.commerce.gov.pk/PCEHP/PCEHP-Agri.pdf>>, accessed 10 March 2014.
- <sup>22</sup> Government of Pakistan, Trade & Development Authority of Pakistan, 'Rules of origin for the China-Pakistan Free Trade Area'  
<[http://www.tdap.gov.pk/pdf/Annex-II\\_PK-CN\\_FTA.pdf](http://www.tdap.gov.pk/pdf/Annex-II_PK-CN_FTA.pdf)>, accessed 10 March 2014.
- <sup>23</sup> So far China has signed FTAs with the following region and countries: Mainland & Hong Kong Closer Economic and Partnership Arrangement Mainland in 2003, Macau Closer Economic and Partnership Arrangement in 2003, Chile in November 2005, Pakistan in November 2006, ASEAN (Association of South East Nations) in July 2007, New Zealand in April 2008, Singapore in October 2008, Peru in April 2009, and Costa Rica in November 2008. See *China FTA Network*,

- <<http://fta.mofcom.gov.cn/english/index.shtml>> Accessed 25 February 2013.
- <sup>24</sup> Board of Investment, 'Country Wise FDI Inflows', 2013.
- <sup>25</sup> Ibid.
- <sup>26</sup> Ibid.
- <sup>27</sup> Ibid.
- <sup>28</sup> The Pakistan-China Investment Company Ltd (PCICL), <<https://www.pakchinainvest.com/>>, accessed 10 March 2014.
- <sup>29</sup> Rahman, op.cit.
- <sup>30</sup> Yiping Huang, 'The Changing Face of Chinese Investment', in *East Asia Quarterly Forum* (April-June 2012), pp. 13-5.
- <sup>31</sup> Ibid.
- <sup>32</sup> District Disaster Management Authority (DDMA), 'Balochistan: Gwadar District, Hazard, Livelihood and Vulnerability (HLV) Baseline and Contingency Plan', <[http://www.fao.org.pk/pdf-documents/highlights/Gwadar\\_HLV\\_Draft.pdf](http://www.fao.org.pk/pdf-documents/highlights/Gwadar_HLV_Draft.pdf)>, accessed 10 March 2014.
- <sup>33</sup> Sir Aurel Stein, 'On Alexander's Route into Gedrosia: An Archaeological Tour in Las Bela', in *Geographical Journal*, vol. cii, nos. 5-6 (November-December 1943). See also *Encyclopedia Britannica*.
- <sup>34</sup> Lonely Planet, *Pakistan & Karakorum Highway* (London: Lonely Planet Publications Pvt Ltd), p. 156.
- <sup>35</sup> Nasir Khan First of Kalat granted port of Gwadar to Sultan bin Ahmed of Oman. Seminar for Arabian Studies, *Proceedings of the Seminar for Arabian Studies 1970* (London: Oxford 2001).
- <sup>36</sup> This information has liberally been taken from Abdul Khaliq, Gwadar Port: Another Robbery at Provincial Autonomy (trans from Urdu), *Daily Jung* (Rawalpindi), magazine section, p. 2.
- <sup>37</sup> Saleem Shahid, 'Gwadar Port inaugurated: Plan for second port in Balochistan at Sonmiani', *Dawn* (Karachi), 21 March 2007.
- <sup>38</sup> Ibid.
- <sup>39</sup> *Dawn* (Karachi), 26 October 2011.
- <sup>40</sup> <<http://weeklyroshni.com/feature/english/khudai%20dost17.htm>>, accessed 10 March 2014.
- <sup>41</sup> Miangul Abdullah, 'Gwadar Port: A Dream for Peace and Progress', in *The Frontier Post* (Islamabad), 4 March 2013.
- <sup>42</sup> Dr Ahmad Rashid Malik, 'China in Gwadar', *Diplomatic Insight* (Islamabad), March 2013.
- <sup>43</sup> Erica S. Downs, 'China-Middle East Energy Relations', *Brookings* (Washington D.C.), 6 June 2013.
- <sup>44</sup> Ibid.
- <sup>45</sup> Sampath Perera, 'Pakistan transfers strategic Gwadar port to China', in *World Socialist Web Site*, 26 February 2013. <<http://www.wsws.org/en/articles/2013/02/26/gwad-f26.html>> Accessed 4 March 2013.
- <sup>46</sup> *South China Morning Post* (Hong Kong), 12 February 2013.

- <sup>47</sup> *Dawn* (Islamabad), 19 February 2013.
- <sup>48</sup> Azhar Ahmed, 'Time to Rejoice or Review', 15 February 2013, *Opinion Maker* <<http://www.opinion-maker.org/2013/02/gwadar-time-to-rejoice-or-to-review/>> Accessed 6 March 2013.
- <sup>49</sup> *Dawn* (Islamabad), 19 February 2013.
- <sup>50</sup> The case was registered as a petition under Article 184(3) of the Constitution. A separate petition was also filed in the Supreme Court. See also Ahmed, op.cit & *Pakistan Today* (Lahore), 1 November 2010, & 20 February 2013.
- <sup>51</sup> *The Express Tribune* (Islamabad), 18 February 2013.
- <sup>52</sup> The port will remain property of Pakistan and the Chinese company will share the profit. Chairman Gwadar Port Authority Dr. Syed Pervez Abbas, Major General Asghar Nawaz of National Logistics Cell, Chairman AKD Security Aqeel Karim Dhedi, Leo Fong of China Overseas Port Holdings Ltd, and Singapore Authority representative Faisal Javed signed on the agreement on behalf of their respective organisations. The agreement has not been published in the media yet.
- <sup>53</sup> *Dawn* (Islamabad), 31 January 2013.
- <sup>54</sup> *Ibid.*, 25 February 2013.
- <sup>55</sup> Balochistan National Party, Baloch Republican Party, and Awami National Party *etc* have expressed their concerns about the decision of handing over of Gwadar port to China. See *The Express Tribune* (Islamabad), 4 March 2013.
- <sup>56</sup> *Dawn* (Islamabad), 25 February 2013.
- <sup>57</sup> Ahmed, op.cit.
- <sup>58</sup> *The Express Tribune* (Islamabad), 4 March 2013. *Ibid.*
- <sup>59</sup> *Dawn* (Islamabad), 7 November 2010.
- <sup>60</sup> Ahmed, op.cit.
- <sup>61</sup> *The Hindu* (New Delhi), 6 February 2013.
- <sup>62</sup> Abdullah, op.cit.
- <sup>63</sup> Mamdouh G. Salameh, 'China's Global Oil Diplomacy: Benign or Hostile?', *International Association for Energy Economics* <[www.iaee.org/en/publications/newsletterdl.aspx?id=93](http://www.iaee.org/en/publications/newsletterdl.aspx?id=93)> Accessed 25 November 2013.
- <sup>64</sup> See also Imran Malik, 'Gwadar: A Port Full of Possibilities', *The Nation* (Islamabad), 24 February 2013.
- <sup>65</sup> *The Khaleej Times* (Dubai), 25 February 2013.
- <sup>66</sup> *The Express Tribune* (Islamabad), 3 February 2013.
- <sup>67</sup> David L. Shambaugh, *Power Shift: China and Asia's New Dynamics* (Berkeley: University of California, 2006), p. 222.