

# MP-IDSA

## *Issue Brief*

# Chinese Glimmer to Pakistan's Dam Distress

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## **S***ummary*

In May 2020, China and Pakistan agreed to jointly build the controversial Diamer-Bhasha Dam in Gilgit Baltistan. Given the location of the dam in a region claimed by India, this issue brief attempts to trace the Chinese approach towards the dam, Pakistan's financial constraints and what could have propelled China to finally come on board after showing initial reluctance. China's decision could be a message to India that its ties with Pakistan continue to thrive even during a pandemic. It could also be part of China's strategic pursuits in the region to further deepen its engagement in India's neighbourhood.

Pakistan's efforts to secure funds for the Diamer-Bhasha Dam (DBD) project in Gilgit-Baltistan (GB) has yet again captured news headlines. Pakistan and China have decided to jointly build the dam. On May 13, an agreement was finalised between the state-run China Power and Frontier Works Organisation (FWO), the construction and engineering arm of the Pakistan Army. The agreement concerning contract worth Pakistani Rupee (PKR) 442 billion was inked by Amir Bashir Chaudhry, Chief Executive Officer of DBD project, on behalf of Pakistan's Water and Power Development Authority (WAPDA), and Yang Jiandu, representing China Power.<sup>1</sup> The majority shareholding of about 70 per cent in the consortium is owned by China with the remaining 30 per cent held by FWO. The project's revised cost estimate after overruns presently stands at about PKR 1.4 trillion and the new deadline for its completion is 2028.<sup>2</sup> The project site is located on River Indus, about 40 km from Chilas in GB.

The proposed DBD project is a roller-compacted-concrete dam with a slated capacity of a massive 4,500 MW, the highest yield projection in Pakistan's power generation history. Standing at 272 meters, the dam will have a huge storage capacity of about 8.1 million acre-feet. Also envisaged as an antidote to further silting in the Tarbela Dam downstream, the DBD project seeks to alleviate power crisis and enhance irrigation by bolstering storage capacity on the Indus. As of 2020, PKR 99.238 billion has been spent and at least PKR 61 billion would be further spent in the current fiscal year out of which PKR 22 billion would go towards resettlement and the rest on construction.<sup>3</sup>

## The Dispute

Given its scale and location, the DBD, unveiled in 2001 as part of WAPDA's Water Vision 2025, has courted several controversies over the years. Since the dam will be located in a region that is claimed by India as part of the erstwhile princely state of Jammu and Kashmir (J&K) and now reorganised Union Territories of J&K and Ladakh, India has stridently opposed the project. Over the years, India's criticism has sharpened with the possibility of China emerging as a major stakeholder in the DBD project. In a scathing indictment, the Indian Ministry of External Affairs (MEA) spokesperson noted recently on May 14:

Our position is consistent and clear that entire territory of the Union Territories of Jammu and Kashmir and Ladakh have been, are and will continue to be integral and inalienable part of India," and that the government has "consistently conveyed protests and shared concerns with both Pakistan and

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<sup>1</sup> Khaleeq Kiani, "[Rs442bn Accord for Construction of Diamer-Bhasha Dam Signed](#)", *Dawn*, May 14, 2020.

<sup>2</sup> Ibid.

<sup>3</sup> "[Over Rs 99 Bln Spent on Diamer Bhasha Dam Project So Far](#)", *Associated Press of Pakistan*, May 04, 2020.

China on all such projects in the Indian territories under Pakistan's illegal occupation.<sup>4</sup>

India also protested Pakistan's efforts to introduce "material changes" in the occupied territory of GB, part of the Pakistan-occupied Kashmir (PoK), in the wake of Pakistan Supreme Court's ruling of April 30 that allowed the Pakistan Government to amend its orders to appoint a caretaker set up prior to holding of elections in GB, within 60 days of the expiry of the term of the present local legislature.<sup>5</sup>

The WAPDA Chairman Lt. Gen. (Retd.) Muzammil Hussain dismissed India's objections to DBD as "baseless."<sup>6</sup> Similarly, China's foreign ministry spokesperson, Zhao Lijian, when asked about India's strong reservations, defended the project noting that China's position on Kashmir was "consistent" and that "economic cooperation between China and Pakistan aims to boost local economic growth and improve people's livelihoods."<sup>7</sup>

The project is faced with other challenges too. First and foremost being lack of funds to support its mammoth cost, which was estimated to be at least \$8 billion several years ago, leading to inordinate delay in the construction work. Furthermore, the reservoir is located in a high seismic zone and ecological warnings in this regard have gone unheeded so far. Other pressing as well as unresolved concerns include land acquisition and delayed/incommensurate compensation, which has led to dissent amongst large sections of the displaced population.<sup>8</sup> Steep and persistent resentment amongst those affected have led to hectic parleys within the establishment and compelled the Executive Committee of the National Economic Council (ECNEC) to recently approve revised estimates of about PKR 175.43 million towards resettlement and land acquisition. This was a quantum 185 per cent jump from the originally estimated resettlement cost of PKR 60 billion in 2008.<sup>9</sup> There is also the case of local concerns about the inundation of 2660 acres of agricultural land, and also a large number of archaeological sites found in the area.<sup>10</sup> It is estimated that about 33,000 prehistoric rock carvings will be submerged. As per the review prepared by M/s. Lahmeyar International Germany in 2008, the dam construction will affect about

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<sup>4</sup> **"Transcript of Media Briefing by Official Spokesperson (May 14, 2020)"**, *Ministry of External Affairs, Government of India*, May 15, 2020.

<sup>5</sup> **"India Protests Efforts to Bring Material Change in Pakistan Occupied Territories and Asks Pakistan to Vacate Them"**, Press Releases, *Ministry of External Affairs, Government of India*, May 04, 2020.

<sup>6</sup> Zaigham Naqvi, **"Funding for Diamer-Bhasha Dam Arranged"**, *The Express Tribune*, May 21, 2020.

<sup>7</sup> **"Foreign Ministry Spokesperson Zhao Lijian's Regular Press Conference"**, *Embassy of the People's Republic of China in the Islamic Republic of Pakistan*, May 15, 2020.

<sup>8</sup> Israr Ahmad, **"Diamer Bhasha Dam affectees protest for rights"**, *The Nation*, January 30, 2019.

<sup>9</sup> Mehtab Haider, **"Ecnec Approves Four Mega Projects"**, *The News*, May 02, 2020.

<sup>10</sup> WAPDA had commissioned Lahmeyar International in July 2005 to lead the review process of the DBD feasibility report. See **"Diamer Basha Dam Project"**, *Pakistan Water and Power Development Authority (WAPDA)*, Status as on June 20, 2011.

30,350 people in 32 villages and also submerge a sizeable 100-Km stretch of the Karakoram Highway.<sup>11</sup>

On the other hand, there are inter-regional contestations over sharing of royalties given the fact that the power house will be located in Khyber Pakhtunkhwa while the reservoir will remain in GB.<sup>12</sup> Conflicting stakes between the Thor tribe of Diamer and Harban tribe of Kohistan over a stretch of territory (Gandlo Nala) that will house the power generation unit continue to linger. Suggestions to form a *Jirga* (tribal assembly) to resolve the dispute have still to come to fruition.<sup>13</sup> It is reminiscent of a similar project-- the Kalabagh Dam-- that remains deferred for almost 40 years, primarily due to inter-provincial discord between Khyber Pakhtunkhwa and Sindh.

### China's New Ball Game

Chinese foreign ministry's reference to the DBD project is not new, given its strategic ties with Pakistan. Its overall approach may have seesawed over a period of time but remained largely non-committal when it came to funding DBD. The *New York Times* article of August 2009 by Selig Harrison was instrumental in driving focus towards China's growing footprints in the GB region.<sup>14</sup> In the subsequent years, there were stray reports about China likely to spare a few billion dollars for DBD which apparently never materialised. Meanwhile, China had offered to provide labour from its pool of skilled workmen involved in the 30,000 MW Three Gorges Dam project.<sup>15</sup> The China Development Bank also offered to fund the project but not without seeking guarantees.<sup>16</sup>

The announcement of the multibillion China-Pakistan Economic Corridor (CPEC) heightened optimism in Pakistan for possible Chinese funding of DBD, especially since a major share of the originally announced \$50 billion was planned to be channelled towards energy projects. Subsequently, the euphoria receded after denials from the Chinese side. The stalemate continued till China promised another \$50 billion in 2015 to build a string of dams in PoK and Pakistan under the North Indus Cascade, the DBD being its lead project. Towards the end of 2017, there were media reports about China not only demanding full ownership of DBD but also seeking collateral security in terms of making another dam in Pakistan hydropower

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<sup>11</sup> Ibid.

<sup>12</sup> For details, see Priyanka Singh, **"The Diamer Bhasha Dam in Gilgit Baltistan: India's Concerns"**, *Strategic Analysis*, MP-IDSA, 36 (4), July 2012.

<sup>13</sup> Ghulam Abbas, **"Territorial Disputes to Hamper Diamer-Bhasha Dam Progress"**, *Pakistan Today*, April 24, 2020; and Mehtab Haider, **"Diamer-Basha Dam: KP, GB Governments at Loggerheads over Piece of Land"**, *The News*, April 28, 2020.

<sup>14</sup> Selig S. Harrison, **"China's Discreet Hold on Pakistan's Northern Borderlands"**, *The New York Times*, August 26, 2010.

<sup>15</sup> **"Pakistan Approaches China for Financing of Diamer Bhasha Dam"**, *Asian Power*, September 10, 2012.

<sup>16</sup> Ibid.

station as a condition for funding the DBD.<sup>17</sup> The WAPDA Chief Gen. (Retd.) Hussain had then noted: “Chinese conditions for financing the Diamer Bhasha Dam were not doable and against our interests.”<sup>18</sup> In the past, the United States (US) and China have organised donors’ conferences to help Pakistan muster funds for the dam but without much success.

China’s tentative approach towards DBD until now was seen by analysts through the prism of its oft-debated risk-averse investment behaviour. Despite its deep pockets, China is known to be wary of projects where returns are uncertain. In terms of investment feasibility, DBD is not a very promising proposition. This explains why multiple pre-feasibility studies were carried out for the project. During 2017, China insisted that yet another feasibility study be carried out for the dam but Pakistan seemed to have declined it.<sup>19</sup>

### **Funding Predicament**

The quest for funds to build what many regard as a gargantuan hydropower plant is deeply fraught for Pakistan. It has explored nearly all potential options for sourcing funds. While China seemingly kept it guessing, Pakistan approached several other quarters including prominent international financial institutions (IFIs), Friends of Pakistan countries, etc. Till some years ago, Pakistan consistently urged the US to provide funds including diversion of a part of the funding from the US Agency for International Development (USAID). The US resisted Pakistan's request due to its reluctance to funnel a huge sum in a single project as a matter of policy. Besides, other countries like Japan, France and Russia have been on Pakistan’s horizon as potential funders at various points of time.<sup>20</sup>

Prolonged delay due to unavailability of funds has catalysed adverse popular sentiments about the DBD project. Consequently, considerable political capital has been invested in executing this project. Pakistan Prime Minister Imran Khan is as keen on starting the project as his predecessor Nawaz Sharif, who, during his tenure, actively sought funds for DBD from multiple sources without much success. The project has been given so much prominence by the media that it has come up as a matter of national prestige.

This is probably why in July 2018, in an unprecedented move, the Supreme Court of Pakistan taking a *suo moto* cognisance (while hearing a petition on Kalabagh Dam)

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<sup>17</sup> Sutirtho Patranobis, **“China, Pakistan in contact over controversial dam in Gilgit-Baltistan”**, *Hindustan Times*, December 14, 2017.

<sup>18</sup> Michael Harris, **“Pakistan Removes Diamer Bhasha from CPEC Consideration”**, *Hydro Review*, November 16, 2017.

<sup>19</sup> Fawad Yousafzai, **“Govt to Build Bhasha Dam from Own Resources”**, *The Nation*, December 20, 2017.

<sup>20</sup> For details, see Priyanka Singh, ***Re-Positioning Pakistan Occupied Kashmir on India’s Policy Map: Geopolitical Drivers, Strategic Impact***, Monograph No. 62, MP-IDSA, 2017, pp. 38-63.

pitched in to marshal funds for the long-pending project along with another one, the Mohmand Dam. It is quite another matter that it could hardly collect any funds despite passionate appeals of the Chief Justice to the people of Pakistan including the overseas Pakistanis. Arbitrary deduction from salaries of government employees was also suggested as a measure of garnering funds for DBD, despite widespread popular resentment against such coerced donations.<sup>21</sup> The initiative lost its limited traction after the fund's architect, Justice Saqib Nisar, demitted office.<sup>22</sup>

As pointed out earlier, India has consistently opposed the DBD project. A frantic Pakistan considers India's resistance a major hurdle as far as inflow of funds is concerned. This is especially so as international financial bodies including the World Bank have refused to fund the project citing India's objections of it being built on a disputed territory and putting up pre-conditions such as the need for a no-objection certificate from India.

### **A Geopolitical Project?**

By involving the US and China in its fund-raising efforts, and approaching prominent international financial organisations for a loan, disregarding India's claims/objections, Pakistan has ensured that DBD assumes some geopolitical significance. Today, DBD is not a regular hydropower project; it is viewed through the prism of geopolitical contestations between nations involved, despite Pakistan's deliberate attempt to rationalise the project, underplaying its high-cost and location in a disputed territory and linking it directly to its growing energy requirements. For years, the dam has been projected as a panacea to meet the shortfall in the country's energy sector.

As expectations to get funds from alternative sources have gradually been belied, Pakistan seems to have fallen back on its all-weather friend China despite the latter's record of seeking undesirable guarantees. So desperate has Pakistan been to realise the project that it accepted a 70:30 formula in terms of sharing of ownership of the project, even though it may not be a truly profitable proposition for Pakistan in the future. The skewed ratio in favour of China reflects the asymmetry in Pakistan-China ties, which has remained lop-sided as the two countries never engaged each other as equals. For China, Pakistan is a "quasi-colony" and is fast emerging as a client state.<sup>23</sup> China's policy/strategy has been to funnel money into Pakistan in order to develop extensive stakes. However, its goal of funding projects in PoK is of greater significance as the territory provides the only land-link it has with Pakistan. More importantly, the territory is claimed by India, which it considers as its rival in Asia.

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<sup>21</sup> Pervez Hoodbhoy, "**Bad Math — Big Blunders**", *Dawn*, June 15, 2019.

<sup>22</sup> "**Dam Fund Again**", Editorial, *Dawn*, December 14, 2019.

<sup>23</sup> Sujan R. Chinoy, "**China's Hypocritical Stance at UN against India is a Bid to Distract from Its Own Troubles in Xinjiang, Hong Kong**", *The Indian Express*, August 21, 2019.

As noted earlier, the present agreement is perhaps a culmination of China's long association with DBD. The fact that the two sides finally arrived at a formal understanding makes the present phase stand out. What is of further significance is that the deal was finalised amidst an unparalleled global economic instability caused by a severe pandemic-- which originated in China and for which it is increasingly being cornered in the international community. This raises the question as to why has China agreed to fund the project with a 70 per cent stake at this point of time? Considering the extreme uncertainty regarding the sustainability of China's economic dominance, the decision to provide funds for what was long-termed a "non-starter" needs to be probed further.<sup>24</sup>

A couple of geopolitical issues in India's immediate neighbourhood point towards a broader trend. India has forthrightly protested and shared its concerns over projects like this on its territory with both Pakistan and China. India's reservations on DBD and its oft-pronounced stand on PoK may not have gone down well with China (which is in possession of parts of Ladakh territory, including that of PoK, both claimed by India). Not long ago, the Indian Metrological Department (IMD) started showing weather forecasts for PoK. In recent years, India has firmly articulated its position vis-à-vis PoK at various international fora.

The standoff at the Line of Actual Control (LAC) since May 2020, reflects a disturbing trend in regional geopolitics. India's ties with Nepal too have been discordant over the revision of its maps laying claim to an area that belongs to India. Given the growing Chinese influence on the ruling dispensation in Nepal, China's role behind such a cartographic assertion by Nepal cannot be ruled out.<sup>25</sup> India's growing proximity to the US is being cited as a possible reason for such assertive diplomacy from China in the region, but then the differences in the India-China relations are anything but new.

Against this backdrop, there are two ways to look at the Chinese decision to join the DBD project. Firstly, as a logical outcome of China's intention to further consolidate its economic partnership with Pakistan, indicating to the world in general and India in particular that the China-Pakistan ties continue to thrive even during a colossal pandemic and that China has the resources to commit to a controversial project. Secondly, as part of China's larger scheme of strategic pursuits in the region, taking advantage of geopolitical contingencies fomented by the pandemic to further deepen its engagement in India's neighbourhood.

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<sup>24</sup> Atif Ansar, Bent Flyvbjerg, Alexander Budzier and Daniel Lunn, **"Should We Build More Large Dams? The Actual Costs of Hydropower Megaproject Development"**, *Energy Policy*, SSRN, March 2014, p. 13.

<sup>25</sup> Talk by the Chief of the Army Staff, General Manoj Mukund Naravane, PVSM, AVSM, SM, VSM, ADC on **"COVID and Indian Army: Responses and Beyond"**, *MP-IDSA Webinar*, May 15, 2020.

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