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Sujan R. Chinoy



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DEFENCE STUDIES AND ANALYSES

मनोहर पारिकर रक्षा अध्ययन एवं विश्लेषण संस्थान

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# CHINA-PAKISTAN ECONOMIC CORRIDOR (CPEC): THE PROJECT AND ITS PROSPECTS

## Background

The China-Pakistan Economic Corridor (CPEC) has been earmarked as a flagship project of the Belt and Road Initiative (BRI), which is described as Chinese President Xi Jinping's signature foreign policy initiative and a grand strategy aimed at restoring China's "rightful" great-power status in the world (see Annexure I).<sup>1</sup> The CPEC was announced by Chinese Premier Le Keqiang during his visit to Pakistan in May 2013. The initial outlay for CPEC was US\$46 billion. The projects under the CPEC mainly relate to energy and infrastructure. The 3000 kilometres of roads, railways and pipelines (see Annexure II) are intended to transport oil and gas from southern Pakistan's Gwadar Port to Kashgar City, via the Khunjerab Pass in the Karakoram range in Pakistan occupied Kashmir (PoK), in north-western China's Xinjiang Uyghur Autonomous Region (XUAR).<sup>2</sup> The CPEC project received a huge boost during Xi Jinping's visit to Pakistan in 2015 when both nations agreed on '1+4' structure of the corridor, whereby the CPEC would be the hub, with "Gwadar Port, energy, transport infrastructure and industrial cooperation" as its four main spokes.

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<sup>1</sup> Lee Jones and Jinghan Zeng, "Understanding China's 'Belt and Road Initiative': Beyond 'Grand Strategy' to a State Transformation Analysis", *Third World Quarterly*, 40 (8), 2019, p. 1415.

<sup>2</sup> "Backgrounder: China-Pakistan Economic Corridor", *China Daily*, April 22, 2015 at [https://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content\\_20503693.htm](https://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm) (accessed on 19 January 2021).

China and Pakistan describe themselves as “all-weather strategic partners”<sup>3</sup>. The two countries have approved a Long-Term Plan For CPEC (2017-2030), to be implemented in three phases: (1) Short-term projects up to 2020, (2) Medium-term projects up to 2025, and, (3) Long-term projects up to 2030.<sup>4</sup> (See Annexure III)

- The first phase (2014-2020) focuses on energy and infrastructure projects and development of the Gwadar Port city.
- The second phase (2021-25) would focus on trade and market access, industrial development and development of global value chains, building the Gwadar Oil City and Blue Economy; regional connectivity and third-party participation.

## **Political and Strategic Motivation**

### ***The China Angle***

The Chinese Ambassador to Pakistan Yao Jing stated in 2018 that the ‘Iron Brothers’ relationship between China and Pakistan will forge a “new model of state-to-state relations”.<sup>5</sup> For China, the CPEC acts as a bridge between the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR). It is a major plank in China’s geo-strategic and economic architecture for the region, using Pakistan, a quasi-colony and ally, to secure an exploitative strategic perch in South Asia and the Arabian Sea, overlooking the crucial Persian Gulf, the west coast of India, and the east coast of Africa.

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<sup>3</sup> The State Council, Peoples Republic of China, “China, Pakistan to upgrade all-weather strategic partnership”, November 3, 2018 at [http://english.www.gov.cn/premier/news/2018/11/03/content\\_281476374207750.htm](http://english.www.gov.cn/premier/news/2018/11/03/content_281476374207750.htm) (accessed on 19 January 2021).

<sup>4</sup> CPEC Secretariat, “Long Term Plan For China-Pakistan Economic Corridor (2017-2030)”. 2017 at <http://cpec.gov.pk/brain/public/uploads/documents/CPEC-LTP.pdf>. (accessed on January 19, 2021).

<sup>5</sup> “Iron brothers Forged Model of State-to-State Relation”, April 10, 2018, available at [https://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/zwjg\\_665342/zwbdbd\\_665378/t1551304.shtml](https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zwjg_665342/zwbdbd_665378/t1551304.shtml) (accessed on January 19, 2021).

Further, the big energy and connectivity infrastructure projects under the CPEC are complemented by other projects to promote people-to-people exchanges, tourism, agriculture and healthcare, among others. The China-Pakistan First Aid Corridor Programme, implemented by the Red Cross Society of China in Pakistan, aims to highlight cooperation in the struggle against the COVID-19 pandemic. The official website of the CPEC states that the “CPEC will provide new opportunities, new vision as well as new impetus to China-Pakistan relations. It will effectively promote the economic and social development of Pakistan. The construction of CPEC will enhance connectivity and integration of development strategies of China and Pakistan, which is in the fundamental interests of our two peoples.”<sup>6</sup>

Realising Pakistan’s need for economic development and investments amidst a growing chasm between Washington and Islamabad, Beijing has seized a key opportunity and used the CPEC to build upon its historic partnership with Pakistan and draw its vassal into an even closer embrace. Today, it would be difficult to imagine Pakistan’s economic survival without assistance from China. China would never countenance the failure of the Pakistani state, a lynchpin of its South Asia policy.

At the same time, it is increasingly clear that the CPEC and Chinese project funding will come at a high cost for Pakistan. This, in effect, will permit China to exercise even greater influence and control over Pakistan, a nuclear power with fairly robust military capabilities. China intends to use Pakistan to confine India to the South Asian region and limit its heft in the Indian Ocean. At the same time, China also wants to bring stability to Pakistan, as it can play a supporting role in China’s efforts to become a global power.<sup>7</sup>

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<sup>6</sup> “10 Fundamentals of CPEC” at <http://cpecinfo.com/10-questions-on-cpec/> (accessed on January 19, 2021).

<sup>7</sup> Muhammad Kamran Taj, Zhang Liang, Umbreen Zafar, “CPEC Impact on Balochistan Economy”, p.69 at <https://www.rsisinternational.org/journals/ijriss/Digital-Library/volume-2-issue-9/69-70.pdf>(accessed on January 19, 2021).

The artery connecting China's Xinjiang Uyghur Autonomous Region (XUAR) with the port of Gwadar will act as a major alternative to China's existing energy corridor passing through the Indian Ocean and the Malacca Strait – a key chokepoint, which is considered a major strategic vulnerability for Beijing. Currently, China is overwhelmingly dependent on the maritime route for its energy imports. An energy pipeline through the Gwadar seaport has the advantage of bypassing the Malacca Strait altogether. It would be the shortest and most secure route to transport vital energy resources from West Asia to China.

The trade and connectivity projects of the CPEC are also aimed at helping China develop its economically backward western regions, especially Xinjiang province. China believes that this is crucial to curb militancy and separatism in the XUAR. In China's view, Pakistan is in a position to wield considerable influence over the Islamic Jihadi network that threatens China.

Gwadar is also a key link in China's "String of Pearls" strategy that seeks to thread together key commercial ports in the Indian Ocean region for strategic purposes, including Djibouti. Gwadar Port has the potential to be used as a Chinese naval base in future, which would put the PLA in the vicinity of strategic geography such as the Strait of Hormuz and also allow China to enhance its naval cooperation with Pakistan and Iran in the Indian Ocean region. The military use of Gwadar, especially the permanent stationing of naval assets by China in the future, could pose a complex challenge to the Indian Navy.

The CPEC cuts through the Karakoram Range. From a geostrategic standpoint, the region of Gilgit-Baltistan (GB), through which it traverses, is under the illegal occupation of Pakistan. Geographically, CPEC is close to the Indian presence on the Siachen Glacier as well as Sub-Sector North in Ladakh, the current flashpoint on the LAC between India and China. CPEC projects in the GB area give China an excuse to station its paramilitary construction Corps and expand its presence. In the event of extreme internal turmoil in Pakistan, it allows China to strengthen its grip over the region, especially Hunza. This must be seen against the backdrop of history in which, before China and Pakistan settled their so-called border through an agreement of March 2, 1963, China claimed the princely state of Hunza on specious grounds that it was a tributary state, even though Hunza itself

claimed the trans-Karakoram tract of Raskam/Shaksgam Valley. The 1963 deal left Hunza with Pakistan in return for ceding the entire trans-Karakoram tract to China. China may calculate that if Pakistan implodes in the long-run, it could take Hunza without effort based on fictional claims and physical presence, particularly since the 1963 agreement is provisional in nature as per its Article VI:

“The two Parties have agreed that after the settlement of the Kashmir dispute between Pakistan and India, the sovereign authority concerned will reopen negotiations with the Government of the People’s Republic of China, on the boundary as described in Article Two of the present Agreement, so as to sign a formal Boundary Treaty to replace the present agreement.”<sup>8</sup>

Following the abrogation of Article 370 of the Indian Constitution on August 5, 2019, India’s long-standing claim to GB in PoK has been reiterated with conviction. This is likely to prompt China to dig its heels in even further in the GB area, which is the fulcrum of the CPEC. The enduring presence of Chinese workers at key economic projects in the GB area could emerge as a factor to be considered in evaluating India’s military options during potential hostilities in the future.

### ***The Pakistan Angle***

Pakistan views the CPEC as a corridor that has the ability to transform Pakistan’s economy through its propinquity with the world’s second-largest economy in China. Most of the projects are for developing and modernizing transportation networks, road and rail, which are important for Pakistan’s economic growth. The energy transportation systems, which connect the deep-sea Pakistani ports of Gwadar and Karachi to China’s Xinjiang province and beyond, by overland routes, have the potential to stretch out all the way to countries such as Afghanistan, Tajikistan,

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<sup>8</sup> The text of the “The Boundary Agreement Between China and Pakistan, 1963” is available at <https://people.unica.it/annamariabaldussi/files/2015/04/China-Pakistan-1963.pdf> (accessed on January 19, 2021).

Kyrgyzstan, Kazakhstan, Mongolia and Russia. The CPEC will also establish Special Economic Zones (SEZs) in Pakistan.

China is spending \$35 billion to construct 19 new power plants. Pakistan faces a severe energy crisis with load-shedding that lasts from 6-8 hours at a time and is a daily countrywide phenomenon. Pakistan currently produces an average of 25,000 megawatts (MW). During peak seasons, it has an average electricity shortage of up to 7,000 MW.<sup>9</sup> According to a World Bank report published in December 2018, “Pakistan’s power sector suffers from inefficiencies that cost the economy \$18 [billion] or 6.5 per cent of [its] GDP”. Around 50 million people lack access to grid electricity.”<sup>10</sup> Therefore, CPEC energy projects are seen as a harbinger of growth and prosperity (Annexure IV).

Given the salience of the project, Imran Khan, who had earlier questioned the CPEC on grounds that it had an inherent commercial bias favouring Chinese companies, did a volte face upon becoming the Prime Minister and said that “CPEC is the gateway to prosperity. It is a sterling manifestation of the strong bonds between China and Pakistan. This mega initiative is ushering a new era of development”<sup>11</sup> (see Annexure-V).

The CPEC is not only perceived in Pakistan as helping the country economically but it is also seen as a long-term commitment by China to deepen ties. It is expected to boost their close strategic and military partnership and provide reassurance to Pakistan at a time when its external relations have been characterised by cooling-off of ties with the US and growing tensions with India. Moreover, Pakistan’s stock with leading lights in the Islamic world such as Saudi Arabia and the United Arab Emirates has plummeted, leading to greater dependency on China.

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<sup>9</sup> Sheraz Aziz, “Can China Solve Pakistan’s Energy Crisis?”, *Diplomat*, June 12, 2019 at <https://thediplomat.com/2019/06/can-china-solve-pakistans-energy-crisis/> (accessed on January 19, 2021).

<sup>10</sup> Press Release, “Power Sector Distortions Cost Pakistan Billions”, 12 December 12, 2018 at <https://www.worldbank.org/en/news/press-release/2018/12/11/power-sector-distortions-cost-pakistan-billions> (accessed on January 19, 2021).

<sup>11</sup> “CPEC: A Gateway to Prosperity”, at <http://www.cpec.gov.pk> (accessed on January 19, 2021).

Importantly, the all-powerful military in Pakistan attaches great strategic significance to the CPEC and remains committed to its viability. This was apparent when the Pakistan Army Chief visited China on a special invitation to reaffirm his support for the CPEC and the ISPR tweeted, “while we work for peace, we need to stay strong to thwart designs of all inimical forces challenging our resolve and we greatly value Chinese support in this regard”. This was to reassure China since the CPEC had become embroiled in Pakistan’s domestic politics as a bone of contention between Nawaz Sharif and Imran Khan. The Army chief gave the assurance that the “BRI, with CPEC as its flagship, is destined to succeed despite all odds and the Pakistan Army shall ensure security of CPEC at all costs”.<sup>12</sup>

The CPEC is seen as a game changer in Balochistan. It is expected to bring development to the insurgency-ridden province. While the Government of Pakistan continues to use ruthless military means to deal with the insurgency, there is a strongly-held view that the employment opportunities and prosperity generated by economic development will eventually help contain the insurgency. Several economic zones as well as the Gwadar Port are expected to bolster economic activity (see Annexure VI). Some scholars argue that “the willingness of the Chinese businesses to invest in Balochistan has provided relief to the country and also an opportunity to address domestic challenges.”<sup>13</sup>

From a security angle, the development of Gwadar could provide Pakistan with an alternative base in the event of India imposing a naval blockade on Karachi. According to a former naval officer of the Pakistan Navy, Gwadar is important “to cater for security (it) being away from India and close to [Pakistan’s] vital shipping lines; to provide access to China,

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<sup>12</sup> “General Qamar Javed Bajwa, Chief of Army Staff (COAS) called on Chinese President Xi Jinping on special invitation”, Beijing, September 19, 2018, No PR-286/2018-ISPR at <https://www.ispr.gov.pk/press-release-detail.php?id=4940> (accessed on January 19, 2021).

<sup>13</sup> Muhammad Kamran Taj, Zhang Liang, Umbreen Zafar, “CPEC Impact on Balochistan Economy”, p.69 <https://www.rsisinternational.org/journals/ijriss/Digital-Library/volume-2-issue-9/69-70.pdf> (accessed on January 19, 2021).

Afghanistan and Central Asia; and, to serve as a hub port for the region”.<sup>14</sup> There is also the possibility of Gwadar in Pakistan and Chabahar in Iran cooperating in some manner even though the ports would be commercial competitors. This would help China gain greater influence over Iran at a time when it remains under sanctions; Iran naturally considers China a great benefactor and a counterweight to the US, long considered a “Satan”. On the back of the CPEC, Pakistan could emerge as a key player in bringing China and Iran even closer.

## Management of Projects

The Pakistan army is deeply involved in the CPEC project and attaches great priority to ensuring its security. A Special Security Division (SSD) comprising 9,000 Pakistan soldiers and 6,000 para-military personnel is reported to have been set up for the security of the CPEC project and Chinese workers. A CPEC Authority was established in 2019, ostensibly to monitor the timely completion of the project, using a presidential ordinance. The special Authority ended up side-lining the Planning Commission. Lt General (Retd.) Asim Bajwa was appointed as the Chairman of the Authority, to co-chair the Joint Cooperation Committee. The appointment of a retired military officer who was earlier spokesperson of the Army reveals the determination of the Army to virtually run the CPEC. The fact that Asim Bajwa survived an allegation of corruption in August 2020<sup>15</sup>, coupled with the strengthening of the nascent structure through a legislation<sup>16</sup>, points to the firm grip of the army on strategic projects.

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<sup>14</sup> Safdar Sial, “CPEC in Balochistan: Local concerns and implications”, PIPS, Pakistan, p.3.

<sup>15</sup> See Ahmad Noorani, “Bajwa Family Business Empire Grew In Four Countries In Sync With Asim Bajwa’s Rise In Military”, Fact Focus, August 27, 2020, at <https://factfocus.com/politics/1756/> (accessed on January 19, 2021).

<sup>16</sup> See the Bill which was cleared by the National Assembly Standing Committee on Planning and Development on November 17, 2020 titled “China Pakistan Economic Corridor Authority Act 2020” at [http://www.na.gov.pk/uploads/documents/1603981127\\_397.pdf](http://www.na.gov.pk/uploads/documents/1603981127_397.pdf). (accessed on January 19, 2021) The Pakistan parliament was expected to vote on it in December 2020 but it has not happened thus far.

To coordinate matters, China and Pakistan have also set up a Joint Cooperation Committee (JCC) with secretariats that are located within the National Development and Reform Commission of China and the Ministry of Planning, Development and Reforms of Pakistan.

## **Key Projects**

So far, nine out of 17 energy projects have been completed and eight others are under construction, while work on the remaining five is yet to start.<sup>17</sup> Infrastructure development is in full swing. The Executive Committee of the National Economic Council (ECNEC) has recently approved a dual carriageway and upgrading of a 1,872-km railway track from Peshawar to Karachi as part of the second phase of the CPEC project. The Gwadar District Economic Zone is also being developed. There is a proposal to include agriculture, science, technology and tourism sectors into CPEC. The CPEC Authority Bill 2020, which would bring all the ministries that are involved in CPEC under one CPEC Authority, is on the anvil. With over 2,000 km of extensive construction connecting China to Gwadar, China is also rolling out support for 4G mobile networking with an investment of US\$225 million which will also boost smartphone usage in the area.

### ***Gwadar Port: Jewel in the Crown***

The Gwadar Port is one of the flagship projects under the CPEC in the restive province of Balochistan. In November 2017, the Federal minister for Ports and Shipping Mir Hasil Bizenjo had informed the Senate that 91 per cent of the revenues to be generated from the Gwadar Port would go to China, while the Gwadar Port Authority would get a 9 per cent share of the income for the next 40 years. The agreement was based on a build-operate-and-transfer model. It will retain over 91 per cent of revenue

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<sup>17</sup> Going by Gen (Retd.) Bajwa's briefing to the Senate Special Committee on July 20, 2020, in all, 19 projects had been completed, 28 were under implementation and 41 were in the pipeline (see Annexure VII).

from its marine operations and 85 per cent of the revenue from the management of an adjacent free-zone.<sup>18</sup>

As per the agreement, the operator, China Overseas Ports Holding Company, will also be exempt from major taxes for more than 20 years. The China-Pakistan Investment Corporation (CPIC) is investing US\$150 million in a mega Gwadar Port development project, which covers 3.6 million square feet and offers a mixed-use, gated development in the heart of Gwadar to cater to locals, expatriates and Chinese professionals. According to CPIC, the city is expected to provide 923 hectares of land for its 'free zone' as some 500,000 professional workers are scheduled to make their way into the region between now and 2023.<sup>19</sup>

China has committed over US\$1 billion to finance certain construction projects in the proposed port city whilst looking to improve the infrastructure of the city and surrounding areas. The US\$140 million pledged to complete the East Bay Expressway will link the port to the major Makran Coastal Highway. The China Overseas Port Holdings Company would be funding infrastructure projects worth US\$2 billion to augment the wider Gwadar Special Economic Zone. A brand new \$300 million International Airport is planned for construction in Gwadar. In January last year, Saudi Arabia also announced a plan to establish a US\$10 billion oil refinery in Gwadar.

### ***Other Projects***

In 2017, the lease for the Saindak mine in Balochistan, being developed by China, was extended for another 15 years, sparking off local resentment. The mine was initially leased for a 10-year period to the Metallurgical Corporation of China Limited, registered locally under the name of Saindak Metals Limited (SML).

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<sup>18</sup> "China to get 91pc Gwadar income, minister tells Senate", *Dawn*, November 25, 2017, at <https://www.dawn.com/news/1372695> (accessed on January 19, 2021).

<sup>19</sup> "Our First State-Of-The-Art Development, International Port City, Sold Out In Record Time" at <https://www.cpicglobal.com/international-port-city-gwadar> (accessed on January 19, 2021).

In August 6, 2020, the Executive Committee of the National Economic Council (ECNEC) approved the upgradation of existing Mainline-1 (ML-1). The 1,872-kilometre railway project from Peshawar to Karachi is a strategic project worth US\$ 6.8 billion which includes the establishment of a dry port near Havelian and the up-gradation of the Walton Academy. Mainline-1 (ML-1) has been approved on a cost-sharing basis between the governments of China and Pakistan. The project will be executed in three packages, with the loan amount for each package separately contracted in order to avoid commitment charges.

## **Environmental Impact and Corruption in CPEC Projects**

Land acquisition for the Sahiwal coal power plant project was done in a controversial manner. People were forced to sell their agricultural land. In the case of those who were unwilling to do so, the police brought charges of terrorism against them to force them to part with their lands. Some of the residents in Sahiwal have also reported health issues, attributed to the drinking water being contaminated by the coal power plant. Many of them have complained of asthma, pneumonitis (inflammation of the lung tissue) and chronic obstructive pulmonary disease (COPD).

The government buys electricity from the power plant at 8.3601 US cents/kilowatt hour which is quite high.<sup>20</sup> The set-up cost for the Sahiwal was a whopping 26 per cent of the total cost of the plant. There were reports of malpractices to the tune of Pakistani rupees (PKR) 100 billion (US\$ 625 million) in the independent power generating sector, with at least a third of it relating to Chinese projects.<sup>21</sup> According to the report of the committee set up by the government, “excess set-up costs of PKR 32.46 billion (approximately US\$ 204 million) was allowed to the two coal-based [Chinese] plants due to misrepresentation by sponsors regarding [deductions for] the ‘Interest During Construction’ (IDC) as well as non-

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<sup>20</sup> Syed Muhammad Abubakar, “Life Under the Shadow of a Coal-fired Power Plant”, *Dawn*, December 22, 2019 at <https://www.dawn.com/news/1522388> (accessed on January 19, 2021).

<sup>21</sup> Sohaib R. Malik, “The true Cost of Power”, *Dawn*, June 7, 2020 at <https://www.dawn.com/news/1561545> (accessed on January 19, 2021).

consideration of earlier completion of plants.”<sup>22</sup> The interest deduction was apparently allowed for 48 months whereas the plants were actually completed within 27-29 months leading to entitlement of an excess Return on Equity (RoE) of \$27.4 million annually over the entire project life of 30 years in the case of the Sahiwal plant. The estimated excess payment, works out to a whopping PKR 291.04 billion (approximately US\$ 1.8 billion). The railway infrastructure was also extended to transport the imported coal from the Port Bin Qasim in Karachi to the coal power plant. Eight hundred railroad freight cars were ordered from Jinan Railway Vehicle Equipment Company, a subsidiary of CRRC Corporation Limited, for US\$ 37 million. Speaking in Karachi, the Consul General of China bared it all when he said “...where this money will come from if Pakistan does not have it...it will be borrowed, and from a business point of view, the investor invests to make money”<sup>23</sup> thereby justifying the substantial profit made by Chinese companies (see Annexure VIII).

There are accusations that the National Electricity Power Regulatory Authority (NEPRA) of Pakistan selectively allows companies to increase tariff. In this context, K-Electric was allowed to increase the electricity tariff in Karachi. The decisions will allow K-Electric to collect Rs 106 billion from the power consumers in Karachi. It needs to be noted that the K-Electric is in negotiation with Shanghai Electric which is going to acquire 66.4 per cent of the share.

## **Opposition in Pakistan to CPEC**

Chinese investment has raised many concerns in Pakistan as the terms and conditions of the loan were not made public. The CPEC has elicited a

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<sup>22</sup> Ahmad Ahmadani, “Govt asked to recover Rs100 billion from ‘corrupt’ IPPs”, *Dawn*, April 11, 2020 at <https://profit.pakistantoday.com.pk/2020/04/11/govt-asked-to-recover-rs100billion-from-corrupt-ipp/> (accessed on January 19, 2021).

<sup>23</sup> “Forces against Pakistan, China behind anti-CPEC propaganda, says Li Bijian”, *The News*, February 25, 2020 at <https://www.thenews.com.pk/print/619289-forces-against-pakistan-china-behind-anti-cpec-propaganda-says-li-bijian> (accessed on January 19, 2021).

mixed response at best. Some Pakistanis think that it is a game changer while others look at it as colonisation by China. For example, Senator Tahir Mashhadi, Chairman of the Senate Standing Committee on Planning and Development of Pakistan, likened the CPEC to “another East India Company in the offing”; he argued that Pakistan’s “national interests are not being protected” adding that “we are proud of the friendship between Pakistan and China, but the interests of the state should come first. Whatever loans are taken from China will have to be paid by the poor people of Pakistan” (see Annexure IX) Senator Usman Khan Kakar from Balochistan said the projects would benefit the Chinese and Punjabis and not the local people in Balochistan. This is a very sensitive issue since many people in Balochistan have long resented colonisation and exploitation of the province’s natural resources by the Punjabi-dominated federal government and army; projects are seen as instruments the main objective of which is to reduce the Baloch to a minority in their own province.<sup>24</sup>

The provincial government of Balochistan took more than three years to approve the construction on the Gwadar power project. The Federal Minister for Planning, Development and Special Initiatives, Asad Umar, also constituted two special committees to prepare a programme on fast-track basis for the development of Gwadar Port and other development projects of Balochistan, given their priority status in the CPEC. Writing in the *Diplomat*, former US Ambassador to the US and columnist Hussain Haqqani stated,

“China’s consistent strategic support, including help with Pakistan’s nuclear program, is often held out by Pakistan’s military establishment favourably in contrast with the more conditional Pakistani alliance

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<sup>24</sup> Adnan Amir, “The Balochistan Insurgency and the Threat to Chinese Interests in Pakistan” at <https://jamestown.org/program/the-balochistan-insurgency-and-the-threat-to-chinese-interests-in-pakistan/> (accessed on January 19, 2021), also see “Pakistani separatist groups unite to target China’s Belt and Road”, August 1, 2020, at <https://asia.nikkei.com/Spotlight/Belt-and-Road/Pakistani-separatist-groups-unite-to-target-China-s-Belt-and-Road> (accessed on January 19, 2021).

with the United States. But it seems now that China is not in Pakistan to help its people but rather as a predatory economic actor”.<sup>25</sup>

Justifying the Baloch resentment, the former Chief Minister of Balochistan queried: “How can you expect the local people not to be resentful if their share of jobs in provincial institutions such as GDA or the Gwadar Port Authority is minimal”.<sup>26</sup>

After the election, PTT’s senior Minister Abdul Razak Dawood, responsible for commerce, textiles, industry and investment, said,

“The previous government did a bad job negotiating with China on CPEC - they didn’t do their homework correctly and didn’t negotiate correctly so they gave away a lot. Chinese companies received tax breaks, many breaks and have an undue advantage in Pakistan; this is one of the things we’re looking at because it’s not fair that Pakistan companies should be disadvantaged”.<sup>27</sup>

The government also established a nine-member committee to evaluate the CPEC. However, the Imran Khan government did not succeed as the Pakistan Army pushed back any effort to renegotiate the CPEC.

Chairing a Senate committee in August 2018 soon after Imran Khan took over as the Prime Minister of Pakistan, PTT’s politician Shibli Faraz, questioned the “discrimination” in creating a dedicated US\$ 179 million revolving fund to ensure regular partial payments to Chinese power companies. The Independent Power Producers (IPP) which invested in

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<sup>25</sup> Hussain Haqqani, “Pakistan Discovers the High Cost of Chinese Investment”, May 18, 2020, at <https://thediplomat.com/2020/05/pakistan-discovers-the-high-cost-of-chinese-investment/> (accessed on January 19, 2021).

<sup>26</sup> “Ex-CM wants greater role of Baloch people in CPEC projects”, *Dawn*, February 10, 2020 at <https://www.dawn.com/news/1533576/ex-cm-wants-greater-role-of-baloch-people-in-cpec-projects> (accessed on January 19, 2021).

<sup>27</sup> “Pakistan rethinks its role in Xi’s Belt and Road plan”, *Financial Times*, September 9, 2018, at <https://www.ft.com/content/d4a3e7f8-b282-11e8-99ca-68cf89602132> (accessed on January 19, 2021).

the power sector did not receive the same benefits. A vast Chinese-funded infrastructure project in Pakistan has become a major trigger for insurgents, galvanising their movement as they employ new tactics – including suicide attacks – in an escalation that could rattle Beijing, observers say. Analysts suggest that Chinese investment appears to have infused the nationalist movement with new energy, inflaming the long-running grievance over resources and sometimes giving disparate groups a common focus. At the same time, Pakistan’s determination to protect Chinese investment has prompted the military to strengthen its grip and use heavy-handed tactics against any opposition to the projects, deepening resentment among the Baloch people. Nationalist politician Jan Mohammed Buledi said “when locals resist, they are kidnapped, tortured and their mutilated dead bodies appear,” he explained, before claiming that young Baloch have “no option but to blow themselves up”. “And now with the influx of the Chinese, the Baloch separatists are getting international attention, so it seems the only way out”.<sup>28</sup> Anger against the Chinese, seen as usurpers, is real and powerful, nationalist politician Jan Mohammed Buledi from Balochistan maintains, but the true enemy for the Baloch insurgents remains the Pakistani state, with analysts warning that unless genuine grievances are addressed, a low-level insurgency could continue indefinitely. The Pakistani military maintains a crushing grip on the insurgency and is determined to protect Chinese investment. This has prompted the military to further intensify its hold over the state.<sup>29</sup>

The locals also feel that Balochistan’s resources are exploited for the benefit of the Pakistani elite and that the local population do not gain anything. For example, Pakistani authorities said last year that the country had earned US\$2 billion (€1.75 billion) through the Saindak project, developed by the

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<sup>28</sup> AFP, “The Baloch vs Beijing - Pakistani militancy targets Chinese investment”, *Arab News*, May 15, 2019 at <https://www.arabnews.pk/node/1497171/pakistan> (accessed on January 19, 2021).

<sup>29</sup> AFP, “Baloch versus Beijing: How Chinese investment in Pakistan has energised a violent separatist movement”, *South China Morning Post*, May 15, 2019 at <https://www.scmp.com/news/asia/south-asia/article/3010258/baloch-versus-beijing-how-chinese-investment-pakistan-has> (accessed on January 19, 2021).

Chinese between 2002 and 2017. Senator Akram Baloch said in an interview to *Deutsche Welle* (DW) that “in order to appease China, the government is giving contracts to Beijing without taking the Baloch people into confidence. The people of the province are the real owners of these minerals”.<sup>30</sup> Abdur Mallick, former Chief Minister from Balochistan said that the province is not getting its due share of royalties from these projects. Kaiser Bengali, an eminent economist, former adviser to the Government of Balochistan and representative of the state in the NFC, said that “the contractual process and terms with the Chinese companies are not transparent. The Balochistan government is peripheral to these agreements. There has been little benefit to the locals despite multiple extraction operations at Saindak,”<sup>31</sup>

## Conflict with Local Population

There are media reports of clashes between Pakistan police and Chinese engineers. In one such case, when the Chinese engineers and other officials were denied permission to leave the camp without being accompanied by security officials, the Chinese workers responded by snapping the power supply to the police camp within the project premises leading to a clash.<sup>32</sup> There were also reports of Chinese traffickers luring Pakistani women to China with sham marriages for prostitution and charging fees ranging from US\$12,000 to US\$25,000 per woman.<sup>33</sup>

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<sup>30</sup> “Why Chinese investment is stoking anger in Pakistan’s Balochistan province”, *DW*, July 15, 2020 at <https://www.dw.com/en/why-chinese-investment-is-stoking-anger-in-pakistans-balochistan-province/a-54188705> (accessed on January 19, 2021).

<sup>31</sup> *Ibid.*

<sup>32</sup> Sajjad Akbar Shah, “Chinese workers thrash policemen in Khanewal”, *Dawn*, January 25, 2019 at <https://www.dawn.com/news/1399531> (accessed on January 19, 2021).

<sup>33</sup> Saher Baloch, “The Pakistani brides being trafficked to China”, May 15, 2019, BBC Urdu, Lahore at <https://www.bbc.com/news/world-asia-48260397> ; “Abused, raped: heart-wrenching stories of Pakistani brides trafficked to China”, at <https://www.scmp.com/news/asia/south-asia/article/3041898/abused-raped-and-unfed-heart-wrenching-stories-pakistani> (accessed on January 19, 2021).

## Pakistan's Mounting Debt

The debt service terms are 7-8 per cent with many pegged to six-month Libor, including Sinosure, which is the fee for reinsurance of loans that Chinese banks require all foreign borrowers to pay. Most of the projects coming in the form of direct investment have a debt-to-equity ratio of around 80:20 or in some cases 75:25. And in most cases, return on equity (ROE) to Chinese companies is guaranteed at a usurious rate of between 17 or 20 per cent.<sup>34</sup>

More than two-thirds of the money committed for the 'early harvest' projects is actually on commercial terms. Of the total US\$ 28 billion that come under the 'early harvest' projects, US\$19 billion are in the form of foreign direct investment on commercial terms and even the agreement signed in November 2013 between the Governments of China and Pakistan that created this raft of investments mentions that these will follow "market principles".

According to IMF estimates, the annual debt repayment for CPEC-related investment and Government-to-Government loans would reach US\$ 3.5 billion by 2024-2025. The gross external financing needs of the country will jump almost 60 per cent by then, from a projected US\$ 11 billion for the current fiscal year to US\$ 17.5 billion in 2020. Once the Chinese investors begin repatriating profits, it "could add up to a significant level, given the magnitude of the FDI". It is being estimated that both repayments and profit repatriation, "could reach about 0.4 per cent of GDP per year over the longer run".

According to a media report, "Pakistan's external debt and liabilities stood at \$110 billion by the end of March 2020, registering an increase of US\$ 3.6 billion in the first nine months of FY 2020. The increase was due to the external public debt stock that rose by \$3 billion. It revealed that the

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<sup>34</sup> Hussain Haqqani, "Pakistan Discovers the High Cost of Chinese Investment", May18, 2020 at <https://thediplomat.com/2020/05/pakistan-discovers-the-high-cost-of-chinese-investment/> (accessed on January 19, 2021).

debt from multilateral and bilateral sources increased by US\$ 2.3 billion. Gross external loan disbursements were recorded at US\$ 8.017 billion in the first nine months of FY 2020. Disbursements from multilateral sources including the IMF amounted to US\$ 4.839 billion, accounting for 60 per cent of total disbursements, in which the Asian Development Bank (ADB) and the IMF were the main contributors. Disbursements from bilateral sources stood at \$1.305 billion. Out of this, disbursements from Saudi Arabia and China were \$720 million and \$460 million respectively. Commercial loans contributed \$1.873 billion to the external public debt disbursements. Interest payments stood at \$1.579 billion during July 2019-March 2020.”<sup>35</sup> In July 2019, the IMF provided Pakistan a US\$ 6 billion loan package to rein-in mounting debts and stave off a looming balance of payments crisis, in exchange for improving the business environment, strengthening institutions, increasing transparency, and protecting social spending. Pakistan had sought US\$1.4 billion worth of emergency facility from the IMF to offset the impact of COVID-19 on its external sector. Pakistan has US\$2.545 billion of debt service payments owed to commercial creditors in the next fiscal year, of which US\$2.3 billion is owed to China. Next, US\$ 6.744 billion is owed to non-Paris Club bilateral creditors, of which US\$3.48 billion is again owed to China and US\$2.245 billion to Saudi Arabia in the financial year 2021.<sup>36</sup>

According to the daily *Dawn*, “Pakistan requested China for ease in payment obligations of over \$30 billion of about 12,000-megawatt power projects under the CPEC to minimise its financial and economic difficulties. Pakistan has to pay about \$615 million to China between May 2020 and June 2021 under bilateral debt.” According to the same report, “Pakistan desires to bring down mark-up on debt to London Interbank Offer Rate plus two (Libor+2) per cent from the existing average of about Libor+4.5 per

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<sup>35</sup> Zafar Bhutta, “Covid-19 shock may increase Pakistan’s debt-to-GDP ratio”, *Express Tribune*, June 12, 2020 at <https://tribune.com.pk/story/2240790/2-covid-19-shock-may-increase-pakistans-debt-gdp-ratio> (accessed on January 19, 2021).

<sup>36</sup> Khurram Husain, “Pakistan included in G20 debt relief plan”, *Dawn*, April 16, 2020 at <https://www.dawn.com/news/1549599> (accessed on January 19, 2021).

cent. Pakistan has sought an extension in debt repayment period in the tariff to 20 years from the existing repayment period of 10 years. Almost all the power sector projects in the country have upfront 10-year debt repayment in their tariff structure<sup>37</sup>(see Annexure X).

According to media reports, Pakistan government lacks resources to fund some of the projects under the CPEC due to the resource crunch. For example, against the total requirement of PKR 31.6 billion, the Ministry of Finance has proposed Rs 7.4 billion for the seven federally- funded projects in Balochistan. Only two on-going schemes will receive full funding. Against the requirement of Rs 2.9 billion, the five-million-gallon-per-day desalination plant at Gwadar, being set up under CPEC, is likely to receive only PKR 400 million in the next fiscal year. The Gwadar Smart Environmental and Sanitation System and Landfill project of CPEC will receive only PKR 500 million against the total requirement of PKR 2.2 billion. Another Gwadar project for fresh water treatment and water supply has been proposed to receive PKR1.5 billion against a pending requirement of PKR 6.3 billion.

The Special Security Division (SSD) raised by Pakistan for the security of the CPEC projects and Chinese workers has come at a huge and mounting cost. The Federal government in the financial year 2017-18 allocated PKR1.8 billion, in 2018-19 it was PKR 45 billion and in 2019-2020 it was PKR 5.8 billion. The external debt of the central government increased from PKR 11 trillion in June to PKR 11.23 trillion in February this year.

After the attack on the Zaver Pearl Continental Hotel in Gwadar, the then military spokesman, Major-General Asif Gafoor said that the Pakistan Army would raise another division-size special force to protect Chinese nationals and projects under the CPEC.<sup>38</sup>

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<sup>37</sup> “High-risk countries approach China for debt relief”, May 1, 2020, *Dawn* at <https://www.dawn.com/news/1553610> (accessed on January 19, 2021).

<sup>38</sup> “Pakistan to deploy another division for CPEC security”, *The News International*, May 19, 2019 at <https://www.thenews.com.pk/print/473155-pakistan-to-deploy-another-division-for-cpec-security> (accessed on January 19, 2021).

## Attacks on Chinese Workers

Chinese workers have been frequently targeted in Balochistan. A suicide blast in south-western Pakistan in August 2018 injured at least six people, including three Chinese engineers, while unknown gunmen killed three policemen in a northern region bordering China. Authorities in restive Balochistan province confirmed that a team of Chinese workers was returning from a Saindak mining project when the bomber detonated his explosives-laden vehicle near their bus, just outside the town of Dalbandin.

In November 2018, an attack targeting the Chinese Consulate in Karachi's Clifton area was foiled by security forces but left at least seven people dead. Two policemen lost their lives due to multiple injuries caused by explosive material, while a private security guard was injured in the blast.

On May 12, 2019 three gunmen who stormed the Zaver Pearl-Continental Hotel in the strategic port city of Gwadar in Balochistan, killing at least one guard, were shot dead by security forces, officials said.

The attack and subsequent siege lasted several hours. The separatist Balochistan Liberation Army claimed responsibility for the attack. The group said that the hotel, the centrepiece of a multi-billion-dollar Chinese project, was selected in order to target Chinese and other investors. Militants in Balochistan oppose Chinese investment, regarding it is of little benefit to local people.

On October 15, 2020, seven Frontier Corps (FC) soldiers were killed by Baloch insurgents in the coastal Ormara district of Balochistan while they were escorting a convoy of oil and gas workers.<sup>39</sup>

On December 27, 2020, Baloch insurgents killed another seven Pakistani paramilitary personnel from the Frontier Corps (FC) following an intense

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<sup>39</sup> Naveed Siddiqui, "13 security personnel, 7 private guards martyred in two attacks in Ormara, North Waziristan", *Dawn*, October 16, 2020 at <https://www.dawn.com/news/1585213> (accessed on January 19, 2021).

exchange of fire after an attack on their check-post in the Sharig area of Harnai district in north-eastern Balochistan.<sup>40</sup>

## High Cost of Chinese Investment Ignored

In August 2019, Government of Pakistan set up a nine-member committee<sup>41</sup> (Committee for Power Sector Audit, Circular Debt Reservation, and Future Roadmap) to identify and examine the reasons for the high cost of power in country. The Committee's terms of reference (ToR) covered four broad areas, i.e., review matters pertaining to the cost of setting up private power generation units under various policies, study all aspects of project-costing, identify unethical or illegal practices, if any, identify administrative and procedural weaknesses and regulatory gaps, and recommend the way forward.

The Committee came out with a 278-page report in April 2020<sup>42</sup>, which, among other things revealed that the \$1.7 billion Lahore-Matiari power transmission line project under the CPEC was 234 per cent expensive than a similar project in India with better technology by a Swiss company. The report also revealed that some of the Chinese companies, Huaneng Shandong Ruyi (Pak) Energy (HSR) and the Port Qasim Electric Power Company Limited (PQEPCL) coal plants under CPEC had inflated their set-up costs. The report said that “excess set-up costs of [PKR] 32.46 billion (approximately \$204 million) was allowed to the two ... [Chinese]

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<sup>40</sup> See the ISPR Tweet at <https://twitter.com/OfficialDGISPR/status/1343165700064636930?s=20>. Also see Gul Yousafzai, “Seven Pakistani soldiers killed in attack in southwest”, Reuters, December 27, 2020 at <https://www.reuters.com/article/pakistan-militants-attacks/seven-pakistani-soldiers-killed-in-attack-in-southwest-idUSL4N2J707I> (accessed on January 19, 2021).

<sup>41</sup> Shahram Haq, “Govt forms committee for power-sector audit”, *The Tribune*, 18 August 2019, at Govt forms committee for power-sector audit ([tribune.com.pk](http://tribune.com.pk)) (accessed on 21 January 2021).

<sup>42</sup> Shahbaz Rana, “Umar wants explosive power sector inquiry made public”, *The Tribune*, 21 April 2020, at <https://tribune.com.pk/story/2203143/2-umar-wants-explosive-power-sector-inquiry-made-public> (accessed on 21 January 2021).

plants due to misrepresentation by sponsors regarding [deductions for] the ‘Interest During Construction’ (IDC) as well as non-consideration of earlier completion of plants”. Citing this, seasoned observers in Pakistan believed that “the estimated excess payment, keeping in mind the 6 percent annual rupee depreciation against the dollar, works out to a whopping Rs. 291.04 billion (approximately \$1.8 billion)”.<sup>43</sup> This report was not made public because it could have had adverse implications for Pakistan’s relationship with China.<sup>44</sup>

## Other Developments/Regional Implications

On July 27, 2020, China, Pakistan, Afghanistan and Nepal had a quadrilateral meeting in which China has put forward two proposals under BRI: (1) Extending the CPEC to Afghanistan, (2) Working on an economic corridor with Nepal, called the ‘Trans-Himalayan Multi-dimensional Connectivity Network.

There are also reports suggesting that China might be working on a 25 year-long economic deal with Iran worth US\$400 billion — that can easily eclipse the size of the CPEC— with potential investments in port development at Strait of Hormuz, “\$280 billion in Iran’s oil and gas industry and \$120 billion in production and transportation infrastructure”. While the exact modalities and the possibility of the deal are far from clear, it is seen as an attempt by China to bring both Iran and Pakistan close together under its strategic umbrella, taking advantage of the deteriorating bilateral relations between these countries and the US.

There have been also reports suggesting that there might be an attempt by China to form a strategic ‘golden ring’ involving Russia, Turkey, Iran, and Pakistan, with the possibility of also linking “Gwadar and Chabahar to

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<sup>43</sup> Hussain Haqqani, “Pakistan Discovers the High Cost of Chinese Investment”, *The Diplomat*, 18 May 2020, at <https://thediplomat.com/2020/05/pakistan-discovers-the-high-cost-of-chinese-investment/> (accessed on 21 January 2021).

<sup>44</sup> Shahbaz Rana, *op. cit.*

China by rail through Pakistan”.<sup>45</sup> If realized, this would be a setback for India as it has been working on the Chabahar project for a while now as a gateway to Afghanistan and Central Asia with Iran’s assistance. During his visit to Pakistan, Iranian Foreign Minister Javed Zarif had invited Pakistan and China to work in Chabahar.<sup>46</sup>

The extension of the CPEC to Afghanistan and its strategic influence over Iran on the other flank would give China a lever for wielding additional influence over Kabul – on both the civilian government and the Taliban – at a time when the US is planning a withdrawal from Afghanistan. China also looks to rein-in the militancy in East Turkestan, which has links to Al Qaeda/Taliban in FATA and the cross-border tracts in Afghanistan.

## India’s Position on CPEC

In a meeting held in June 2014, the then External Affairs Minister of India (EAM) Sushma Swaraj told her Chinese counterpart Wang Yi that “Mr Minister, we support the One-China policy. However, we expect you to also have a One India policy”. This was a clear pointer to the duplicitous position of China on the question of Jammu & Kashmir. On May 5, 2017, before Beijing hosted the first Belt and Road Forum (BRF), the then Ambassador of China to India, Luo Zhaohui, speaking at the USI, said:

“The OBOR and regional connectivity could provide China and India with fresh opportunities and highlights for the bilateral

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<sup>45</sup> Saleem Sahid, “Rail link planned between Gwadar and Iranian port”, *Dawn*, January 12, 2016 at <https://www.dawn.com/news/1232397/rail-link-planned-between-gwadar-and-iranian-port>, Also see APP, “Pakistan considering to link Gwadar with Chabahar: Sartaj Aziz”, *Express Tribune*, May 27, 2016 at <https://tribune.com.pk/story/1111323/pakistan-considering-link-gwadar-chabahar-sartaj-aziz>; “Projects in Iran, Pakistan can complement each other: China” *Dawn*, June 2, 2016 at <https://www.dawn.com/news/1262242> (accessed on January 19, 2021).

<sup>46</sup> Baqir Sajjad Sayeed, “Iran invites Pakistan to participate in Chabahar project”, *Dawn*, March 13, 2018. Also see Liu Lulu, “Iranian port of Chabahar could be model for China-India collaboration”, *Global Times*, March 19, 2018 at <http://www.globaltimes.cn/content/1094148.shtml> (accessed on January 19, 2021).

cooperation. The OBOR is a major public product China has offered to the world. It is a strategic initiative aimed at promoting globalization and economic integration. However, India still has reservations over the OBOR, saying that the China Pakistan Economic Corridor (CPEC) passes through the Pakistan-Controlled-Kashmir, raising sovereignty concerns. China has no intention to get involved in the sovereignty and territorial disputes between India and Pakistan. China supports the solution of the disputes through bilateral negotiations between the two countries. The CPEC is for promoting economic cooperation and connectivity. It has no connections to or impact on sovereignty issues. China and India have had successful experience of delinking sovereignty disputes with bilateral relations before. In a word, China is sincere in its intention to cooperate with India on the OBOR, as it is good for both of us.<sup>47</sup>

In this speech he also said “Even we can think about renaming the CPEC;”, however this part of the speech was removed from the Embassy website after two days.<sup>48</sup>

Among the Chinese Ambassador’s many suggestions was one about the two sides actively exploring the feasibility of aligning China’s “One Belt One Road Initiative” (OBOR) and India’s “Act East Policy”.<sup>49</sup> This refrain

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<sup>47</sup> Mr Luo Zhaohui, Ambassador of the People’s Republic of China in India, “In My Eyes: India, Indians and India-China Relations”, *USI Journal*, April 2017 - June 2017 at <https://usiofindia.org/publication/usi-journal/in-my-eyes-india-indians-and-india-china-relations/> (accessed on January 19, 2021).

<sup>48</sup> China Quietly Deletes Ambassador’s Offer to ‘Rename CPEC’ From Embassy Website, <https://thewire.in/diplomacy/cpec-obor-china-india-rename>. The unedited speech was published in the *USI Journal* mentioned in the citation no. 36, where he says: “Even we can think about renaming the CPEC. China and India have had successful experience of delinking sovereignty disputes with bilateral relations before. In history, we have had close cooperation along the ancient Silk Road. Why shouldn’t we support this kind of cooperation today?”

<sup>49</sup> “After China’s envoy offered to rename CPEC for India’s sake, embassy removes remark from speech” at <https://www.indiatoday.in/world/story/chinese-embassy-deletes-cpec-reference-from-envoy-speech-976014-2017-05-09> (accessed on January 19, 2021).

continues, with suggestions by Chinese diplomats, even in the aftermath of the Galwan incident in eastern Ladakh, that India's participation in the CPEC project is important for its success. It was even suggested that there should be trilateral partnership between China, India and Pakistan.

Speaking at the Raisina Dialogue in 2017, January, the then Foreign Secretary of India and now EAM, Dr. S. Jaishankar, said in the context of CPEC, "such a project has been initiated without consulting us." On May 13, 2017, MEA in a statement said that it had received a formal invitation to participate in the six separate forums that China was organizing as part of the Belt and Road Forum being held in Beijing during May 14-16, 2017. The statement reiterated the Indian position:

"Guided by our principled position in the matter, we have been urging China to engage in a meaningful dialogue on its connectivity initiative, 'One Belt, One Road' which was later renamed as 'Belt and Road Initiative'. We are awaiting a positive response from the Chinese side. Regarding the so-called 'China-Pakistan Economic Corridor', which is being projected as the flagship project of the BRI/OBOR, the international community is well aware of India's position. No country can accept a project that ignores its core concerns on sovereignty and territorial integrity.<sup>50</sup>

Answering a question in the Parliament, the Minister of State in the external Affairs Shri Muraleedharan in February 2020, said:

"Government's concerns arise in part from the fact that the inclusion of the so-called illegal 'China-Pakistan Economic Corridor' (CPEC) as a flagship project of 'OBOR/BRI', directly impinges on the issue of sovereignty and territorial integrity of India. This so-called illegal 'China-Pakistan Economic Corridor' (CPEC) passes through parts

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<sup>50</sup> Official Spokesperson's response to a query on participation of India in OBOR/BRI Forum", May 13, 2017 at <https://mea.gov.in/media-briefings.htm?dtl/28463/Official+Spokespersons+response+to+a+query+on+participation+of+India+in+OBOR+BRI+Forum> (accessed on January 19, 2021).

of the Union Territories of Jammu & Kashmir and Ladakh which are under illegal occupation of Pakistan. Government has conveyed its concerns to the Chinese side about their activities in areas illegally occupied by Pakistan in the Union Territories of Jammu & Kashmir and Ladakh and has asked them to cease such activities.”

In 2013, the Bangladesh-China-India-Myanmar (BCIM) project was placed in the list of BRI projects. The BCIM is now conspicuously missing from the new list issued at the end of the BRI Forum in 2017. On the other hand, at the same meeting, the “Nepal-China Trans-Himalayan Multi-Dimensional Connectivity Network, including Nepal-China cross-border railway including the China-Myanmar Economic Corridor” found place in the list of projects in South Asia.

It is also relevant to note that the then Indian EAM Sushma Swaraj withheld India’s support for the BRI in the communique released by the foreign ministers at the end of the Shanghai Cooperation Organisation (SCO) meeting in Beijing on April 24, 2018. More recently, India did not endorse the reference to the BRI in the joint communiqué issued at the end of the SCO Council of Heads of Government Meeting hosted virtually by India in November 2020.

Whether India can participate in any project in the CPEC, even under a new name, without compromising its existing position on PoK and the trans-Karakoram territory illegally ceded by Pakistan to China in Shaksgam, is a moot question. Moreover, it lacks a level playing field for Indian business. It is relevant to note that almost 80 per cent of the CPEC comprises energy projects (thermal, hydel, solar and wind) and the infrastructure/transport portion (the ‘corridor’ aspect) comprises only a small part. Obviously, India cannot participate in any ‘corridor’ given its position on PoK and the trans-Karakoram tract. Hypothetically speaking, even in energy projects, where India has some technological capabilities, its companies will have to compete against much larger, well-entrenched and favoured Chinese companies which boast cheap project costs, riding on hidden subsidies. Besides, execution of any energy project in PoK, apart from running counter to India’s claim of sovereignty, would also undermine India’s call to third countries to refrain from undertaking projects in the disputed territory of PoK.

# ANNEXURES

## Annexure- I

### **A SHORT INTRODUCTION TO BELT AND ROAD INITIATIVE (BRI)**

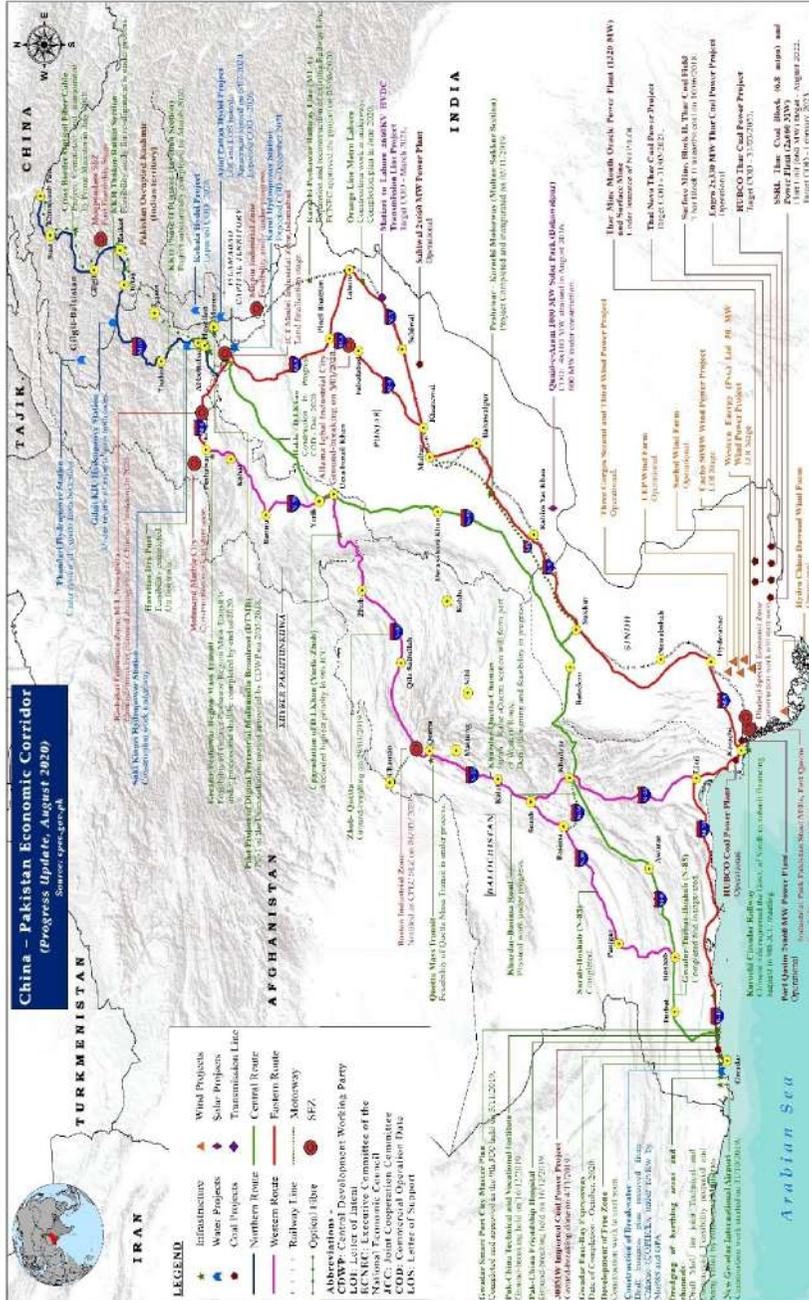
Announced by Chinese President Xi Jinping in 2013 during his visits to Southeast Asia and Central Asia, Belt and Road Initiative (BRI) is envisaged in two parts: (1) Silk Road Economic Belt (SREB) and (2) Maritime Silk Road (MSR). The former is associated with the land routes including some that meander along the historical Silk Route along which China had trade and cultural links beginning the Han and Tang Dynasties in the first millennium AD. The latter, likewise, courses along the maritime routes, particularly those that were established in the Ming period (14-17th century AD).

According to the government of China, “the initiative aims to promote orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets by enhancing [the] connectivity of Asian, European and African continents and their adjacent seas”. The mega-project, conceptualised on the lines of seemingly impossible endeavours such as the Great Wall of China, the Beijing-Hangzhou Grand Canal and the more recent Three Gorges Dam, is backed by more than US\$ 3 trillion in foreign reserves and China’s consistently impressive economic growth of over three decades. It is a plan that aims to create new overseas markets for China’s soaring inventories, soak up idle production capacities and prop up economic growth, employment and social order.

# Annexure- II

## Map (CPEC, Progress Update, August 2020)

<https://drive.google.com/file/d/15TQNT5ob41s2GLVuaNx8BFxhZD1j7GDzd/view>



## **Annexure- III**

### **TIMELINE OF CPEC**

**(<https://www.cpicglobal.com/pakistan-overview/cpec/>)**

#### **April 2015**

Pakistan and China signed an agreement to commence work on the \$46 bn of development projects. CPEC is announced as “an economic and development project for the benefit of the people of the region”.

#### **September 2015**

Completed projects include a bypass consisting of two large bridges and five kilometres worth of tunnels.

#### **November 2016**

On 13 November 2016, CPEC became partly operational when Chinese cargo was transported overland to Gwadar Port for onward maritime shipment to Africa and West Asia.

#### **March 2017**

An agreement is settled to build \$1.5 bn oil refinery, irrigation projects, a \$2 bn motorway spanning from Chitral to DI Khan.

#### **July 2017**

\$1.8 bn Sahiwal Coal Power Project became fully operational.

#### **September 2017**

More than \$14 bn worth of CPEC projects were under construction.

#### **March 2018**

Pakistan began construction of many energy CPEC projects while focus switched more to hydro-power projects.

### **October 2018**

Saudi Arabia enters partnership within CPEC countries to help finance three road infrastructure and energy projects. Three agreements worth \$16.1 million is divided to fund health and education projects.

### **February 2019**

Saudi Arabia commits \$20bn to Pakistan and CPEC including the building of a new oil refinery in Gwadar. A new shipyard is commissioned while the construction of a new mega airport for Gwadar is set to begin in April.

### **March 2019**

Prime Minister Imran Khan performs ground breaking ceremony to initiate the new Gwadar Airport construction. The state of the art airport will be the biggest in Pakistan at the cost of \$230 million.

### **August 2019**

New planned railway network from China and Afghanistan to Gwadar deep sea port under China Pakistan Economic Corridor (CPEC). The entire package is worth around \$2.3bn.

### **January 2020**

The first Liquefied Petroleum Gas plant in Gwadar becomes fully functional

### **By 2030**

CPEC is fully completed, bringing peace and prosperity to two nations while promoting spectacular economic growth within Central Asia and South Asia.

## Annexure IV

### CPEC ENERGY PROJECTS

#### Coal power plants

##### A) Punjab

Sahiwal, 1320MW

Muzaffargarh, 1320MW

Rahim Yar Khan, 1320 MW

##### B) Sindh

Tharparkar, 3960 MW

Thar Coal plant 1320 MW

Port Qasim, 320MW

##### C) Balochistan

Gwadar, Balochistan, 300MW

#### Hydo-power projects

##### A) Khyber Pakhtunkhwa

Suki Kinari, is a 870 MW hydel power project being built by China Gezhouba Group Company Ltd at Naran, district Manshera in Khyber Pakhtunkhwa, on river Kunhar, a tributary of Jhelum, at an estimated cost of \$1.7 bn. The Construction work is under way and the expected Commercial Operation Date (COD) is December 2022.

##### B) Punjab (Rawalpindi)

**Karot Hydropower plant** is a project being built by CTG (China Three Gorges) Limited company at an estimated cost of \$1.698bn,

on the river Jhelum, situated at the boundary of Rawalpindi district of Punjab and Kotli district of 'AJK'. Its installed capacity will be 720 MW. Construction of access road/bridge, concrete batching plant, diversion tunnel and spillway, etc. are in process. Work has been initiated through equity and 50% civil works have been completed. The expected Commercial Operation Date (COD) is December 2021.

### **C) Pakistan Occupied Kashmir**

**Azad Pattan Power Private Limited (APPL)** is a joint venture between China Gezhoubu Group (80%) and Pakistan renewable energy developer Laraib Group (20%). APPL will transfer the ownership of the project to the Government of Pakistan, after operating the facility for a period of 30 years.

**Kohala hydropower plant** is a 1.12GW run-of-the-river project being developed on the Jhelum River in the Muzaffarabad. Financing of the \$2.36bn project is proposed to be made through a combination of debt and equity at a ratio of 70:30. Foreign banks led by the consortium of China Development Bank are expected to provide 85% of the debt financing, while local banks, led by the syndicate of Habib Bank, are expected to provide the remaining 15% debt.

**Phandar Project** is a 80 MW potential hydel energy project being planned in Gilgit-Baltistan, which is under review of experts from both sides.

**Gilgit KIU Hydropower** is a 100 MW "potential" hydel energy project being planned in Gilgit, which is under review of experts from both sides.

### **Solar**

Bhawalpur, Punjab, 1000MW

### **Wind**

Jhimpir, Bhanbore & Thatta, Sindh

## Annexure V

### INFRASTRUCTURE PROJECTS

Details of some of the projects are given below:

#### Transport Infrastructure

- CPEC Northern Corridor: Peshawar to Islamabad
- CPEC Eastern Corridor: Peshawar to Balochistan
- CPEC Western Corridor: Islamabad to Gwadar
- Naukundi-Mashkhel-Panjgur Road
- Mirpur-Muzarrarabad-Manshera Road Chitral CPEC-link road from Gilgit Shandor chitral to chakdara
- Keti Bandar sea port development project (Karachi, Sindh)

#### Details of Infrastructure Projects

Project Name	Company Name	Status	Funding	Details
KKH Phase II (Havelian- Thakot Section), 120 km	China Road and Bridge Corporation, M/s China Communications Construction Company Ltd	Completed, cost \$1,315m, work started Sept 2016, completed July 2020	Government Concessional Loan (GCL),	KKH Phase II (Thakot -Havelian Section) Length: 118km, Construction of 39 km 06 Lane Access Controlled MW, 79 km Class-II Highway,
Karachi-Lahore Motorway (Sukkur-Multan Section), 392 km	China State Construction Engineering Corporation Limited	Completed		
Joint Feasibility Study for Upgradation of ML1 and Establishment of Havelian Dry-port	China Railway	Feasibility study completed; Framework Agreement signed		
Upgradation of ML-1 (Multan-Lahore Section, 339 km; Hyderabad-Multan Section, 749 km; Kemari-Hyderabad Section, 182 km)		Government Framework Agreement under discussion, cost US\$ 8,172m	40% complete Chinese Government Concessional Loan (GCL). Work will be awarded through open bidding as per PPRA rules through EPC contract	ML-1 Project declared 'Strategic' by 6th JCC in Beijing, PC-1 of Phase-1 approved by CDWP in May 2018, Expected COD 2022

New Havelian Dry Port, Havelian, District Haripur, KPK	Work responsibility: Pakistan Railways	Cost US\$65m	Chinese Government Concessional Loan (GCL)	
Khuzdar-Basima Highway (N-30), 110 km, District Khuzdar in Balochistan province	National Highway Authority of Pakistan	Frame Work Agreement shared with Chinese Side 19.19 Bn Rupee		
KKH Phase III(Raikot-Thakot Section)280km	National Highway Authority of Pakistan	PKR 8.15 Bn		
D.I.Khan-Quetta Highway (N-50), 533km Upgradation of D.I.Khan (Yarik) – Zhob, N-50 Phase-I (210 km) Khyber Pakhtunkhwa – Balochistan province	National Highway Authority of Pakistan	Total (Construction plus land acquisition): PKR 76,486 million		

## CPEC Rail Based Mass Transit Projects

Karachi Circular Railway	Ground breaking expected soon
Greater Peshawar Region Mass Transit	Feasibility is under process
Quetta Mass Transit	Feasibility is under process
Orange Line – Lahore	Construction work is underway

Data taken from <http://cpecinfo.com/>

## Annexure VI

### PROJECTS IN BALOCHISTAN

Balochistan has a total 10 projects at the cost of US\$1377.32m.

<b>Balochistan</b>			
	Project Name	Estimated Cost US\$ in Million	Status
	Gwadar Smart port city master plan	4m	DPR approved
	Eastbay Expressway (19 km)	179m	46% work completed, operation expected by October 2020
	New Gwadar International Airport (NGIA)	230m	Site work started in 2019 November
	30 MW Coal Based power plant	542.32m	Project is yet to start
	Pak-China Friendship Hospital, Gwadar (150 bed)	100m	Work is yet to start
	Facilities of Fresh water treatment and supply	130m	Against the requirement of PKR 2.9 bn the plant is likely to receive only PKR 400 million in the next fiscal year.
	Technical and vocational institute at Gwadar	10m	
	Dredging of berthing areas & channels	27m	PC II submitted for approval
	Construction of breakwaters	123m	Feasibility study is in process

(Data taken from <http://cpecinfo.com/>)

## CPEC New Provincial Projects

**(Proposed in the ninth JCC meeting held on November 6  
2019 in Islamabad)**

<b>Keti Bunder Sea Port Development Project</b>	Further studies and consultations to be initiated Projects referred to concerned JVGs for consideration
<b>Naukundi-Mashkhel-Panjgur Road Project Connecting With M-8 &amp; N-85</b>	Planning-PC-1 preparation is underway. Projects referred to concerned JVGs for consideration
<b>Chitral CPEC Link Road from Gilgit, Shandor, Chitral To Chakdara</b>	Planning-PC-1 preparation is underway Projects referred to concerned JVGs for consideration
<b>Chitral CPEC Link Road from Gilgit, Shandor, Chitral To Chakdara</b>	Planning-PC-1 preparation is underway. Projects referred to concerned JVGs for consideration
<b>Mirpur - Muzaffarabad - Mansehra Road Construction For Connectivity With CPEC Route</b>	Approval of PC-1 in process. Projects referred to concerned JVGs for consideration
<b>Quetta Water Supply Scheme from Pat Feeder Canal, Balochistan</b>	Relevant Provincial Govts. to work out proposals on implementation of projects
<b>Iron Ore Mining, Processing &amp; Steel Mills Complex At Chiniot, Punjab</b>	Relevant Provincial Govts. to work out proposals on implementation of projects

See CPEC New Provincial Projects at <http://cpecinfo.com/cpec-new-provincial-projects/> (accessed on January 19, 2021).

## Annexure VII

### Proposed Special Economic Zones under CPEC

Name	Province	Area	Type of Industry	Progress
<b>Rashakai Economic Zone, M-1, Nowshera</b>	Khyber Pakhtunkhwa	1000	Fruit/Food/Packaging/Textile Stitching/Knitting	<b>Feasibility studies of SEZs is shared with Chinese side.</b>
<b>China Special Economic Zone Dhabeji</b>	Sindh	1000	To be determined during feasibility stage	<b>Feasibility studies of SEZs is shared with Chinese side</b>
<b>Bostan Industrial Zone</b>	Balochistan	1000	Fruit Processing Agriculture machinery Pharmaceutical Motor Bikes Assembly Chromites Cooking Oil Ceramic industries Ice and Cold storage Electric Appliance Halal Food Industry	<b>Feasibility studies of SEZs is shared with Chinese side</b>
<b>Allama Iqbal Industrial City (M3), Faisalabad</b>	Faisalabad, Punjab	3,000 Approx.	Textile, Steel, Pharmaceuticals Engineering Chemicals Food Processing Plastics Agriculture Implements Etc	<b>Feasibility studies of SEZs is shared with Chinese side.</b>
<b>ICT Model Industrial Zone, Islamabad</b>	Islamabad	200-500	Steel, Food Processing Pharmaceutical & Chemicals Printing and Packaging Light Engg. Etc.	<b>Feasibility studies of SEZs is shared with Chinese side.</b>
<b>Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi</b>	Port Qasim Near Karachi	1500	Steel, Auto & allied Pharma, Chemical Printing and Packaging, Garments etc.	<b>Feasibility studies of SEZs is shared with Chinese side</b>
<b>Special Economic Zone at Mirpur,</b>	Mirpur, PoK	1078	Mixed industry	<b>Feasibility studies of SEZs is shared with Chinese side</b>
<b>Mohmand Marble City</b>	FATA			<b>Feasibility studies of SEZs is shared with Chinese side</b>
<b>Moqpondass SEZ Gilgit-Baltistan</b>	Gilgit-Baltistan	250	Marble / Granite, Iron Ore Processing Fruit Processing, Steel Industry Mineral Processing Unit Leather Industry	<b>Feasibility studies of SEZs is shared with Chinese side.</b>

Source: <http://cpecinfo.com/proposed-special-economic-zones/> (accessed on January 19, 2021).

## Annexure VIII

### FINANCIAL IMPLICATIONS/DEBT

The funding estimates of the CPEC have varied from \$60 bn to \$70 bn to \$87 bn — the figure have been revised and increased regularly over the years in different estimates.<sup>51</sup> According to CSIS, “Of 122 announced projects, a quarter (32 projects) have been completed, or roughly \$20 bn of the estimated \$87 bn in funding.”<sup>52</sup>

#### **Other Pakistan-China Projects**

Apart from the energy projects currently being pursued under the rubric of CPEC, there are some other projects which were either signed or being negotiated between the two countries. Some of these made their way into the CPEC but were pursued with minimal interest. These are Muzaffargarh Coal Power Project (1,320MW), Gaddani Power Park (1,320MW), Thar Mine Mouth Coal Fired Power Plant by Oracle (1320) and Gas Power Plant (525 MW). Some others like Salt Range Mine Mouth Power Project (300MW) and Chichoki Mallian Combined-cycle Power Plant (525MW) were dropped in 2017. In case of the latter, Pakistan had even recovered Rs 2.12 bn mobilisation advance payment from Chinese company M/S Dongfang Electric Corporation Limited!

Another big dam project, being negotiated for a long time between the two countries, is the Diamer Bhasha project which is being touted as the would-be “Three Gorges Dam of Pakistan”. Aware of Chinese hesitations to include it in CPEC, just before the 7th Joint Cooperation Committee (JCC) meeting in 2017, media reports suggested that Pakistan had asked

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<sup>51</sup> Jonathan E. Hillman and Maesea MacCalpin, “The China-Pakistan Economic Corridor at Five” <https://www.csis.org/analysis/china-pakistan-economic-corridor-five>, April 2, 2020 (accessed on January 19, 2021).

<sup>52</sup> Ibid.

China to remove the Diamer Bhasha Dam, then estimated at \$14 bn from the CPEC project. Of late, the two sides have tried to revive the Diamer-Bhasha project by exploring alternative financing outside the scope of the CPEC. In May 2020, Imran Khan government signed a contract worth PKR 442 bn with a joint venture of China Power and Frontier Works Organisation (FWO) for the construction of the Diamer-Bhasha dam. On July 15, 2020, Imran launched the construction of 4500 MW Diamer-Bhasha Dam which is supposed to be completed by 2028. The government has claimed that the dam will have a 6.4 million acre feet water reservoir which would irrigate additional 1.2 million acres of agricultural land, produce 4,500 megawatts of environment-friendly electricity, and boost steel, cement and construction industry by creating 16,000 jobs.<sup>53</sup> However, environmentalists and art-historians have expressed their concerns about the dam, being built in a high-seismic zone, inundating human habitats around the dam site and submerging more than 50,000 precious rock carvings and 5,000 inscriptions which have been discovered in the area dating back to 10,000 years before Christian Era.<sup>54</sup>

Recently some fresh projects worth billions of dollars have been allowed. This includes two hydro-power generation projects costing \$3.9 bn in the PoK, and another to revamp the South Asian nation's colonial-era railways for \$7.2 bn — the most expensive Chinese project yet in Pakistan.

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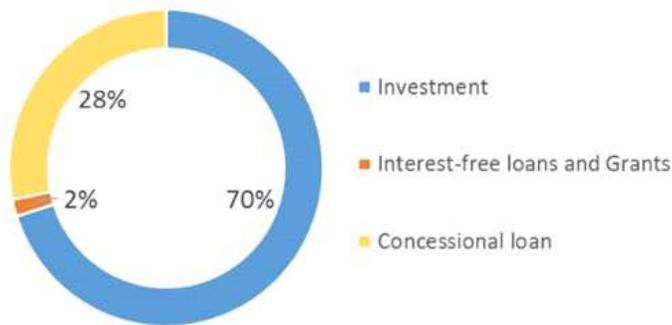
<sup>53</sup> Jamil Nagri, "Construction of Diamer Bhasha Dam Launched", July 16, 2020, at <https://www.dawn.com/news/1569261> (accessed on January 19, 2021).

<sup>54</sup> Jamal Shahid, "Diamer-Bhasha threatens ancient heritage sites", June 5, 2009, at <https://www.dawn.com/news/469239/diamer-bhasha-threatens-ancient-heritage-sites> (accessed on January 19, 2021).

## Annexure IX

### COMMERCIAL NATURE OF CPEC

**Source of CPEC Money for Completed and Ongoing Projects**  
(worth \$19bn)



Source: Data Provided by the Governments of Pakistan and China

Source: <http://cpecinfo.com/financing-structure-of-cpec/>

According to the CPEC website, “CPEC is composed of four different types of financing instruments. The first type is called “Investment” where the Chinese firms that are undertaking the infrastructure projects borrow commercial loans with an interest rate between 4-5%. The second category is called “Concessional Loans” which are given to the Government of Pakistan at an interest rate of 2-2.5% with a maturity period of 25-30 years. The third category is called “Interest-free loans” which constitute a small proportion of the overall financing and have zero interest payments. The last category is “Grants” which are aimed at improving state capacity.”<sup>55</sup>

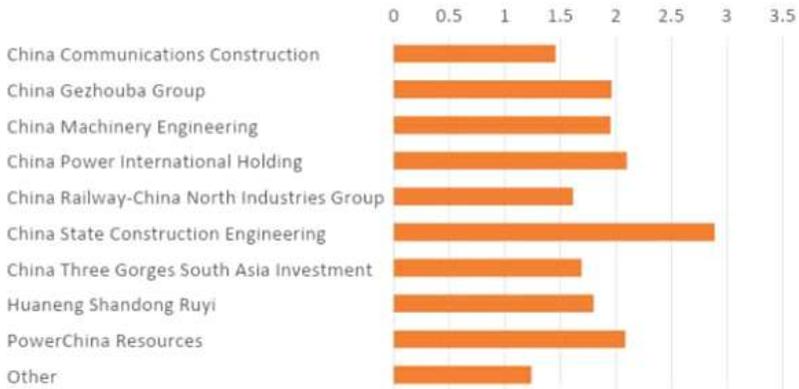
<sup>55</sup> “Financing Structure of CPEC”, 3 October 2019, at <http://cpecinfo.com/financing-structure-of-cpec/> (accessed on January 19, 2021).

## Annexure X

### FINANCING OF CPEC BY CHINA<sup>56</sup>

#### Financing by Chinese Companies in completed and ongoing projects

(worth \$19bn, USD billion)



Source: Data Provided by the Governments of Pakistan and China

<sup>56</sup> “Financing Structure of CPEC”, 3 October 2019, at <http://cpecinfo.com/financing-structure-of-cpec/> (accessed on January 19, 2021).

**T**he China-Pakistan Economic Corridor (CPEC) has been earmarked as a flagship project of the Belt and Road Initiative (BRI), which is described as Chinese President Xi Jinping's signature foreign policy initiative and a grand strategy aimed at restoring China's "rightful" great-power status in the world. It is a major plank in China's geo-strategic and economic architecture for the region, using Pakistan to secure an exploitative strategic perch in South Asia and the Arabian Sea, overlooking the crucial Persian Gulf, the west coast of India, and the east coast of Africa.

Pakistan's economic distress, friction between Islamabad and Washington in recent years, and, its enduring tensions with India, provide Beijing an opportunity to draw Pakistan even closer into its strategic orbit.

It is increasingly clear that not only will the CPEC extract a high price from Pakistan in terms of its sovereignty, it will also entail a substantial, if not downright usurious, economic cost.

China intends to use Pakistan to hem India in, within the South Asian region and limit its elbow room in the Indian Ocean.

The CPEC is viewed in Balochistan as an endeavour to exploit the province's natural resources at the cost of the local people, spurring the insurgency. Elsewhere too, it gives rise to misgivings among the local residents.

The opaque nature of the CPEC and its geostrategic underpinnings detract vastly from any economic growth and development that it may deliver. These are some of the issues that this paper attempts to scan.



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