

June 12-18, 2017

Starting from this week, this e-bulletin from IDSA will seek to focus on major developments in Pakistan on weekly basis and bring them to the notice of strategic analysts and policy makers in India.

## EDITORIAL

This week was politically significant as the Prime Minister of Pakistan, Nawaz Sharif, appeared before the joint investigation team (JIT) that is investigating Panama papers probe into Sharif's family assets. In another development the interior Ministry stated that the two Chinese nationals killed by IS were preachers propagating Christianity in an Institute opened by a South Korean national – an allegation that South Korea has dismissed. This issue also carries a commentary that analyses Pakistan's membership of the Shanghai Cooperation Organisation (SCO)

## COMMENTARY

### **Pakistan in the SCO: Will it be a Game Changer for Islamabad?**

*Smruti S Pattanaik\**

On June 9<sup>th</sup>, both India and Pakistan became full members of the Shanghai Cooperation Organisation (SCO) after completion of the two years accession process, as required by the organisation. President of Kazakhstan, Nursultan Nazarbayev, welcomed both India and Pakistan as new members in the 15<sup>th</sup> SCO summit held in Asthana. Pakistan which became an observer of the SCO in 2005 and applied for full membership of the organisation in 2010. The SCO was founded in 2001 with China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan as member states. But it has now expanded with number of countries joining as observers, some are dialogue partners and it

now has two new members. Both the countries signed nearly 30 obligatory papers before full membership was conferred.

Pakistan looks forward to its membership in the SCO which is expected to integrate its economy with the Central Asian republics (CARs) and help it to develop regional trade links that would also enhance its geopolitical stature in the region. CARs are also energy rich countries which would help Pakistan's energy need, for instance projects like the TAPI and CASA 1000 once implemented is likely to meet the country's energy need. The main thrust of the SCO however is security and counter-terrorism where Pakistan would be expected to play a major role in contributing to the stability in Afghanistan that is a major concern for the SCO. The organisation emphasises in countering three evils – terrorism, separatism, and extremism. Security cooperation between the member states envisages intelligence sharing that would help to monitor various terrorist groups functioning in the region and military cooperation.

The SCO has two major initiatives where Pakistan could play a crucial role, if it wishes so. First is the SCO-Afghanistan Contact Group established in 2005 to address the concerns of the SCO members who share borders with Afghanistan and dreaded the spill over effects of Afghan war on their stability. Second is the Regional Anti Terror Structure (RATS), established in 2004, which is headquartered in Tashkent. The RATS focusses on terrorism, separatism and extremism which is extremely significant in the face of growing fundamentalism in the region. Last year in August, Afghanistan, China, Pakistan and Tajikistan have formed a Quadrilateral Cooperation and Coordination

Mechanism (QCCM) to counter terrorism. Pakistan would like this organisation to play an effective role in countering terrorism rather than RATS which would have the presence of India.

While the SCO works on the principle of consensus, it also provides for the recording of disagreement raised by a member state but without allowing any member to become an obstacle to any initiative proposed by other member states. The decision making structure of the SCO clearly lays out, “Any member state may expose its opinion on particular aspects and/or concrete issues of the decisions taken which shall not be an obstacle to taking the decision as a whole. This opinion shall be placed on record.” Like SAARC, the SCO prevents any bilateral issue to be raised at the forum. This would prevent the India Pakistan disputes to be raised in the SCO platform. Therefore, it is unlikely to help Pakistan that uses international fora to raise the issue of Kashmir.

Pakistan projects itself as a gateway to the landlocked Central Asian Republics. However, instability in Afghanistan has been a major roadblock to Pakistan’s ambition. Taliban’s success in ensuring the safe passage of Pakistani convoy with goods destined for the CARs in 1994 saw the beginning of an enduring robust relationship between Pakistan and Taliban that continues till date. Pakistan perceives Taliban as serving Pakistan’s strategic interests in Afghanistan. As a result, both Pakistan and Afghanistan are often locked in bilateral antipathy that has made cooperation difficult. Government of Afghanistan often accuses Pakistan of instigating instability in Afghanistan through their patronage to Taliban and the Haqqani network which singularly has been the major source of blood bath in Afghanistan. Pakistan can only leverage its membership of the SCO and concomitant desire to establish robust economic partnership with CARs only if it manages to build a relationship of trust with Kabul, which at present appears unlikely.

The following table shows that in spite of Pakistan having overland connectivity with CARs; India is much ahead of it as far as trade with the CARs is concerned. This is because southern part of Afghanistan remains a security nightmare and Pakistan, to a large extent, is responsible due to its continued patronage to Taliban. India which trades through Iranian port is likely to be a dominant player after the completion of Chahbahar port in Iran and the North-South corridor that would help

India to connect. Pakistan has projected Gwadar as a major port for trade for the land-locked CARs. Iran, which is an observer in the SCO, is the only country that can provide alternative access to sea but it is yet to be a member of the SCO.

### **India’s and Pakistan’s trade with Central Asia (in USD million)**

	2003	2005	2007	2009	2011	2013	2015
India’s Export	118.8	173.9	211.8	261.7	414.1	543.4	417.9
India’s Import	52.24	74.3	100.09	200	196.08	491.2	453.2
Pakistan’s Export	18.0	16.8	11.9	9.1	11.9	22.4	27.8
Pakistan’s Import	1.5	31.3	43.7	9	47.1	23	19.7

**Source:** Table prepared by author based on data obtained from ITC Trade Map, <http://www.trademap.org/Index.aspx>, 2017.

Pakistan’s membership of the SCO is part of its larger strategy to integrate the country into Eurasian network. It has several connectivity projects that are lined up which would help Islamabad. Apart from the China Pakistan Economic Corridor (CPEC), Pakistan is signatory to the Quadrilateral Traffic in Transit Agreement (QTTA) signed originally by Kyrgyzstan, China and Kazakhstan which has now expanded to include Tajikistan.<sup>1</sup> It is also part of ECO Transit Transport Framework Agreement (TTFA) and has APTTA with Afghanistan which may include Tajikistan later. It is already a member of Economic Cooperation Organisation (ECO) connectivity projects, part of Central Asian Regional Economic Cooperation (CAREC) transport corridor and in 2010, Pakistan, Kyrgyzstan, Tajikistan and Afghanistan signed the Cross-Border Transport Agreement (CBTA) within the larger CAREC framework. Pakistan has acceded to the United Nations TIR (Transports Internationaux Routiers) Convention, in 2016 that will help Islamabad in seamless movement of goods in the region.<sup>2</sup> It is also part of China piloted BRI projects that would further improved its regional profile.

For Pakistan, it would be difficult to scuttle India's presence in Afghanistan and Central Asia. Its attempt to not allow India to trade with Afghanistan and central Asia through its territory has not borne any dividends to Islamabad. The bilateral trade figures for both the countries with the CARS shows that India is much ahead in terms of trade. With the completion of Chahbahar trade is likely to increase further.

A major stumbling block for Pakistan's dream to reach CARs would be stability in Afghanistan. Unless, Pakistan ensures a meaningful and result oriented dialogue between Taliban and Afghanistan, Pakistan's membership of SCO is unlikely to bring the desired economic and strategic dividends.

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<sup>1</sup> Karachi-Rawalpindi-Hassanabdal-Gilgit-Khunjrab (Pak/China Border)-Kashgar-Torugart (China/Kyrgyzstan Border)-Bishkek-Akjol-Kordai (Kyrgyzstan/Kazakhstan Border)-Almaty (Kazakhstan) = Length - 3710 Km  
Approx: [http://www.carecprogram.org/uploads/events/2015/026-2nd-QTTA-Workshop/Presentation-Materials/03-PAK\\_FIN.pdf](http://www.carecprogram.org/uploads/events/2015/026-2nd-QTTA-Workshop/Presentation-Materials/03-PAK_FIN.pdf)

<sup>2</sup> India on 19<sup>th</sup> June 2017 became the 71st country to ratify the United Nations TIR (Transports Internationaux Routiers) Convention.

## THE WEEK AT A GLANCE

### ECONOMY

#### ADB, AFD to lend \$400m for energy sector

The Asian Development Bank (ADB) and the French Development Agency (AFD) have approved loans worth over \$400 million to help Pakistan improve reliability and sustainability of the energy sector. The assistance of \$300m from the ADB, which is the third loan under the Sustainable Energy Sector Reform Programme, brings the bank's overall financing to \$1 billion since 2014. As the co-finance partner of the programme, the AFD will contribute \$100m to the project. The agreement was signed by ADB Country

Director Xiaohong Yang and Secretary of the Economic Affairs Division, Tariq Mahmood Pasha, on Friday, 16 June.

<https://www.dawn.com/news/1340043/adb-afd-to-lend-400m-for-energy-sector>

#### Pakistan's trade deficit widens to record \$30bn

The country's trade deficit ballooned by 42 per cent year-on-year to an all-time high of \$30 billion in the first 11 months of the current fiscal year on the back of falling exports and a sharp increase in the import bill. The country's annual trade deficit was \$20.435bn when the PML-N assumed power in 2013. It has been on the rise since then due to rising imports and falling exports. Trade deficit stood at \$3.465bn in May this year, a rise of nearly 61pc compared to the same month a year ago, according to the data released by the Pakistan Bureau of Statistics on Monday, 12 June.

<https://www.dawn.com/news/1339120/pakistan-trade-deficit-widens-to-record-30bn>

#### China set to fund Diamer-Bhasha dam: Planning Minister

Pakistan expects China to fund a long-delayed Indus river mega dam project in Gilgit-Baltistan, with work beginning next year, Planning Minister Ahsan Iqbal said in an interview. The \$12 to 14 billion Diamer-Bhasha dam is estimated to generate 4,500 megawatts (MW) of electricity, and a vast new reservoir would regulate the flow of water to farmland that is vulnerable to increasingly erratic weather patterns. The Minister said a Chinese company from a Beijing-picked shortlist and a local partner would build the dam over a 10-year period, and work should begin in the "next financial year", i.e. July.

<https://www.dawn.com/news/1339427/china-set-to-fund-diamer-bhasha-dam-planning-minister>

#### Pakistan shelves \$2b LNG project

As Saudi Arabia adopts an aggressive policy in the Middle East by cutting ties with Qatar, the PML-N-led government has shelved the \$2 billion Gwadar-Nawabshah pipeline project. This project was seen as

an alternative plan to the Iran-Pakistan (IP) gas pipeline project which was shelved following US sanctions against Tehran. Qatar and Iran had been competing to provide gas to Pakistan. Pakistan had given a firm commitment to Tehran that this pipeline would be connected with the Iran border once sanctions have been lifted. The project had been dropped on the pretext of higher cost which was earlier approved. Ministry of petroleum was directed to drop the Gwadar-Nawabshah LNG terminal and pipeline project and to immediately start work for setting up a new LNG terminal at Port Qasim, Karachi.

<https://tribune.com.pk/story/1434909/pakistan-shelves-2b-lng-project-citing-high-costs/>

### **Balochistan Budget 2017-18: Rs52.1bn deficit Balochistan budget announced**

The Balochistan government plans to spend Rs328.5 billion on infrastructure development in the province during the next financial year, despite a much smaller estimated resource of Rs276.4bn available. There is a hefty deficit of Rs52.1bn or 15pc of the total budget outlay of the province. More than two-fifths (Rs140.7bn) of the total proposed expenditure will be spent on pay and pensions of provincial government employees and well over a quarter (Rs86bn) on the development of social and economic infrastructure to 'reap the benefits of the China-Pakistan Economic Corridor (CPEC)'. The budget has allocated significant but unspecified funds for completing CPEC-related projects in the province. Other major expenditure includes grants, subsidies and transfers (to local body institutions) of Rs35.9bn, debt repayment of Rs28bn, investment of Rs10bn in the yet-to-be created Balochistan Bank and Rs3bn in the pension fund. Almost 16.5pc of the total development and current expenditure has been set aside for education, 17.4pc for law and order, 7.4pc for health, 7.7pc for transport and road development and 7pc for irrigation and agriculture and 5pc for energy.

<https://www.dawn.com/news/1339841/balochistan-budget-2017-18-rs521bn-deficit-balochistan-budget-announced>

## **POLITICS**

### **Pakistan orders review of visa policy for Chinese nationals**

Pakistan has identified two Chinese nationals recently abducted and killed by the Islamic State and, in a new twist, said the two were preachers who had posed as business people to enter the country. Interior Minister Chaudhry Nisar Ali Khan said in response to the case that there should be a review of the visa process for Chinese nationals entering Pakistan, and for a databank to track Chinese workers in different parts of the country. He ordered the databank to be "shared with all security agencies", his ministry said in a statement. At present, Chinese citizens are able to obtain visas faster than other nationals, and for longer periods when their work relates to CPEC projects.

<http://dailytimes.com.pk/islamabad/13-Jun-17/pakistan-orders-review-of-visa-policy-for-chinese-nationals>

### **Institutions of state impeding Panama probe: JIT**

The Joint Investigation Team (JIT) has informed the Supreme Court of Pakistan that several state institutions were creating hurdles to obscure and hinder its probe despite the apex court's May 5 ruling that all executive authorities should act in aid of the team. An eight-page report, mentioning the impediments, hurdles and obstacles, was submitted by JIT head Wajid Zia. According to the contents of the JIT report, the National Accountability Bureau (NAB), the Security and Exchange Commission of Pakistan (SECP), the Federal Board of Revenue (FBR) and the Ministry of Law and Justice were deliberately creating impediments..

<http://dailytimes.com.pk/pakistan/14-Jun-17/institutions-of-state-impeding-panama-probe-jit>

### **'There will be a bigger JIT next year,' PM warns opponents after appearing before Panama probe team**

Prime Minister Nawaz Sharif, following a nearly two-hour-long appearance before the Panama Papers joint investigation team (JIT) in Islamabad on 15 June, said

his financial documents have been submitted to investigators probing his family's alleged corruption. The premier, addressing reporters outside the Federal Judicial Academy (FJA) in the capital, said, "My financial documents are already available with all relevant institutions including the Supreme Court. Today, however, I submitted them to the JIT as well. "It should be noted that these allegations have nothing to do with

my tenure as Prime Minister and are not charges of corruption. They are charges against me and my family on a personal level," PM Nawaz claimed.

<https://www.dawn.com/news/1339672/there-will-be-a-bigger-jit-next-year-pm-warns-opponents-after-appearing-before-panama-probe-team>



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