

# ISAS Brief

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## China's 'Look-West' Policy: A New Link with Pakistan

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### Abstract

*For a number of reasons, the structure as well as the future of the Asian economy has begun to be transformed. Some of the old assumptions no longer hold. The West's rapid demographic transition is changing the pattern of demand which would mean that exports to the old industrialised countries will no longer be the main driver of Asia's economic progress. There are other developments taking place that will also profoundly affect Asia's future. One of them, examined in this paper, is the China-Pakistan Economic Corridor which is at the centre of what can be called China's 'Look-West' Policy.*

Beijing's way of doing business is to plan long-term – testing on a limited scale the assumptions on which a given plan is based, and then implementing it. This approach was evident in the way Deng Xiaoping began to open the Chinese economy when he returned to power. He began his programme in 1979. The first step was to hand back small plots of land to the families who had

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owned them before they were collectivised. This was first done in the province of Sichuan. When the output from the privatised plots inevitably increased and the farmers' incomes expanded sharply, farming communities were allowed to invest in small "town and village" enterprises. Later the TVEs were permitted to organise joint ventures with foreign investors. This was initially done in the special economic zones that were set up along the country's east coast. This step-by-step approach laid the foundation for China's remarkable industrialisation. Over the last 30 years manufacturing output in the country has increased at an outstanding rate of 17 per cent a year. The size of the industrial sector is now 256 times larger than what it was when Deng launched his reform programme.

## **Genesis of Karakoram Highway**

Much the same approach is being applied to what can be called China's 'Look-West' policy. The remarkable expansion of the country's industrial base made it hungry for resources. Realising that a great deal of what it needed was to be found in the countries and regions on its western side, Beijing began to look in that direction. This look-to-the west was used as a tool for both diplomatic and economic policies. China's first effort in that area was made in 1986 when the Soviet Union and the United States were engaged in fighting each other through their proxies in Afghanistan. It began to build the 600-km long highway – the Karakoram Highway, or KKH – that connected Kashgar in China's Xinjiang Autonomous Region with the Pakistani region in the northeast. This was not to be just one development project aimed at opening up Pakistan's backward and hard-to-reach areas in the northeast. It was one part of a long-term strategy developed by Beijing – the 'Look-West' policy.

The author has had some exposure to this line of thinking in China during one of the dozens of visits he made to the country. During one of these visits he called on Zhu Rongji, then the Premier of China. The senior Chinese official, while discussing China's development and the leadership's plans for the future, pointed to a wall behind his desk. There was a large map of China. He said that China was different from the other geographically-large countries in that it was open to the sea only on one side, to the country's east. It was landlocked on the other three sides. "We want to open to the west and use your country to help us develop a corridor for trade and tourism". That conversation took place in Beijing in 1993 when the KKH had already been built. In fact the author, then working as the Director of World Bank's China Operations, had taken a World Bank mission to Xinjiang using that route.

Having opened its own western part and Pakistan's northeast areas, China began to explore the possibility of turning an expanded and improved KKH into a major corridor. A great deal was achieved recently, during Pakistan's Prime Minister Nawaz Sharif's first visit to a foreign country, namely China, after taking over at the helm for the third time. He met Xi Jinping,

China's new President and Li Keqiang, the new Premier. One of the more important results of the visit that began on 3 July 2013, less than a month after Sharif was sworn in as prime minister, was the signing of a "memorandum of understanding" aimed at developing a 2000-km "China-Pakistan Economic Corridor" (CPEC). This will connect the port of Gwadar in Pakistan with the industrial and energy areas in Xinjiang. Gwadar was also built with Chinese assistance. However, since the port is located in Pakistan's restive province of Baluchistan and was often the target of terrorist activities, development work did not proceed according to plans. The Baluchistan Liberation Army, a separatist group, has been especially active in the area. Despite threats by the secessionist groups such as the BLA, both China and Pakistan have kept their attention focused on improving communication links between the two countries.

In 2011, Pakistan invited China to build a naval base at Gwadar; but Beijing, fearing a possible adverse reaction from Washington, did not respond openly. This does not mean that the idea has been shelved. Initially the management of the port was entrusted to the Singapore Port Authority but on 30 January 2013 the contract for running the port was awarded to a Chinese state-owned company. This move, along with the signing of the Iran-Pakistan Gas Pipeline (IPP) deal, was one of the last major decisions taken by the government headed by President Asif Ali Zardari. Zardari, in fact, took an active and personal interest in developing close ties with China, visiting it a dozen times during his five years as Pakistan's President.

### **Ambitious Plans for Sino-Pak Corridor**

Both China and Pakistan have ambitious plans for the CPEC. There are plans to build a railway line that will run along the KKH. Plans also include using the KKH space to build gas and oil pipelines in the corridor. The two countries have agreed to develop entirely new industrial cities along the corridor. If the IPP agreement results in connecting the gas-producing regions in Iran with major centres of consumption in Pakistan, this could open up opportunities for other countries in the region. For instance, the IPP could be linked with the China-Pakistan pipeline. Energy-starved China has set its eyes on accessing the energy resources of the Middle East. According to one assessment, oil and gas pipelines "would be a major alternative route that cuts distance and time from the present long and slow 8,000-km route by ship from the Persian Gulf through the Malacca Strait to the eastern seaboard of China". In this development "there are benefits for both the Gulf States as well as parts of Africa, where China is very active, and Asia".<sup>2</sup> Economic benefits will be huge. China's growing appetite for energy has meant a sharp increase in the value of its trade with the region. Trade with the United Arab Emirates alone has grown 15-fold since 2000 to reach US\$ 37 billion. Much of this is carried in container ships or

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<sup>2</sup> William Engdahl, Pakistan to become the new 'major terror ground' in just six months, <http://rt.com/op-edge/pakistan-terrorism-separatism-economy-272>, accessed on 14 August 2013

oil tankers. It is expected to reach US\$100 billion by 2015. A trade corridor of the type that is contemplated between China and Pakistan will divert a significant part of this trade to the land route.

China's reach to Africa has been well noted by both economic and foreign policy analysts. It has also drawn the attention of the governments of the West, in particular the United States. The CPEC will provide another way for China to access the mineral wealth of the African continent.

China also has interest in accessing Afghanistan's vast mineral wealth estimated by a study carried out by the Pentagon in the United States at US\$1 trillion. According to several reports published in the United States including in *The New York Times*, "the United States has discovered nearly US\$1 trillion in untapped mineral deposits in Afghanistan, far beyond any previously known reserves and large enough to fundamentally alter the Afghan economy... the previously unknown deposits – including huge veins of iron, cobalt, gold and critical industrial metals like lithium – are so big and include so many minerals that are essential to modern industry that Afghanistan could eventually be transformed into one of the most important mining centers in the world".<sup>3</sup> The deposits of lithium in Ghazni province are so large that they could turn the country into the world's largest producer of this important industrial metal, surpassing Bolivia.

China has already begun to exploit some of the copper reserves in Afghanistan. It won the bid to develop the copper deposits at Aynak in Logar province. It will do more if peace returns to the country. The minerals in raw or processed forms when obtained from landlocked places such as Afghanistan are more cheaply transported to the points of their use by land corridors such as the planned CPEC.

If India agrees to become a part of these routes of communication, what we are looking at is a major transformation of the Asian economy. India could link up with both IPP and CPEC. The latter provides a cheaper form of transport than some of those that are presently used. What is afoot is a major but still-not-fully understood transformation of the Asian economy.

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<sup>3</sup> James Risen, "U.S. identifies vast mineral riches in Afghanistan", *The New York Times*, 13 June, 2010, p. A1.