

**Europe China Research and Advice Network,
(ECRAN)
EuropeAid/129502/C/SER/CN**

**Background Brief Number 1
Subject: China Pakistan Relations**

Date: 15th February 2011

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London**

Background brief: Pakistan-China Relations

Executive summary

Pakistan and China have enjoyed a close relationship for decades. Political relations have remained strong regardless of political developments within Pakistan. Pakistan was one of the first countries to recognise China rather than Taiwan. The 1962 Sino-India War strengthened the relationship and, in 1963, Pakistan agreed to cede part of Kashmir to China. From Pakistan's perspective, opposition to India remains an important element in the relationship. But China's policy towards India appears to be less Pakistan-focussed. Instead it is primarily driven by fears that India's strategic partnership with the US is a means of encircling China.

China's policy towards Pakistan is clearly in its own self-interest; the infrastructure it is building in Pakistan (often by Chinese workers) is primarily intended to expedite the export of Chinese goods. But China is also aware that instability within Pakistan is a significant threat to stability in Xinjiang, and its defence cooperation is as much in China's direct interest as it is benevolent.

At both a government-to-government level, and in terms of Pakistani public opinion, China is seen as a more long-standing friend of Pakistan than the West. However, even if Pakistan sees the US as a fair-weather friend, while it remains reliant on US (and associated multilateral) financial assistance, and while the US remains in Afghanistan, Pakistan cannot publicly shift its primary alliance to China.

The strong political relationship contrasts with the economic and cultural links between the two countries. Cultural links are limited. While Chinese investment in Pakistani infrastructure is welcomed by Pakistan, trade flows are heavily in favour of China and Pakistan's textile sector has suffered because of Chinese competition since the ending of the Multi-Fibre Arrangement.

Main points

- China's concerns about Uighurs, rather than India, underpin present-day defence cooperation with Pakistan. Counter-terrorism cooperation is deepening;
- China sees Pakistan as a gateway for its exports and is building up infrastructure links to ease access between Xinjiang and the Indian Ocean;
- China receives important political support from Pakistan, particularly in forums such as the Organisation of the Islamic Conference;
- Unusually, for a developing country, Pakistan records a significant trade deficit with China. Its vital textile industry has suffered at the hands of Chinese competition;
- People-to-people and cultural links between the two countries are weak, but China benefits from positive public opinion within Pakistan. Unlike the West, China is seen an "all-weather" friend of Pakistan.

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Background information

Political Relations

High-level visits between the two countries are frequent. Underneath the positive statements lies a genuine desire to strengthen relations, notably in the field of defence. The extent of potential economic cooperation, however, is frequently overstated. These two areas have been the primary focus of recent visits, as detailed below:

February 2010: Pakistan foreign minister, Makhdoom Shah Mahmood Qureshi, visited China. Both sides discussed their willing to step-up cooperation in various fields with a view to jointly upholding regional peace and stability.

May 2010: China's defence minister visited Pakistan. Three MoUs were concluded aimed at enhancing Pakistan's capabilities to fight terror. The two sides agreed to hold joint military exercises; China said it would provide four trainer aircraft for the Pakistan Air Force and Yuan60m for training Pakistan's military. They also stressed the aim of forging a "comprehensive strategic partnership".

June 2010: Chinese vice premier, Zhang Dejiang, visited Pakistan. Talks began in relation to Pakistan buying at least three Chinese submarines.

July 2010: Pakistan's president, Asif Ali Zardari, visited China. Talks and agreements focused on economic cooperation, regional connectivity, energy and security. China pledged to provide Yuan50m to Pakistan. MoUs were signed in health and agriculture, and for the geological survey.

November 2010: Asif Ali Zardari visited China for the 16th Asian Games and called for Chinese investment.

December 2010: China's premier, Wen Jiabao, along with 250 business leaders visited Pakistan for a state visit. He committed to investment reportedly worth US\$30bn in sectors such as railways and renewable energy. 2011 was declared "Pakistan-China Friendship Year", a "Pakistan-China Friendship Centre was inaugurated and 35 MoUs were signed. While the West is seen to frequently focus on Pakistan's reluctance to tackle militant groups, Wen Jiabao emphasised China's appreciation for its sacrifices in counter-terrorism.

Arms trade

China is the largest provider of military equipment to Pakistan; unlike Western countries, China is unlikely to impose military sanctions on Pakistan. Military cooperation in both conventional and non-conventional security is strengthening. The JF-17 combat aircraft is the most notable piece of military hardware that is jointly produced. Pakistan also purchases frigates and tank components from Pakistan and in recent years China has supplied an increasing amount of counter-terrorism equipment, such as explosive scanners, to Pakistan.

Military cooperation between China and Pakistan started in the 1960s when China began supplying arms to Pakistan and established a number of arms factories in Pakistan. The Karokoram Highway (connecting Kashgar with Pakistan) was justified as a means of allowing China to provide military aid to Pakistan. Both countries supported anti-Soviet fighters in Afghanistan during the 1980s. China's cooperation was driven by concern over India. From 1990, following the US imposition of sanctions on Pakistan, China became Pakistan's largest weapons supplier, and supplier of choice given Western history of imposing sanctions on Pakistan.

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In 1979, a few months after it was set up CATIC (China Aviation Technology Import-Export Corporation) signed an agreement to export fighter planes to Pakistan. In 1986, CATIC signed an agreement with Pakistan to jointly develop the K-8 jet trainer, and the first six aircraft were delivered in 1994. The clearest example thus far of China-Pakistan cooperation is the JF-17 fighter jet project (JF standing for joint fighter), the “flagship” of the two countries’ partnership. The jointly-funded project was launched in 1999, when CATIC signed a cooperation agreement with the Pakistan Air Force. Both countries contributed half of the cost, estimated at US\$150m.

The design for the plane was finalised in 2001, and the maiden flight was held in 2003. The plane is part-built under licence in Pakistan. Pakistan eventually intends to induct around 150 JF-17s into its air force, and as of February 2011, 22 planes were in service. India had placed pressure on Russia not to sell engines to the joint fighter project, but after temporary refusing exports, Russia finally agreed to provide the engines. The planes are to be armed with Chinese missiles following France’s decision to refuse to sell missiles to Pakistan.

Counter-terrorism cooperation

Chinese concern over its Muslim Uighur population intensified in the 1990s. Following an Islamist uprising in the Chinese town of Baren in 1992, China closed the Karakoram Highway for several months, and in 1995 China hesitated to upgrade the highway for fear that it would increase the spread of radical Islamist ideology. Under pressure from China, Pakistan took a less tolerant approach to its own Uighur community, closing settlements in Pakistan and arresting and deporting Uighurs. Its approach to the Uighurs stands in contrast to its more ambivalent approach to the Afghan Taliban.

China’s demand in return for acquiescence in the US invasion of Afghanistan was for the East Turkestan Islamic Movement (ETIM) to be proscribed; both the US and the UN have described the group as a terrorist organisation, a move that many in the US subsequently regretted: China used the ban to crack down on peaceful religious activities. While China has been quick to publicise links between Uighur groups and Al Qaida, many question the depth of these links.

China’s security cooperation with Pakistan has deepened since 9/11. China expanded its counterterrorism cooperation as a means of breaking links between Uighur separatists and Pakistan-based militant groups. It has also attempted to try to gain support within Pakistan (including from religious parties) on the issue of Muslim separatism in Xinjiang. In December 2001 General Pervez Musharraf, at the time “chief executive” of Pakistan, visited Xi’an and called on Chinese Muslims to be loyal to the Chinese government. Pakistan’s army also took steps to crackdown on Uighurs based in Pakistan’s tribal areas, notably killing the leader of the ETIM, Hasan Mahsum, in 2004. A number of other Uighurs have been killed and extradited to China.

In 2004 China and Pakistan held their first joint anti-terrorism exercise, “Friendship 2004”, with about 200 soldiers from both sides participating. More than 400 troops took part in the second military drill, named “Friendship 2006”. In 2008 China sold unspecified anti-terrorism equipment to Pakistan and the following year the two countries agreed to strengthen defence and counter-terrorism cooperation, and to build a comprehensive security strategy. This was reaffirmed during President Zardari’s July 2010 visit to China. In the same month, the third joint anti-terrorism exercise was held (“Friendship 2010”). The drills were aimed at enhancing counter-terrorism capabilities and demonstrated the commitment to crack down on the ETIM.

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Following the July 2009 riots in Xinjiang, Pakistan demonstrated its political value to China, endorsing China's strategy and using its influence to prevent the issue from being raised at the Organisation of the Islamic Conference.

China's counter-terrorism strategy within Xinjiang involves a dialogue with the two main Islamic parties in Pakistan, the Jamaat-e-Islami (JI) and the Jamaat-e-Ulema-e-Islami (JUI). The leaders of both parties have visited China since 2009, at the invitation of the Communist Party of China (CPC). Indian newspapers reported that the JI agreed not to support Islamist groups in Xinjiang (both parties continue to support the Taliban within Afghanistan). The leaders of both parties continue to express their support for Sino-Pakistan relations, and both parties have signed MoUs with the CPC.

China is believed to have warned Pakistan of plans by Uighurs to kidnap Chinese diplomats in Islamabad. A number of Chinese workers have been killed in Pakistan. Despite claims by both countries, these killings seem unconnected to Uighur groups. Several have been killed in Baluchistan, by Baluchi militants fearful of an influx of Punjabis, a likely by-product of Chinese construction of roads in the province. Others have been killed by Pakistani Islamists. Several Chinese workers were killed during the siege of the Red Mosque in Islamabad in 2007. Prior to the siege, Islamists had been attempting to enforce morality within the capital. In June they raided a Chinese-run health centre, a euphemism for a brothel, and kidnapped seven Chinese citizens. China is thought to have put pressure on General Musharraf to take action, sparking his decision to send troops to lay siege to the mosque where the Islamists were based.

Nuclear trade

China played a major role in the development of Pakistan's nuclear weapon capability, as well as nuclear power. China provided nuclear technology to Pakistan for decades, and some reports suggest China conducted a proxy test for Pakistan in 1980. China claims to have ended support for Pakistan's nuclear weapons programme after it signed the Non-Proliferation Treaty (NPT) in 1992, although assistance is widely believed to have continued.

China signed a civil-nuclear agreement with Pakistan in 1986, since when it has supplied two nuclear power plants to Pakistan. China National Nuclear Corporation has announced plans to set up two additional reactors. The terms of the Nuclear Suppliers Group prevent the transfer of nuclear technology to countries, such as Pakistan, which have not signed the NPT. However, China claims that it agreed the deal prior to signing the NPT and thus is not beholden to its conditions. At the same time Pakistan has demanded a deal similar to the US-India civil nuclear deal to provide it with access to civilian nuclear technology. For now the issue is stalled.

Trade and investment

There are significant discrepancies in trade and investment data between China and Pakistan. Sources from China tend to provide higher figures than those from Pakistan. Both, however, make clear that, unusually for a developing country, Pakistan records a significant trade deficit with China.

	2008	2009	2010
Pakistan exports ^a	674	661	1,210
China exports ^a	3,030	2,708	3,284
Pakistan exports ^b	1,006 ^c	1,200 ^d	1,700 ^d
China exports ^b	5,975 ^c	5,500 ^d	6,900 ^d

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Net inflow of Chinese investment in Pakistan ^a	13.7	-101	-4
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^a US\$ m; Data from State Bank of Pakistan; fiscal year (ie 2008 refers to 2007/2008)

^b US\$ m; calendar year

^c Data from MOFCOM

^d China Customs, newspaper reports

Pakistan's exports primarily comprise raw materials, including ores, minerals and steel. Pakistan's exports of cotton cloth are increasingly important (demonstrating Pakistan's failure to compete with China in the production of ready-made garments. Pakistan has called on China to take steps to tackle the trade deficit, and has asked for tariff concession on around 270 product lines. It has also asked for assistance for training to produce higher-value items in sectors including textiles, jewellery and surgical equipment. China exports a range of cheap goods to Pakistan. Among the larger export items are arms, man-made fabrics, fertiliser and engineering goods. China and Pakistan have set an ambitious target of US\$15bn for trade in 2011.

The investment figures given by Pakistan mask a range of Chinese investment for which no cash transfer takes place. These appear to include the construction of Gwadar Port in Baluchistan, and work building highways in Gilgit-Baltistan. China's military is also involved in construction projects, including the upgrading of the Karakoram Highway. The ultimate intention is to provide road and rail links from Xinjiang through to Gwadar Port. China is also involved in the construction of the 4,500MW Neelum-Jhelum hydro-electric project in Kashmir.

In August 2010 the New York Times reported that there was evidence that China had deployed up to 11,000 troops in Gilgit-Baltistan in Northern Pakistan to build new infrastructure to give China access to the Gulf. Both China and Pakistan denied the reports. Pakistan claimed the troops were engineers rebuilding the Karakoram Highway following the floods of 2010. China claimed they were providing humanitarian aid and assistance at the request of the Pakistani government. The report angered India.

In July 2010, China and Pakistan set up a joint investment company, intended as a conduit for investment in sectors including defence, energy, engineering and IT. China has helped modernise a number of state-owned facilities in Pakistan, notably in the defence sector. These include Karachi shipyard and the Pakistan Aeronautical Complex.

China and Pakistan formed a strategic partnership in 1972. Chinese assistance is wide-ranging and expanding but the absolute amount of assistance is unknown. The relationship is predicated on Pakistan becoming a trade and energy "corridor" for China. China funded the construction of a deep-water port in Gwadar, Baluchistan in a move seen as providing China with access to a deep-water harbour close to the Straits of Hormuz. In 2007 the government gave management control of the port to PSA Singapore, but the deal has been marked by controversy, and the US is assumed to have put pressure on the Singapore government to avoid involvement in the port.

On occasion China has also provided Pakistan with monetary assistance. In 1996 China provided Pakistan with US\$500m in balance of payments support (which helped avert Pakistan from defaulting on its external debt until 1998). However, in 2008 when Pakistan's economy again neared default, China refused to provide cash assistance to Pakistan, forcing it to turn to the IMF for support. It was widely reported that an unnamed Chinese official said "we have done our due diligence, and it isn't

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happening". This also reflects a growing Chinese focus on providing tangible rather than monetary assistance.

Regional relations

Until around 1990 it was clear that China hoped to sustain animosity between Pakistan and India as a means of ensuring that India remained focussed on Pakistan, rather than China, although there were limits to its support; China did not come close to intervening in the three wars between India and Pakistan. Since then China's approach is less clear-cut. In April 2005 China appeared to recognise Sikkim as an integral part of India. This peace-offering came at a time when India's relations with Pakistan were improving. But in 2006 China's ambassador to India restated (one week before the arrival of Hu Jintao in India) China's claim over the Indian state of Arunachal Pradesh. In recent years, relations between India and China have deteriorated further, with India taking exception to China's statement that Kashmir is a disputed territory.

The correlation between the policy towards India of China and Pakistan is not clear-cut. Claims, particularly from US observers, that China seeks to undermine India by providing military assistance to Pakistan are negated by its actions in 2005, when its positive approach regarding Sikkim supported the rapprochement between India and Pakistan. The more recent deterioration in China-India relations would appear to owe more to China's concerns over growing US-India ties, India's own military modernisation and the continued presence of the Dalai Lama in India, rather than China's ties to Pakistan.

China and Pakistan agreed in December 2010 to strengthen coordination on regional affairs, and particularly in relation to Afghanistan. China has growing commercial concerns in Afghanistan. China is fearful of any Taliban/Islamist presence bordering China, while Pakistan's policy is more ambiguous. China advocates the Shanghai Cooperation Organisation as one means of tackling Afghanistan, while Pakistan remains beholden to the current US-led strategy. But while China remains concerned about links between parts of the Pakistani state and the Taliban, it is more concerned that Pakistan continues to demonstrate resolve against Uighur groups within Pakistan.