Realignment: The UK-China Nexus and What it Means for Pakistan and CPEC

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Abstract

China and the United Kingdom have both embarked on ambitious national trajectories that could determine the economic and political landscape of the region in the coming decades. Carrying the historical weight of their past as former colonial masters and subjects, as parties on opposite sides of the Iron Curtain and then as economic partners; the two nations are set to begin a new chapter in their national histories. As trade and investment reaches unprecedented scales and ultimately pushes the two countries towards a closer working partnership. In the uncertain political future being shaped by landmark events such as the launch of the One Belt One Road (OBOR) project and Brexit, Pakistan finds itself poised to benefit from these events. As a close partner of both countries, Pakistan is in a unique position where it can shape the future of Sino-British engagement and can meet its own economic goals along the way. This paper explores the myriad opportunities and challenges that present themselves to Pakistan as the UK-China partnership unfolds and further elucidates on how policymakers can position themselves to ensure that the coming years allow Pakistan to secure its interests whilst deepening ties with China and the UK.

Key words: United Kingdom, China, Pakistan, OBOR, Brexit, CPEC, Economics, Trade.

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Introduction

On June 23, 2016, the world was shocked by the news of the United Kingdom (UK)'s referendum result whereby the country's populace had decided to withdraw from the European Union - becoming the first to do so.[1] Pollsters and pundits had said it would be close, but had anticipated that the 'remain campaign' would succeed at the end.[2] Despite the initial shock, a careful analysis of UK's mounting dissatisfaction with its role in the European Union (EU)'s structure vis-à-vis how the country perceived its role in the international system highlights that this unprecedented event was actually a long time coming and was not a spontaneous decision led by political sloganeering and misguided decision-making as it has been made out to be after the results were announced.

Since the earliest times, England has largely subsisted on the fringes of the European community. This desire was in no small part influenced by its geography which had proven to be a stroke of good luck in the chaos that was pre-Cold War Europe. The lack of physical borders with the European nations allowed the British to minimise the number of regional conflicts they had to partake in, save for with the French who they found themselves to be at odds against for some time as their imperial ambitions led them to clash. However, for the most part, the island Kingdom was able to focus on balancing power in the European mainland without becoming too deeply intertwined in the Machiavellian traditions that governed European statecraft.[3] Thereby, allowing the country to focus on its economic and imperial ambitions, which proved to be most fruitful for the Empire and propelled it into a position of global dominion where at its apex, the British Empire controlled over a quarter of

[1] Jacob Wood and Haejin Jang, "Brexit: The Economic and Political Implications for Asia," *Social Sciences* 6, no. 2 (2017): 41.

[2] Samuel Osborne, "EU Referendum: Remain '80 per cent Likely' to Win European Union Vote, as Leave Odds Lengthen," *Independent*, June 21, 2016, http://www.independent.co.uk/news/uk/politics/eu-referendum-latest-odds-80-per-cent-live-betfair-coral-bookies-remain-leave-brexit-winning-ahead-a7093296.html.

[3] Oliver Daddow, "The UK's Opposition to European Integration is Still Framed around the Legacy of its Past," *London School of Economics and Political Science Blog*, June 10, 2013, http://bit.ly/19PiLLt.

all land and governed a quarter of the global population as its subjects.[4] 'The sun never sets on the British Empire' was popularised as a notable maxim of the time which described the sheer expanse of the Empire where there was always day time at some part.[5]

Overtime however, things changed. Particularly after the Second World War, it became increasingly difficult for the British to retain their colonial possessions. The cost of maintaining colonies was no longer justified by the economic dividends they offered - this situation was further compounded by the myriad of insurgencies and freedom movements plaguing the colonies.[6] Additionally, rising global sentiment in support of the decolonisation movement put Britain on the wrong side of the global consensus, which further led the country to yield to the popular notion of the times and abandon its imperial project.

The search for a new national trajectory culminated with the United Kingdom's historic decision to join the European Communities (EC), precursor to the European Union, in 1973. The decision was reaffirmed by a referendum held two years later, welcomed by ecstatic crowds and a vast show of support at 68 per cent of the ballots cast.[7]

In 2016, it was again a referendum that decided if the UK should continue being a part of the EU; even though the result was far less conclusive this time around with the 'Leave' campaign narrowly succeeding with close to 52 per cent of the vote. It is ironic that the referendum was triggered by the Conservatives who had taken the original decision to join the EC in 1973.[8] In the aftermath of the decision, the United Kingdom once again finds itself at a major crossroads. The country

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4 Niall Ferguson, *Empire: The Rise and Demise of the British World Order and the Lessons for Global Power* (New York: Basic Books, 2004).

5 George Macartney, *An Account of Ireland in 1773. By a Late Chief Secretary of that Kingdom* (Farmington Hills: Gale Eighteenth Century Collections Online (ECCO), 2010).

6 Michael Collins, "Nation, State and Agency: Evolving Historiographies of African Decolonization," in *Britain, France and the Decolonization of Africa: Future Imperfect?* eds., Andrew W.M. Smith and Chris Jeppesen (London: University College London Press, 2017), 21.

7 Stephen Wall, *The Official History of Britain and the European Community, Vol. II: From Rejection to Referendum, 1963-1975*, 1st ed. (Abingdon: Routledge, 2012).

8 "The Labour Party Manifesto: October, 1974," *politicalresources.net,* http://www.politicsresources.net/area/uk/man/lab74oct.htm.

must once again reassess and recalculate its national trajectory such that it aligns with the demands of the public and also the strategic vision of the state's policymakers, businessmen and academics.

In light of the changing geopolitical realities and regional realignments being observed during this period, this paper builds on the premise that the United Kingdom's future lies in fostering closer economic and political relations with China in continuance of the policy that has defined the 'Golden Decade' of Sino-British relations. The paper will further explore how Pakistan will factor into this equation by leveraging its unique position vis-à-vis China, its closest ally and the UK, its former colonial master and now its major economic and cultural partner.

Sino-UK Relations: An Overview

The UK has shared a long and complex history with People's Republic of China (PRC). Despite being soured by a colonial legacy, the destructive Opium Wars[9], followed by the Boxer Rebellion,[10] relations between the nationalists and Imperial Britain have remained cordial. When the communists sacked Beijing under Mao Zedong's leadership, it seemed that relations would deteriorate rapidly as the regime was ideologically motivated against imperial powers and considered it a matter of policy and principle to aid states in throwing off the shackles of colonialism that had

[9] Editor's Note: In 1839, England went to war with China because it was upset that Chinese officials had shut down its drug trafficking racket and confiscated its opium.

[10] Editor's Note: 'In 1900, in what became known as the Boxer Rebellion (or the Boxer Uprising), a Chinese secret organisation called the Society of the Righteous and Harmonious Fists led an uprising in northern China against the spread of Western and Japanese influence there. The rebels, referred to by Westerners as Boxers because they performed physical exercises they believed would make them able to withstand bullets, killed foreigners and Chinese Christians and destroyed foreign property. From June to August, the Boxers besieged the foreign district of Beijing (then called Peking), China's capital, until an international force that included American troops subdued the uprising. By the terms of the Boxer Protocol, which officially ended the rebellion in 1901, China agreed to pay more than USD 330 million in reparations.' For details see, "Boxer Rebellion-Facts & Summary," *History.com*, accessed October 14, 2017, http://www.history.com/topics/boxer-rebellion.

bound them.[11] With Hong Kong under British control, it was anticipated that a military campaign against the port territory would be imminent. However, the PRC proved to be incredibly pragmatic in its approach towards Hong Kong and used it as a conduit for international trade and diplomatic engagement when the regime itself was largely isolationist.[12] Britain and China were, thus, able to form a symbiotic relationship that saw them through the 1984 Sino–British Joint Declaration[13] until peaceful transition in 1997.

Recently, Chinese and British politicians and bureaucrats have been hailing what is being described as 'The Golden Decade' of Anglo-Chinese relations.[14] The term refers to an ambitious plan that is geared towards rapidly expanding bilateral trade between the two countries. Many notable individuals have conjectured that the UK may be trying to expand its ingress into alternative booming markets and looking towards diverse investment opportunities in order to off-set the losses that it expects to incur due to the possibility of a 'Hard Brexit'.[15]

It is very likely that UK will not be able to maintain access to the European single market under existing terms and conditions despite their ardent wish to do so.[16] Building on a number of oddly food-centric analogies, the President of the European Commission, Jean-Claude

[11] Yun Sun, "Africa in China's Foreign Policy" (paper, Brookings, Washington, D.C., 2014), https://www.brookings.edu/wp-content/uploads/2016/06/Africa-in-China-web_CMG7.pdf.

[12] Kerry Brown, "Erase and Rewind: UK China Relations," *LinkedIn*, March 17, 2016, https://www.linkedin.com/pulse/erase-rewind-uk-china-relations-kerry-brown.

[13] Formally known as the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong. The Declaration entered into force with the exchange of instruments of ratification on May 27, 1985, and was registered by the PRC and UK governments at the United Nations on June 12, 1985.

[14] Ma Zhengang, "Is the UK-China 'Golden Era' over Already?" (Brussels: Friends of Europe, 2016), http://www.friendsofeurope.org/publication/uk-china-golden-era-over-already.

[15] Svenja O'Donnell, "Britain Holds Talks with China to Seek Investment after Brexit," *Bloomberg*, November 10, 2016, https://www.bloomberg.com/news/articles/2016-11-10/britain-holds-talks-with-china-to-seek-investment-after-brexit.

[16] Sarah Collins, "Post-Brexit UK can't Have it Everyway, Warns Creed," *Independent.ie*, March 15, 2017, http://www.independent.ie/business/farming/eu/postbrexit-uk-cant-have-it-every-way-warns-creed-35526530.html.

Juncker and Belgian Prime Minister Charles Michel have both been explicit in noting that 'the UK cannot have its cake and eat it too,'[17] which is meant to indicate that the EU will not allow UK to exercise exceptionalism in picking and choosing what points of the EU agenda it would choose to abide by, whilst simply ignoring whatever it deems unnecessary. The point is made specifically with regard to UK's aspirations to continue enjoying access to the single market whilst curbing free movement of labour and limiting payments to the EU. Such a solution has been deemed completely unworkable by Juncker who has already stated that Brexit in itself will cost the UK anywhere between £ 20 billion and £ 60 billion.[18]

Under such circumstances, the UK might be tempted to look eastwards towards rapidly accelerating Asian economies, in order to compensate for the trade opportunities lost due to its withdrawal from the EU. The most likely candidate for any meaningful exponential volume of trade is likely to be China which is already the UK's second largest trading partner outside of the Union, a key investor in a number of British sectors and is also involved in negotiations with the UK for a free trade agreement which could propel bilateral trade to unprecedented levels.[19] As of now, trade with China is worth £54.2 billion in goods alone, not accounting for services.[20] Both countries have already shown keen interest in expanding their existing trade volumes by significant margins and Chinese businesses are channelling a notable chunk of their outward Foreign Direct Investment (FDI) towards the UK. Chinese firms have been focusing their investment efforts towards the stalling British real estate sector, major airports like Heathrow and Manchester, in addition to

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[17] Martin Banks, "Charles Michel: UK can't Have its Cake and Eat it too," *Parliament Magazine*, June 28, 2016, https://www.theparliamentmagazine.eu/articles/news/charles-michel-uk-cant-have-its-cake-and-eat-it-too.

[18] "Jean-Claude Juncker: UK Faces Hefty Brexit Bill," *BBC News*, February 22, 2017, http://www.bbc.com/news/uk-politics-39042876.

[19] Lord Davidson, "FTA with China is a Must for Post-Brexit Britain," *Financial Times*, October 19, 2016, https://www.ft.com/content/c688eb4c-9465-11e6-a80e-bcd69f323a8b. "Britain, China Pledge to Promote Free Trade," *Reuters*, February 17, 2017, http://uk.reuters.com/article/uk-china-britain-trade/britain-china-pledge-to-promote-free-trade-idUKKBN15W0FN.

[20] Dominic Webb, "Statistics on UK Trade with China" (briefing paper no. 7393, House of Commons Library, London, 2015).

acquiring some of the most quintessentially British business concerns like Weetabix, North Sea Oil etc.[21]

In the next couple of years, Chinese investment in the UK is expected to hit close to somewhere around USD 100 billion.[22] These prospects were almost jeopardised when the UK objected to a 30 per cent Chinese stake in the Hinkley Point C (HPC) Nuclear Power Station valued at almost £ 18 billion. These concerns were met by a sharply worded official Chinese response that stated that any decision against the mutually drawn terms of agreement could result in the end of the 'golden era' of Anglo-Chinese relations and may lead to a complete withdrawal of Chinese investment from UK; but the matter has since subsequently de-escalated.[23]

In the same vein, the UK also sees massive potential for returns in China's robust economic market and services sector which is why it too intends to expand its footprint in its market significantly by quadrupling the value of its investments in the country within the next five years. The projections are valued at around USD 26 billion worth of additional investment in China.[24]

Pakistan: Blessed by Geography, Cursed by Politics

T.V Paul, in his book *The Warrior State: Pakistan in the Contemporary World* notes that Pakistan is 'blessed and cursed' by its geostrategic circumstances. Its 'geostrategic curse', much like the Middle East's 'resource curse' makes it an object of interest for great powers.[25] Although

[21] Richard Anderson, "What Does China Own in the UK?" *BBC News*, October 20, 2015, http://www.bbc.com/news/business-34542147.

[22] Richard Laudy, "China Set to Invest over £100 Billion in UK Infrastructure by 2025, Says Pinsent Masons," *Pinsent Masons*, accessed October 14, 2017, https://www.pinsentmasons.com/en/media/press-releases/2014/china-set-to-invest-over-100-billion-in-uk-infrastructure-by-2025-says-pinsent-masons/.

[23] Rob Davies, "China-UK Investment: Key Questions Following Hinkley Point C Delay," *Guardian*, August 9, 2016, https://www.theguardian.com/business/2016/aug/09/china-uk-investment-key-questions-following-hinkley-point-c-delay.

[24] Rebecca Burn-Callander, "UK to 'Quadruple' Investment in China within Five Years," *Telegraph*, January 19, 2015, http://www.telegraph.co.uk/finance/china-business/11353826/UK-to-quadruple-investment-in-China-within-five-years.html.

[25] T.V. Paul, *The Warrior State: Pakistan in the Contemporary World*, 1st ed. (New York: Oxford University Press, 2014).

riddled with its fair share of mistakes, the book does make an important observation on this account. Pakistan has indeed found itself caught in great power politics more regularly than it would appreciate for its own sake, and up till now, this attention from great powers has almost always come at the detriment of the country itself.

After becoming part of the American camp in the Cold War, Pakistan found itself at the centre of a number of controversies and key geopolitical events due to its position as a frontline state against communist expansion. The U-2 spy plane incident [26] almost put Pakistan on the spot for Soviet bombers,[27] then the Soviet invasion of Afghanistan turned Pakistan into the final bulwark against alleged Soviet designs to reach its Warm Waters.[28] Its territory was used as a base and staging area to host, train and launch irregulars known as the *Mujahideen* (those fighting Holy War or *Jihad*) into Afghanistan. After the end of the Cold War (1947-1991), Pakistan soon found itself as a frontline state in the War on Terror (2001 onwards). The country once again paid dearly for its position as a logistical hub for the Americans and a former sanctuary for the *Mujahideen* who had devolved into various factions after the civil war in Afghanistan.

In each of these cases, Pakistan always had to suffer for its geostrategic location. However, with the design for the China-Pakistan Economic Corridor (CPEC) in place, the country stands at the cusp of destiny where for the first time its geostrategic location may be utilised not for great power politics but for geoeconomics and trade. For the first time, the country can envision a future for itself beyond its limited role as a military staging area and instead as a budding transit nation that may

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[26] Editor's Note: On May 1, 1960, American U-2 pilot F.G Powers took off on a spy flight deep into Soviet airspace, tasked with secretly photographing Russian military sites. The mission went awry after he was shot down and taken prisoner. The incident proved to be a major propaganda coup for Soviet leader Nikita Khrushchev, who used the pilot and the captured aircraft to shed light on American Cold War espionage and publicly embarrass President Dwight D. Eisenhower.

[27] ADST, "Moments in U.S. Diplomatic History: The U-2 Spy Plane Incident" (Arlington: Association for Diplomatic Studies and Training, n.d.), accessed October 16, 2017, http://adst.org/2015/10/the-u-2-spy-plane-incident/.

[28] "The Russian Quest for Warm Water Ports," *GlobalSecurity.org*, accessed October 15, 2017, http://www.globalsecurity.org/military/world/russia/warm-water-port.htm.

link the largest producer of goods and the second largest consumer of petroleum-based products with the rest of the world.

At the same time, British Foreign Secretary Boris Johnson's visit to Pakistan reflects a renewed interest of the UK towards engaging more closely with Pakistan through increased bilateral trade[29] which would be centred around the country's resurging economy, bolstered by China's investment in CPEC[30] and the high rate of return on investments that its stock markets have been delivering over the last few years.[31]

Involving Pakistan, Chinese Interests

This upcoming economic renaissance for the UK will be shaped by China's One Belt, One Road (OBOR) initiative and the UK's way in is through OBOR's flagship, CPEC project. This claim can be made for a variety of reasons, arguably most important of which is that Pakistan enjoys very cordial relations with both China and the UK, and is thus, in a unique position to service their common interests whilst they engage with the country. As it has done countless times before, Pakistan can play the role of a key mediator in helping shape the dynamics of new trade relations between these countries, its role is in fact expanded by the leverage that it has been granted in the project by China through the CPEC, making it an important stakeholder in western Chinese trade, which would be routed through CPEC.

China's ports are limited to its eastern coasts and although they have been an invaluable driver in the country's skyrocketing growth rates, they also present a great degree of challenges that endangers China's national, energy and fiscal security. For starters, China shares the South China Sea with a number of countries with which it also shares fiercely

[29] "UK Foreign Secretary Boris Johnson's Pakistan Visit Highlights," *Times of Islamabad*, November 26, 2016, https://timesofislamabad.com/uk-foreign-secretary-boris-johnsons-pakistan-visit-highlights/2016/11/26/.

[30] Khalid Hasnain, "Boris Wants UK Firms Part of CPEC Activities," *Dawn*, November 26, 2016, https://www.dawn.com/news/1298747.

[31] Narae Kim and Faseeh Mangi, "What's Next for Asia's Best-Performing Stock Market?" *Bloomberg*, October 20, 2016, https://www.bloomberg.com/news/articles/2016-10-20/what-s-next-for-asia-s-best-performing-stock-market.

contested maritime boundaries and vies for control of the various small islands that dot the otherwise contiguous expanse of sea. Most significant among these countries are Japan, Taiwan, Vietnam and Philippines.[32] It is also noteworthy though that China is perhaps most threatened by the presence of the US Navy in that area. That's where the 'Malacca Dilemma' rears its head.

China is entirely dependent on the eastern sea route through the Malacca Straits for its imports/exports. Most notably, about 77 per cent of China's Middle Eastern oil follows the same maritime route through the Malacca Straits to its ports. At this point along its lifeline supply route, China is most vulnerable to a naval blockade that can effectively starve it out,[33] thereby making alternative supply routes a major priority. The absence of any more coastal areas means that China must seek out the coasts of dependable allies and use them as an alternative supply route in order to maintain strategic alternatives; lest the country risk being complacent and find itself facing this worst-case scenario where the only available options would be to escalate to war and risk economic ruin or acquiesce to pressure and abandon its great power ambitions, both outcomes wholly unacceptable to the Chinese.

Another reason behind banking on CPEC is that using the Corridor will help cut down on the cost, time and distance that Chinese exports and imports accrue during their time at sea. Ships ferrying cargo between Felixstowe, UK and Shanghai, PRC cover around 19230km before they reach the port in 50 days, and then the cargo must be moved further inland. On the other hand, the distance between Felixstowe, UK and Port Qasim, Pak totals 11250km and is covered in 29 days. The cargo can then be moved over roads and railways being developed under the CPEC project to the Khunjerab Pass a further 1,556 km, a journey of under 36 hours. Thus, the total distance covered is reduced by 34 per cent, whereas the time taken for the shipment to reach from port-to-port is reduced by 38

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[32] Joanna (Yeejung) Yoon, "Sandcastles in the South China Sea," in *Shared Destiny*, eds. Geremie R Barmé, Linda Jaivin and Jeremy Goldkorn (Canberra: Australian National Unity Press, 2015).

[33] ZhongXiang Zhang, "Why are the Stakes So High?: Misconceptions and Misunderstandings in China's Global Quest for Energy Security," in *Rebalancing and Sustaining Growth in China*, eds. Huw McKay and Ligang Song (Canberra: Australian National Unity Press, 2012), 333-351.

per cent by cutting 19 days from the transit time, provided speed is constantly maintained at 10 knots throughout the trip.[34]

CPEC will also help in cutting costs by a significant margin. As per statistics taken from the US Department of Transportation, the cost of transporting cargo from Felixstowe, UK to Shanghai, PRC by sea comes to around USD 1192.26 per tonne kilometre (at 0.062 cents per tonne kilometre). Whereas if the hybrid sea/road route is taken through Pakistan, then the total cost of the same cargo is reduced to USD 1055.38 per tonne kilometre (at 0.062 cents per tonne mile for sea and 0.230 cents per tonne kilometre for road) which translates to a 12.5 per cent decrease in costs incurred over every tonne of cargo transported over a kilometre.[35]

The values can be pushed further down by opting for rail, which is cheapest mode of freight at only 0.019 cents per tonne kilometre. China already recognises the importance of freight by rail and has embarked on an ambitious project to lay 2965 km of new track in Pakistan whilst upgrading 3001 km of existing track[36] at a cost of almost USD 3.7 billion.[37] The Khunjerab Railway line, due to be constructed as a part of the second tranche of CPEC projects between 2018-22[38] would realise the plan to link Khunjerab with Karachi via rail. Freight moving over rail would reduce the total cost of moving goods from Felixstowe, UK to Khunjerab down to USD 727.06, which translates to a substantial 39 per cent decrease in costs over the existing trend of moving cargo by sea.[39]

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[34] Values are calculated using commercial shipping and seafare calculators (www.ports.com/sea-route).

[35] Federal Highway Administration, Department of Transportation, *Logistics Costs and U.S. Gross Domestic Product* (Washington, D.C.: MacroSys Research and Technology, 2005), https://ops.fhwa.dot.gov/freight/freight_analysis/econ_methods/lcdp_rep/index.htm#Toc112735358.

[36] "Massive Pak Railways Upgradation," editorial, *Pakistan Observer*, accessed October 15, 2017, http://pakobserver.net/massive-pak-railways-upgradation/.

[37] Ruilian Zhang and Guoqing Shi, "Social Impacts Assessment for China-Pakistan Economic Corridor Investment Activities" (paper presented at 36th Annual Conference of the International Association for Impact Assessment, Nagoya Congress Center, Aichi-Nagoya, May 11-14, 2016), http://conferences.iaia.org/2016/Final-Papers/Zhang,%20Ruilian%20-%20SIA%20for%20China-Pakistan.pdf.

[38] Imaduddin, "New Railway Line to be Laid from Havelian to Khunjerab: Khawaja," *Business Recorder*, February 18, 2016, http://www.brecorder.com/2016/02/18/279561/.

[39] All values are self-calculated using data from commercial portals and US DOT Report as referenced.

These factors are arguably the most notable among a long list of potential reasons why the Chinese would be interested in establishing CPEC as an alternative supply channel to the existing sea ports that service its bludgeoning industry.

Involving Pakistan, British Interests

This paper has briefly referred to the British interests in engaging with China through CPEC but due consideration must also be given to the fact that Pakistan will not be serving as a mere transit route for UK's trade engagement with China. Quite the contrary; in the aftermath of Brexit, it is very likely that trade relations between Pakistan and the UK will also see a significant boost for a variety of reasons which include, but are not limited to some that shall be listed.

Foreign Secretary Boris Johnson visited Pakistan in late November 2016 and outlined the vision that the post-Brexit UK holds for the country.[40] He was keen to note that Pakistan represented the 'geographical heart of Asia' and had the potential to become a trade hub due to its central location as a one-stop transit destination that can service a market of about 1.4 billion people in China to the North, 1.3 billion people in India to the East and a combined market of over 100 million in the West comprising Afghanistan and Iran.[41] Pakistan can also offer access to the landlocked Central Asian states which present ripe investment opportunities which have been hampered by the lack of access opportunities that the CPEC project looks to compensate.

Iran is also undoubtedly a high value investment destination after sanctions against the country have been relaxed as a result of the Iran Nuclear Deal Framework of 2015. The oil rich country has an attractive market with little international competition at the moment and a large

[40] "UK Foreign Secretary Boris Johnson's Pakistan Visit Highlights."
[41] Jon Rogers, "Boris Johnson Forges Ties with Pakistan to Access Old Silk Road Trade Deal," *Express.co.uk*, November 26, 2016, http://www.express.co.uk/news/world/736776/Boris-Johnson-Pakistan-ties-silk-road-trade.

middle class[42] with expendable income that represent the key demographic for manufacturers of consumer goods.

Pakistan can offer access to all these markets concurrently through its ports rather than entering each country individually which would incur significant losses in extra distance, time, port duties and logistic fees. Thus, Pakistan's potential as a supply hub to the various states in the region is unparalleled.

The UK is home to some of the world's most renowned and profitable building firms in the world.[43] These firms have established a strong foothold for themselves all over the globe and have performed their duties in every corner of the world, riding one wave of rapid development after another. With over USD 62 billion in investment for CPEC so far,[44] most of it being earmarked for infrastructure development projects, British firms have become interested in the potential growth boom that will be hitting the country soon.[45] As the need for highly specialised building companies becomes apparent and several tenders are floated, these firms will be poised to cash in on the next wave of rapid urban/industrial development which will follow CPEC. As companies build local chapters and headquarters, hotels are built to accommodate visiting businessmen and local companies are set up to offer allied services, the need for multi-storey structures will increase rapidly and these firms will be looking to exploit the said opportunity. This engagement will also serve as an impetus for further investment flow into the country and in turn expand bilateral trade, which Foreign Secretary Boris Johnson was keen to point out, is limited to a mere £ 2.7 billion with significant margin for further expansion.[46]

[42] Glenn E. Curtis and Eric Hooglund, eds., *Iran: A Country Study*, 5th ed. (Washington, D.C.: Library of Congress, 2008).
[43] "Top 100 Construction Companies 2016," *Construction Company Directory*, accessed October 15, 2017, http://www.theconstructionindex.co.uk/market-data/top-100-construction-companies/2016.
[44] Salman Siddiqui, "CPEC Investment Pushed from $55b to $62b," *Express Tribune*, April 12, 2017, https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b/.
[45] Hasnain, "Boris Wants UK Firms Part of CPEC Activities."
[46] Ibid.

Opportunities for Pakistan

The preceding sections of this paper have focused on explaining the basic framework on which a future Sino-British alliance will be conducted and how it will inevitably involve Pakistan due to the country's overarching ingress into either nation's political and economic calculus. Changes of this magnitude are seldom seen on the global political stage which is otherwise predisposed towards maintaining the *status quo*. For the rare occasions that do see high impact events like Brexit come to pass, they open up a rare window of opportunity for other states to assess their current position vis-à-vis the trajectory that they would be going in as a consequence of these events and then attempt to align themselves with the changing order such that they can extract the maximum benefits out of the new arrangements without compromising their existing secured interests. This situation has opened up various avenues for Pakistan as well - the advent of CPEC coupled with the timing of Brexit holds the potential to redefine the boundaries of Pakistan's economic and political relations with both China and the UK while offering many exciting new possibilities on how it can extend its role with the said nations in the future.

First and foremost, CPEC and subsequent British interest regarding investment in the project represents a unique opportunity for both China and Pakistan in the sense that it will allow both countries to remedy the economic marginalisation that has long plagued their respective western territories. For China, the economy has flourished along the eastern coastal belt in the regions where the regime welcomed economic reform but the effects of that localised growth have not fully benefited the western regions,[47] most acutely Xinjiang. China faces an insurgency in the autonomous region that has been using the state's response against it to generate support. They do so by portraying these measures as overreach by Beijing.[48] This has lead China to develop an alternative, more inclusive approach towards defeating the insurgency by mainstreaming Xinjiang

[47] Jonathan Masur and Daniel Abebe, "A Nation Divided: Eastern China, Western China, and the Problem of Global Warming" (John M. Olin Program in Law and Economics Working Paper no. 426, The Law School, Unversity of Chicago, Chicago, 2008), http://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1008&context=law_and_economics.

[48] Gabe Collins, "Beijing's Xinjiang Policy: Striking too Hard?" *Diplomat*, January 23, 2015, http://thediplomat.com/2015/01/beijings-xinjiang-policy-striking-too-hard/.

and supplementing its security objectives with an incentive-based solution, spearheaded by the 'China Western Development Strategy' which has paid dividends by increasing the economic output of the western provinces to 19.9 per cent of the cumulative national output.[49]

In Pakistan, its province of Khyber Pakhtunkhwa and Balochistan have been hit hardest by the War on Terror. Consequently, local industry has diminished significantly in the last decade and commerce has been disrupted by violence and internal migration.[50] Balochistan, which comprises the largest portion of the country's territory, has suffered from economic marginalisation owing to its low population density and limited urban development which has resulted in limited access and lack of any significant economic stimulus.[51] CPEC and its subsequent investment can help integrate these territories with the more economically active regions and should hopefully provide incentive for investors and businesses to see the potential of these untapped pioneer markets.

Additionally, as the cost of labour in Eastern China rises, local firms and the government are faced with the possibility that industry might move out of China towards destinations with cheaper labour as it had once moved in.[52] Vietnam, Cambodia, Thailand and India have come up as new outsourcing destinations due to large, readily available, skilled workforce and cheap labour. China can counteract this phenomenon and prevent local and international industry from falling out of its orbit by shifting labour intensive and new industries towards Western China and Pakistan.

With a large employable workforce and cheap labour, these destinations offer a much more attractive prospect for China than losing its industry to other countries. Even in Pakistan, China can be confident about the safety of its investment as the countries enjoy close cooperation

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[49] National Bureau of Statistics of China, GoPRC, *China Statistical Yearbook 2016* (Government of People's Republic of China, 2016), http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm.

[50] Tariq Khan, "The Social, Political and Economic Effects of the War on Terror: Pakistan 2009 to 2011," *ISSRA Papers* 5, no. 1 (2013): 65-90.

[51] Manzoor Ahmed and Akhtar Baloch, "Political Economy of Balochistan, Pakistan: A Critical Review," *European Scientific Journal* 11, no. 14 (2015): 274-293.

[52] Jiaxing and Yangon, "The Future of Factory Asia: A Tightening Grip," *Economist*, March 12, 2015, http://www.economist.com/news/briefing/21646180-rising-chinese-wages-will-only-strengthen-asias-hold-manufacturing-tightening-grip.

and a fruitful working relationship that should make it mutually profitable for Chinese firms to benefit from Pakistan's readily available workforce. The precedent has already been set after the Haier laptop assembly plant was set up in Lahore and has since been serving the Pakistani market and secured a large export order to Mexico.[53] Thus, this mechanism can help retain industry, remedy economic marginalisation, improve interconnectivity and opportunities for remote areas while helping to quell lawlessness and separatist sentiment through closer economic integration.

Secondly, the developing nexus between China and the UK can help Pakistan diversify its limited FDI basket. At the moment, CPEC is being solely funded and financed by the Chinese public and private sector. Whereas that may help remove a potential conflict of interest and make the whole process a lot smoother, it does raise issues of transparency and complete dependency on a single country.[54] Although a number of countries have shown keen interest in becoming involved with the project,[55] there have been no concrete steps taken towards that end. It can be conjectured that these nations are wary of the situation and wish to wait and see how the project develops in the near future before they decide to commit their resources towards it. The UK, however, already enjoys close trade and political relations with both China and Pakistan which is why it is likely to be more forthcoming with venturing its investment in return for a more intimate and rewarding stake in the project. Having multiple sources of inbound FDI carries a number of benefits that outweigh the risks that taking on more partners would entail. These include the fact that it would help raise the value of funds being committed to the project, in addition to curbing the domineering position of the prime financier if it was being governed by a single party. Furthermore, diverse FDI can also help promote export diversification as more sectors are rejuvenated by the inflow of FDI from multiple sources rather than becoming dependant on a single source which would obviously be looking towards a narrow

53 "Haier Pakistan becomes the First Company to Assemble Laptops in Pakistan," *Haier Pakistan*, October 3, 2017, http://www.haier.com/pk/newspress/releases/n2017/201703/t20170310_343868.shtml.

54 Khurram Husain, "IMF Warns of Looming CPEC Bill," *Dawn*, October 17, 2016, https://www.dawn.com/news/1290523.

55 "52 Countries Interested in CPEC: Nawaz," *Pakistan Observer*, accessed October 15, 2017, http://pakobserver.net/52-countries-interested-in-cpec-nawaz/.

selection of sectors that are most rewarding for the investor and not necessarily for the recipient.

Thirdly, UK's freedom from EU's economic restrictions allows Pakistan more room to manoeuvre as it tries to further expand its footprint in the British market which is going to be an open playing field once the Kingdom completely pulls out of the EU. It should be state priority for Pakistan to negotiate a Free Trade Agreement with the UK as it presents a very lucrative opportunity for Pakistan.

Historically a major exporter of garments to the UK[56], Pakistan has suffered in the last two decades against Bangladeshi exports which were priced uncompetitively low due to the Least Developed Country status it enjoyed under the EU, bestowed upon it in 1975 and effective to this day[57] without regard for the fact that Bangladesh's economy outpaces that of Pakistan today.[58]

The non-reciprocal, preferential market access that the country enjoys under the EU's Everything But Arms (EBA) initiative gives it expanded quotas, waived tariffs and duties in addition to several other benefits[59] that have allowed it to claw an unreasonable share of the apparel market from other players who do not enjoy the same leverage, and are thus, left with their goods priced much higher than their Bangladeshi counterparts, and therefore, unable to compete in the market.

An FTA will give Pakistan the opportunity to compete with Bangladeshi exports on a somewhat more even playing field. An FTA based on reciprocity would make Pakistan a much more significant economic partner to the UK and give it greater leverage in having its concerns addressed with regards to the UK market. While Pakistan will be able to enjoy access to the lucrative British consumer market, particularly

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[56] Noor Ahmed Memon, "Pakistan Apparel Industry : Competing Global Market," *Pakistan Textile Journal* (January 2016), http://www.ptj.com.pk/Web-2016/01-2016/PDF-January-2016/Dr-Noor-Apparel-and-Knitwear-1.pdf.

[57] Mustafizur Rahman, *Trade Benefits for Least Developed Countries : The Bangladesh Case - Market Access Initiatives, Limitations and Policy Recommendations* (Dhaka: Centre for Policy Dialogue, 2011).

[58] "Pakistan Lags behind India, Bangladesh in Economic Growth: Report," *Express Tribune*, October 10, 2016, https://tribune.com.pk/story/1196602/pakistan-lags-behind-india-bangladesh-economic-growth-report/.

[59] Rahman, *Trade Benefits for Least Developed Countries : The Bangladesh Case-Market Access Initiatives, Limitations and Policy Recommendations*.

its most favoured export sectors such as textiles, sports goods and surgical goods, the UK would in turn be able to export heavy machinery, various goods and services to Pakistan on preferential terms, something that could prove exceptionally rewarding under the circumstances where CPEC projects are acquiring machines and construction services on a regular basis.

Challenges and Future Horizons for Pakistan

While the opportunities that an evolving engagement with China and the UK has generated for Pakistan have been discussed extensively, not much attention has been given to the challenges it poses. It is important to discuss these challenges not to seed pessimism about the changing state of affairs, rather to identify where shortcomings exist, rectifying them and then using that knowledge to develop strategies that can help address these challenges before they manifest, thereby contributing to mutually rewarding economic prospects.

The first and most pressing challenge posed to Pakistan after the UK's exit from the EU concerns its future engagement with the Union sans the UK. Pakistan has overwhelmingly relied on the UK as its conduit to the EU over the years.[60] Close relations between the two countries meant that the UK could lobby for Pakistan's interests from inside the Union. This leverage has been significantly diminished after the referendum and will cease to exist when Brexit is completed. As it stands, Pakistan needs to find a new patron in the EU or risk being shut out and having its economic interests in the EU significantly diminished if not compromised. China, also historically sought access to the EU through its close relationship with the UK but has already started to extend its investment in the Union which should essentially allow it to plug the gap left by UK's decision to withdraw from the EU.[61] Luckily, however, there are three key states that Pakistan can further cement its existing relations

[60] Khalid Mustafa, "After Brexit, Pakistan in Search of New Friends in EU," *News International*, June 28, 2016, https://www.thenews.com.pk/print/131220-After-Brexit-Pakistan-in-search-of-new-friends-in-EU.

[61] Paul Irwin Crookes, "Impact of Brexit on Europe-China Relations," October 10, 2016, http://www.ox.ac.uk/news-and-events/oxford-and-brexit/brexit-analysis/impact-brexit-europe-china.

with to make up for the loss of UK's patronage in the EU. If not the same as through the UK, Pakistan should be able to enjoy substantial support and access through Germany, France or Italy. ***Germany*** is a prime candidate for this position as the country is arguably the most significant country in the EU with the largest economy and the greatest stakes in the economic matters of the Union.[62] Germany enjoys strong historical relations with Pakistan and is amongst the country's largest trading partners.[63] The country enjoys an overwhelmingly positive image in Pakistan. Pakistan's relations with ***France*** have been characterised by their intensive military nature.[64] Although bilateral trade remains a meagre USD 313 million,[65] Pakistan has acquired aircraft and submarines from France for the Pakistan Airforce and Pakistan Navy, becoming the largest client of the French aerospace industry.[66] The countries also cooperate in the field of nuclear energy.[67] As evident, the basis for strong bilateral relations already exists between the two states and Pakistan may be keen to expand on this foundation to curry favour with France if it is to remain current and relevant in the EU. ***Italy*** is a rising trade and defence partner for Pakistan that has been filling into France's place over the last decade and a half when the country was focusing on India at the active expense of Pakistan, owing to the lucrative medium-weight multi-role combat aircraft (MMRCA) acquisition tender and also the Scorpène-class submarine deal. Exploiting the vacuum left by the French, the Italians were quickly able to establish substantial trade, defence and political relations with Pakistan. At the moment, Italy offers a USD 10 billion credit line for its investors willing to invest in Pakistan.[68] The country is

[62] Trevir Nath, "Is Germany Carrying the European Economy?" *Investopedia*, April 15, 2015, http://www.investopedia.com/articles/investing/041515/germany-carrying-european-economy.asp.

[63] SCCI, "Pakistan-Germany Trade Relations" (Sialkot: Sialkot Chamber of Commerce and Industry, n.d.).

[64] Jean-Luc Racine, *Pakistan and France: The Legacies of the Past and Turn of the Century*, report (Islamabad: Institute of Strategic Studies, 2007).

[65] TDAP, "Pakistan and France Trade Relations" (Research & Analysis Directorate, Trade Development Authority of Pakistan, n.d.).

[66] Racine, *Pakistan and France: The Legacies of the Past and Turn of the Century*.

[67] "Pakistan in 'French Nuclear Deal,'" *BBC News*, May 15, 2009, http://news.bbc.co.uk/2/hi/europe/8052587.stm.

[68] "Italy to Provide USD 10 bn Credit Line," *Dawn*, October 18, 2009, https://www.dawn.com/news/497233.

also a key proponent for establishing an FTA between Pakistan and the EU.[69] Thus, the country is already in a position where it is furthering Pakistan's interests in the EU and this relationship can be further developed by increasing bilateral trade.

Another important challenge is the security situation in Pakistan. The country has seen its economy devastated by war following a period of rapid economic growth in the mid-2000s.[70] Although extensive military operations against terrorists have uprooted them from their strongholds,[71] the campaign is still in the phase of consolidating its gains and there have been occasional attacks by terrorists who have found sanctuaries on the Afghan side of the western border. Terrorists have changed their tactics to complement their weakened position, embracing scattered ranks for the anonymity it allows them. The nature of attacks has also changed, unlike the relentless daily onslaught of late 2000, the terrorists are now more opportunistic with their plans and frugal with their resources. Attacks are fewer and far between and the focus has also shifted from engaging hard military targets to softer civilian ones.[72] Under these circumstances, increasing attacks on infrastructure projects and those working on them in Balochistan have also been observed which shows that the terrorists recognise these projects as a viable target and will strike them when the opportunity allows.[73] The state will have to step up efforts to protect the lives and investment of foreign partners in order to allow this new wave of growth to continue.

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[69] Franco Frattini, "Italy's View," *Dawn*, November 11, 2010, https://www.dawn.com/news/580455/italy-s-view-by-franco-frattini.

[70] "Pakistan GDP Growth Rate: 1952-2017," *Trading Economics*, accessed October 15, 2017, http://www.tradingeconomics.com/pakistan/gdp-growth.

[71] Peter Oborne, "Winning the War on Terror: From the Badlands of Pakistan where Al-Qaeda Planned their Attacks on Britain, Peter Oborne, the First Western Journalist to Visit this Epicentre of Terror Files a Riveting Dispatch," *Daily Mail Online*, March 3, 2017, http://www.dailymail.co.uk/news/article-4277056/Winning-war-terror-badlands-Pakistan.html.

[72] SATP, "Fatalities in Terrorist Violence in Pakistan 2003-2017," *South Asia Terrorism Portal*, accessed October 15, 2017, http://www.satp.org/satporgtp/countries/pakistan/database/casualties.htm.

[73] SATP, "Major Incidents of Terrorism-Related Violence in Pakistan - 2017," *South Asia Terrorism Portal*, accessed October 17, 2017, http://www.satp.org/satporgtp/countries/pakistan/database/majorincidents.htm.

Operation Rad-ul-Fasad, a string of intelligence-based operations (IBOs) across the country, is a welcome step towards this end and has managed to achieve key objectives by rooting out terrorist sleeper cells and intercepting terrorists crossing over from Afghanistan. The Operation has come to represent the state's drive to go to any length and to all corners of the country to completely root out even the remnants of terrorist organisations by forcing them to surrender or face justice. Additionally, a collaborative approach needs to be taken with our Afghan partners towards ensuring that the border with Afghanistan is well guarded and unchecked crossing curbed to limit the logistical support, training and shelter available to terrorists who have been using the Afghan border regions as springboard to mount attacks inside Pakistan and on the infrastructure projects being set up along the western leg of CPEC.

Additionally, two other challenges facing Pakistan are questions over its capacity to complete infrastructure projects under the banner of CPEC in time and limit the environmental and social impact that these projects will entail. On the first account, the Chinese have expressed their satisfaction with the pace at which projects are being completed.[74] Pakistan's Ministry of Planning, Development and Reform maintains a separate website for CPEC with periodic progress reports which record the developments taking place with regards to 67 EHPs that revolve mostly around infrastructure development and energy generation.[75] This sort of transparency in infrastructure projects has seldom been seen in Pakistan and appears to be a good omen for the project.

On the environmental front, the blowback from CPEC can be divided into two parts, immediate impacts and long-term impacts. As far as the former is concerned, the problem is mostly seen to be concentrated around the trees that will have to be cut in order to accommodate the roadways being constructed under the project. So far, over 54,000 trees are said to have been cut in order to clear way for the construction of

[74] "Chinese Delegation Discusses CPEC Progress," *News International*, July 11, 2017, https://www.thenews.com.pk/latest/215791-Chinese-delegation-discusses-CPEC-progress.

[75] Ministry of Planning and Development, GoP, "CPEC Projects Progress Update" (Government of Pakistan, 2017), http://cpec.gov.pk/progress-update.

roads.[76] At the same time, however, afforestation campaigns in KPK and Punjab have planted several hundred thousand more saplings in order to offset the effect of deforestation and climate change,[77] which would in turn serve to compensate for the loss of vegetation to road laying as well. An Environmental Impact Assessment (EIA) on the matter commissioned by the National Highway Authority found that '…potentially negative impacts associated with the proposed project are mostly moderate and reversible in nature, and can be easily addressed.' The EIA proposes an Environment Management Plan (EMP) that should serve to mitigate any environmental damage or degradation that roadworks may cause. The plan appears to be economically feasible since according to the GoP, the implementation cost has been estimated at PKR 296 million against PKR 400 billion in investment being generated by the project.

In the longer run, however, more concrete measures will need to be taken to ensure that the damage to Pakistan's environment and delicate ecosystem is minimised. At capacity, it is anticipated that over 7000 large trucks could be using the roadways on a daily basis.[78] The International Union for Conservation of Nature (IUCN) has raised concerns over the environmental impact that this will have on local fauna and flora as well as the human population. The Government has been keen to note that it will be according utmost priority to ensuring that environmental degradation is limited.[79] That being said though, the Government has yet to commission or make public, any significant study or report to sustain these assurances, especially after it rejected an incriminating EIA carried

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[76] Muhammad Sadaqat, "Cutting Down Trees for CPEC," *Herald*, May 4, 2017, http://herald.dawn.com/news/1153738.

[77] Muhammad Ibrahim Khan, Bashir Hussain Shah, Iqbal Muhammad, Syed Kamran Hussain, Muhammad Waseem, Shafique Ullah Khan, Haleema Saad, Gul Rukh and Malik Mudassar Ahmed, *Third Party Monitoring of Billion Trees Tsunami Afforestation Project in Khyber Pakhtunkhwa* (Peshawar: World Wide Fund for Nature Pakistan, 2016), https://sustainabledevelopment.un.org/content/documents/commitments/9424_12475_commitment_BTTAP-Third-Party-Monitoring-Report-WWF.pdf; and "Punjab Plans Afforestation of 20,000 Acre Land," *Dawn*, May 31, 2017, https://www.dawn.com/news/1336462/punjab-plans-afforestation-of-20000-acre-land.

[78] "Environmental Impact: 'Government should Re-Study CPEC," *Express Tribune*, April 8, 2017, https://tribune.com.pk/story/1377620/environmental-impact-government-re-study-cpec/.

[79] Jamal Shahid, "'Environmental and Economic Sustainability' of CPEC Assured," *Dawn*, June 8, 2015, https://www.dawn.com/news/1186880.

out by a private firm.[80] Any project of this magnitude necessitates a thorough EIA which should be made publicly available to create transparency and raise awareness.

Furthermore, in order to limit the environmental impact of exhaust gases that would be generated by added heavy vehicular traffic, industry and power projects set up as a part of the project, Pakistan will need to adopt very stringent emission standards. Although adoption of Pak-II emission standards corresponding to Euro-II standards is a welcome step, it is still several paces behind the global best practices in emission control. There appears to be an internal realisation within the Government regarding the urgency of this issue as well because the Pakistan Environmental Protection Agency's (PAK-EPA) working paper on 'National Environment Quality Standards for Motor Vehicular Exhaust and Noise' had anticipated that Pakistan would adopt Euro-IV standards by 2013 although that has not been the case yet.[81] Similarly, making scrubbers mandatory for industrial and power generation exhausts would also help in cutting down the amount of carbon being released into the atmosphere by nearly 90 per cent if the most modern methods are adopted.[82]

Conclusion

As evident from the contents of this paper, Pakistan finds itself at the crossroads of destiny. There could not have been a more opportune time for the CPEC project to launch and Brexit proceedings to have been triggered - they both complement each other such that these events are bound to create ripples in the international system. The course of Pakistan's future now depends on how well the country is able to position itself to extract the maximum possible benefit out of both events whilst setting up working partnerships for the future. The road ahead is fraught

[80] Ibid.
[81] Pakistan Environmental Protection Agency, GoP, "National Environmental Quality Standards for Motor Vehicular Exhaust and Noise" (Government of Pakistan, n.d.), accessed October 16, 2017, http://www.environment.gov.pk/PRO_PDF/WPAPER-VES.pdf.
[82] Duncan Graham-Rowe, "Scrubbing CO_2 Cheaply," *MIT Technology Review*, March 9, 2009, https://www.technologyreview.com/s/412439/scrubbing-co2-cheaply/.

with challenges and there is a lot of uncertainty involved, but history has always favoured nations that have not been afraid to take bold steps and grasp opportunities that are presented to them. The increasingly deepening cooperation between the UK and China presents a unique opportunity for Pakistan to help two close allied partners ease into a rapidly evolving global partnership and secure for itself a key share in that partnership by using its early bird advantage. This promising economic partnership between the globe's second and fifth largest economies holds the potential to completely rewrite how money flows in the world and it would be prudent of Pakistan to recognise this fact and act on the above-mentioned recommendations, in addition to building on available openings to secure the largest possible stake for itself in this rare moment.■