

Inaugural Session

INAUGURAL SESSION

Mr Inam ul Haque, Chairman, ISSI

Welcome Remarks

Distinguished scholars, participants and guests:

We are greatly honoured, Mr Prime Minister, that, despite your multifarious obligations and hectic schedule, you have found time to grace us with your presence today to inaugurate the seminar on “55 Years of Pakistan–China Relations”. We are particularly grateful for your continuing encouragement, support, and patronage of the activities of the Institute of Strategic Studies.

This Seminar is being held as part of the ongoing celebrations of the 55th anniversary of the establishment of diplomatic relations between China and Pakistan. This milestone is being celebrated with great fervour and enthusiasm both in Pakistan and in China. The visit of a cultural troupe from Xinjiang, China, whose performances have enthralled all those who have had pleasure of watching them in Pakistan is but one such example of the activities that are going on and also of the historical and cultural affinities that exist between our two countries and people.

I would be remiss if I did not express our deep appreciation for the untiring efforts of the Ambassador of the People’s Republic of China to Pakistan, His Excellency Zhang Chunxiang, in bringing the two countries ever closer to each other.

Your presence among us today, Mr Prime Minister, underlines your personal commitment and determination to further enhance and strengthen the comprehensive strategic relationship that has developed and matured between China and Pakistan over the last five and a half decades.

The warmth of the messages exchanged between the President of Pakistan, General Pervez Musharraf and the President of China, Mr Hu Jintao, and of those between you, Mr Prime Minister, and Premier Wen Jiabao, as well as the resolve expressed in those messages to take this relationship to new heights are in themselves manifestations of the close ties between the leadership and the people of the two countries. These exchanges also reflect the importance that both countries attach to this

vital relationship, which has withstood the test of time and has been correctly described as an all-weather partnership.

The relationship between China and Pakistan is multi-dimensional and is growing rapidly. The two countries have a shared strategic vision; our leadership is constantly in touch with each other; we support each other in international forums; our defence co-operation and joint production of weapon systems is proceeding apace; our economic and trade relations are strong and growing; and two-way trade between the two countries has recently crossed the US\$4 billion mark. Negotiations for a Free Trade Agreement have begun, and China is assisting Pakistan in projects ranging from infrastructure development to high technology. We in Pakistan are determined to expand this relationship in all spheres and we know, through our personal experience, that our Chinese friends share this determination.

Mr. Prime Minister, during the two substantive sessions of this seminar, we will be discussing Pakistan–China Relations within the current global strategic environment; Pakistan–China defence cooperation; Pakistan–China economic relationship; and China's relationship with South Asia.

We have with us today some very eminent Chinese and Pakistani scholars who will be participating in the discussions and making presentations. From the Chinese side we have:

- Ambassador Ma Zhengang, President of the China Institute for International Studies;
- Major General (Retd) Cai Bingkui, Vice Chairman of the China Institute for International Strategic Studies;
- Professor Zhang Yunling, Director, Institute of Asian and Pacific Studies;
- Professor Ma Jiali, Senior Fellow, South Asian Studies, China Institute of Contemporary International Relations;
- Professor Zhao Gancheng, Director, South Asia Studies at the Shanghai Institute for International Studies; and
- Mr Wang Qiang, Programme Officer at the China Institute for International Studies.

From the Pakistani side, presentations will be made by:

- Mr Akram Zaki, Senator and former Secretary of the Ministry of Foreign Affairs;

- Lieutenant General (retd.) Asad Durrani;
- Ambassador Tariq Fatemi; and
- Mr Fazal ur Rahman, Director, East Asia, ISSI.

We are confident that the exchanges and the outcome of the Seminar will be of use to policy makers in both countries in exploring new avenues of co-operation between China and Pakistan. We will submit these recommendations of the Seminar to you, Sir, in due course.

I conclude by thanking you once again, Mr Prime Minister, for being with us today.

Ladies and Gentlemen, it is now my privilege to invite the Prime Minister of Pakistan, Mr Shaukat Aziz, to deliver the inaugural address.

Mr Shaukat Aziz, Prime Minister of Pakistan
Inaugural Address

Mr Inam ul Haque, Chairman of the Institute of Strategic Studies, Dr Shireen Mazari, Director General of the Institute, Excellencies, honoured guests, ladies and gentlemen, Assalam-o-Alaikum and good morning.

I am really privileged to be here at the opening of the seminar commemorating the 55 years of friendship between Pakistan and China. The friendship between our two countries is rooted in our hearts and minds. Ours is a special relationship, which is whole-heartedly and overwhelmingly supported by our peoples. These ties are also unshakeable, as they are not based on transient interests or temporary, short-term objectives. It is a long-term strategic partnership for peace, stability, and prosperity at the bilateral, regional, and international levels. These relations have withstood the test of time and the far-reaching changes that have taken place in our regional and global environment.

Our relationship, therefore, is a model for relations between any two countries. Over the past 55 years our all-weather and time-tested

friendship has become higher than the highest mountains and deeper than the deepest oceans. There exists complete trust and confidence between us, as we have shaped our relationship on the eternal principles of peaceful co-existence and mutually beneficial co-operation.

Today, as we celebrate our friendship, we must recognize the contributions of our leaders, whose far-sightedness, wisdom, and sagacity was responsible for laying the foundations of Pakistan–China relations and nurturing these ties, which have now matured into a vibrant strategic partnership. It is now for us to take this relationship forward into the twenty-first century and beyond. Our future generations should look back upon us as the architects of a broad-based, multi-dimensional relationship between Pakistan and China which will chart a course towards future peace and prosperity in the world.

Pakistan and China have always pursued their friendship with the objective of mutual benefit and never at the cost of any other country. We have not sought hegemony nor shall we accept hegemony from any quarter. Our relationship is designed to promote security and co-operation with our neighbours as well as with our global partners.

Ladies and gentlemen, China today is a great world power. Its influential role is a factor for global peace, security, and stability. Its economy dominates the global economic system. There exists great respect and admiration in the world for the giant strides that have been made by China since it succeeded in overthrowing the yoke of imperialism. Therefore, on this occasion, I would like to congratulate the leadership, the government and the people of China on their tremendous political, military, economic, and technological achievements. It would not be an overstatement to say that these accomplishments of our Chinese friends have indeed changed the course of history.

We, in Pakistan, greatly admire and rejoice in the achievements of our Chinese friends. China's example is an inspiration for all developing countries, as it is through dedication, commitment, and consistency that our efforts for progress will be crowned with success.

Ladies and gentlemen, we, in Pakistan, have also worked hard over the last six years to reposition and revitalize Pakistan through broad-based and multidimensional structural reforms. These reforms in the political, economic, and social sectors, ensuring transparency, accountability, and consistency have put Pakistan on an upward growth trajectory. As a result, our economic growth rate has increased, and last year, was second only to

China's. We are confident that this positive trend will continue and being second to China does not make us feel we are second, because we feel we are all working for the same objective. The fastest growing country in the world is China and the second is Pakistan.

A revitalized Pakistan has also emerged as an anchor of peace and stability in the region. Pakistan is now in a position to leverage its strategic location at the crossroads of South Asia, Central Asia, and West Asia, to promote multidimensional corridors of co-operation, including energy, transportation networks, and trade relations. Our ports at Karachi and Gwadar can serve as the shortest access to the sea for Central Asia as well as for Western China.

Ladies and gentlemen, the achievements of Pakistan over the last fifty years compliment the successes attained by our Chinese friends and provide greater opportunities than ever before to ensure a win-win situation for both countries. It is, therefore, most opportune that we have recently concluded a Treaty of Friendship, Co-operation, and Good-neighbourly relations, an exclusive treaty for Pakistan which covers all facets of our partnership.

In the political realm, Pakistan and China are committed to pursuing relations between each other and with other countries on the basis of the principles of peaceful co-existence, sovereign equality, and non-interference. We seek mutually beneficial co-operation with all countries that are committed to the peaceful settlement of all disputes and conflicts. Our relations are not designed to be used against any third country. We also do not subscribe to concepts such as balance of power, pre-emption, and unilateralism. We believe in strengthening the United Nations system, to address and resolve all regional and global issues peacefully.

In the world economy, our two countries seek a level playing field, without trade barriers and high tariff walls. Bilaterally, there exists great potential for future economic co-operation, far above and beyond the levels reached so far. With China's growing economic power, it is fast becoming an exporter of capital and Pakistan would welcome greater levels of Chinese investment in our economy, especially in sectors such as infrastructure, telecommunications, energy, IT, construction, mining, textiles, and many others. This trend is taking place right before us and a number of Chinese companies are looking at opening manufacturing entities in Pakistan.

We welcome the recent agreement with China to establish industrial and hi-tech zones in Pakistan. We are working towards creating economic and energy zones as well. Soon, we will be concluding a Free Trade Agreement between the two countries, having already put in place an early harvest trade arrangement. The bilateral trade between our countries is rising and rising impressively, reflecting the growth and the increased market size of both economies. Our efforts to promote Chinese investments as well as bilateral trade will give a tremendous boost to our bilateral co-operation.

We will soon be undertaking up-gradation of the Karakoram Highway, to convert it into an all-weather corridor to facilitate bilateral trade. Furthermore, we are exploring the feasibility of constructing an energy corridor, including oil and gas pipelines from our coast-line, constructed with Chinese assistance, up to Western China which will considerably shorten the distance and time for oil transportation from the Gulf to China. Setting up of a mega-refinery at Gwadar will further facilitate China's oil imports from our region.

A significant area of co-operation between Pakistan and China has been the harnessing of nuclear technology for peaceful purposes under international safeguards for the production of electricity. The Chashma I and II power plants are a symbol of such co-operation. We are working towards further expansion of co-operation in this area. In our view, the peaceful use of nuclear technology under appropriate safeguards is the right of every country and there should be a level playing field in this regard.

We must also learn from China in the sphere of space technology. Our bilateral agreement in this respect shall greatly benefit Pakistan's capability for the use of space for peaceful purposes. China's Schenzou Space Programme provides tremendous opportunities to Pakistan's advent into the realm of outer space.

Pakistan–China defence co-operation has always remained a factor of stability in the region. The framework agreement on defence co-operation between the two countries signed in February this year is designed to carry forward our traditional co-operation in this area and will contribute towards the modernization of our armed forces. Specific joint production projects, such as the JF-17 fighter aircraft, the Al-Khalid and Zarar tanks, are all examples of the tangible output of our defence relations with China. A lesser-known but equally important aspect of this

co-operation is in the important field of research and development, which will lay the groundwork for future co-operation in the field of defence.

Ladies and gentlemen, as we commemorate 55 years of Pakistan–China relations, it is necessary to rededicate ourselves to a future partnership, even stronger than in the past. On behalf of the government and people of Pakistan, I would like to reiterate Pakistan's commitment to this objective. I believe that today there are even greater complementarities and interdependences between an emerging, global power like China and a revitalized and repositioned Pakistan. I am confident that Pakistan–China relations will reach even greater heights in the future.

We also need to redouble our efforts for the protection and promotion of international peace and security in a multi-polar international system confronted with serious challenges such as terrorism, nuclear proliferation, regional conflicts, energy crisis, and environmental degradation, among others. As in the past, our present efforts can contribute towards greater security and stability around the world. I want to assure our Chinese friends that, as always, we shall stand united with them and they can continue to count on our steadfast support.

Over the last 55 years, the relationship between our two countries has grown and grown admirably. Every Pakistani, in the streets of Pakistan, in the homes of Pakistan, in the villages of Pakistan, is proud of this relationship with China. China has emerged as a global power and will emerge even higher as a global power. We, as friends of China, will clearly be proud about what has been achieved. The entire world recognizes the increasing power of China. The fact that Pakistan and China have had a strategic partnership for so long which has weathered many changes in the geo-politics of the world, is itself a manifestation of strength of our relationship. We, as Pakistanis, are proud of this relationship and we earnestly desire and are working towards strengthening it, expanding it, and enhancing it even more.

Long live China–Pakistan friendship.

Thank you very much, ladies and gentlemen.

Question - Answer Session

Q: Mr Prime Minister, my question relates to the recent development that Japan and the US have established a special bureau on South Asia and Central Asia, putting Central Asia and South Asia together.

Do you think that there is any special connection between the two regions?

A: The historical links of trade routes and the geographical linkages between the two regions were very significant. Many military commanders and rulers from Central Asia came down to South Asia, looking for security and power. When the Soviet Union was created, the linkage between South and Central Asia was interrupted because they were looking north. If you look at the geography of that area today, I believe the potential of South Asia and Central Asian co-operation is much enhanced. The reason is that the distance from Central Asia to the warm waters of the Arabian Sea is much shorter than any other route of trade. Historically, it was not developed because of linkages with north. Secondly, as the world restores peace in Afghanistan, it has become the fundamental link between Central Asia and South Asia. It is in our interest to have peaceful, stable Afghanistan, if that is allowed, for the linkage, the networking, and the close relationship between these two regions. We are looking at three corridors between Central Asia and Pakistan. One is a trade corridor: movement of goods; second, a transportation corridor: road, railway, and air; and thirdly, most important is the energy corridor. Parts of Central Asia are big exporters of energy and South Asia is a growing market. Multi-faceted co-operation is possible between the two regions and I believe the potential is big, because of the situation in the region, particularly what is happening in Afghanistan. But as Afghanistan is heading towards a peaceful environment, we think that the linkages will get stronger and economics will play their due role. Mutual benefit and needs will drive the relations. I am very hopeful, but there are actions beyond anybody's control that can influence the situation.

We are also a member of ECO. Most of the Central Asian countries and Pakistan and Afghanistan are ECO members. Let me also say that Pakistan is actively negotiating with a few Central Asian countries on electricity grids coming to Pakistan. We have a lot of hydro-potential—take Tajikistan, take Kyrgyzstan—we can create links and interdependencies. And as you know, ladies and gentlemen, when you create linkages and interdependencies, overall relations expand. So I am very optimistic, but things will take time.

Q: I would like to know your vision of Sino–Pak relations in next 5 years and beyond, especially in the field of economics.

A: Pakistan's relations with China in the next 5 years and beyond will continue to expand. One, because the relationship is based on principles of peace, shared values, and the history of the last 55 years and beyond has built the foundations of a very close relationship. In the next 5-10 years, I see much more linkage between Pakistan and Western China, because of the physical proximity. One of the smartest things our seniors visualized was building of the Karakoram Highway, but now even a smarter thing which we have realized is that we need to make this road all-weather and for heavier traffic. It can be done and already, traffic on this road is increasing rapidly. This is a reflection of one or two things: first, increased economic activity between both countries; secondly, the high level of trade between the two; and third, openness between the two countries has increased. I also see much more energy co-operation, in terms of providing transit facility, in terms of providing linkages, pipelines, etc. With the transportation growth, we are seeing an increase in flights from Western China to Pakistan. In the peak season, we have almost daily flights from Urumqi to Islamabad with PIA and the Chinese airline. In the old days, there were no flights. So linkages are growing in geographical terms. Broadly speaking, we see much more co-operation in defence, space technology, in information technology, engineering, and manufacturing. Pakistan's location at the cross-roads of Central Asia, South Asia, and the Middle East can and will be leveraged by Chinese entrepreneurs to produce in Pakistan for export to the neighbouring countries and beyond. China, increasingly, will become an exporter of capital, not just an exporter of goods. China's economy will gradually shift more to the services side, rather than just production. This is a predictable path for a country where economic growth comprises such higher rates. We are also witnessing increasing investment and links, along with a sense of shared values, which promote independence, peace, ability of two countries to stand for what is right and oppose wrong. And that is why this relationship will grow and mature and rise and by the year and, after a decade, it will be more multi-faceted.

Q: What will be the challenges in the next five to ten years in Sino-Pak relations?

A: I think the biggest challenge in any relation is looking for mutual grounds. The foreign policy of any country and its diplomacy are driven by national interests. Effective diplomacy is one where you have a congruence of national interests: that is a strong relationship.

However, the relationship must be based on the belief that there is an advantage for both countries in the relationship. There is an agreement on basic values like peace, like independence in one's thinking, and by creating a mutually beneficial environment. So I believe the challenges will meet to look for those advantages, look for that window to expand the advantages, because mere rhetoric that does not build relations. It has to have substance. Now in the case of Pakistan and China, the relationship is so multi-faceted, I cannot think any other country that has such strong relations with us. So clearly, the China of tomorrow will be different from the China of yesterday. The same is true for Pakistan. So the responsibility for both countries to nurture a friendship between two dependable friends—and the two have weathered the test of time and stood by each other—will be to create new avenues of co-operation, new avenues of mutual benefit, because a one-sided relationship cannot last forever. A multi-faceted relationship, where both parties create a win-win situation, is what has to be important. So sustainability and growth, the improvement of the relationship between the two countries has to be engineered by creating more values, more common areas of relevance for each other. That is possible and history is full of examples. I see the relationship between our two countries, sharing of policy measures, and diplomacy on the international stage, unanimity of interest, and secondly, economically much greater investment. At present, it is US\$400 million, but with the growth in the economy, it will be more.

Third, security and defence is another important area. It does not mean that a country has aggressive designs against any other country, but that peace is achieved through strength, not weakness. So if we achieve strength, we will benefit both countries. Then in the area of emerging technologies, people-to- people contact, science and technology, education, health care, sharing of best practices: one can go on and on. So I am very confident, although these challenges will be there, but it is incumbent upon the policy makers to create more avenues; otherwise, as history shows, if both countries do not work towards new avenues of co-operation, new partnerships emerge at the cost of older ones. However, I do not see that happening. Let me say that the strength of the relationship between China and Pakistan is such that relationship with third countries should not be viewed by any side as a threat to its core relations. They can co-exist, prosper, because their relationship is based on principles and mutual trust.

Q: How can we benefit from Chinese policies, their general policy, foreign policy, and internal policy? Secondly, trade between two countries is US\$1 billion; there are a lot of things coming from China to Pakistan, like fresh fruits. This is affecting our own goods. What would you say about that?

A: We are delighted that fruit is coming, but I think it is a very limited flow. In fact, we have just started exporting our fruits. We have a Preferential Trade Agreement with China. With the PTA, it will ensure the flow of goods from both sides. However, you must recognize that China has, in terms of manufactured goods, created the ability to be a low-cost producer in the world. It benefits Pakistan's economy if we get quality goods at a cheaper price, rather than importing them from somewhere else at a higher price. So, let us clear our minds on trade. Trade works on the economic advantage of two countries. It cannot be forced. If China is exporting more goods to Pakistan, it is good for Pakistan because we are getting value and quality. We also are, through trade preferences, looking at the Chinese market. If we can sell one product to China, the market is so huge that it can make up for all the trade balance; but we have to find that product and we think that a lot of our goods can go to China. Now that we have the necessary formalities completed and passed the arrangement that we have, it will ensure that it happens. So we have to look at the bigger picture. I see China as a big market for our agriculture products, because their demand is going to grow. We are also exporting minerals to China. It is operating the only large copper mine in Pakistan. We have to make sure that increase in trade takes place and for that we will have to compete with international standards.

Q: An unnatural alliance is taking place between India and the US, which is widely believed to focus on controlling Chinese growth and influence. Mr Prime Minister, what influence do you see of this unholy nexus in the region? And secondly, how to deal with the situation with reference to Pakistan-China relations?

A: First of all, let me tell you about Newton's third law, which says that every action has an equal and opposite reaction. In geopolitics, in the world, when you see the emergence of a global power—and China, as we can see, is a global power—so this new power disturbs the foreign alliances which exist in the world in terms of diplomacy and geo-politics. When there is disturbance because of a new power on the scene, then Newton's third law of motion creates an opposite

reaction. Whether it succeeds or not is a different story. However, let me say that as China has emerged as a major power, other countries will naturally re-position their alliances and relations. That is the normal reaction of other countries to protect their interests. China, in my humble view, is capable of managing its geo-political position and knows what is happening around it. And very often, there is no need to publicly state that as the best diplomacy is quiet diplomacy and China practises quiet diplomacy very effectively. The Chinese are very well-equipped to deal with this situation and this does not mean going in to confrontation. But, as new power centres emerge, we need to engage and tend to protect and project our national interests for our own security. This is what international politics is all about. China will do that, we will do the same, and so will other countries.

As regards Pakistan, we have a very strong relationship with China, we are proud of it and want to maintain and sustain it. But that does not affect our relations with other countries. They can co-exist. That is a pragmatic way of looking at things.

Session I

PAKISTAN–CHINA RELATIONS: POST-9/11

Chair: Mr Inam ul Haque

Ladies and gentlemen, now we start the first session of the seminar which is about “Pakistan–China Relations: Post-9/11”. In this session, we have Ambassador Ma Zhengang, Mr Akram Zaki, Major General (retd.) Cai Bingkui, and General (retd.) Asad Durrani. We begin the first session with a presentation by Ambassador Ma Zhengang. Ambassador Ma is the President of China’s Institute of International Studies. He is Chairman of the CIIS academic committee. He joined the Ministry of Foreign Affairs of the People’s Republic of China in 1965. He served as China’s Ambassador to the UK. He was the Vice-Minister of the Foreign Office at the State Council. With these few words, I would like to invite Ambassador Ma to make his presentation.

Ambassador Ma Zhengang

Pakistan–China Relations within the Global Strategic Environment

Thank you Mr Chairman. Colleagues, ladies and gentlemen: This is a very important day, the 55th anniversary of Pakistan–China relationship. I will talk about what happened in the last few years between Pakistan and China. China and Pakistan decided to expand their bilateral relations 55 years ago. At that time, the world was heavily shrouded in the Cold War. The two countries, people, systems and cultures–China and Pakistan–were in the different camps. But China and Pakistan have established an exemplary relationship in the last 55 years.

Though there have been big changes in the international environment, as well as in China and Pakistan, our nations have withstood all the tests and maintained good relations. Our relations have become stronger and stronger with the passage of time. What is the reason for such relations? Why do we want to continue our relationship? I think there are many reasons, but the most important is that our relationship is based on full trust. We have worked very hard to increase this trust. At the same time, we must also be grateful to the collaborative efforts of our ambassadors of both countries. They have worked so hard to build understanding and trust.

The second thing is that our relationship is based on mutual respect. We treat each other as equals. Neither of us has any fear of the other, nor do either of us consider ourselves superior to the other at any level. So we are standing in a complicated international situation and we shall respect each other. We never try to order one another. Over the years, our countries and our people have developed various processes and I think that is very important. Why did our relations sustain all tests? Because we never have distrusted or been suspicious of each other. There is no divergence in our interests; rather, we work together to promote our mutual interests. And this is very important point. If there is no collaboration, a relationship cannot be improved; in the recent past, we have witnessed a number of examples in this context. For instance, in geopolitical issues, both states regard each other as important players in the regional and international scenarios. In economic development, they help each other and share a lot. We have a number of successful examples of this co-operation, exchange of trade delegations and co-operation between the two countries in ongoing projects are an excellent example of economic co-operation.

We are working together for world peace, stability, and prosperity. We are working on our broad-based goals. We share common interests and are also trying to develop them further. This is a very important aspect of our relationship. If we want to maintain our exemplary relations, we must continue our confidence in each other and mutual respect in our relations. The most important thing is that coming generations also maintain this mutual trust and respect in their relations. So, these are the elements that have made our relations so strong. This is the first part of my presentation.

The issues of peace, stability, and development have become more complicated with the end of the Cold War. In addition, we are confronted with many new challenges and even traditional security threats continue to exist. Some old problems still remain unsettled and even have new faces. For instance, what is going on in the Middle East and Afghanistan? Apart from this, we are also facing non-traditional security threats. There are several categories.

First category is action and response. 9/11, for instance, called for swift action and response. Some areas need harder reaction. We need strong co-operation with the international community to deal with challenges such as terrorism, which is also a strategic challenge. Other challenges are threats like money-laundering, piracy, and international smuggling. Another one is natural disasters, such as floods, earthquakes, etc, which cause major problems for the affected countries. The third

category is that of severe diseases for which complete cures have not been developed. First we had SARS; now we have bird flu, both incurable. So you can see that non-traditional security threats are all variable. There has to be a role of science, which also requires co-operation. This is another serious threat for Pakistan and China. War is no longer the only threat. If you look at the international level, since the end of Cold War, we live in a unipolar world. There is no international balance, just one power and others cannot register action against this power. This is a problem. Look at Iraq and Afghanistan. Besides, economic globalization creates opportunities for many countries but also disadvantages for many more, particularly the developing countries: they have lost many chances of development. This is also a threat. If we do not have a common development programme, we will have to deal with a challenge. I have mentioned some challenges, which substantiate my statement that, today, we are facing a more complicated and more challenging world.

China and Pakistan should work together to face this world. Of course, we are all developing countries. We need to try to find ways to face the challenge and then our relations will be further strengthened. We must develop our relationship on new international strands and the changing environment. This environment is somehow different. Economically, China and Pakistan have to develop in all areas. We have a lot more opportunities and can manage with our co-operation. We have a better strategic co-operation than many other nations and we are ready to face new challenges. We have to build our relations from strength to strength.

Mr Akram Zaki

Pakistan-China Relations within the Global Strategic Environment

The Islamic Republic of Pakistan and the People's Republic of China, two friendly neighbouring states with different ideologies, have developed excellent bilateral relations and mutual co-operation in various fields. Soon after the establishment of the People's Republic of China on 1 October 1949, Pakistan recognized it on 4 January 1950, and the two countries established formal diplomatic relations on 21 May 1951.

This year, Pakistan and China are celebrating the 55th Anniversary of the establishment of diplomatic relations with much fanfare and enthusiasm. A large number of delegations are being exchanged, in

different fields, and many functions are being held in both the countries to highlight the importance of what is often mentioned as a "model friendship".

The highlight of these celebrations is the exchange of visits by the Presidents of Pakistan and China to each other's countries. These visits are expected to give new vigour and vitality in the future to Pakistan–China friendship, which is described as "time tested" and an "all-weather friendship". This friendship is to be transmitted to future generations.

The President of Pakistan, General Pervez Musharraf, paid a State visit to China at the invitation of President Hu Jintao of China (19-23 February 2006). The Chinese President is expected to pay a return visit to Pakistan by December 2006, to conclude the celebrations.

Background

In the last 55 years, or more than half a century, international politics has witnessed cataclysmic changes. China has gone through a major transformation and has emerged as a politically stable, economically prosperous, and internationally influential state. Pakistan, which had gained national independence in 1947, two years ahead of China, has gone through trials and tribulations, suffered dismemberment, and has been struggling to establish a national identity and to define its national goals. This might be a good time to briefly flag some landmarks on the road to Pakistan–China friendship, keeping in view the ever-changing regional and global geo-strategic environment, which went through three main phases;

- I. Bipolar World and Cold War
- II. End of East-West Cold War and Unipolar world
- III. Post-9 /11, 2001, and War against Terrorism

Phase I

The newly-born state of Pakistan had to endure a baptism by fire. The hostility of its much larger neighbour, India, the influx of refugees, the denial of its share of assets, and Indian-occupation of Kashmir, posed grave threats to the security of nascent Pakistan. It took refuge in the Western-sponsored anti-communist alliances, incurring the hostility of the former Soviet Union and a relatively cool response from China, which was going through the fervour of *Hindi-Chini Bhai Bhai*.

In April 1955, at the Bandung Conference, Pakistan's Prime Minister Mohammad Ali Bogra, developed an understanding and friendship with Chinese Premier Zhou En lai. They exchanged invitations to visit each other's country. Bogra did not stay in power long enough to visit China. It was Prime Minister Suhrawardy, who went to China in October 1956; Premier Zhou En lai, in turn, visited Pakistan in December 1956. However, Pakistan's deep involvement in pro-Western alliances prevented the rapid development of closer ties. Sino–Pakistan relations remained lacklustre.

In the early 1960s, President Kennedy of the USA downgraded the military pacts and, in Asia, Sino–Indian relations became strained over the Dalai Lama's flight to India and the Sino–Indian border dispute. In 1962, Mohammad Ali Bogra returned from a diplomatic assignment to contest elections and became President Ayub Khan's Foreign Minister. The geopolitical situation was also favourable for both China and Pakistan to come closer to each other. The Sino–Indian war of 1962 further accelerated the process. By December 1962, China and Pakistan had finalized negotiations regarding their border agreement. In January 1963, they signed a General Trade Agreement.

The Sino–Pakistan Border Agreement was to be signed in February 1963, but Mohammad Ali Bogra, the real architect of this policy, died on 30 January 1963. Destiny had reserved the honour of actually signing the historic Border Agreement in March 1963, for the new Foreign Minister, Mr Zulfikar Ali Bhutto, who was politically shrewd enough to claim all the credit. This was followed by the Air Services Agreement; PIA became the first foreign airlines to land in Shanghai in April 1964.

President Johnson of the USA, who had failed to break the will of the people of Vietnam, backed by the People's Republic of China, was visibly upset by Pakistan's growing co-operation with China. The annual meeting of the Aid to Pakistan Consortium, due in summer 1965, was postponed at US' instance. This encouraged India to launch open aggression against Pakistan on 6 September 1965.

The Indian aggression, leading to Indo–Pakistan war, provided an opportunity for China to demonstrate that it was a true and faithful friend. China's ultimatum to India put pressure on the international community to bring the war to an early end through the United Nations Security Council. China won the hearts of the Pakistani people and a solid foundation of long-term co-operation, both in the field of defence and economic development, was laid.

Pakistan played a key role in the establishment of confidential links between China and the United States. After the Sino–USSR border clash in 1969, President Nixon saw new geo-strategic possibilities of co-operation with China. Moreover, Zhou Enlai wanted Chinese understanding to wind up the expensive and embarrassing involvement in Vietnam.

Kissinger's secret visit to China in July 1971, which opened the way for Sino–US co-operation, angered the former Soviet Union. India and the USSR, already close friends, signed a virtual defence agreement on 9 August 1971 and the USSR virtually underwrote India's military aggression in East Pakistan, leading to the establishment of Bangladesh. However, Pakistan later enjoyed the support of both China and the United States, when Soviet Russia's forces intervened in Afghanistan in 1979.

In the 1970s, Mr Z. A. Bhutto, as President and Prime Minister of Pakistan, justified his claim to being the author of the policy of Sino–Pakistan friendship, by taking mutual co-operation to new heights. The process was initiated at that time with the building of the Heavy Mechanical Complex, the Heavy Forge and Foundry, and the Karakoram highway.

Under the subsequent administrations of General Zia, Benazir Bhutto and Mian Nawaz Sharif, this co-operation continued and flourished, with many major projects: the Islamabad Sports Complex; the Heavy Electrical Complex; the F-6 Rebuild Factory; the Rocket Propellant Plant; the Guddu Thermal Power Plant; the Muzaffargarh Power Plant; cement factories; and the Chashma I Nuclear Power Plant. As Ambassador of Pakistan to China (January 1987 to March 1991) and as Secretary General, Ministry of Foreign Affairs (March 1991 to Sept. 1993), I had the privilege of being closely associated with the development of Pakistan–China co-operation.

During the 1970s and 1980s, China and the Soviet Union were embroiled in mutual confrontation, while China and the USA were gradually strengthening their ties. Formal diplomatic relations were established in December 1979 and they jointly opposed the Soviet military adventure in Afghanistan. Pakistan's friendship and co-operation with both China and the USA flourished, while India continued to support the Soviet Union.

After the rise of Gorbachov in 1985, there was an indication that the USSR might pull out of Afghanistan and follow a more reasonable policy on its border dispute with China. Sino–Soviet relations began to improve.

Under Soviet influence, there was also lessening of tension between India and China, symbolized by Rajiv Gandhi's visit to Beijing in December 1988.

Despite all the shifting alliances in international politics between major powers and despite all changes of governments in China and Pakistan, the two countries maintained close friendship and supported each other in international forums. Their friendship began to be called "time-tested" and an "all-weather" friendship

The USA, which had a close alliance with Pakistan during the Afghan struggle, left the area after the withdrawal of Soviet troops. It rushed to consolidate its gains in Eastern Europe and in the newly-independent states in the western part of the former Soviet Union and Central Asia. It not only abandoned Pakistan, but also imposed sanctions on the country, due to its nuclear programme. This enabled China and Pakistan to further consolidate their economic relations and defence co-operation.

Phase II

There was a global strategic balance during the East–West Cold War. That balance was destroyed in 1991, with the collapse and disintegration of the former Soviet Union. The world entered a prolonged period of transition, change, and uncertainty, which is still continuing. The chances of global war have declined, but the possibility of local or regional conflicts is real. Most nations are in quest of a new balance or equilibrium in different regions.

The United States of America emerged as the real victor of the Cold War. As the only superpower, it thought that it could reshape the world as it liked and tried to create a New World Order, under its control. The USA extended its influence and the operational area of NATO to Eastern Europe and the newly-independent states of former USSR in Europe and Central Asia. The US brought Japan deeper into the security net, including TMD, declared rising China as a potential adversary to be contained; it increased the supply of weapons to Taiwan and started building India as a counterweight to China

In China's foreign policy, there is no relationship more important than the one with the United States. The relations between the USA and China will occupy a pivotal place in the structure of global international relations for many years to come. The USA has been following a two-track policy of

"containment" and "constructive engagement" towards China. China also has been pursuing a policy of "co-operation" and "resistance" on issues of national importance.

The European Union, with a large number of developed countries as its members, has emerged as a very important trading bloc. It is China's third largest trading partner and an important source of foreign investment and technology, which China needs for its national development. It is a large export market for China's goods and is a counterweight for reducing dependence on USA.

As Russia and China were worried about the eastward expansion of NATO, and as China was concerned about the supply of weapons to Taiwan, they began developing a strategic partnership from 1996 to reduce the impact of unipolarity. They also joined the Shanghai 5, which in 2001, became the SCO, with six members, to combat terrorism, separatism, and extremism.

The Chinese view was that the collapse of the bi-polar system obtaining during the Cold War was followed by a multi-polarisation trend, starting with "one super power and multiple great powers". To adapt to multi-polarization trend, major powers have devoted themselves to establishing strategic partnerships or comprehensive co-operative relationships of various types.

China does not accept the view of a unipolar world, dominated by a single country or a group of countries. It seeks the gradual evolution to a multipolar world, in which the comprehensive national power of several countries would be reasonably, if not equally, balanced. China thinks that the ideological factor has weakened, while economic and technological factors play a more important part in power relations. A new round of competition in technology, economic development, and knowledge-based information technology has started.

The Chinese believe that comprehensive national power, rather than an arms race, has become the focus of competition between nations since the end of the Cold War. Hopefully, by 2020, the USA, the EU, Japan, China, India, and Russia will be more balanced in terms of comprehensive national power. China wants a new international political and economic order, which should be just and equitable, rather than a world order dominated by one country or a group of countries.

By the end of the twentieth century, China had emerged as a politically stable, economically prosperous, and self-confident country, making rapid economic growth, pursuing an active foreign policy, and playing an increasingly larger role in global affairs. China and Pakistan broadened and further strengthened their "time-tested" friendship.

Pakistan, once the "most allied ally" of the USA, and the frontline state during the war against the Soviet occupation of Afghanistan, became the most heavily sanctioned country. Soon after the Soviet withdrawal from Afghanistan, sanctions were imposed on Pakistan, with Congress refusing in 1990 to issue the presidential certification required under the Pressler Amendment. In May 1998, after its nuclear tests, even heavier sanctions were imposed by the USA and its allies. Then, after 12 October 1999, came democracy-related sanctions. China, however, remained a steadfast friend and helped Pakistan in building several important projects relating to defence and economic development, including the Chashma nuclear power plant, to produce 300MW of electricity.

Phase III

The tragic events of 9/11 in 2001 brought a sea change in international politics. With the collapse of the former Soviet Union in 1991, the United States had emerged as the sole superpower: it was hoping to reshape the world as it liked. The attacks of 9 /11 on the symbols of US economic and military power were a terrible shock. The wounded pride of the sole superpower generated unprecedented anger, fury, and military violence, demonstrated by an all-out attack on Afghanistan and declaring a general war on terrorism.

The USA had already adopted a policy of unilateralism or unilaterally trying to dictate the destiny of the world. The National Security Strategy of USA, under President Bush, included the doctrine of pre-emptive strikes and the right to station US troops in any part of the world. The growing importance of controlling sources of energy, trade, and economic means was also a major consideration. The establishment of a US presence in Afghanistan, in the and energy-rich Central Asian states, and the eastward extension of NATO, closer to the frontier of China, aroused the interest of China, Russia, and the European Union in the peace and stability of West Asia and nuclear South Asia.

China, as stated earlier, opposes the concept of a unipolar world and seeks the development of a multi-polar international order, based on the Charter of the UN and the Five Principles of Peaceful Co-existence. The

new 2002 security strategy of the United States included unilateralism and pre-emptive strikes. The sole super power decided to use its unmatched military and economic power to prevent the emergence of a potential rival. Yet, movement towards a multi-polar world is discernible.

President Bush had declared China the main rival of the United States. Without ignoring the imperatives of mutually beneficial trade and economic co-operation, the Bush administration seemed poised to pursue a policy of "containment", rather than "encirclement" of prosperous and fast-growing China, by taking Japan, Taiwan, and India into a closer embrace of military strategy. The US has announced the decision to go ahead with National Missile Defence (NMD) and was ready to involve Japan, Taiwan, and India in Theatre Missile Defence (TMD).

China believes that peace and development are the main themes of our times. Co-operation, rather than confrontation, occupies centre stage. Interdependence is intensifying, and big powers have to co-exist while contending with each other. China has developed trade and co-operative relations with the USA and Japan. With both these countries, there is both co-operation and friction. With Japan, relations are rather at a low ebb. The USA needs China to deal with the nuclear issue of North Korea

The evolving regional strategic balance in and around South Asia is being shaped by the new National Security Strategy of the USA, the war against terrorism, India's military build-up, and its urge to become a world power, China's peaceful rise and its active role in regional and global affairs is aimed at the evolution of a multi-polar international order in co-operation with other great power centres such as Russia, the EU, Japan, and India to reduce the impact of unipolarity.

CARS

China, as a close neighbour of the newly independent Central Asian Republics, has keen interest in the peace and stability of the area. Russia is also keen to retain her influence in Central Asia through the institution of CIS.

The EU and the USA have been trying to undercut Russian influence. The EU had given 23 billion euros for 1500 projects in the CARs. The USA had established its military presence in Georgia, Azerbaijan, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan, and these countries have established partnerships with NATO.

China has high stakes in Central Asia. It attaches strategic importance to the vast oil resources of Central Asia. China's energy requirements have quadrupled in recent years and it has become a big importer of oil. It already imports large quantity of oil from the Middle East and Russia. It is seeking to secure additional supplies from overland routes, which would make it less dependent on sea-borne supplies.

An interplay of the political, economic, and security interests of Russia, the US-led West, China, and other sub-regional countries, has triggered a competition that has been termed as "the Great Game of Central Asia." The prize of the Game is vast oil and gas reserves in the region. The recent changes in Georgia, Ukraine, and Kyrgyzstan have increased the influence of USA and the West at the cost of Russia.

War against terrorism

The United States has proclaimed an open-ended war to fight terrorism and is showing readiness to use all means at its disposal to pursue or pressurize other nations to join its war. This has led to the globalization of terrorism.

By joining the war against terrorism, Pakistan once again became a US ally. Pakistan was the most heavily-sanctioned country at the time, but the sanctions imposed on Pakistan in 1990, 1998, and 1999 were gradually eased. Economic and military co-operation was resumed.

The importance of controlling energy resources also came to forefront as an objective in the USA attack and occupation of Afghanistan in 2001, and of Iraq in 2003. They have installed new governments through elections, but the resistance continues. It has been proved that "terrorism" cannot be controlled by the use of force alone. We must deal with underlying causes and end political injustice in Palestine and Kashmir.

The Kashmiri peoples' struggle is being unjustly portrayed as terrorism. The distinction between terrorism and struggle for self-determination and freedom must be respected. Without a settlement of Kashmir dispute, the security situation in South Asia will remain unstable. The challenge of poverty eradication and modernization cannot be tackled.

Nuclear Proliferation

The USA and the international community seem determined to prevent nuclear proliferation. Pressure, however, is not being applied in a uniform

manner or on a just basis. Israel's right and need to have nuclear weapons is recognized (and ignored) in the west. The USA has signed an agreement to help India's nuclear development by supplying nuclear technology and Pakistan, despite being a non-Nato ally, will not get the same treatment. Its nuclear programme remains under pressure in various ways, for instance, by insinuating linkages with North Korea, Iran, and others. Iran's nuclear programme is under American–Israeli threats and there are other pressures on Iran to end its nuclear programme. Recognizing the limitations of unilateralism, Iran's nuclear issue is being handled through the EU, the IAEA, and the UN Security Council; China's help has been sought to deal with North Korea through the six-parties talks.

China has clearly emerged as an international political counterpoint. It is using its role as a permanent member of the Security Council to influence global affairs. But it wants to use its political influence in favour of what is right and just and not what is expedient. China is opposed to hegemony and power politics, and it does not seek domination over others. It seeks co-operation with all nations, on the basis of sovereign equality and mutual benefit. The stand-off between the USA and China over the spy plane incident demonstrated that China's patience and firmness clearly exposed that the power of the superpower has limits. The USA has gradually adopted a more co-operative attitude towards China

Sino–Pak Cooperation in the Post-9/11 Global Strategic Environment

Pakistan and China had developed excellent multi-dimensional co-operation by the turn of the century. In the last few years, they have deepened and expanded their relations and taken them to new heights, through regular and frequent high-level visits,

In January 2000, General Pervez Musharraf visited China, shortly after taking charge as Chief Executive in October 1999. While the USA and its allies had imposed democracy-related sanctions on Pakistan, in addition to sanctions imposed due to its nuclear policy, China welcomed the General, reaffirmed the traditional friendship, and promised to continue co-operation in various fields

In May 2001, the Chinese Premier Zhu Rongji visited Pakistan, to mark the 50th anniversary of the establishment of diplomatic relations. While expressing the determination to strengthen the time-tested friendship, Premier Zhu Rongji highlighted China's interest in peace and stability in South Asia and the need for co-operation between regional

countries. Several agreements were signed for enhanced co-operation in the field of railways, petroleum exploration, telecommunications, and tourism. Gwadar Port and the Makran Coastal Highway are two special projects, which have great significance for future trade links with the countries of Central Asia and of the Gulf region. The transit routes to land-locked countries in Central Asia, which were closed during the colonial era, will open again.

Pakistan and China were planning for development and hoping for peace in the twenty-first century. Suddenly, tragedy struck on 9 September 2001. With the terrorist attacks on the Twin Towers in New York and on the Pentagon in Washington, D. C., the global strategic environment changed. Pakistan had to make a quick decision to join the USA and its allies to fight the war against terrorism. The war in Afghanistan created serious security problems for Pakistan.

President Pervez Musharraf, soon after joining the USA in war against terrorism, visited China in December 2001, at the invitation of President Jiang Zemin. The Joint Statement issued at the conclusion of the visit expressed the resolve of the two countries that their "strong and dynamic, all-weather friendship", which they have maintained, "irrespective of changes in the international situation", will be carried forward from "generation to generation." They agreed to broaden their "comprehensive partnership". They strongly condemned the 11 September terrorist attacks against the United States. They wanted the UN and the Security Council to play a primary role in eliminating the scourge of terrorism. They supported "the resolution of the Kashmir dispute through dialogue, in accordance with the relevant UN Security Council Resolutions and the wishes of the people of Jammu and Kashmir." Pakistan supported China on the Taiwan issue and "reaffirmed its adherence to a One-China policy." China "reaffirmed its respect and support for the national independence, sovereignty and territorial integrity of Pakistan."

In March 2003, Mir Zafarullah Khan Jamali paid a visit to China at the invitation of the newly-elected Premier Wen Jiabao. The Pakistani Prime Minister was the first foreign dignitary to be received in China after the transfer of power to the fourth generation leadership, with Hu Jintao as the core. This unprecedented peaceful transfer of power was decided at the 16th Congress of the Chinese Communist Party in November 2002, and given legal effect by the 10th National Peoples' Congress in March 2003.

The Prime Ministers of the two countries held wide-ranging talks and discussed further co-operation in the railway sector and the second phase of the Chashma Nuclear Power Plant. It was agreed to set up a Pakistan–China Friendship Forum, which would serve to supplement and reinforce the efforts of the two governments to strengthen and deepen bilateral relations in all fields.

In November 2003, the President of Pakistan, General Pervez Musharraf, again visited China. He first went to Hainan, where he delivered a keynote address at the Second Annual Conference of BOAB Forum for Asia and met many foreign leaders attending the Forum. In Beijing, he met China's new leadership and had fruitful talks with President Hu Jintao. On 3 November 2003, the two Presidents signed a Joint Declaration on Directions of Bilateral Co-operation. It is a vision statement which explains their joint stand on major issues and gives some indication of their plans in various fields.

It is stated that the two countries "have already established a future-oriented all-round co-operative partnership" and they are "committed to further deepen and broaden their all-weather friendship and all-round co-operative partnership". They have "firm belief in the centrality of the United Nations in the promotion of world peace and development". They consider "separatism, extremism and terrorism" as serious threats to regional security and stability.

Prime Minister Shaukat Aziz visited China in December 2004. This was a follow-up of the Vision Statement of November 2003. This visit opened a new chapter in bilateral ties, particularly in economic and trade relations. Seven new agreements/ MoUs, encompassing the trade, communications, and energy sectors, and drawing up a framework for greater economic co-operation were signed.

A US\$500 million preferential buyers' credit was approved, under which loans will be extended to Chinese companies for setting up projects in Pakistan. Other agreements included US\$150 million credit for Chashma II project, and a protocol on Preferential Trade Agreement, an MoU for co-operation in oil and gas exploration, an agreement for joint agro-based industries and processing zones, a protocol for RMB 50 million assistance for Pakistan and a US\$110 million contract for a housing project in Lahore. A comprehensive partnership between the Chinese and Pakistani private sectors was initiated, that will not only enhance economic co-operation but will also be a stimulant for increasing much-needed people-to-people contacts.

The Premier of China's State Council, Mr Wen Jiabao, visited Pakistan and three other countries of South Asia in April 2005. Since 1996, China has been following a policy of developing friendly relations with all countries of South Asia to promote peace and stability in the region. However, with Pakistan, China has maintained a special relationship. It is significant that Pakistan was the first destination of Premier Wen's four-nation tour of South Asia.

The most important result was that China and Pakistan concluded a "Treaty of Friendship, Co-operation, and Good Neighbourly Relations". This treaty has provided a solid legal framework for mutual commitments. Pakistan is the first country with which China has signed such a treaty. This should leave no doubt that, while China is developing co-operative relations with India and other countries in South Asia, its friendship with Pakistan is very special.

Article I of the Treaty reads: "The Contracting Parties shall actively develop and consolidate the bilateral strategic partnership of good-neighbourly friendship and mutually beneficial co-operation...Both the Parties agree to maintain a regular high-level strategic dialogue." It is noteworthy that the word "strategic" used in the Treaty was not used in earlier documents, including the Joint Declaration issued on 3 November 2003.

Previous commitments given to each other are reiterated in the Treaty. Twenty-two agreements and MoUs were also signed to make the multidimensional and comprehensive strategic partnership meaningful, through expanded co-operation in various fields.

The President of Pakistan, General Pervez Musharraf, again visited China in February 2006, to launch the celebrations of the 55th Anniversary of the establishment of diplomatic relations between China and Pakistan on 21 May 1951. Many delegations will be exchanged to highlight co-operation in various fields. The celebrations will conclude with a visit by the President of China, H. E. Mr Hu Jintao, in November or December 2006.

President Pervez Musharraf's visit to China took place a few days before the expected visit of President George Bush of USA to India and Pakistan. Both China and Pakistan were aware of the fact that the USA and India were forging a strategic alliance. Their defence ministers had concluded an Agreement on Defence Co-operation on 29 June 2005. President Bush had reached an agreement with the Indian Prime Minister,

Manmohan Singh, on 18 July 2005, to transfer nuclear technology to India. A formal Agreement was expected to be signed during President Bush's visit to India. Pakistan was not expected to get similar treatment.

Being conscious of the fact that the USA was making India a global strategic partner, China and Pakistan had wide-ranging discussions and agreed to strengthen their comprehensive strategic partnership. A detailed joint statement was issued at the end of the visit. China and Pakistan expressed their commitment to maintaining international peace and stability. They reaffirmed their opposition to terrorism and to the proliferation of WMD and their means of delivery.

China reaffirmed its respect for Pakistan's independence, sovereignty, and territorial integrity. Pakistan reaffirmed its "One-China" policy and opposed Taiwan's independence. Pakistan welcomed China becoming an observer at SAARC, and China welcomed Pakistan becoming an observer at the SCO and invited Pakistan to attend the SCO Summit in June 2006 in Shanghai.

Thirteen agreements / MoUs were signed. There were three important framework agreements on (i) expanding and deepening bilateral economic and trade co-operation; (ii) defence co-operation; and (iii) energy co-operation, including an agreement to enhance co-operation in peaceful uses of nuclear energy. They expressed satisfaction at the performance of Chashma Nuclear Power Plant I, and agreed to start construction of Chashma Nuclear Power Plant II.

China and Pakistan expressed satisfaction over the Early Harvest Programme and agreed to expedite negotiations on the Free Trade Agreement. They also agreed to enhance co-operation in the social sector. The two sides also reached an agreement to upgrade the Karakorum Highway at the cost of US\$400 million.

In order to sum up 55 years of Pakistan-China relations, I would like to quote, a paragraph from the joint statement issued at the end of President Pervez Musharraf's China 19-23 February 2006 visit:

The leaders of the two countries reviewed with satisfaction the growth of China–Pakistan relations over the past 55 years. They were glad to see that China–Pakistan friendship featuring sincerity, co-operation, mutual trust and support has struck deep roots in the hearts of the two peoples. The all-weather friendship between China

and Pakistan has withstood the test of time and prospered, notwithstanding changes in the international, regional, and domestic environment. Both sides agreed that, at a time when major and profound changes are taking place both internationally and regionally, to strengthen good-neighbourliness and friendship, develop co-operation, and deepen strategic relations between China and Pakistan serves the fundamental interests of the two countries and peoples and will promote peace and development in the region. Both sides emphasized that the two countries are committed to enhancing China–Pakistan strategic partnership of co-operation, featuring good-neighbourliness, friendship, and mutual co-operation. The two sides will continue to take steps to deepen and enrich China Pakistan relations.

Thank you.

Major General (retd.) Cai Bingkui

Pakistan–China Defence Co-operation in a Changing Strategic Environment

Mr Chairman, it is great honour to be here at this seminar of 55 years of China–Pakistan relations. Ambassador Ma talked about Pak–China friendly relations in the global strategic environment. I would like to talk about defence co-operation between China and Pakistan in a changing global strategic environment. As you know, China and Pakistan are close and friendly neighbours. Today, the establishment of diplomatic relations is 55 years old. The relationship between the two countries is well established. Last year, the Treaty of Good Neighbourliness, Friendship, and Co-operation was signed and thus the partnership for co-operation was further strengthened. Sino–Pak relations are based on an all-weather, time-tested friendship. I myself have been in the Chinese Embassy in Pakistan three times, from the early 1960s to the late 1990s. I witnessed closely the development of the Sino–Pak friendship. This has withstood the changing international and regional environment. I strongly believe in vitalizing the steady deepening of co-operation, covering international views. In my view, we are major catalysts between high equilibrium of partners, resulting from our long-held relationship, which is based on common interests. A solid friendship has evolved because of consensus on international and regional issues.

Since late 1960s, the armed forces of China and Pakistan have interacted closely, with mutual trust and respect. This interaction has been

very fruitful. It is an outstanding feature of the mutual relationship between China and Pakistan that there has never been a difference of opinions between them. This co-operation played an important role in promoting mutual understanding and friendship. It is a tradition that senior military officers pass through the Karakoram border and exchange views on issues of mutual concerns. Such high level delegations are representative of the friendly relationship between the militaries of the two countries and, at the same time, they enhance bilateral relations and ensure successful co-operation.

Security co-operation has been enhanced over the years between the armed troops of China and Pakistan. There have been three rounds of consultations conducted in order to promote co-operation between the two armed forces. In recent years, non-traditional security threats, like terrorism, have become significant. The armed forces of China and Pakistan are consolidating their co-operation in this regard. In August 2004, 200 forces under joint counter-terrorism were stationed in a high-altitude area, which expanded military co-operation in an area of non-traditional security. This joint exercise helped the two forces to develop expertise on counter-terrorism, separatism, extremism, and other regional instabilities. In October 2003, Naval ships of China and Pakistan conducted a joint marine high search and rescue exercise in Shanghai. It was the first time that the Navy of the Chinese People's Liberation Army held a joint exercise with any other country. In November 2005, during the earthquake in Pakistan, Chinese naval ships conducted another joint marine high search and rescue operation with Pakistani naval vessels. It was again the first time that the People's Liberation Army's navy held joint exercise in waters abroad.

Fourth, co-operation in major defence equipment has always been an important part of Sino-Pakistan defence co-operation. It covers a wide range of weaponry and equipment. Defence co-operation has undergone several changes and transformations. Due to mutual trust, these changes were smooth. It shows that time-tested co-operation accommodates changes in the environment.

Fifth, Sino-Pak co-operation gave the two countries a mutual range of areas. In addition to mutual training, university, military college, and professional exchanges are carried out. The specific condition of China-Pakistan relations is that the armed forces do not merely portray challenges: they formulate responses to them. Under these circumstances, it is no doubt very important to enhance co-operation.

Mr Chairman, ladies and gentlemen, I have mentioned above the defence co-operation between China and Pakistan that has steadily developed with the changes in the strategic environment. The fields of co-operation have gradually expanded from informal to formal co-operation. In the pragmatic view of the present-day world, the international situation continues to undergo complex changes. Although the international situation as a whole has created insecurity and instability, China and Pakistan with their wide co-operation can resolve their problems. They can continue to enhance defence co-operation. We attach importance to the role of enhanced defence co-operation and also at people's level, cultural groups to further our co-operation for peace and stability.

General (retd.) Asad Durrani

Pakistan–China Defence Co-operation in a Changing Strategic Environment

Thank you, Mr Chairman. My gratitude to the Institute for this honour. It is also a bit of a challenge to talk about defence co-operation in the emerging scenario, with an increase in situations to face which you might be expected to deal with military threats and challenges and come up with a possible framework in which China and Pakistan can co-operate. There is also danger in this because, sometimes, when you are talking about future threats, you might end up by putting people's antennas up and the threats that might be in your mind may materialize. So let me say how I can avoid this. There is also another aspect when one talks about Pakistan and China friendship: you end up using all the right adjectives, but when we talk about "time-tested", "all-weather", and "higher than the Himalayas" kind of phrases, defence analysts has a problem with them because they will have to concentrate on the grassroots, realism, and so on.

My description of the defence co-operation between the two countries would be that that it has been stable and steady, very comprehensive, because it covered a wide range. It has also been mercifully low profile. It has taken place very professionally and quietly. Joint production, procurement of weapon systems, and exchange of technology, but when I say that it avoided being high-profile, I mean that it did not result in the upper strata, like a military alliance. I do not recall if we have a defence and security pact that can cause reactions. When we talk of Indo–US collaboration that has created reaction, as well as other reasons for not having a military alliance, it means that you have agreed upon common threats. You have a practical way of responding to that through military way and it has not happen that way.

I think if we have to talk about the present situation in which the new scenarios are going to be discussed. The best I can do is to try to think aloud that if we are going to find fields of co-operation, then the military thinkers from both sides will have to make certain bargains. There is also a need for deep thinking about the possible repercussions so that we can come to useful conclusions. What are the systems that we will use? Where will the concentration be? I have marked three or four, which are of more important to us in real life. This is one way of coming up with military defence co-operation. I would also say that, among the state institutions, militaries are the most conservative ones. They mostly do not like to get involved in unfamiliar waters. They believe that whatever they have been doing in the past should continue without change. If that has to be the case, then this part of seminar is of no relevance.

I have reasons to believe that this is not the thinking. Instead of going 55 years back, I will just pick up from the thirteen MoUs signed between the two governments during the 19-23 February-visit of the President. Among the thirteen, four MoUs in particular make plenty of sense in the new environment. One is a broader one: that both the ministries of defence should co-ordinate more frequently. Energy and petroleum, science and technology, Gwadar and the surrounding area are the other issue. What I am going to suggest is that the present system in which we have worked is adequate; nothing more is required, except that the people will have to become more imaginative. For example, let me say, if we have to start with the high-profile Indo–US collaboration, can both the countries think of any scenario that may lead to a military conflict, even a limited one? If that is the case, what kind of response we can come up with? I am also thinking of another scenario as terrorism is a very basic issue in the Pakistan–China context. Are we thinking of unrest in the Xinjiang province near our Northern Areas? Common thinking is that some kind of military force is required, as we have been viewing it as the last resort. But it will only aggravate the situation and cannot lead to resolution. But in the real world, state operators cannot think much and use the traditional means. If such a situation arises, do we have any co-ordinated strategies in mind? It becomes more complex if we think about Central Asia. The situation there is complex: energy sources, NATO's expansion, US bases, Russian interests; is it unthinkable that no military responses would be needed there? Possibly not, but unless we get out of the hypothetical situation; we might not be able to come up with a reasonable framework. There again it is going to get more complicated, as it will involve many countries and joint responses will be needed. There are military bases, not only American ones. If we can come up with different scenarios, maybe we can determine the role of the two militaries. An

important issue is what kind of role Pakistan has to play in case of military conflict in Taiwan's case. Is Pakistan going to stay out or will these conflicts spread to the extent that a response from Pakistan will be needed?

Lastly, and this is not hypothetical, this is the only thing that actually has happened: the naval exercises between the two navies. That means that both of us must be thinking of a particular scenario in the Indian Ocean, perhaps. It is one of the seas in which the presence of foreign navies—for understandable reasons—not only after 9/11, but even before, has been considerable. So that sort of joint action means much. The aim of all these war games and exercises will have to remain to deter and make a military confrontation costly. And if war takes place, it will have to be a limited one and not involving unconventional weapons. However, once an escalation starts, it might not be possible to limit the war below the nuclear threshold. More flexibility is required and also more imagination and joint thinking is also required. Technical co-operation and joint production is something that can continue, but we never have to think of a concrete case, I am leaving this as food for thought for you, because so much of it can become important.

In the Indo-US deal, One-System Defence was most talked about and was as much of a real fear as the procurement of the Ballistic Missile Defence that the Indians might acquire. Now, any defence analyst would say that there is no chance that India could acquire that as an operational system: as a technological system, yes. Otherwise, it is so ineffective right now—and even if it becomes effective, it has a lot of problems. So would a system provide you with all-round coverage? One can come to the conclusion that, once the Indians get BMD, we can sit back and relax, as it is not a worthwhile cause. However, since it has symbolic value, what would be the effect if China and Pakistan announce that we will jointly develop BMD? It is a faulty system, but it gives the impression of a time-tested friendship.

Question and Answer Session

Q: I am just curious about China-Pak defence co-operation. What are the implications? Also, Indo-US defence co-operation seems to have importance for Pakistan. What kind of concerns does Pakistan have about this alliance?

A: The US has said that they will de-hibernate Indo-Pak relations. They can adopt different policies towards both but, given the situation, this

pact is not limited to nuclear co-operation but also defence missile co-operation and will considerably change the situation in South Asia. From Pakistan's point of view, we have maintained a certain balance for a long time and conventional threats can be taken care of. If Delhi develops other options quickly, it will be threatening for Pakistan.

- A:** I think in recent years there has been a shift, especially since the Soviet withdrawal from Afghanistan. Policies both in India and Pakistan and also the US have been driving the course. With First Gulf War, Indians offered refuelling facility to the US planes, coming from war, from the targets in Iraq. They signed an MoU for co-operation and defence. When India tested a nuclear device in 1998, the Indian defence minister specifically said that China was their enemy. This was to provide a basis for acquiring approval and further support. Since then, there had been an acceleration in co-operation between Indian and the US in all fields. Clinton's visit to India was very important. Similarly, with the Bush Administration, India agreed to join the theatre missile defence and recently they held joint exercises. In 2005, two major agreements were signed. On 29 June, an agreement between the defence ministers and on 18 July, another agreement between the Indian Prime Minister and the US President were signed. This was popularized. I think the President of Pakistan, knowing the background of the Indians, pre-empted them by going to China in February because the relationship with China is independent of the US. If we had gone after the visit, people might have said that being disappointed by the Bush Indian deal, Pakistan has gone to China. So we went to China prior to the Bush visit. I think that it will increase the liability of both China and Pakistan to show more strength. We are trying to improve relations, but if India gets substantive backing, then it will be disturbing for Pakistan.
- C:** The real danger of this agreement is that if the US-India nuclear deal goes through, then the US is going to supply India with safeguarded fuel for its civilian reactors that India has identified as civilian. So this will liberate a lot of fissile material, which is not safeguarded in India. So they will remove that from civilian reactors and will be able to use it otherwise. So India will acquire the ability to produce 50 to 60 nuclear weapons a year, as a result of the liberation of un-safeguarded fissile material being available.

Q: The concept of a new world order is very popular today. How do you see China and Pakistan in this world order and are there any serious challenges facing these countries?

A: Pakistan and China will continue their co-operation and are capable of facing new challenges through their prudent policies.

A: China has consistently referred to its principles over the last few years. Although India was one of the countries with which it does not have very friendly relations, even when China and India were at war, they never departed from their principles. So these principles are sound bases for a new international, not world, order. It is only for countries in arrogance, who presume they rule the world and view things in terms of world order. Now, two basic principles of the UN Charter have been openly violated in the new security arrangements by the West. First is the concept of pre-emptive strikes, which is the right to use force. Under the UN Charter, the US and every other country has an obligation not to use force or threat of force; now, there is a new doctrine, stating that they have the right to use force unilaterally. So they have knocked down the basic foundation of the UN Charter. The regime-change concept has been introduced recently, which implies that they have the right to change regimes in countries, for their own interests. This also has negated basic international principles, based on international law.

There has been some moderation in views on unilateralism and use of force, although threats of the use of force continue. We must insist on international principles and the UN Charter. The US should learn from De Gaulle, who said the ultimate test of great power is to recognize self-clearance and respect others.

Q: On the issue of Indo–US strategic alliance and repercussions, I would like to hear the Chinese view on that. And whether Pakistan’s strategic importance for China is growing with Indo–US alliance, along with the growing Chinese need for energy?

A: Our relations are based upon support and respect of each other. As for the US-India alliance, I do not believe that alliance will change Chinese relations with other countries. We will try to work together. We do not feel threatened by the alliance.

Concluding Remarks by the Chair

I think we have had a very interesting discussion and presentations. In the post-9/11 world, today the US, in my view, has become everyone's neighbour. It has a presence everywhere. It is present in Central Asia, South Asia, Japan, Australia, and Saudi Arabia; so this sole superpower is everywhere. It has established certain documents which have been qualifying, not determining, factors today, especially 3 September 2005; international strategy was formulated and later amended on 16 March 2006. The basic functions are pre-emption and regime change. What does this strategy say about our future? The US has a habit of reverting to unilateralism. India is a great democracy, sharing foundations of good relations. We are viewing a transformation in US relations with India, a major power, which shares certain values and commitments of freedom, democracy and human rights. In July 2005, they signed a bold agreement, which is a roadmap to realizing meaningful co-operation, which they had in mind for decades. India is now expanding its horizon in co-operation with the US, behaving as a major power.

Now, what are America's views on Pakistan? According to them, they are eager to see Pakistan move along a stable path. While progress in India has been achieved, with Pakistan it is still underway. What do they say about China? They say that the US would like China to be a stakeholder and also a stable and developing China. There is partly some skepticism about Chinese policies. Chinese leaders must realize that they cannot stay out of this peaceful partnership, while brooding on the old days of envy and accentuating concerns throughout the region. Containing China's military extension is not possible. By all standards, China's military budget is one-tenth the size of the US military budget.

China should not support resource-rich countries, without regard for their misbehaviour. The US seems to be forgetting its own policies towards these states. Now there is also interference in China's internal affairs, saying that their policies seem to encourage China to make the right strategic choices. This is an official document of the US.

Now I am going towards nuclear co-operation. This is not just about military co-operation; it is a wide-ranging military co-operation agreement. The defence pact talks of increased co-operation between India and the US, without any reference to the UN. The sea lanes of the Indian Ocean will be enhanced and can be expanded.

Now let's look at our region: What is the situation in the region and broadly in the world? Afghanistan: it is destabilized; Iran: the US is working for regime change and Iran is being projected as a deadly threat; Iraq:

destabilized. The Palestine crisis is still going on and an oil crisis is still on a possibility. The world is being conquered by China and Japan. They have economic strength. The US foresees a de-hyphenation of relations between India and Pakistan. There can be no de-hyphenation. In its National Security Strategy, the US talks about India and Pakistan in the same manner. They have just presented the world in such a way because they want to have different treatments for different cultures.

What are the options for Pakistan and China? As we have heard, there are very interesting remarks about what Pakistan and China can do. I, however, think the basic principle is of peace, i.e., neither China nor Pakistan has the desire to take on the world. Both countries wish to develop peace and want to focus on developing social and economic welfare. Should any effort be made to deny them of this, it would not be acceptable to either. So the leadership and scholars of both sides should focus on this issue. There is need for greater discussion as the pace of development is so fast today that only greater consultation and discussion can rightly guide both countries.

I thank you all for your patience and for participation.

Session II

PAKISTAN–CHINA: PARTNERS IN PROGRESS

Chair: Professor Zhang Yunling

Colleagues, ladies and gentlemen, good afternoon.

The theme of the second session is “Pakistan-China: Partners in Progress”. In economic co-operation, both China and Pakistan are helping each other and sharing a lot. We have a number of successful examples of this co-operation: exchange of trade delegations and co-operation between two countries in ongoing projects are excellent example of economic co-operation. Both countries have a very bright future in the twenty-first century. China has adopted very positive and futuristic economic policies. China is enhancing its economic co-operation with different regional partners. In this session, we have two of our Pakistani friends, Mr Fazal-ur-Rahman and Ambassador (retd.) Tariq Fatemi. On the Chinese side, we have Professor Ma Jiali and Professor Zhao Gancheng. Our first speaker, Mr Fazal-ur- Rahman, who is from Institute of Strategic Studies Islamabad, will speak on “Pakistan–China: Economic Opportunities and Challenges”.

Fazal-ur-Rahman

Pakistan-China Economic Relations: Opportunities and Challenges

Thank you Mr Chairman. The topic of my presentation is “Pakistan–China Economic Relations: Opportunities and Challenges”. In the last 55 years, since Pakistan and China established diplomatic relations, the two countries have been able to evolve an exemplary co-operative relationship at multiple levels, especially in the political, defence, and diplomatic arenas. However, the economic relations between two countries have remained at a low level until recently.

Since the mid-1990s, both the countries realized the missing economic dimension in their evolving strategic relationship. They acknowledged the fact that, in order to sustain a comprehensive co-operative relationship, substantive economic co-operation, matching the level of political and strategic co-operation, was absolutely essential. It was a shared understanding that economic co-operation would consolidate not only the comprehensive bilateral relations, but also help achieve common aspirations for development, peace, and stability in the region. In the last

few years, Pakistan and China have been able to create a clear and shared vision for the future direction of their economic relations. This understanding has been achieved due to the frequent exchange of ideas at the high-level consultations between the leadership of the two countries.

The economic dimension in Pakistan–China relations has come to the forefront and begun to show signs of improvement in terms of trade and investments. In order to enhance economic co-operation, while Pakistan tried to create an enabling environment for trade and investment, the Chinese government persuaded its state-controlled enterprises to import from Pakistan and make more project-specific investments. However, despite the encouragement by both the countries, the participation of the private sectors is still at a low level.

Since Pakistan signed a Trade Agreement with China in 1963, according to which both countries granted MFN status to each other, throughout its trade relations with China, Pakistan has had a chronic trade deficit. This is primarily because China is competing in almost all the major sectors of Pakistan’s potential export areas, which ironically happen to be very limited. Also, the Pakistani business community seemed contented with their established export destinations, i.e., the US and Western Europe, and hardly made serious efforts either to diversify the export base or to explore other areas and regions for enhancing the volume of their exports. This mental fixation with Western markets and a non-innovative export approach has constantly been undermining the country’s export potential.

During the last six to seven years, there has been regular exchange of high-level visits. During each visit, there has been substantial agreement on economic co-operation. For instance, during the visit of Zhu Rongji, Pakistan and China signed six Agreements and one Memorandum of Understanding (MoU). At that time, the worth of Chinese financial commitment for the agreed projects was estimated to be over one billion dollars. This signing of agreements can be termed as the first round of some substantive initiative for expanding economic co-operation. When the Chinese Premier visited Pakistan, he also agreed that China would extend its sponsorship and support to the Gwadar deep seaport and the Makran coastal highway projects. In November 2003, President Musharraf’s visit resulted in the signing of a “Joint Declaration on the Direction of Bilateral Relations”. It was in fact a road-map, determining the direction and scope of overall Pak-China bilateral relations in the future. The Declaration clearly laid emphasis on expanding economic co-operation, while continuing to maintain co-operation in other areas.

Pakistan's Prime Minister, Shaukat Aziz, visited China in December 2004. The two countries signed seven agreements in trade, communications, and the energy sector. These agreements envisaged an increase in bilateral trade, further movement on the preferential trade agreement, setting up of joint agro-based industries, and increased Chinese investment in Pakistan. One of the core objectives of Pakistan in 2004 was to persuade China to export capital to Pakistan, apart from goods. There have been several proposals to set up a Pakistan–China Joint Investment Company and the establishment of a Joint Infrastructure Development Fund for investment in Pakistan.

Similarly, Chinese Prime Minister Wen Jiabao's April 2005 visit was considered a landmark visit because both countries signed twenty-one agreements and MoUs on co-operation in economic, defence, energy, infrastructure, social sector, health, education, higher education, housing, and other areas. Under the agreement on the "Early Harvest Programme" (EHP), which has become operational since 1 January 2006, China has brought to zero all tariffs on 767 items. This was the first step towards establishing a free trade area between the two countries. It is envisaged that by the year 2008, Pakistan and China will be able to implement the FTA, covering ninety-per cent of the commodities, while ten per cent will remain on the sensitive list.

In 2006, during the visit of President Musharraf to China, several agreements were also inked. The trade between the two countries has been registering a constant growth: from US\$ 1.4 billion in 2001, US\$ 3 billion in 2004, US\$ 4.25 in 2005, and the trade volume in 2006 is estimated at US\$ 5 billion. China's current investment in Pakistan stands at around US\$4 billion plus, and at least 114 Chinese projects are underway.

According to the Chinese Customs Authority, "Pakistan's export to China showed an upward trend, registering an increase of about 39.2 per cent in 2005. However, the ratio of trade balance between China and Pakistan is roughly 1:5." Without going into further statistical details and overall economic situation, I would like to directly address the prospects, opportunities, and challenges for China–Pakistan economic relations.

As far as opportunities for Pakistan–China economic relations are concerned, the overall geo-strategic environment for regional co-operation is gradually becoming more favourable. Pakistan's entry into Shanghai Co-operation Organization as an Observer and China's entry into SAARC as

an Observer will allow Pakistan–China bilateral economic relations to grow with a regional perspective. Also, there is a convergence of economic interests at the strategic level, especially in the areas of energy security and communication networks.

China has opened up its western region adjacent to Pakistan for trade and investment in order to reduce the economic disparity between its developed coastal regions and other underdeveloped areas. Once developed, this region would be a hub for economic activity between China, Central Asia and South Asia. Pakistan's desire to become a 'corridor of trade and energy' for China and Central Asia by linking Gawadar through upgraded-KKH with these areas entails promising prospects.

Pakistan's economy has been maintaining a high growth rate in the last five years, and it is hoped that it would continue to maintain a high growth rate in the coming years. The growth in manufacturing sector, increase in exports and FDI, as a result of stable macroeconomic environment shows good prospects for the investor's interest in Pakistan. Pakistan welcomes the Chinese investors from the private sector to come forward and invest in Pakistan. The possibilities of export related Joint ventures are expanding.

China as part of its domestic reform process is aiming at raising the living standard of its rural population and increasing their purchasing power. The emerging Chinese domestic market offers huge potential for Pakistani exporters, especially in areas of agricultural, aquatic and leather products. According to the Chinese Feasibility Study on FTA, "The Pakistani commodities that have the greatest potential to be exported to China are tropical fruits. These fruits are widely planted in Pakistan, and China has already finished quarantine and inspection on Pakistani mangoes and citrus. After zero tariffs are levied, in North-west China, Pakistani fruits will enjoy certain advantages in both quality and price compared with the fruits grown in Southern China. Pakistan is also rich in fishery resources. With the adjustment of policies on fishery industry, the improvement of technology; the potential of Pakistan's fishery industry will be unleashed. After the zero tariff policy is adopted, Pakistan will see a rise in its exports to China."

Similarly, the potential for Chinese business to invest in Pakistan are enormous. At present the sectors identified for investment, especially from China, include energy-related projects, telecommunications, infrastructural projects, automobiles, motorcycles, tractors, air conditioners, refrigerators,

televisions, mining, food processing, agriculture and construction. The implementation of the Early Harvest Programme (EHP) from January this year will facilitate growth in trade.

Along with these prospects, there are certain challenges. One of the challenges is the security environment in Pakistan, especially in two of its western provinces, which is a deterrent for Chinese private sector investment. The three unfortunate incidents in which Chinese workers were killed have negatively impacted on potential Chinese investors. Ensuring the security of foreign workers is a serious challenge for us.

China is fast integrating into the global economic system and its trade, investment, and economic co-operation is now increasingly being directed by market forces, rather than state planning as it used to be in the past. Corporations and industries are making decisions based simply on the commercial viability and profitability of a particular project, rather than directions or instructions from the Government. Engaging the Chinese private sector on a long-term basis is important for sustainable economic relations. Also, making the Pakistani private sector more innovative and pro-active is essential for producing any tangible growth, without which we may even lose our current level of trade to more competitive and aggressive market forces. We do not see it happening in a big way. The government in Pakistan is patronizing the private sector and the role of public sector is being curtailed to create an enabling environment for private sector endeavours.

While the trade volume with China is on the increase, Pakistan's exports do not show as sharp a rise as Pakistan's imports from China. One major reason of the increased imports from China is the supply of machinery and equipment for recent projects agreed between Pakistan and China, such as the railways sector, Gwadar Port and hydro-power project; etc. Moreover, a number of Chinese companies have won infrastructure project contracts in Pakistan through international bidding. All the machinery and equipment supplied by these companies for the projects come from China. This trend has led to a phenomenal increase in China's exports to Pakistan.

Pakistan's exports are centred mainly on cotton yarn and cotton fabric. There is an upward trend in the export of seafood and leather. This potential can only be realized by revamping the processing technologies and producing internationally acceptable quality. While most imports from China to Pakistan are value-added, more than eighty-five per cent of its exports to China are raw materials, such as cotton yarn and fabric, chrome

and copper ores. For example, copper and gold from Saindak Copper-Gold Project is exported to China in semi-finished form and re-exported to Pakistan after adding value. We must add value to our exportable commodities in the country. It can be in the shape of joint ventures with Chinese companies.

Given Pakistan's narrow base for exportable commodities— more than seventy-five per cent of our exports originate from four items: cotton, rice, leather, and sports goods; a diversification in exportable commodities and a proactive export policy could enhance the volume of trade and also rectify to a degree the trade imbalance. It will not be possible for Pakistan to increase its exports to China without diversifying exportable commodities. Pakistan should seek Chinese investment for projects aimed at export diversification, whereas Chinese investment should be geared more to export-oriented projects and less for domestic requirements.

Pakistan should seek Chinese investment in the manufacturing sector and not only in assembly activities. Chinese companies involved in electronics, home appliances, automobile, motorcycles, etc. are only the screwdriver-assembly lines. Most of the parts are imported from China and the companies enjoy a tax-break. Such activities neither create job opportunities in the local market nor a manufacturing base in the country.

In order to sustain a progressive economic relationship, both countries should establish the best trade practices. It has been reported that the machinery being imported from China is usually under-invoiced in order to evade taxes. Such practices can be curtailed by the joint efforts of the two countries. Another challenge for which both the countries need to work together is unregistered trade. There are huge quantities of a wide variety of items which are being smuggled into Pakistan. Pakistani markets seemed to be flooded with such commodities.

Pakistan and China need to establish the best business practices. Here the case in point is the supply of locomotives to Pakistan Railways by a Chinese firm Dongfang Electric Corporation, and passenger coaches by China Machinery Import and Export Corporation (CMC) under an agreement signed in 2001. The engines were found faulty and sub-standard; the coaches were supplied at a higher price than that offered by the same company previously. The media highlighted this. Such dealings create a negative impact on bilateral relations as well.

Professor Ma Jiali

Pakistan- China Economic Co-operation: Opportunities and Challenges

Being close neighbours and strategic partners, China and Pakistan share tremendous common interests. At a time when the scenario in south-east Asia and the overall international situation are undergoing significant and profound changes, both China and Pakistan are facing new domestic phenomena. Further strengthening their good-neighbourly friendship, implementing mutually beneficial co-operation, and deepening the strategic partnership will, therefore, meet the fundamental interests of the people of both states. This will not only serve as the bond of common interests between the two, but will also contribute to expanding their strategic partnership.

China is still going through the process of rapid development. Since the introduction of reforms some twenty years ago, China has maintained an annual growth rate over nine per cent. For instance, Chinese GDP increased by 9.9 per cent in 2005. Rapid economic growth requires sustained momentum in foreign trade, foreign direct investment, and foreign economic co-operation. Pleasing tendency has emerged in the Pakistani economy as well. The 8.4 per cent GDP growth rate in the 2005-6 fiscal year is record-high in the past two decades. Developments in both the industrial sector (by 15.3 per cent) and the agricultural sector (by 8.4 per cent) have well exceeded people's anticipations. Growth of foreign trade, particularly that of exports (by 17.44 per cent), is also exciting. In the considerably long term, the Pakistani economic growth is expected to keep a relatively high speed. In the first quarter of this year, Pakistani exports to China increased thirty-eight per cent with a total volume of more than US\$210 million US dollars.

Owing to the economic development, particularly the expansion of foreign economic and technical co-operation, China has possessed many advantages regarding contracted projects. China has won more project biddings in Pakistan than any other country. Pakistan is rich in natural resources. Its oil, natural gas, copper, gold, lead, zinc, and iron reserves are not only in large quantities but also of high grades. Additionally, the Pakistani agricultural and marine resources will meet the demands of the Chinese market to a certain degree.

China and Pakistan should not only be all-weather strategic partners, but also omni-directional business associates. Both the Chinese government and people fully understand that to continuously boost the mutually beneficial co-operation is the only way to effectively promote bilateral strategic interests. The Chinese government is making constant efforts to retain the vitality for the bilateral strategic partnership. Recent

years have witnessed continuous development of economic cooperation between China and Pakistan. However, as earnest friends, we must admit frankly that there still exist some unsatisfactory elements in the Sino-Pakistan economic co-operation.

Trade between China and Pakistan has steadily increased from US\$1.16 billion in the year 2000 to US\$4.26 billion in 2005. Within the same five-year period, on the one hand, the bilateral trade volume has been almost redoubled, on the other; the trade deficit on the Pakistani side has jumped from US\$178 million in 2000 to US\$2.6 billion in 2005. Despite the fact that the Chinese side has taken some measures to encourage more imports from Pakistan, the trade surplus in favour of China will not change in the short-term due to their trade structure and other factors.

China and Pakistan are neighbours who share mountainous common borders. Such a geographic feature has become a disadvantageous factor for bilateral economic and trade exchanges. The lack of a railway connection and the inconvenient land traffic have considerably raised the costs of trade and restricted trade and personnel exchanges. Although Pakistan is contiguous to the Xinjiang Uygur Autonomous Region of China, the latter is in fact too far away from the relatively developed Chinese provinces.

In the past few years, Chinese engineers have encountered many attacks, even suffered from casualties. This has raised serious concerns on the part of both the Chinese government and the Chinese companies present in Pakistan. The Pakistani government and the military have made remarkable efforts in protecting Chinese citizens in Pakistan, and the Chinese government highly appreciates all kinds of precautions taken by the Pakistani side.

China and Pakistan have engaged in friendly and profitable cooperation regarding joint exploitation of mineral resources for some time. Precious experiences have been gained during the process of joint development of the Saindak Copper-Gold project and the Duddar Lead-Zinc project. During President Musharraf's recent visit to China, both governments agreed in principle to renovate and upgrade the Karakoram Highway. Concrete actions will be taken after further detailed discussions. When the projects is completed, the personnel exchanges and cargo transportation will surely increase to a large extent. At the moment, the highest Chinese railway has stretched to Kashi, only 760 kilometres away from Peshawar. The idea of linking China and the West Asia by railroad has drawn great attention from many Chinese scholars. If this plan comes

true, it will bring about significant strategic as well as economic implications; particularly further strengthening the bilateral ties between China and Pakistan.

During his February visit to China, President Musharraf expressed the willingness of Pakistan to become "a corridor of energy", connecting China with the Central and West Asia. That was in fact a very creative idea. As everyone knows, China and Pakistan are working hand in hand in building the Gwadar Port. The US\$200 million- worth Phase I has already been completed. If oil from the Middle East and Iran could be transported via the Gwadar Port to Xinjiang, it will not only shorten the voyage, but also avoid the potentially risky sea route through the Malacca Straits.

Along with the improvement in the living standards of the Chinese people, more and more Chinese citizens would like to visit abroad and international travelling has become a fashion. Being one of China's neighbours, Pakistan has abundant tourist resources. However, the beautiful landscape, centuries-old historic sites, and unique social customs of Pakistan are still strange to most Chinese. To strengthen the development of the Pakistani tourist market will not only help the Chinese. It is said that there are only 200 Chinese visiting Pakistan as tourists annually, which is so disproportional, given the fact that millions of Chinese are travelling abroad these days. In 2005 alone, 31.5 million Chinese went across the border. I hope the relevant authorities of both countries would strengthen their co-operation in expanding and making the Pakistani tourist market attractive to the Chinese people.

Ambassador Tariq Fatemi

China and South Asia

With the collapse of the Soviet Union and the emergence of the United States as the sole super-power, the political as well as the geographical landscape of the region around China was transformed radically. Some of these developments represented exciting opportunities for China; others posed new and uncertain challenges.

Asia is a vast continent that is ancient, diverse, and complex in terms of history, politics, economy, culture, and religion. Within this continent, China and South Asia are linked by land and water; mountains and rivers. Unlike East Asia and South-East Asia, China and most of South Asia are contiguous and comprehensive. They have deep historical, cultural, and trade links. Even the trauma of colonialism is a shared

experience between them. But here, I will confine myself to China's foreign policy objectives as regards South Asia, and refrain from commenting on other areas, as they are to be touched upon by other speakers in today's seminar.

Since its independence in 1949, China has sought to settle its differences with all countries, and in particular with its neighbours, on the basis of friendly negotiations. It has also promoted the concept of "peaceful co-existence". On occasions, as in the case of Pakistan, it has demonstrated a willingness to accommodate the viewpoint of others. Even more importantly, since 1978, when China began its current modernization programme, it has avoided confrontation over contentious issues, preferring peaceful, negotiated settlement of disputes. China has also forcefully rejected the policy of threats and intimidation, instead supporting the goals of the developing countries and advocating a strong role for the multilateral institutions.

In its early years, China's attention was concentrated on its East Coast, for the purpose of regaining the break-away province of Taiwan. The rest of Asia ranked relatively low in Beijing's security agenda. However, with the Cold War assuming intensity and Tibet becoming a bone of contention between China and India, South Asia became a major area of concern for Beijing. Thereafter, China followed a policy of consolidating relations with its South Asian neighbours, especially by signing border treaties with them. The issue of Tibet, however, caused acute sensitivity, as China recognized that Tibetan separatism could have serious implications for its national integration and domestic stability. This fear was so strong that any neighbouring country that extended support to the Tibetans earned the suspicion and hostility of the Chinese leadership.

The impact of the June 1989 Tiananmen Square tragedy was not only on China's domestic politics, it had an equally dramatic impact on the country's foreign policy as well. When the West, led by the United States, decided to impose sanctions on China, and openly promoted a policy of pressures and threats, the Chinese leaders recognized the urgency and importance of strengthening ties with neighbours, while trying to establish relations with those that had been ignored in the past.

In August 1990, Beijing normalized relations with Indonesia and, two months later, established relations with Singapore. Soon thereafter, Beijing involved itself with the UN Peace Keeping Forces in Cambodia. In December 1992, Premier Li Peng visited Vietnam, where he declared that,

"we have many more common points than disputes." A couple of years later, the two countries held three rounds of talks on disputes related to their common 1130 kilometre long land border.

While the collapse of the Soviet Union removed a historic threat to China, it also brought on to Washington's radar screen, with much sharper focus, China's growing capabilities and future potential. Some American academicians and political analysts put forth the thesis that China was likely to become a major threat to American interests in South Asia, South-East Asia, and the Pacific. Resultantly, China's primary concern became Washington, rather than Moscow, as had been the case prior to 1990. It initiated efforts to consolidate its relations with its neighbours and re-establish linkages with Russia in the political, economic, and defence spheres. The Chinese also gave evidence of appreciating the importance of South Asia for their own security and well-being. After all, of the three flashpoints in Asia, the unsettled issue of Kashmir and the rivalry between nuclear armed, neighbours, India and Pakistan, was a matter of special interest and concern to China. Moreover, with a population of 1.5 billion and an economic growth rate of over 6 per cent in 2004, the region represents an area of growing interest to Beijing.

China's primary aim has been to ensure that its foreign policy approach is shaped by three main considerations: maintaining high economic growth rates; reinforcing its status as a major power; and enhancing its role as a global player. While in the past, China had relied heavily on Pakistan to maintain the balance of power in South Asia, Beijing appears to be moving out of this syndrome, as it seeks to be perceived as a responsible global power, rather than merely as an important regional player. This does not, however, mean that China will allow any dilution in its strategic relationship with Pakistan, a friendship that has withstood successfully the strains of many onerous demands.

Currently, it is the unprecedented need for energy, raw materials, and resources that is driving China's foreign policy. China's remarkable economic growth, which has been nearly 10 per cent for the past many years, has led to a booming domestic economy, rapid urbanization, increased export processing, and a voracious appetite for consumer goods. This has increased the country's demand for oil and natural gas, industrial and construction material, foreign capital, and technology.

The change in China can be better understood by recalling that only 20 years ago, China was East Asia's largest oil exporter; now it is the world's second largest importer. China's combined share of the world's

consumption of aluminium, copper, nickel, and iron ore more than doubled within only ten years, from seven per cent in 1990 to fifteen per cent in 2000. It reached twenty per cent in 2005 and is likely to double again by the end of the decade.

China also appreciates that, other than India, the other countries of the region are fairly small and economically weak, and need to be cultivated assiduously. China, therefore, pursued a policy of friendly and mutually-beneficial relations with them. In particular, after the 1962 Sino–India border conflict, Beijing came to appreciate much more the importance of these small countries. The wisdom of this policy was demonstrated most recently during the 13th SAARC Summit, held in Dhaka in November 2005, when these countries took the initiative of promoting China's (and Japan's), Observer status in this regional organization. The active role played by them, especially Pakistan, in supporting China's candidature, was deeply appreciated by Beijing and is likely to help in the expansion of its commercial and economic relations with the region.

The Chinese leaders have stressed repeatedly the importance of strengthening relations with South Asia. For example, Premier Wen Jiabao, during his visit to Delhi, Islamabad, and Dhaka in April 2005, emphasized that China accorded special importance to improving relations with this region and that this included strengthening the role of SAARC. He also welcomed the co-operation of India and Pakistan with the Shanghai Cooperation Organization (SCO). More significantly, while talking to journalists in Delhi, the Premier supported India's bid to establish a partnership with the ASEAN Plus 3 (China, Japan, and South Korea). He also dispelled the impression that China was trying to promote the formation of an alliance against any third country.

China's relations with India have come a long way since their brief but bitter border war in 1962. Since the early 1990s, they have been improving steadily. Their economic ties are also booming. China is set to emerge as India's leading trade partner in the near future. Between 2000 and 2005, trade between the two countries registered an increase of 500 per cent, whereas India's trade with the US increased by only 63 per cent during the same period. China is keen to expand co-operation in the field of hi-tech, for it appreciates that, while India has an advantage in software, China has an advantage in hardware and manufacturing, and their collaboration could be mutually advantageous. Their political relations have also been improving, with the two countries concluding their bilateral "strategic dialogue" in early 2006 and declaring that they aim to raise bilateral trade to a staggering US\$20 billion by 2008. On trade, it must, however, be

noted that it consists mostly of China's purchase of raw materials, iron ore, steel, and other commodities needed to accelerate China's economic growth, while China exports manufacturing goods, electronics, and machinery to India. More importantly, they have also decided to co-operate in identifying and exploiting global energy resources, rather than competing for them. As of September 2005, India had invested in 176 projects in China, totalling \$339 million in value and paid-up capital of US\$113 million. China has invested in 19 projects in India, to the tune of US\$26.33 million.

China has always attached importance to the future of Kashmir as it is located in the immediate neighbourhood of Tibet and Sinkiang. From 1962, China maintained a pro-Pakistan policy *vis-à-vis* Kashmir, but during the Kargil conflict, China adopted a policy of neutrality and proposed bilateral negotiations between India and Pakistan, to resolve their differences through peaceful negotiations. This was noted and appreciated in Delhi, which only a year earlier had upset Beijing by its statements to the effect that the driving motivation for the Indian nuclear tests of May 1998, had been the threat posed by China to India's interests.

“Notwithstanding the improvement of relations between China and India, New Delhi continues to perceive any improvement in China's relations with other South Asian countries as aimed against it. Nevertheless, most political analysts are of the view that the friction and tensions between the two countries over a number of important issues—territorial disputes, the nuclear issue, and the UN Security Council reform—continue to plague their relations. Both claim that their policies are peaceful and defensive; nevertheless, both remain highly suspicious of the other, and occasionally, accuse each other of pursuing a policy of regional hegemony.

Another element of discord between the two countries has been Beijing's opposition to any move to expand the veto-wielding permanent membership of the UN Security Council. Delhi is not unmindful of the fact that, other than China, the other permanent members (US, Russia, France, and Britain) support its bid. A Chinese Foreign Ministry spokesman made it clear that, while Beijing was willing to see India occupy a seat in the semi-permanent or non-permanent category, it remained opposed to its Asian rivals (India or Japan), gaining permanent membership of the UNSC. The two countries have also had differences on the membership of the East Asian Community (EAC), with India accusing China of having conspired with some of the Asian countries to keep it on the periphery of a future East Asia Community, rather than within it, as India is desirous of being.

Recent US efforts to enhance its strategic relations with India to, among other things, "contain" China, have created misgivings in Sino-Indian relations. There is a definite undercurrent of suspicion and mistrust between the two Asian rivals, with their divergent political systems and competing geo-strategic interests. The recent consolidation of strategic relations between Washington and Delhi and the Bush Administration's decision to provide India with civilian nuclear technology, notwithstanding India's refusal to sign the Nuclear Non-Proliferation Treaty, has added to the strain between China and India. While official Chinese comments have been guarded, the media has been quite critical of Washington for having made an exception to the global non-proliferation regime for India. In a scathing commentary on 26 October 2005, the *People's Daily* accused Washington of being soft on India and warned that, "if the US made a 'nuclear exception' for India, other powers could do the same with their friends and this would, therefore, weaken the global non-proliferation regime."

Political analysts, such as Zhao Gancheng of the Shanghai Institute of International Studies, warned that the rapid growth and development of both China and India, was likely to create rivalry and tension in the region. He then counselled that, "it is necessary for both sides to take into serious account whether [the] more power the two nations acquire would or would not lead to more power politics." On the US-India nuclear deal, the *People's Daily* of 26 October 2005, was sharply critical of Washington for "demanding that other countries respect the rules regarding transfer of nuclear technology, but not hesitating to make an exception for India." He warned that, "other nuclear suppliers also have their own partners of interest as well as good reasons to do what the US did." Another Chinese scholar pointed out that, "China is aware of India's potential to target it with nuclear weapons and it keeps a watchful eye on the Indian nuclear doctrine." He stressed that, "India's emerging nuclear capability poses a serious challenge to China's security and puts its No First Use (NFU) policy in strain". He then warned that, "India is actively engaged in great-power diplomacy to raise its own profile on the global stage" and that the US policy of "containing China whets New Delhi's ambitions for great-power status."

China appears convinced that the US is seeking to enlist India as a counterweight to it, while professing to preserve the balance of power in South Asia. Remarks such as those made by the US Defence Secretary, Donald Rumsfeld, in Singapore on 3 June 2005 ("We anticipate that relations with India will continue to strengthen. With respect to China, it is

not clear which way they are going.") caused considerable anxiety in Beijing. Indian Foreign Secretary Shyam Saran's speech at the Indian Economic Summit on 28 November 2005, in which he remarked: "I think India and US can contribute to a much better balance in the Asian region"; and ominously added that the US and India can contribute "to bringing more and more countries within the discipline of a mutually agreed security paradigm for the region". This must have raised concern in China and in the other countries of the region.

For the past 40 years, the cornerstone of Pakistan's strategic policy has been its relationship with China. China, too, has characterized its ties to Pakistan as "strategic". Regular consultations and extensive co-operation in the political, economic, and defence spheres is a feature of their relations. China has also been a major player in the development of Pakistan's nuclear weapons and missile arsenal.

In the wake of 9/11, Pakistan decided to join the US-led global war on terror, and to provide strategic help and assistance to American forces in the invasion of Afghanistan. This, however, appeared not to impact adversely on Sino-Pakistan relations. In fact, the relationship has continued to prosper. Beginning 1 January 2006, the Early Harvest Programme was launched, under which China will extend zero-rated tariffs on 767 items, while Pakistan will be extending the same facility on 464 items.

The two countries were able to sign an agreement in April 2005, providing for a very exclusive relationship between them. Pakistan's confidence in its relations with China and its faith in China's ability to deliver on its promises is evident from Pakistan's invitation to China to construct and develop a major seaport at Gwadar and its related facilities. The two countries continue to co-operate in some of the most important sectors of the economy and it is likely that China will involve itself on a much bigger scale in Pakistan's economic development and growth in the coming years. China is also likely to be asked to build more civilian nuclear reactors, to meet Pakistan's growing energy needs. It was also gratifying to note that President Hu, in his statement on the occasion of the 55th anniversary celebrations, reaffirmed his country's determination to further consolidate China's strategic ties with Pakistan.

China has promoted economic and trade co-operation with Sri Lanka. It has also extended US\$20 million in aid to Sri Lanka. In mid-2005, it gave US\$8.7 million in assistance. It is also involved in building roads, rails, and posts in the country and has also provided arms to Sri Lanka. The Chinese

are also making conscious efforts to strengthening relations with Bangladesh and Myanmar, both of which are recipients of military equipment from Beijing. China is also interested in the natural resources of these two countries, primarily the oil and gas reserves. Beijing has been able to take advantage of Khalida Zia's distrust of Delhi to strengthen relations with Bangladesh. It has increased its economic co-operation and has also provided arms to Dhaka. In 2005, bilateral trade amounted to US\$196 billion, a year-on-year increase of 43.5 per cent. According to some reports, the Chinese may have gained access to the Chittagong Port. Beijing is also seeking to gain access to Bangladesh's natural gas reserves through a road link via Myanmar.

China is employing co-operation with the countries of South Asia to strengthen its relations with them. China was supportive of King Gyanendra's take-over of full executive power last year. While the international community was critical of this move, Beijing agreed to supply arms to the King's government, which, ironically, was engaged in fighting the Maoist insurgency. China is also expanding its trade ties with Bhutan and the Maldives.

China's success in obtaining observer status at SAARC has been welcomed by all countries of the region, though India gave some evidence of its hesitation about this development. While it formally supported China's candidature when presented at the 2005 SAARC Summit in Dhaka, it nevertheless, saw Beijing's nomination as being promoted by a pro-China axis, comprising Pakistan, Nepal, and Bangladesh. In fact, Indian newspapers described the SAARC decision as having come about only after the pro-China group had threatened to veto Afghanistan's entry into SAARC, as the group's eighth member. An Indian political analyst commented that, "India's physical presence was overshadowed by China's invisible presence, but growing influence".

The level of economic development between China and SAARC is comparatively low because the infrastructures are weak and inadequate. Their governments have, however, drawn up ambitious plans for major involvement in irrigation, energy, transportation, and resource exploitation. The World Bank, the ADB, and other global and regional organizations, have raised large sums of money for these capital-intensive projects. The region has therefore become a huge contracted construction market for China. China's bilateral trade with SAARC countries totalled US\$19.7 billion, less than with Singapore alone, which stood at US\$20 billion.

South Asia's geo-strategic profile is also becoming more pronounced, with China, Japan, the United States, and the EU all taking a keen interest in the developments in this region. Earlier this year, the Bush Administration merged the State Department's South Asia and Central Asian Bureaus into a single unit. Washington sees Afghanistan, which is slated to join SAARC as a full member later this year, as a vital bridge between the two volatile regions of Asia. Incidentally, the US and South Korea have applied for Observer Status in SAARC, a position China and Japan have been able to obtain.

South Asia is very much on the radar screens of the major powers as evident from the efforts made by the US and India to lobby successfully in favour of Afghanistan's membership in SAARC. On the other hand, China's effort to gain observer status in this regional organization, may not have been initially successful, because of New Delhi's strong initial opposition. But India's opposition crumbled only after Pakistan, Bangladesh, and Sri Lanka joined Nepal in linking Afghanistan's full membership to China's observer status. New Delhi was then left to propose the simultaneous inclusion of Japan as an observer in SAARC.

South Asia is also energy-starved. It cannot break the barriers of poverty and underdevelopment until the availability of per capita energy consumption increases dramatically. Surplus energy resources can move into South Asia only through, Pakistan. This can be done by establishing electric transmission lines and oil and gas pipelines through Pakistan to the rest of the energy-deficit areas. In the not-too-distant future, one can envisage rail and road infrastructure built in Pakistan, linking South Asia to Central Asia, China, and Russia. Most economists and sociologists are of the view that South Asia can play its rightful role in regional and global affairs, once it settles its differences and disputes among itself. This is why China advocates that the intractable political differences in the region be "set aside" for the present, while the countries concentrate on growth and development, so that problems such as poverty, malnutrition, disease , etc., can be tackled for the larger good for the people.

Zhao Gancheng

China's Vision of SAARC

As a regional organization, the South Asia Association of Regional Cooperation (SAARC) represents part of a global trend, that is, regional integration is increasingly important in the context of globalization. China is not a South Asian nation, but it is an active player in both Asian regional

integration and economic globalization. Besides, China is a big neighbour of all the South Asian nations. Naturally, China is concerned about what is going on in this part of the world. When bad things happen, China will worry, and vice versa, good things are likely to attract China to come closer to the region in which the SAARC today plays a more important role in regional stability and economic development. Since China was accepted as observer to the organization in 2005, at the SAARC Summit in Dhaka, China has shown more interest in it, trying to get a better understanding of what it should and can do as an observer now and perhaps as a full member state in the future. But the first thing is to build a proper perspective of the institution.

What SAARC is all about from the Chinese perspective?

SAARC was established when the Cold War had yet its last few years to go. However, the year 1985 had already seen vigorous progress in China's reform and opening up policy that brought about grand adjustments in its foreign policy as well, including its South Asia policy. The most noteworthy change in this regard might have been the beginning of the China–India rapprochement that started with the then Indian Foreign Minister Vajpayee's visit to Beijing in 1979. Chinese leader, Deng Xiaoping, had extensive talks with Mr. Vajpayee on a number of issues, fully elaborating China's desire to see stability in South Asia and of friendship towards all the nations in the region. Reportedly, Deng even touched upon a possible solution to the boundary issue, proposing a package deal. The strategic background for Deng's move could have been China's grand view that China would not face any danger of a world war or the likelihood of such a war between other major powers. But whether Deng by that time had already seen India as a major power remains unclear.¹ The issue is that, after a long period of hostility between China and India, the two nations finally made up their minds that co-operation and peaceful coexistence would make all relevant parties better off, despite many problems still remaining.

The China–India rapprochement produced a useful basis on which to judge China's perception of the SAARC. Bangladesh's initiative in building the organization was understood the development of economic co-operation among South Asian nations as a priority, in order to promote

¹ According to Deng Xiaoping, he did mention to Prime Minister Rajiv Gandhi in 1988 that, "unless both China and India rise up, there won't be an Asian century"; that implies that he did not even see the two nations as major powers at that time. Deng, *Selected Works*, vol. III (Beijing, 1993),

regional stability. That coincided with China's policy adjustment in the 1980s. China's reform and opening up requires a stable periphery, in which South Asia accounts for a major part. In China's understanding, the SAARC initiative could be a practical framework for the major parties in the region to conduct more dialogue and co-operation in the first place. No doubt, in this case, the first thing for the framework to do would be to bring in some sort of hope for decreasing India–Pakistan hostility, even though it was not the officially declared target of SAARC. Given that China had already started its rapprochement with India, it would welcome such an approach, or, for that matter, any approach that promoted regional stability.

However, the real process of SAARC did not meet China's expectations. Instead of strengthening economic ties and reducing political hostility between major players in the region, the real process showed just the opposite: political confrontation and security challenges delayed—even stopped—effective co-operation within SAARC. The failure of effective integration in SAARC reduced the interest of the international community, and China was no exception. Besides, China's economic reforms and thus its growth focused on the advanced countries for quite a long time, until very recently in fact. For its South Asian policy, China dealt with relevant parties mainly on a bilateral basis, through which it managed to keep its participation in South Asian affairs though not in a comprehensive way. By the same token, India, in the early 1990s, failed to take the lead in South Asian regional integration, and instead, turned eastward with what is known as the “Look-East Policy”. India seems to have believed in something ambitious and more important for a big power like itself.

India's policy of turning away from South Asian regional integration and looking toward Southeast Asia and even further to the Asia–Pacific region has produced some significant outcomes. First, SAARC, as a regional organization has moved slowly, because the biggest member state has not invested sufficiently in it. Secondly, compared to other member states, India's potential is huge and India has made full use of its advantages to achieve relatively fast growth with its interest in places other than South Asia. Thirdly, because of its fast growth, India's rise has drawn the world's attention, thus partially making its big-power dream come true. Fourthly, India's strategy seems to be to gain big-power status in the international arena, prior to settling its problems in South Asia; however, time could be up for India to do something substantial in the region. That might explain the then Indian Prime Minister Vajpayee's proposal for a free trade framework at the SAARC Islamabad Summit in 2004. India might be more confident in dealing with issues within the subcontinent.

These developments affect China's perception of SAARC. China certainly welcomes regional integration in South Asia, and SAARC's targets are not at all in conflict with China's South Asia policy. As the then Chinese Premier Zhu Rongji's visit to New Delhi in 2002 showed, China is determined to promote economic co-operation with its South Asian neighbours. Despite the continuing low level of trade between China and South Asian nations, as Mr Zhu argued, their economies are complementary. China clearly understands that there are political problems among South Asian nations that have delayed economic co-operation. Further, China does have difficulties with India, too. But China believes that economic co-operation may not require the prerequisite of addressing all the political problems first. On the contrary, economic partners, if established, can help remove political obstacles, or at least reduce distrust. In other words, the Chinese argument insists that problems that cannot be solved should not prevent developing normal state-to-state relations, in which economic exchanges and trade present a major part. Actually, this is not something new. In 1996, when Chinese President Jiang Zemin visited New Delhi and Islamabad, he made this point at his speech in the Pakistani Parliament.

Encouraged by the improvement of China–India relations since the beginning of the new century, especially the steady growth of bilateral trade, China has established a new perception of its ties with South Asian nations. First of all, China's fundamental aim in the region is to promote stability and peace and, therefore, China has to make efforts to be friendly and co-operative with all its South Asian neighbours. Secondly, in order to promote stability and peace, China should use its resources to produce positive impacts on relevant parties. Thirdly, given its historic experience, China should get involved in South Asian affairs, but not in the geopolitical sense. Instead, China should make full use of its economic advantages to develop economic co-operation with all the South Asian states. Fourthly, in implementing such policy, China sees both India and Pakistan as great partners, in a hope that the zero-sum mentality between the three parties would fade away, to be replaced by collaborative substance. In this context, China has paid much more attention to SAARC, seeing it as the most useful platform on which to develop economic co-operation and participate in South Asian affairs more positively. In fact, China tried to become part of SAARC in January 2005, when the first China–India strategic dialogue was conducted in Delhi, though it was not until later that year that it was accepted as observer at the Dhaka Summit.²

² Reportedly, Vice Foreign Minister Wu Dawei raised the issue with his counterpart, but India rejected it in the first round dialogue. Later, at the SAARC Dhaka Summit in November, India finally agreed with all

To sum up, China's view on SAARC follows up its South Asian policy, in which India has been a major issue. There is little doubt that India plays a decisive role in the development of SAARC. Unfortunately, in the past two decades, due to various reasons, India has not taken sufficient interest in promoting South Asian regional integration, which, in turn, reduced the possibility of China's active participation.

What are the issues ahead between China and SAARC?

Since China has already become observer to SAARC, it seems necessary to work out a framework to decide what issues should be on the agenda. From the Chinese perspective, SAARC is an organization for regional integration, focusing on economic co-operation. So far, there is no prospect that it might play a political and security role in maintaining regional stability like ASEAN, though, perhaps, China would like to see it as such in the future. Starting from this, China's relations with SAARC could concentrate on a few issues that are relevant to China's South Asia policy.

First of all, China's economic relations with SAARC states are still weak, and therefore, how to strengthen them will be a major issue, given China's observer status. In terms of trade, recent years have seen a boom in China's trade with all the major areas of South Asia, except perhaps with India, which has registered a relatively high growth over the last couple of years. In the coming years, expanding trade with SAARC states is likely to be China's major interest for two reasons. One is that China is already some sort of trading state, ranking as the third largest in the world. China does have lots of potential to promote trade with South Asian states. The other is that trade is the best means for China to participate further in South Asian affairs in the new era. Despite some concerns on the Indian side, that increasing trade between China and South Asia could undermine India's status, China believes that developing trade cannot be a zero-sum game. Besides, both China and South Asia are huge markets, and the potential needs exploring. So far, China's trade with India has been developing very well, and India enjoys a little surplus, but the other six

other member states that were in full favour of China's participation. In the meantime, Japan also became an observer, as strongly advocated by India.

states also have enormous potential. One of the problems is that they all suffer more trade deficits with China. In terms of trade, China needs to import more from South Asia.

Second, expanding investment in South Asian states should be a major priority for China's economic relations with SAARC. Due to rapid growth and a huge trade surplus over the last decade, China has already accumulated enormous capital, including that of the private sector, which is increasingly eager to look for investment opportunities, as is evident in the active purchase by Chinese companies overseas. Some recent developments provide strong reasons for Chinese companies to pay more attention to South Asia. One is SAARC's decision to establish a regional free trade framework in the years ahead. The investment environment is expected to improve in the process, and that would in turn provide good opportunities. In the past, Chinese-invested projects in South Asian states were mostly conducted by the governments. With the regional situation improving, South Asian states will increasingly show their comparative advantages, such as low labour costs and convenient access to the markets of the developed countries. This should be very attractive to Chinese companies. Another development is a shift of interest of major South Asian states to economic development and thus also to other regions, such as ASEAN, Central Asia, and Northeast Asia. As President Musharraf argued during his visit to Beijing in February, Pakistan has taken more interest in regional integration and can play a very important role in connecting West Asia, Central Asia, and East Asia as a useful corridor for both trade and energy transportation. His statement has drawn great attention from the Chinese media and business community alike. With further relaxation in the regional situation, it is believed that the prospect of Chinese investment in major South Asian states is promising.

Third, as observer, China should get involved in the SAARC process, but how deep it should be remains uncertain. On the other hand, SAARC itself does not have an institutional framework for observers. It should also be noted that India has already suggested the FTA initiative with China on a bilateral basis. The situation is positive, but it still requires China to look into its economic relations with South Asia in a comprehensive way. Comparatively, India does account for a significant part in South Asia, but there are other important states in SAARC. Chinese options could include devoting efforts to bilateral deals or trying to make multilateral arrangements within the SAARC framework. This is, however, not an already decided issue. In addition, it cannot be denied that India is likely to have suspicions about China's involvement in SAARC. In this context, China's behaviour in its relations with SAARC countries is likely to

be cautious in order to promote consensus within SAARC and to prevent unnecessary troubles.

Fourth, China's relations with SAARC are also part of Asia's regional integration. As both Japan and China become observers, by excluding any possible geopolitical elements, in purely economic terms, it reflects some sort of progress of pan-Asian regional integration just as India has quite actively participated in the East Asian regional organizations. Therefore, in the years ahead, in the SAARC framework, a new formula concerning big-power relations in Asia might come up. For China, it will be a new situation in South Asia, and how to develop consensus within the big powers could be a challenge to all the relevant parties. On the other hand, small states in SAARC are not likely to welcome the domination of big powers—it thus requires member states of the organization to make greater efforts within its internal mechanism, so that it will have a strong basis to deal with big powers from the outside. For this matter, China–SAARC relations could be a test, and China is expected to play a positive role by respecting opinions and by consulting with member states. It is important that any significant move should be based on consensus; otherwise, negative outcomes are likely.

Finally, it is time to examine SAARC's relations with other regional organizations in Asia, such as the Shanghai Co-operation Organization (SCO), ASEAN, and other multilateral institutions. In nearly all the Asian regional organizations, China is an important member or plays a significant role. Taking the SCO as an example, China took the initiative of founding it with other nations. With the progress the SCO has made over the years, its role and position in regional security, anti-terrorism, and economic co-operation has been enhanced. Last year saw another important event, when the SCO decided to accept Pakistan, India, and Iran as observers; the first two countries are the largest members of SAARC. Although the two organizations have distinctive functions in different geographical locations, member states in both share increasing common interests. Besides, it is also interesting to note that both the US and Japan have set up their embassies or consulates in Central Asia and established a South Asia Bureau, seeing the two regions as closely linked areas. In this context, China and Russia may need to consult with major states of SAARC, and further explore new possibilities. In doing this, perhaps one of the options is to consider some sort of linkage between SCO and SAARC, before seeking for enlargement of either.

China's role vis-a-vis SAARC

All these issues are relevant to China's role, which can be divided into two levels. One is what role China believes it should play, and the other is the role China's South Asian neighbours expect China to play. Both could be matched up, but not necessarily ensured.

From the Chinese point of view, its relations with SAARC are part of its South Asia policy. On the SAARC matter, China will naturally give more priority to economic aspects, and this is dictated by the nature of the Organization. In the meantime, looking into China's South Asia policy, one might conclude that China's goal, judging from its adjustment and corresponding approaches, is to maintain a balancing and stabilizing position for the ultimate purpose of peace and stability of the region. This approach means that China would like to develop multidimensional ties with all the South Asian states, China does not want to get involved in internal disputes in the region. Instead, China would want to do what it can to promote and support any approach that favours peace and stability. By the same token, China would oppose any approach that would destabilize the region. Does this also apply to China's policy on SAARC? The answer is yes. The only difference is that, for SAARC, China's emphasis is mostly on economic exchanges, which is much less likely to cause severe disputes than political and security issues. Therefore, China's role *vis-à-vis* SAARC should be of an active participant and useful promoter to serve its policy purpose as a stabilizer.

Another possible role is whether China can become a facilitator in SAARC's development of regional integration. This is being debated among Chinese scholars and also between SAARC member states, because China is not a South Asian state, and there are fears of the involvement of outside forces in the region. On the Chinese side, most people believe that, unless China is fully accepted and internal consensus is achieved on major issues, China should not get involved too much. The opposite opinion, however, is that, because of its economic advantages, China should do more to facilitate South Asian regional integration, which would benefit both sides. It is not a geopolitical game at all, nor is it the purpose of China to seek a dominating position in the region. The longer China waits, the less likely China will be to make full use of its economic advantages. At this point, the conclusion is that China should start FTA talks with South Asian states or with SAARC as early as possible. And of course, it is no less important that, in fact, India has already shown some interest in it, which implies that India might not oppose China's deep involvement in SAARC in economic terms.

Regarding China's role as expected by its South Asian neighbours, the situation is a little more complex: India is a typical example. On the one hand, India is increasingly seeing China's development as an opportunity, and the fast-growing trade between the two countries makes the Indian business community even more ambitious to enter the Chinese market and capital, etc. On the other hand, in political and security terms, Indian decision makers and academia alike are still uncertain about a more powerful China, and therefore, further and deep involvement of China in SAARC could be a concern for India. To make things more complex, as the most powerful member of SAARC, India does have problems with other member states, and even in economic terms, India's domination in SAARC might be a nightmare for other members. Given the still growing disparity between India and the other member states, the latter might have expectations that differ from those of India. The process of accepting China as an observer proves this point.

Despite the complexity, it is safely predicted that China's efforts to promote trade and economic exchanges will be welcomed. What China can do, in a large part, depends on its vision of SAARC, which is not a fixed, but changes according to the changes in the region. One may conclude, judging from recent developments, that the changes in South Asia are moving in a positive direction; so are China's relations with SAARC in the context of Asia's regional integration. Therefore, China is expected to increase its activities, the purpose of which is to promote economic exchanges on the basis of mutual benefit. In the final analysis, more trade and economic exchanges will make all the relevant parties stakeholders, which will in turn help calm troubled waters and maintain regional peace and stability. That is the ultimate goal of China's South Asia policy.

Question and Answer Session

Q: In relation to Pakistan–China economic relations, it was mentioned that Chinese goods have flooded Pakistani markets. Does the special relationship between the two countries prevent them from taking some preventive action against economically unsound policies? Also about SAARC, can the Chinese perception as a facilitator in the region bring some kind of confidence to smaller countries like Sri Lanka and Nepal?

A: As far as the flooding of the Pakistani markets is concerned, most of the goods come under unregistered trade. As far as the special

relationship is concerned, it does not bar countries from taking measures to protect their domestic industries. Also, the two countries have their own respective broader policies which are not affected by this relationship and neither bars other countries from improving relations with them.

Q: China has to be more active and more aggressive, be it with its relationship with NATO or the EU. China has a leading edge in ASEAN, in South-east Asia. But I feel that China is giving ground to outside forces in South Asia. China needs to take the initiative and be more dynamic.

A: It depends on how deeply China gets involved in SAARC and what kind of relationship it has with SAARC. The constrained relations between India and Pakistan are a major obstacle to development and progress in SAARC. Improved relations between Pakistan and China would greatly benefit SAARC. In fact, Chinese participation in SAARC would bring benefits to all parties.

A: China has been pursuing the policy of developing good relations with global powers, regional actors, and the former Soviet states. Now China's relationship with Pakistan has always been very close and India has worries about it due to its own increasing involvement in the region. So Pakistan–China relations have gained more importance against this backdrop. It is thus important to have friendly relations with all South Asian states as with all the ASEAN states. We have discussed the Japanese involvement and ambitions and the US involvement in the region at the ASEAN forum, but we would also like to move forward as a group, not as individual countries. China does understand the need to have a stronger working relationship with the regional countries, including India.

C: There is concern about the Indo–US nuclear deal. But the Chinese approach is totally different: whether you call it detached or cool. The Chinese do not react in the manner that South Asians do. But the very fact that they have been strengthening relations with Pakistan, and the very fact that they have been willing to work out many shortcomings of which we are aware in our own country, does tell us that the Chinese recognize the threat. But instead of going about it in an aggressive way, by condemning the Indians or the US, I do not think that this is the Chinese way of doing things. China is watching closely what is happening with the Indo–US deal, the fact that Japan is supporting the independence of Taiwan, the fact that the Pacific

command has been moved to Japan, the fact that the Australians are very much part of this containment policy. How they go about dealing with these issues might not be to the satisfaction of people like us. But the Chinese are wise people, people with 5000 years of history of dealing with the rest of the world; I do not think we need to worry. The Chinese can take care of these problems.

Q: Sir, my question is that the Indians have very good working relations with China and their business community is investing heavily in China. Unfortunately, Pakistan and China do not have extensive people-to-people contacts. We do not know about the Chinese culture or its business environment; we have to concentrate about maturing grass-root-level relations with China. There must be more frequent interaction between the intellectuals, scholars, and travellers across both the countries so that our relations can be strengthened. Thank you very much.

A: Certainly, there is a growing need to have frequent visits and interaction between the peoples of the two countries. This could be made possible by Chinese businessmen investing more in Pakistan and introducing more Chinese local products into the Pakistani markets, as they have access to the Gulf region and the ASEAN markets. Similarly, the private sector could contribute a great deal in cementing better economic relations between these two states. Also, there must be frequent interaction between the think tanks of both countries and we are working on furthering people-to-people contact. China certainly has given priority to its relationship with Pakistan. And in South Asia, China has a parallel relationship with both Pakistan and India and this is the change which took place after the regional dynamics changed. Secondly, China's co-operation with South Asia will expand with its observer status in SAARC. By doing so, China intends to develop a China–South Asia relationship, rather than a China–Pakistan or China–India relation. Pakistan now has improved relations with India and that is a good development in the South Asian context, where Pakistan has now observer status in SCO and China has same position in SAARC. But despite this changing regional environment, Pakistan and China will continue to enjoy healthy relationship.

Dr Shireen Mazari

Concluding remarks

It has been a most substantive and interesting dialogue on various aspects of Pakistan–China relations. Also, what has been interesting till the summing up and the discussion on SAARC is that, in the dialogue on Pakistan–China relations, India did not figure at all. I think this reflects Pakistan’s confidence in its relationship with China. We are not uneasy about the growing co-operation, primarily economic, between China and India. We see that as a stabilizing factor. If, for example, we had been discussing Pakistan–US relations, Indo–US relations would have played a major part in discussions. But the fact that we were discussing Pakistan and China and this relationship was not dependent on what was happening *vis-à-vis* the India–China relationship shows how substantive the growing Pakistan–China relationship is, which is independent of what happens with China’s relationship with other states.

The other point that was highlighted was that we need to devise substantive ways of furthering co-operation, instead of just talking in general terms. I think that this is important. In the changed environment, we need to find concrete ways in which to further this relationship in a new direction. That also means that we need to admit where we are lacking, especially in the economic sector. Here, Pakistan needs to do some serious introspection about how we can make ourselves more competitive, how we can gear our civil societies, especially the business sector, to look more towards China. And I hope that there will be a greater focus on the private sector interacting with China. Here, we can probably learn from the Indian example: how the Indian private sector has made tremendous inroads into China. I think that is why, when you go to Beijing, so much more is known about India in the younger generation than about Pakistan. We have rested too long on our historical linkages with China. There is a younger generation that is now coming up in China and they do not have the same linkage to the legacy of the Pakistan–China relationship as the older generation does. And that is the generation with which we need to interact a lot more and educate each other’s younger generations on the importance and history of our relations. I think that is a big vacuum, and that is where our focus should be now.

Also, it has been highlighted time and again in today’s discussions that, in the changed international scenario, there are commonalities of strategic and political interests that need to be highlighted. There is, of course, Pakistan’s and China’s continued commitment to multilateralism and to the UN, in the face of growing unilateralism on the part of the superpower. At a time when the superpower and its allies are quite prepared to act outside of the UN multilateral framework through this very dangerous notion of the coalition of the willing, it is very important for

Pakistan and China to see how they can reassert the primacy of the UN at the multilateral level of diplomacy and international action. Also, for both Pakistan and China at the military– strategic level, there is a need to discuss the new strategic situations that are being created; for example, the widening of the NATO agenda, which is now going to have an Asian operational milieu. But NATO only has European and Atlantic membership. So what is going to happen–Asian strategic issues are going to be decided by the European and Atlantic membership of the NATO? How is NATO going to configure with its expanded milieu, and what will be the response from countries like Pakistan and China? So these are a number of issues. At the end of the day, we also need to interact more with each other’s civil societies, the ISSI, as a think tank, is very committed to interaction with our counterparts in China. But much more needs to be done beyond the think tank interaction at the level of civil society, and also at the historical and cultural level. We need to educate ourselves much more about China’s history, and China’s culture because that would make life much easier for us when we are interacting with different generations in China.

I would like to thank everybody, especially our guests from China.