

Energy cooperation and regional order in the Belt and Road Initiative: A case study of China's investment in the China-Pakistan Economic Corridor

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Introduction

In 2015, China proposed a grand development framework, the Belt and Road Initiative (BRI), to revive the ancient Silk Road. Emphasising 'mutual trust, equality, inclusiveness and mutual learning, and win-win cooperation', the BRI strengthens the connection among Eurasian countries in five areas: infrastructure, policy, finance, trade and culture.¹ The initiative consists of the land-based Silk Road Economic Belt and the ocean-based New Maritime Silk Road, encompassing six economic zones across Eurasia. In the same year, China launched the China–Pakistan Economic Corridor (CPEC), an economic and transport corridor project stretching from the Gwadar Port in southern Pakistan to Xinjiang in Western China, creating investment projects throughout Pakistan. Since the 'top strategic priority' of the BRI is China's neighbourhood, the CPEC is one of the key land-based components of the BRI.²

Cooperation to transport and trade using sea-lanes is one of the key aspects of the BRI, and energy and logistics projects are important for CPEC. Chinese energy investment in the CPEC will promote projects such as development of transnational infrastructure, logistic hubs, resource trade and a regional energy market through the BRI. Other than trade infrastructure, energy projects usually involve logistics and transportation infrastructures, such as ports, which are important ways for China to achieve the ambitious goals of the BRI.³ New ports could launch new oil and gas shipping routes as well as boost the development of infrastructure, new energy markets and economic zones, enhancing connectivity across Asia. Due to its strategic location, Gwadar Port will be a hub of economic, industrial and shipping activities for the BRI. Through a case study of the CPEC, this paper argues that while the development of ports for energy trade under the BRI will enhance connectivity within Eurasia, it will also reshape the geopolitical and geo-economic landscape in Eurasia.

Gwadar Port: An investment in energy and ports in the CPEC

The BRI proposes to improve the region's infrastructure, ensure an efficient network of land, sea and air passages, facilitate trade and investment, establish a network of free trade areas and deepen political trust. On land, the BRI makes use of economic industrial parks as cooperation platforms linking core cities together. At sea, the BRI focuses on 'building smooth, secure and efficient transport routes connecting major sea ports along the

¹ PRC NDRC, MFA and MOC. (2015). *Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road* [Online]. Available from: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

² Chen, D. (2015). China aims to set the regional cooperation agenda. Unpublished presentation at *East-Asia Forum*, 27 July 2015; Escobar, P. (2015). *The Eurasian big bang: How China and Russia are carving out their own world order* [Online]. Available from: www.energypost.eu [Accessed 25 August 2017].

³ PRC NDRC, MFA and MOC. (2015). *Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road* [Online]. Available from: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

Initiative. Due to its geographical location, the CPEC plays an important role in enhancing connectivity as part of the BRI.

Pakistani Prime Minister Nawaz Sharif stated that, while the CPEC ‘will benefit all provinces and areas in Pakistan, and transform our country into a regional hub and pivot for commerce and investment’, it ‘will also enable China to create a shorter and cheaper route for trade and investment in the Middle East and Africa’.⁴ The CPEC, which connects Xinjiang and Indian Sea, is closely related to the BRI and therefore requires close cooperation between Pakistan and China.

Like the BRI, the goal of the CPEC is to enhance economic integration and transportation networks. The strategic importance of energy and port investments as part of the CPEC is addressed in the official Chinese document about the BRI, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (hereafter, *Vision and Actions on Energy Cooperation*). It is also addressed in the *13th Five-Year Plan for Economic and Social Development*, published by the Chinese government in 2016, which states that the BRI ‘will strengthen the development of ports of entry and infrastructure in both inland and border regions and create cross-border multimodal transport corridors’ and ‘will strengthen international cooperation on energy and resources and production chains, and increase local processing and conversion’.⁵ According to *Vision and Actions on Energy Cooperation*, which was jointly published by China’s NDRC and NEA, energy cooperation within the CPEC is expected to:

1. Promote energy cooperation for an open, inclusive and beneficial community of shared interests and responsibilities;
2. Improve regional energy safety and optimise the distribution of energy resources;
3. Integrate regional energy markets and
4. Advance green and low-carbon development.

Investment in ports also plays a strategic role in the CPEC. According to *Vision and Actions on Energy Cooperation*, such investment, especially in the Gwadar Port, is expected to:

1. Promote construction of port infrastructure;
2. Build smooth land–water transportation channels;
3. Advance cooperation among ports;
4. Increase the number of sea routes and voyages and
5. Enhance information technology cooperation regarding maritime logistics.

Although energy and ports are categorised in different sectors, they are connected in investment packages; energy investment involves not only exploration, production and trade of energy but also transport and delivery of energy resources. Since upstream

⁴ Haider, M. and Haider, I. (2015). *Economic corridor in focus as Pakistan, China, sign 51 MoUs* [Online]. Available from: <https://www.dawn.com/news/1177109/chinese-presidents-visit-to-usher-in-new-era-of-development-pm>.

⁵ PRC NDRC. (2016). *The 13th five-year plan for economic and social development of the People’s Republic of China (2016-2020)*. Central Compilation & Translation Press.

resources in BRI countries are normally distributed in remote regions far from downstream urban areas, energy projects often require development of logistics and transportation infrastructure, including ports, roads, pipelines and transmission grids. Gwadar Port in the CPEC, which connects China with the Arabian Sea and enables the transportation of energy resources such as oil and gas is a good example of an investment incorporating both energy trade and logistics infrastructure.

The *Long-term Plan on China–Pakistan Economic Corridor* is a blueprint drafted by the Chinese government to identify the principles and intentions of the CPEC.⁶ Prioritising infrastructure, the CPEC involves investments in ports, airports, gas pipelines and railways, and it promotes cooperation among the energy, transportation, agriculture and textiles industries and others. The plan also calls for building infrastructure and improving policy to open up the domestic market for foreign investment. A key component of the plan is the creation of industrial parks and special economic zones with well-constructed infrastructure, a sufficient supply of energy and a transmission network. The plan divides Pakistan into three zones—central, western and southern—with specific industries.⁷ Due to the proximity of its ports, the southern zone is recommended for development of harbours and petrochemical, iron, steel and machinery industries. In particular, Gwadar Port is highlighted as a way to connect Baluchistan and the Middle East via sea routes for energy trade and transit. Due to its strategic location, the town of Gwadar will be a hub of energy, economic, industrial and shipping activities.

Energy cooperation in BRI and CPEC

The importance of energy cooperation is repeatedly highlighted in Chinese official documents that have addressed the BRI since the announcement of the Initiative in 2015. It was first mentioned in the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (hereafter Vision and Actions), which identify energy cooperation as an important aspect of achieving the goals of the BRI.⁸ The 13th Five-Year Plan for Economic and Social Development, published in 2016, addresses the role of international energy cooperation in the BRI economic corridors and states that China ‘will strengthen international cooperation on energy and resources and production chains, and increase local processing and conversion’.⁹ In the same year, the 13th Five-Year Plan for Energy Development further confirmed the importance of energy cooperation to the BRI and pointed out that, through energy projects of the BRI, China will enhance the connectivity of energy infrastructure in Eurasia and its participation in global energy governance. In 2017, the Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (hereafter Vision and Actions on Energy Cooperation) laid out the scope and principles of energy cooperation, emphasising the integration of regional markets and the promotion of a universal, rules-based, open,

⁶ PRC NDRC and CDB. (2015). *Long-term plan on China–Pakistan Economic Corridor*.

⁷ The central zone is most suitable for the textile, household appliance and cement industries. The western zone is best for mineral extraction, including chrome ore, gold and diamonds.

⁸ PRC NDRC. (2016). *The 13th five-year plan for economic and social development of the People’s Republic of China (2016-2020)*. Central Compilation & Translation Press.

⁹ Ibid.

non-discriminatory and equitable multilateral trading system.¹⁰ The Chinese government stated that China was looking for ‘a more open and efficient international cooperation platform; a closer, stronger partnership network; and to push for a more just, reasonable and balanced international governance system’. (Tian 2017)

In general, energy cooperation within the CPEC is aligned with the overall vision of the BRI. Firstly, the BRI focusses on improving infrastructural connections while identifying the massive demand for infrastructure in Eurasia. Energy projects in CPEC, especially those involving investment in transnational infrastructure such as pipelines, transmission grids, and logistics facilities, are a promising means for achieving interconnectivity among multiple countries.¹¹ Secondly, the BRI attempts to create an integrated industrial value chain of energy through the deep integration of markets, resource allocation, technology cooperation, and engineering services in various energy sectors.¹² Industrial parks and special economic zones in CPEC could serve the above purpose. Thirdly, there are a number of transnational energy projects, such as potential pipelines and grids, along the CPEC that connect multiple regions together, enhancing the connectivity in BRI. Finally, the BRI seeks to create an ‘industry plus finance’ cooperation pattern in which financial institutions will play a key role.¹³ These financial institutions¹⁴ have long experience in working with foreign governments and companies in South Asia and in providing loans to transnational projects to promote multilateral cooperation.¹⁵

Alternative energy trade route

From a geo-political and geo-economic perspective, the importance of Gwadar Port in the BRI is linked to energy trade and transport. Pakistan links surrounding regions in East Asia, Central Asia and the Middle East with land routes and sea-lanes. Such geography allows Gwadar Port to act as a hub for trade in the BRI. Pervez Musharraf, the former President of Pakistan, once stated that ‘Pakistan provides the natural link between the Shanghai Cooperation Organization (SCO) states to connect the Eurasian heartland with the Arabian Sea and South Asia ...We offer the critical overland routes and connectivity for mutually beneficial trade and energy transactions intra-regionally and inter regionally’.¹⁶

¹⁰ PRC NDRC, MFA and MOC. (2015). *Vision and actions on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road* [Online]. Available from: http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

¹¹ PRC NDRC and NEA. (2017). *Vision and actions on energy cooperation in jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road* [Online]. Available from: http://www.nea.gov.cn/2017-05/12/c_136277478.htm.

¹² Ibid.

¹³ Ibid.

¹⁴ For example, the China Development Bank (CDB), the Agricultural Development Bank, the Export-Import Bank of China, and newly established institutes such as the Asia Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF).

¹⁵ Provaggi, A. (2013). *China Development Bank's financing mechanisms: focus on foreign investments*. Global Projects Center, Stanford University;

¹⁶ Musharraf, P. (2006). *Musharraf's address at SCO Summit held at Shanghai, China* [Online]. Available from: <https://presidentmusharraf.wordpress.com/2006/07/07/sco-statessummit-2006/>

The BRI prioritises connectivity among countries and regions, and hence Gwadar Port is significant. The location of Gwadar port is proximate to the Gulf region, which has rich oil and gas reserves. Connecting the Arabian Sea to the Eurasian heartland, the port could serve as a transit point for alternative routes between China, Afghanistan, Central Asia and Middle Eastern countries. Importing oil from the Middle East to China through the Indian Sea requires over 5,000 km of travel, but Gwadar Port is just 2,500 km from Xinjiang. Therefore, through the BRI, China wants to connect Xinjiang to Gwadar Port, which will be used as a transit point for China's interior regions and as a trade hub between China and rest of the world.

The Indian Ocean region is considered to be one of the most important trade and energy corridors on the sea connecting Eastern and Western energy networks. Sea-lanes in this region account for almost 80 per cent of the total traffic of oil products.¹⁷ Energy supplies for developed and developing Asian countries are routed through this region.¹⁸ In addition, narrow chokepoints in the sea-lane through which high volumes of oil are routed, such as the Strait of Hormuz and the Strait of Malacca, are vulnerable to disruption.¹⁹ In fact, shipments in the Indian Ocean region, especially in the Strait of Malacca, are one of China's top security concerns because of the high volume of imported oil routed in that region.²⁰ Any disruption in east-west energy shipping lanes would have severe political and economic consequences worldwide. The global oil and gas market rely heavily on reliable supply, and any blockage or accident in the supply chain can lead to fluctuation in energy prices. Chinese investment in Gwadar Port is considered a possible option to 'diversify energy supply away from the chokepoint of the Strait of Malacca and vulnerable shipping lanes through the disputed South China Sea'.²¹

Infrastructure network

The BRI identifies the huge demand for energy and logistic infrastructure in CPEC, and thus energy generation and transmission infrastructures are CPEC priorities.²² Regions in the CPEC are unevenly developed, with backward energy and logistic infrastructures. For instance, the southern part of the CPEC is still undergoing urbanisation and industrialisation, so its power facilities are old or overloaded. These areas require investment in new and upgraded infrastructures. In addition, since the use of renewable energy is relatively low in the regions involved in the BRI, there is a need for renewable power infrastructure. To meet its energy needs, Pakistan must rely on imported oil and gas. However, it does not have a sufficient supply because of high prices and limited domestic reserves. Therefore, the country often faces serious power shortages and outages in cities, especially during the

¹⁷ Cordner, L. (2011). Progressing maritime security cooperation in the Indian Ocean. *US Naval War College Review*, 64(4).

¹⁸ Das, P. (2009). Coastal and maritime security: Two sides of the same coin. *Indian Defence Review*, 24(1).

¹⁹ Ho, J. (2011). *Critical sea lanes in the Indian Ocean region in Policy paper the S. Rajaratnam School of International Studies (RSIS)*. Singapore: Nanyang Technological University (NTU).

²⁰ Bateman, S., Chan, J. and Graham, E. (2011). *Conclusion and recommendations in Policy paper the S. Rajaratnam School of International Studies (RSIS)*. Singapore: Nanyang Technological University (NTU).

²¹ Hornby, L. (2017). China and Myanmar open long-delayed oil pipeline. *Financial Times*, 11 April.

²² Pakistan-China Institute. (2017). *Energy projects: China-Pakistan Economic Corridor* [Online] Available from: <http://www.cpecinfo.com/energy-generation> [Accessed 27 October 2017].

summer, when the power demand is higher than at other times in the year. To solve this problem, Pakistan has become interested in tapping into its coal reserves and renewable energy sources. Chinese investors, who are interested in investing in overseas coal and renewable energy, could fill in the gap.²³ The development of Gwadar Port is not about building energy facilities, but about its logistic role in connecting energy facilities in different regions.

Value chain integration

The BRI attempts to ‘increase cooperation in the exploration and development of coal, oil, gas, metal minerals and other conventional energy sources’ and ‘promote cooperation in the processing and conversion of energy and resources at or near places where they are exploited’.²⁴ Logistic hubs like the Gwadar Port can connect the energy production line and value chain. Due to the scale of China’s investments, energy cooperation in the CPEC could require a network of infrastructure for value chain integration in Pakistan. Certain regions in Gwadar are recommended for development of ‘a base of heavy and chemical industries, such as iron, steel and petrochemical’.²⁵ The Gwadar region will be an economic hub of shipping, commercial and industrial activities. One of the BRI’s objectives is to integrate the regional energy industry’s value chain with the creation of markets, efficient allocation of resources and technological cooperation.

Value chain integration could reduce the risks of import and insufficient diversification of supply. Insufficient logistic connection between energy networks will result in a fragmented value chain, reducing regional energy safety and hindering the distribution of energy resources. Projects like Gwadar Port will be launched to reduce the isolation of remote regions and enhance their flexibility in the market. Due to Gwadar’s advantageous geographical location and the low cost of shipping oil from the Middle East, Chinese investors have started to invest in construction of infrastructure in the region. The Gwadar Port can also act as a transit point for other energy resources, such as minerals from Africa, connecting them to the local market and production line. An integrated energy value chain and logistic system are vital for ensuring the competitiveness of the market, optimal utilisation of infrastructure and optimal distribution of energy resources. As a way to attract more enterprises to invest in Gwadar’s industrial parks and infrastructures, both BRI and CPEC claimed to preferential policies, especially in areas of land, tax, tariff, customs clearance logistics and services.

New energy order in Asia?

Similar to the EU or the US, China show a clear interest in connectivity in Asia; China proposed to enhance connectivity via the BRI, and the EU and the US addressed the same

²³ Forsythe, M. (2017). China aims to spend at least \$360 billion on renewable energy by 2020. *New York Times*, 5 January.

²⁴ PRC NDRC and NEA. (2017). *Vision and actions on energy cooperation in jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road* [Online]. Available from: http://www.nea.gov.cn/2017-05/12/c_136277478.htm.

²⁵ PRC NDRC and CDB. (2015). *Long-term plan on China–Pakistan Economic Corridor*.

issue in their strategy towards Asia. Both powers also seek to improve economic development and stability in the region. Further, they share similar objectives: integrating supply chains, optimising resource distribution and promoting port cooperation and regional stability by creating energy and logistic networks. Yet, the plan of the EU and the US have faced many challenges in terms of political and investment risks and financial challenges in South Asian regions. Comparatively, with China's financial advantage, the CPEC is better positioned in the region. In the long run, due to Gwadar's strategic location, the CPEC will use the energy and logistic network in Asia to promote integrated and multilateral engagement.

Strong financial capacity of CPEC

The CPEC is accomplishing the EU's goals of enhancing peace and development via regional governance in South Asia²⁶ but with stronger financial capacity. CPEC encourage public-private partnership (PPP) and involvement of private companies. In the energy and logistics sector, a PPP model is feasible for transferring risks to social capital with a division of labour in which the government offers political support for the project and the private sector takes care of project construction and operation. The CPEC incorporates Chinese overseas investment with 'a broader Chinese national strategy aimed at forging tighter economic links between China and the rest of Eurasia'.²⁷ The Chinese government states that the BRI 'will enhance the involvement of financial institutions in the lifecycle of energy cooperation projects to create [a] sound energy "industry plus finance" cooperation pattern'. Chinese financial institutions, such as the Asia Infrastructure Investment Bank (AIIB), Silk Road Fund (SRF), China Development Bank (CDB), Agricultural Development Bank and Export-Import Bank of China, are the major financial drivers of the BRI, combining commercial activities and development plans in the region. Through partnerships with foreign governments and companies, these financial institutions have financed a wide range of infrastructure projects overseas with three mechanisms, including the following:

1. Loans to Chinese companies,
2. Loans to foreign energy companies and government entities and
3. Equity funds.²⁸

However, there are uncertainties about the long-term viability of CPEC. Many economists have expressed their concern over the lack of transparency and accountability of the CPEC. Some economists in the region even questioned the negative impact of CPEC on Pakistan, such as sovereignty and job opportunities for locals.²⁹ CPEC is considered to be shoring up Chinese industries, which face excess capacity, instead of contributing to Pakistan industries. Akbar Zaidi argued that the economic transformation of CPEC would come at a very high

²⁶ EEEAS (2016) Shared Vision, Common Action: A Stronger Europe - A Global Strategy for the European Union's Foreign And Security Policy.

²⁷ Downs, E. (2015). Mission mostly accomplished: China's energy trade and investment along the Silk Road Economic Belt, *China Brief*, 15(6).

²⁸ Provaggi, A. (2013). *China Development Bank's financing mechanisms: focus on foreign investments*. Global Projects Center, Stanford University;

²⁹ Venkatachalam, K.S. (2017) "Can Pakistan Afford CPEC?", *The Diplomat*, 16 June 2017 [Online] Available from <https://thediplomat.com/2017/06/can-pakistan-afford-cpec/> [Accessed 27 October 2017]

price.³⁰ The International Monetary Fund also questioned the fiscal impact of CPEC that although there will be a surge in FDI in the early stage of the CPEC, deficit would widen in the long run.³¹ China has assured Pakistan that the cost would be covered by CPEC in the long run once it becomes operational but no guarantee is given.³² Besides, investment risks, such as country risks and decreasing credit ratings, especially in peripheral regions, could be also concerns for investors.

Seeking regional stability in South Asia

In the BRI, utilising Gwadar Port and the CPEC to import energy from the Middle East is not merely about securing an energy supply; they enable diversification of transportation routes and, more importantly, the creation of a new trade and transport route of energy, which could create a new infrastructure network that works with regional markets and development. Sufficient interconnection of infrastructure, especially in remote regions, could stimulate economic growth and development, not only benefitting energy supply and transport in the region but also contributing to the creation and development of markets in regions from southern Pakistan to Central Asia.

The anticipated economic development and integration is important in the BRI as it addresses a wide range of challenges China is facing, including decreased economic growth, domestic overcapacity and overproduction, backward development in western China and political and security instability in neighbourhood regions of China.³³ Beijing considered economic slowdown in neighbourhood regions, especially Central and South Asia, would result in social and security instability, which could further decrease the political stability of Chinese provinces that are proximate to these regions, such as Xinjiang. Security issues like terrorism, separatism and extremism in these regions are one of Beijing's top concerns. Development opportunities produced by the CPEC and new transport route via Gwadar Port is expected to stabilise the region.

A new geopolitical landscape driven by the development in Gwadar

With the \$62 billion CPEC plan, the BRI allows China to solidify its geo-political standing.³⁴ Investment in Gwadar Port presents a new opportunity for China to avoid reliance on the vulnerable sea-lane passing through the South China Sea and Strait of Malacca. A new supply energy trade route in the CPEC also represents an opportunity for developing a new energy value chain that Western companies might find risky, allowing China to take the

³⁰ Zaidi, Akbar (2017) "After OBOR gets ready, Pakistan will become China's colony", The Economic Times, 12 June 2017. Available at <https://economictimes.indiatimes.com/news/defence/after-obor-gets-ready-pakistan-will-become-chinas-colony-s-akbar-zaidi/articleshow/59100114.cms>

³¹ Husain, Khurram (2016) IMF warns of looming CPEC bill, IMF

³² Venkatachalam, K.S. (2017) "Can Pakistan Afford CPEC?", The Diplomat, 16 June 2017 [Online] Available from <https://thediplomat.com/2017/06/can-pakistan-afford-cpec/> [Accessed 27 October 2017]

³³ Hornby, L. (2016). China seeks foreign investors for one belt, one road push. *Financial Times*, 25 May; Pavličević, D. (2015). China, the EU and one belt, one road strategy. *China Brief*, 15(15) [Online] Available from: http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=44235&cHash=9dbc08472c19ecd691307c4c1905eb0c#V9-58CTuCXs.

³⁴ FT. (2018). China's reputation as development financier on the line. *Financial Times*, 19 Sep.

lead. Chinese investors are in a good position to make deals with strategic interest. Ahsan Iqbal, Minister of Planning of Pakistan, stated that ‘China took a bet on Pakistan’ when ‘others were just looking at the political risk’.³⁵

Highlighting connectivity, energy and port investment in the BRI will turn Chinese overseas investment into a more integrated, multilateral engagement strategy. Chinese Foreign Minister Wang Yi stated that China was looking to develop ‘a more open and efficient international cooperation platform; a closer, stronger partnership network; and to push for a more just, reasonable and balanced international governance system’.³⁶ Huge-scale projects and investment in the BRI can help China expand its regional influence and increase the region’s economic reliance on China.³⁷ This will facilitate the creation of a new framework, new standard and new norms for cultivating a harmonious environment for China’s rise.

Rule of law and regional governance: Cooperation or divergence

The idea of utilising Gwadar Port to connect the value chains in surrounding regions will involve multiple countries and require multilateral investment protection. Whilst the BRI presents clear opportunities for private Chinese companies in the CPEC, the road will likely be bumpy; the South Asian region is associated with various operational and investment risks, and these risks as well as potential political, economic and social risks militate against careful planning by CPEC investors. It is necessary to create a web of investment treaty protections in order to reduce the risks involved in investment.

Most of the countries involved in the BRI—European and Central Asian countries—are full members of the Energy Charter Treaty.³⁸ China and Pakistan were granted ‘observer’ status at the Energy Charter Conference. Full membership in the ECT could further protect Chinese trade, investment and transportation of energy resources through the CPEC. Although

³⁵ Mangi, Faseeh (2016) “China’s New Silk Road Hinges on a Small Pakistan Port”, Bloomberg, 30 September 2016 [online] Available from <https://www.bloomberg.com/news/articles/2016-09-29/china-s-new-silk-road-hinges-on-a-small-pakistan-port> [Accessed 27 October 2017]

³⁶ Tian, S. (2017). China focus: What to expect from Belt and Road Forum. *Xinhua News*, 1 May. [Online] Available from: http://news.xinhuanet.com/english/2017-05/01/c_136248648.htm [Accessed 27 December 2017].

³⁷ Glaser, B. S. (2014). China’s grand strategy in Asia. Statement before the U.S.-China Economic and Security Review Commission, 13 March.

³⁸ Energy Charter Treaty is a multilateral version of bilateral investment treaty, which was signed in 1994 to provide comprehensive protection of energy investments and reduce commercial risks associated with international energy cooperation (Europa 2007). The ECT includes common protection provisions regarding competition, transparency, sovereignty, taxation and the environment, protecting energy investments and ensuring equality in energy trade, national treatment, compliance with international law, fulfilment of obligations and a mechanism for settling disputes. The ECT was originally a political initiative launched by Energy Charter in the early 1990s to overcome the economic division between European countries and post-Soviet countries. Today, the treaty has extended beyond Eurasia to promote energy cooperation with emerging countries like China and Pakistan. Currently, its members are primarily Eurasian and MENA countries within the geographical scope of the BRI.

cooperation between Energy Charter parties and China has been fairly stable and mutually beneficial, Chinese authorities are still hesitant to join the European institution.

While Chinese authorities consider bilateral strategies to be efficient and flexible, they lack trust in existing international energy organizations that are usually led by non-allies. First, when fewer parties are involved, coordination costs are lower and clarity of interest is easier to attain. Second, different regions have different histories, cultures, domestic politics and levels of economic development, which a bilateral approach could address more directly.³⁹ Third, Chinese authorities have hesitated about joining international energy organisations such as the IEA or ECT to avoid legal obligation. Fourth, if a multilateral institution is needed, Beijing would choose to develop one its own way instead of following Western rules.

Conclusion

This paper analyses investment in energy and ports through the BRI, especially investment in Gwadar Port, which is part of the CPEC. Due to its strategic location, the development of Gwadar Port will create a new transportation line for Chinese energy trade and a new value chain. It will also promote regional economic cooperation and integration among the surrounding regions. In the long run, this could contribute to regional security in South and Central Asia, which is necessary for China to maintain political stability in regions on the border. China's investments in ports and energy in the CPEC, particularly the development of Gwadar Port, under the BRI will reroute the energy supply chain and increase the region's economic reliance on China. Such an investment indicates China's intention to develop a new framework with new methods of resource distribution, value chain integration, logistic network development and regional governance in order to increase its importance. In the long run, instead of incorporating itself into the existing energy system, through the BRI China can demonstrate its economic progress and export its standards for future investment and trade. While the development of ports for energy trade under the BRI will enhance connectivity within Eurasia, it will also reshape the geopolitical and geo-economic landscape in Eurasia.

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³⁹ Heppell, J. M. (1997). Confidence-building measures: Bilateral versus multilateral approaches. In Kihl, Y. W. and Hayes, P. eds. *Peace and Security in Northeast Asia - The Nuclear Issue and the Korean Peninsula*. Armonk, New York: M.E. Sharpe, p. 270.

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