

TALLINN UNIVERSITY OF TECHNOLOGY

School of Business and Governance

Department of Law

Sohaib Tahir Mir

**ECONOMIC RELATIONS BETWEEN CHINA AND PAKISTAN IN  
THE LAST DECADE AND ITS IMPACT ON US-PAKISTAN  
BILATERAL RELATIONS**

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Supervisor: Holger Mölder, PhD

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Sohaib Tahir Mir .....

(signature, date)

Student code: 177194TASM

Student e-mail address: sohaib\_mir@hotmail.com

Supervisor: Holger Mölder, PhD:

The paper conforms to requirements in force

.....

(signature, date)

Chairman of the Defence Committee:

Permitted to the defence

.....

(name, signature, date)

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## **ABSTRACT**

Pakistan and China have always enjoyed a cordial and multidimensional relationship right from the start of their inception. This is given further boost since the 2013 when Pakistan and China started working on the China-Pakistan Economic Corridor(CPEC) which is a part of the wider Belt and Road Initiative(BRI) by China to enhance its role in the global trade and commerce. These developments have an impact on the traditional role the US played in the region and well as in Pakistan. The trilateral relationship of Pakistan, China and the US is examined through the “balance of power” theories as well as economic data is analyzed to see the impact on the relationship. The resultant outcome is that the fundamentals of the relationship are the same but there are definite toning down in the relationship between Pakistan and US on the expanse of the rising Pakistan-China partnership.

**Keywords:** *CPEC, BRI, China-Pakistan, Pakistan-US, Bilateral Trade, FDI*

## INTRODUCTION

The presence of China has increased in Pakistan in the last few years. This has coincided with the rapid growth of Chinese economic and military might in the last three decades. Since the emergence of China as an economic powerhouse it has been constantly trying to increase its foothold around the world. From Africa to Europe, China tries to expand its economic and trade relations further. One such component of the rising ambition is the revival of the old silk route dubbed as the Belt and Road Initiative (BRI) which aims to connect the western part of China to Central Asia and further on with Europe. The project is closely associated with Pakistan through the China-Pakistan Economic Corridor. (CPEC).

The trends of increasing Pakistan-China economic relations create a challenge for the US which is now being challenged by China for the global economic supremacy. In 2007, the US was the largest trading partner of Pakistan with trade between the two countries at \$5.5 billion. It reached with a meager progression of \$6.4 billion in 2017. ( U.S.-Pakistan Trade Facts) At the same time in 2007 the trade volume between China and Pakistan stood at \$4.7 billion. (AbdulHaq) It continued to grow between the two countries and reached an all-time high of \$16 billion in 2017. (Nation, 2015) Much debate has been growing on in the country regarding increased economic cooperation between the two countries and whether it's useful for Pakistan in the long run or will it pile the country with debt which it can't pay in the long term and also if it will have implications for the existing bilateral relations with US as it too has significant interests in the region.

This thesis aims to assess the changing dynamics of the Pakistan's relationship between its longstanding ally US and its new emerging strategic partner China and how this new tilt towards China would impact its existing bilateral relations with the US. This is important in the sense that regional dynamics are changing and with it the longstanding relationships between the countries and these would have an profound effect on the outlook of the region. The topic is important because of the fact that there is now a shift of power towards the Asia with the rise of China and a resurgent Russia. The American dominance is weakening in the face of a more confident Russia and the rising economic power of China. These developments are changing the dynamics away from the tradition western hemisphere towards east. This coupled with the Chinese ambitions of domination of the world trade with ambitious projects like the BRI are making these developments important in the

realm of the International Relations which would have in impact in the next five decades. The research problem would be connected with the enhanced relations between Pakistan and China in the last decade and the impact it would have on the decades old relationship with the US. With this the whole dynamics of the power play in the region will change as on the one hand the rising China is asserting itself as a new world player and on the other hand the power of the US is waning to a certain level. This is making the shift more visible in Pakistan as China which is initiating new project of BRI has its flagship project i.e. CPEC which is connecting the western underdeveloped part of China to Pakistan and also giving access to the vital middle eastern oil rich trade routes. This whole scenario is a good example of the way different world powers rely on the balance of power theories in the IR to keep their hold on power and make a delicate balance.

For this purpose the research questions have been selected in a way as to explore the nature of the problem and find the resultant conclusions from the questions would be made. The paper establishes the following research questions:

#### Primary Research Question

To what extent would the increased cooperation between China and Pakistan impact the existing Pak-US relations?

To address the primary research question, it is important to find answers for supporting research questions:

1. What are the China's interests in Pakistan?
2. What is the US relationship to Pakistan?

China's bilateral relations with the rest of the countries in the region including Pakistan have been increasing in the last 10 years. This comes with the rising profile of the Chinese economy on the world scale and with it its influence. Having seen the proliferation of the Chinese projects and

investments in Pakistan, the question becomes: is the increase in the relations between China and Pakistan would have likely impact on the existing bilateral relations between Pakistan and US who also have interests in the region that impact the economic and investment sectors. If China has increased the investments in which US is also directly or indirectly involved, then how would Pakistan interact with China to have a more effective interaction with China without straining its existing bilateral relations with the US.

The thesis will examine the change in the relationship between the two countries since the last decade, important in that is also the CPEC component which has redefined its relations with Pakistan and will examine its impact on existing US-Pakistan relations and recommend measures benefit that will benefit its relations with the US. The project also tends to reexamines the relationship between China and Pakistan as China in the past used to deal with Pakistan favorably but in a limited way mostly through military assistance.

With the increasing transformation of the world stage and with the rise of China and the emergence of a multi polar world, China is increasing its global footprint with its economic as well as military clout. China is also in the same way on a push to cement its relations with its neighbor, including its longtime partner Pakistan. This has put the transformation of the geo-politics of the region with the two super powers are in the center of it and both are trying to weigh in the control of the region through their strategic partners with India-US also coming together on a strategic level.

A wide variety of literature is available on the Pakistan and China and their historical relationship. This literature review will focus on the recent surge of economic relations between Pakistan and China. It will also focus on the impact on the relations Pakistan has with its long term partner in the region, the US. Therefore the author would start with reviewing the official documents and then from various books and research papers. Because this is a current affairs topic no book has been written on this particular topic, but the author reviewed the book by Andrew Small's "*China-Pakistan Axis*" which addressed the general overview of the relationship between the two countries but besides that the author found countless journals about the BRI and CPEC initiative and its impact on the region and well as the US interests. Also there are many news sources which explore the topic from the Western or Indian perspective regarding the relationship between Pakistan and China and its implications for the rest of the countries in the region which have been reviewed.

The author will use the descriptive method of study to assess the trilateral relationship of Pakistan, China and US. The use of the descriptive method as it is used to observe and collect the data based on the environment and to obtain the current status of the phenomena with respect to the variables in the given condition. It also describes the given situation and the relationship of it with the variables and to find the change in the last decade. There are also different kinds of descriptive methods of research from which author would use the case-study method as it is the study of the trilateral relationship of the three countries and this method perfectly is suited to that. Primary sources have been used for the data related to the trade and economic indicators from the government sources mostly. But for the majority of the research the author had to rely on the secondary sources because of the nature of the topic is current affairs and the situation is still unfolding. These include the research papers, journals and news articles - they are analyzed for this purpose. The level of the relationship is assessed through the economic relationship of the three countries through the trade data, military, economic assistance, investments through the lens of Pakistan.

The first chapter introduces the reader to the theory of the balance of power. There with we would explore the trilateral relationship of these countries with the help of the balance of power theory and to help understand the triangle and its background, but also the role of the Pakistan in it and how it is trying to manage the relationship with two superpowers.

In the second chapter examination of the strategic goals of different players is done through the literature review. In this chapter author also analyzed the literature which has been done before on this topic. Literature is selected after careful review regarding its importance and relevance to the research questions of this thesis. The relationship is reviewed also from a wide variety of sources so that there is an objective analysis of the trilateral relationship.

This third chapter focuses on the Pakistan and China and furthermore sets the scope to the reader to the emerging relationship between the two countries. Also it lays the ground for the importance of the relationship in the globalized world of today and the reasons behind it and the goals and aims of China. Also the important BRI would be discussed here and its micro flagship project of CPEC.

The fourth chapter introduces the reader to the relationship of Pakistan and US and its historical significance with respect to the changing global order. This chapter also discusses global competition of China and US and how it impacts Pakistan.



In the fifth chapter the relationship and competition between the three countries; Pakistan, China, and US is analyzed and their trade relations through data, foreign investment inflows and military aid into Pakistan which would help the reader to an understanding of the situation. Through this, the change which has been seen in the last decade with respect to China and US vis-à-vis Pakistan. Also the analysis of the data would be done to arrive at an understanding of the topic through the content analysis method and then from there come to a conclusion of what path would be in the best interest of Pakistan's future.

# 1. THEORY

The key concept of the framework here are the balance of power theories. These theories are various in nature and with it author would make an attempt to explain the phenomena between the nation states and how they try to preserve their status quo by taking steps which in the grand scheme of things benefit them. Balance of power theories are various theories which define and explain the structure of the power in the international relations arena. This theory explains how nation states take steps to organize themselves and in a way, which increases their power position in the community of nations. A nation can either 'balance' or 'bandwagon' depending on the situation. In the 'balancing' act the nation can ally themselves with another nation or a bloc so that in this way it balancing its power from that of an adversary which is more dominant. In the bandwagoning a nation makes an alliance with the threat and in this way immunizes itself from any hostile action.

In this framework the relationship of Pakistan-China will have implications on the existing relations with US. In this respect author used the lens of balance of power theories and examine this phenomena. It would also analyze how this new developments and actions benefit Pakistan in the way that it balances itself between two rising superpowers and gain benefit from both. Author would also study how Pakistan's rising relationship with China with the economic corridor and military assistance is in fact balancing its uneven relation with US. Pakistan now has another option other than its tradition ally US when it comes to economic or military assistance. In 2017, Pakistan joined the Shanghai Organization Cooperation(SCO) which is led by China and also includes China as well as Russia. This has been considered as an counterweight to the US influence in the region. So this would be one of the indicators we would examine.

Looking at the trilateral relationship through the balance of power theories, Asma Rashid in her paper "*Pak-China Partnership: US and India's Response*" (Rashid, 2017) looks at the relationship through the scope of the theory and argues that because of the new strategic relationship of India and US which started in 2005 through the Indo-US civilian nuclear deal, Pakistan and China were forced to calibrate their relationship. China in response offered Pakistan a similar arrangement to balance off any uneven situation in the region. All this happened in the backdrop of the rising Chinese economic and military clout and US positioning itself in the region to contain the rise of China through its new strategic partner, India. This change in the region disturbed the balance of power in

the region for both Pakistan and China. China also sees Pakistan as an counter balancer and through it keep it in check to the India's design of the regional dominance.

In terms of the looking at the geostrategic objectives of China and Pakistan. Hussain & Heritiana in their journal article: "*Sino - Pakistan Military - Nuclear Cooperation and Balance of Power*" trace the reason for these moves and for the maintenance of the balance of power in the region. (Hussain & Heritiana, 2015) China's interests are to counter the longstanding rival in the region, the only one which can truly counter the rise of China because of the similarity in the population and economy is India. Therefore it sees Pakistan as an component of its foreign policy to maintain that balance in the region by cooperation with Pakistan. Pakistan on the other hand sees the Chinese balance as an opportunity for itself to counter a larger arch rival by balancing itself with a larger and power neighbor, China, which has helped it both economically and militarily. Furthermore with the changing dynamics and with the interest of the US in the region, the relationship between Pakistan and China has received more impetus in the recent years as Pakistan used to rely mostly on the US but now that shift is changing both economically and militarily towards China. (Kuo, 2018)

The increased cooperation with China and the new strategic moves made by Pakistan is the alternative to balance the US influence in the region. After the 9/11 attacks, the US has increased the presence in the region with a renewed focus. This happened also in the backdrop of a more assertive China. China is also increasing its influence through economic and military means, creating economic corridors and entering into alliances with other countries in the region. The creation of the "string of pearls" by China with establishment of major ports in Asia region like in Pakistan, Sri Lanka, Bangladesh and Myanmar and the creation of artificial islands in East Asia which would help in connectivity and also access to the Chinese military for observation in the area. (Shepard, 2017)

The US-Pakistan relationship has seen its ups and downs with both countries having a different regional agenda. China in the 1990's was more inward focused and only cooperated with Pakistan in a limited way. As the geopolitics changed in the region Pakistan sought to change that by aligning itself more with China to counterbalance the negative role of the Pakistan-US relationship. This also resulted in Pakistan being admitted to the SCO forum where China and Russia have a lead role. Since 2014, Russia has also lifted its weapons embargo against Pakistan which is a strategic development for the country as both countries were sworn enemies during the Cold War era. (The Moscow Times, 2014) Also noteworthy is the emerging India-US alliance which is being

flourishing to contain the rise of China and placing India as an counterweight to the Chinese influence in the region. Pakistan is bandwagoning with an emerging superpower, China and this has been perceived by the Pakistani elite to be a “balancing” act to support the BRI and CPEC to counter the threat of India politically and economically.

On the global level US and China are fighting the game of dominance with themselves and with other countries as different countries have to pick a side in this battle of global supremacy. (Wong & Rapoport, 2018). To explain the trilateral relationship through the theory of balance of power in International Relations, Shifrinson in his journal article “*The rise of China, balance of power theory and US national security: Reasons for optimism?*” (Shifrinson, 2018) explains the behavior shown by the US and China. US is a declining superpower but is still relatively strong and on the other hand China is an emerging superpower. As the balance of power theory dictates, US is suspicious of the rising economic and military prowess of China and might commit actions which would contain the rise of China as it can be a threat to the US interests in the region in the long term. China on the other hand is ambitious and tends to spread out its reach and influence both economically and militarily as its power and influence has grown in the last few decades. This is given further credence when China recently laid claim to the area by creating artificial islands in South China Sea and extended its sovereignty. (Nakayama, 2019). Also China’s role in the Central Asia as well as in Africa is increasing on the expense of the declining US leadership worldwide. Currently the US and China are also locked in a trade war over the tariffs which is rattling the world economy. (Lynch & Rauhala, 2018) The same geopolitical competition of US and China is being unfolded in Pakistan which has been traditionally in the US camp for some time. Pakistan is balancing both China and US through a cooperative mixed strategy which is neither predatory or supportive but which takes Pakistan to tactical cooperation with China and US both and try to minimize the conflicts in the region. This policy is being pursued neither on the expense of one another. Recently for example despite at loggerheads over many issues in the region, Pakistan is helping US with negotiations with the Afghan Taliban as Pakistan holds some sway over the elements in the neighboring Afghanistan as it is in the interest of both countries. (Stewart, Ali, & Ahmad, 2019)

This puts Pakistan in the middle of this conundrum and if China is successful in its endeavor, then it would be able to successfully map itself out on the world stage as a dominant role. If the US

succeeds then it would frustrate the Chinese attempts to dominate the global trade through BRI and CPEC. Pakistan is in the middle of these two countries trying to create a “balancing” act in which it has got close to the China but at the same time it has maintained close cooperation with the US. Pakistan has shifted its foreign policy towards a multilateral approach, hence not relying on a single country for its goals. In this way it moves away from the previous unilateral foreign policy of relying solely on the US.

To understand this phenomena hence the author chose the International Relations theory of “balance of power” to have an understanding of this issue as it explains the trilateral relationship, regional dynamics and the rationale objectives behind it in a much more comprehensive way. The theory as discussed deal’s with the choices of China and US and its impact on Pakistan. China is pursuing this course of action because it has to exert its newly found influence on the rest of the world. US on the other hand is apprehensive of the China’s rise and sees it with suspicion. The theory and empirical design merge on the fact that trilateral relationship has certainly changed but all the parties have been pragmatic in their approach and there are no dramatic change in the empirical data which will be discussed in the last chapter through the examination of trade data, military assistance and investment inflows from the two countries to come to a conclusion.

## **2. STRATEGIC GOALS OF ACTORS**

Hussain in journal article "*The China-Pakistan Economic Corridor and the New Regional Politics*" (Hussain Z 2017) talks about the emerging China-Pakistan relations which started since the founding of the communist China and since then both countries have profuse a policy of bilateral engagement which have served the interest of Pakistan vis-à-vis India in the earlier times but now this policy is moving beyond the neighborhood to a more regional cooperative stance. Hussain also cautions about the CPEC projects in Pakistan as there needs to be a transparency about Chinese projects in Pakistan and how much debt burden is being piled on Pakistan as it is clear from the trade figures which would be analyzed later on in which it can be clearly seen that the trade is also causing the debt burden on Pakistan as exports less and imports from and this trade deficit gap has been growing fast over the last couple of years. China keeps its trade agreements under the wraps of secrecy and in the recent years there have been many voices of opposition in the countries where the Chinese have invested. So there needs to be a better way Pakistan negotiates these deals and get the maximum out of them and that would put the country on a sustainable path to growth. China-Pakistan nexus also changes the regional realignment and geopolitics as India gets closer to US and US-Pakistan relations are in estrangement and Pakistan on the other hand realigning itself more towards China and that would further consolidate the burgeoning relationship between Pakistan and China.

### **2.1. Strategic Goal of Pakistan and China**

Khan in his paper "*Strategic Conundrum of US-China and India- Pakistan: A Perspective*" (Khan 2016) talks about the strategic realignment of the countries particularly the US against the rising China in the region. US wants to maintain its hegemonic status and is trying to prop up India against China. Pakistan with worsening relations with US is trying to balance its relations with US by aligning more close to China and that process is streamlined with the advent of the CPEC as it is a multi-billion dollar project spanned over decades which is not only for trade but also for the

acceleration of the regional connectivity through Pakistan. The geo-political and geo-economic goals of Pakistan-China and India-US are at conflict with each other. Exploring the strategic importance of CPEC Ahmar traces in his journal titled "*Strategic Meaning of the China-Pakistan Economic Corridor*" (Ahmar 2015) explores the strategic significance of the economic corridor and the Pakistan-China relations and how it would transform the economy of Pakistan. It is important strategically for both China and Pakistan as China needs to expand its economy from its current trajectory and is now moving towards the western underdeveloped part of the country to make it at par with the rich East. Besides this China needs to find new markets as China's industrial capacity is in surplus and to grow more it needs new markets. Through this corridor China aims to explore the Pakistani market as well as the rich oil states of the middle east for its energy security. As for Pakistan it would be a win-win situation as it would integrate more as a result of this corridor to the second largest economy and at the time with the world economy at large. Also after years of taking the brunt of war on terror in Afghanistan Pakistan is now looking for a new wave of investments to grow its economy which has suffered setbacks. Ahmar also points to the impediments to this economic corridor in the form of political, social and geopolitical constraints which are also mentioned here before in the form of political instability or the problems of terrorism including separatist organizations which are working in the Baluchistan province which also houses the strategic port of Gwadar which Pakistan has faced through the number of years.

The Chinese investments and economic point of view regarding CPEC is highlighted in the journal "*One Belt and One Road: Does China-Pakistan Economic Corridor Benefit for Pakistan's Economy?*" (Irshad 2015) in which Irshad talks and reviews the Chinese investment in the Pakistani infrastructure projects and with it the contribution to the Pakistani economy and the challenges related to it. The writer is of the opinion that the CPEC would definitely be helpful to the Pakistani economic in the long run as it increasing the scope of trade in the region and with Pakistan to the rest of the world, as economic corridors are now the tools for the regional and globalized growth. This would allow the Pakistani economy to grow and integrate further with the rising economic power. The challenges posed by the project are several, including the problem of mismanagement and corruption and also some geopolitical opposition from the countries of the region which see the project from an eye of suspicion regarding the China's goal in the region. The

economic corridor of CPEC should also be enhanced to other fields as well other than the economy and should wider categories of cooperation between China and Pakistan which should include media, educational exchange, tourism and regional connectivity on a wider scale.

## **2.2. Indian Perspective**

Bhattacharjee in his journal article “*China Pakistan Economic Corridor*” (Bhattacharjee D. 2015) talks about the Indian perspective to the rising Pakistan-China relations and the objections which is related to it. India also is suspicious of the China’s rise and its investments in the region which it says are being done to surround it from a strategic point of view and also the increasing interference of China in the traditional allies of India in the South Asia including Sri Lanka and Maldives which always had close ties to India. Bhattacharjee talks about the CPEC as a positive step towards economic integration of the region as in his opinion India sets to gain from this economic corridor as the future direction of the world trade is all about the integration between different economic blocs and different countries. This would give the countries of the region an incentive to work more closely together than it has been the case historically and in this way would deter Pakistan, China and India from going to war with each other as the economic interdependency would force them to solve their disputes through peaceful dialog. and at the same time giving the Indian objections to the projects, some of which are situated at the disputed Kashmir region which is claimed by India.

## **2.3. CPEC Long Term Plan 2017-2030**

Because the focus of this thesis is related to the economic aspect of the relationship the author also reviewed the official documents related to the CPEC and its long term plan in Pakistan regarding its investments. The “*Long Term Plan for CPEC 2017-2030*” has been developed by planning commissions of both the countries and it lists certain objects and areas of cooperation. It also details the objectives of both China as well as Pakistan from this project. (Govt. of Pakistan 2017) The document also lists the areas of cooperation in fields of energy and infrastructure. The plan



envisions the completion of initial stage of its plan to be completed by 2020 and its total completion of all the projects by 2030 and with this it sets to enhance the trading as well as cooperation between the two countries to next level. by 2025 the plan is to make the major economic functions of the CPEC operational and brought into play and this also coincides with the Pakistan's vision 2025 which has been designed to achieve certain economic and social goals of the country. By 2030 the plan sets out the goal to achieve endogenous mechanism for the sustainable growth in Pakistan and to achieve a level of growth which would make the country in the list of top economies.

The CPEC long term plan is structured in a way through which it plans to connect the western part of China, Xinjiang province to the Pakistan's north which would mark the start of the economic corridor from the China's western most province into Pakistan and ends at the port city of Gwadar on which a new port has been build. The part of the plan is to connect these region and start to revitalize the huge potential of growth from this region. The project of the CPEC is a flagship project of the wider BRI initiative and they both work together in synthetic way as to achieve their potential of regional connectivity from the central Asia towards the Arabian Sea.

The long term plan has been implemented in a way as to first address the power shortages of the country which it is facing due to rise in demand with an increased economic activity. So the first phase of the CPEC projects lies in the power projects which are being initiated by state owned as well as private enterprises. To this date projects worth \$28 billion have been completed or actualized so far (Mourdoukoutas 2018), out of which most of the projects are power projects which have been made on the fast track basis to put a stop to the electricity outages which were faced by the country in the last five years. The emphasis on the power projects in the initial phase of the plan is because of the power outages Pakistan was facing a cut in the economic growth in its GDP by around 2.5% annually (Kugelman 2015) and was making Pakistani economic uncompetitive around the world for its export products. Therefore the long term plan sets to envision plan which includes the remedy to Pakistan's energy shortfall and also create infrastructure development which would increase connectivity with the Chinese border province and streamline the process of trade between the two countries.

The key areas which are focused on in the long term plan are various in nature and are executed to enhance the growth in the country. The integration transport system in the country has been planned which would increase the role and connectivity of the major road and highways in the country from

the north of the country and through the western part of the corridor as well as the eastern part of the economic corridor.

The IT infrastructure would be further enhanced by connecting Pakistan with China through various means. A new optic fiber project has already been completed and is connected to China to gain the growth of the communications between the two countries. China is also developing its own satellite navigating system Beidou which would rival the American GPS system. China is letting Pakistan use this system and would be the first country in the world to be able to use this system for civil-military purposes. (Abi-Habib, 2018) There are several other projects including a new submarine cable which would increase the communication level of the country and give the country more data bandwidth.

In the energy sector there are many projects in the work already including hydropower, coal as well as solar projects. As the hydro projects take time in completion as well as have engineering challenges, the projects on the coal as well as LNG are being built on the fast track basis to solve the problem of the energy in the country immediately. As shortage of energy create constraints on the economic growth of the country.

The opening up of new Special Economic Zones(SEZ's) are also part of the CPEC project. These include certain areas which are being given to different enterprises on the priority basis for the industrial projects. These would have the tax free incentives to make the products in the country and export them which would essentially earn Pakistan valuable foreign exchange as well as rise its economic growth.

The agriculture is the main sector of the Pakistani economy. There have been plans to increase the growth of this sector through the new methods of agricultural growth and increasing the per hectare growth of the crops which have been lagging in the recent years. It is an important component of the long term plan as well as for the poverty alleviation as the agricultural sector is the still the mainstay of the economy of Pakistan and the majority of the people live in the countryside and are directly or indirectly engaged in this profession. So the advancement in this sector would greatly reduce the poverty in the country as well. The second phase of the CPEC is related to the agriculture and poverty alleviation sectors. (Irtaza, 2019) China is focusing on that because it will create a solid base for the economic growth in the country because of above mentioned reasons and for the BRI to

succeed as a whole China needs solid markets around the world which are consumption led and contributes to the trade with China.

With the increase of the economic activity and more connectivity with the rest of the world the tourism sector is also set to enhance with the CPEC. The northern areas which are rich in the mountain tourism as well as the coastal region of new port city of Gwadar would benefit greatly from the new tourism potential.

The financial cooperation between China and Pakistan has also been on the cards. These includes greater cooperation between different financial institutions of both the countries. The currency swap mechanism has also been planned which has been in the plan to facilitate the growth of trade between the two countries. Besides this the trade between the two countries would be facilitated in the Chinese currency Yuan and has already been implemented to create the independence from the US dollar.

CPEC will have long term impact for the US interests in Pakistan. The CPEC project is a multidimensional project which is not only limited just to the economic cooperation but also with other fields including socio-economic development as well as military. The US influence is declining especially in Asia and with that coupled with the rising China, China is taking the lead in spreading its business and cultural interests in Pakistan through its BRI initiative. With the CPEC the economic and military cooperation is increasing between Pakistan and China and this is happening on the expense of the declining US role in Pakistan. The trade relations between Pakistan and US remains the same but the economic and military assistance has definitely gone down over the last decade which shows that there is a shift in the center of power from West to East and relationship between Pakistan and US is fast changing and shows signs of change, which would be discussed later on.

The relations between Pakistan and China had always been great and cooperative in both countries were engaged in series of projects, particularly China invested in Pakistan's nuclear program as well military. The economic aspect of the relations between the two countries started to get better after China open up its economy and started trading more with the rest of the world. Since then in the early 2000's Pakistan and China initiated a Free-Trade Agreement (FTA) which came into effect in 2007. (Free Trade Agreement, Pakistan-China, 2007) Since then the trade between the two countries

has doubled to about \$16 billion in 2014. (Nation 2015) The overall trade volume has increased between the two countries and has benefited them both. But looking at the trade statistics the trade has been more beneficial to China and less to Pakistan as China has more products to export to Pakistan and likewise less by Pakistan to China. There are many reasons for that, one of which has been that Pakistan has not been able to diversify its exports and secondly Pakistan since 2001 has been a front line state in the war against terrorism and has suffered great economic losses. The economic losses amounted to about \$100 billion from 2001 to 2014. (Ministry of Finance Pakistan 2014) By looking at the free trade agreement between the two countries it is clearly evident that before the FTA the trade between the two countries was minimal to the point where it was insignificant for the both countries.

## **2.4. US Aims in Pakistan**

To have a clear view about the policy of the US in South Asia and in Pakistan Chunyang Jia in its research journal *“New Trends of US Policy toward South Asia: Challenges to CPEC”* traces the US policy in the South Asia after the World War II and outlines the main objectives of its goals. (Jia 2017) US policy has always been to dominant other countries in the region through its hegemonic status. In the early years it tried to solve the territorial conflict between India and Pakistan but they proved to be less successful. During the recent times since the rise of China in 1980’s, China has emerged as a power which would now change the status quo in the region and challenge the US.

US policy with regards to South Asia has changed over the past few years with respect to Pakistan. From the early years Pakistan proved to be a useful ally of the US against the rising tide of communism. Pakistan therefore was a part of western blocs like SEATO and CENTO and US helped Pakistan financially and militarily to a country which was facing problems due to its independence from the British rule in Indian subcontinent. After this period during the 1971 war between Pakistan and India in which Pakistan lost East Pakistan(now Bangladesh) Pakistan was hoping to get military support from US but it didn’t come the way Pakistan wanted and because of this reason the relations were strained.

In the early 1980's though things started to get different for the two countries as the Soviet Union invaded Afghanistan and the US's concern was the influence of communism in the region. To counter the Soviet threat, the US trained guerilla fighters with the help of CIA and Pakistani intelligence agency, ISI then send them to Afghanistan to wage jihad against the Soviet forces. After the Soviet defeat in 1989 and their withdrawal from Afghanistan the US left the region without the concern of the consequences of the trained militia and left it to Pakistan to deal with it. With the US having left the region there was no meaningful relationship between the two countries as in 1999 Pakistan acquired and tested nuclear weapons and further sanctions were imposed on Pakistan.

The sour relations were turned for the better after the 9/11 attacks in the US and then the start of the war on terror in the Afghanistan region against the al-Qaeda and its affiliates. Pakistan was the leading country against the fight against terrorism and US gave a lot of aid to Pakistan for the services and logistic support rendered to the US as the only supply route for was through Pakistan ports. Even though the relations between the two countries were getting better the US was also trying to renew its relations with the Pakistan's neighbor, India which didn't fare well with Pakistan as both countries have fought wars with each other and are in constant competition. The US policy in the region has been changing as seen from the timeline in the way which have benefited the US interests in the region.

Presently as the relations between Pakistan and US were mostly transactional and didn't have long term objective and interests, both the countries have moved away from each other. The US sees the role of Pakistan in Afghanistan with suspicion and suspects it of support different terror groups which are opposed to the US role in Afghanistan. US also sees the increasing relations between Pakistan and China as a threat to its own regional objectives in the region. To counter the threat of the rising China, the US has started increasing its strategic relationship with India which includes military cooperation as well as increase in trade between the two countries. US also signed with India a civil nuclear deal which greatly concerned Pakistan and China because of this offered a similar deal to Pakistan to maintain the balance of power in the region.

The US policy has changed significantly after 2011 after its strategic rebalancing with the "pivot" to Asia. It tried to enhance the role of the US in the region as China was trying to dominant the essential trade routes of the South China Sea with its making of the artificial islands. The US strategy position was to rebuild the relations between the US and its allies in the region including

India and the South East Asian states which had been wary of the rising Chinese influence in their backyard coupled with the increasing aggressive posturing of the Chinese military in the region.

The wider Chinese initiative of BRI and its micro component, the CPEC is seen by the US as the expansion of the Chinese influence on the world stage. With the BRI, the Chinese want to dominant and develop interconnected trade routes from Europe to Middle East and to Africa for the next century. These developments with the rising multi-polarity in the world stage in making US influence wane by time and US has not been so welcoming of the rising influence of China in Pakistan.

## **2.5. Chinese Goals in Pakistan**

In their paper by Rahman & Shurong “*Analysis of Chinese Economic and National Security Interests in China-Pakistan Economic Corridor (CPEC) under the Framework of One Belt One Road (OBOR) Initiative*” (Rahman & Shurong 2017) they outline the aims of the China in Pakistan through the CPEC and the wider BRI initiative. There are many Chinese strategic goals and aims in Pakistan. One of them is to broaden its role on the international trade by expanding and creating new trade routes through its Western border to Europe through Central Asia and in the South through Pakistan have an access to the main energy market of middle east and new emerging trading destination of Africa. Secondly China needs new markets so that it can utilize its surplus capital and industrial output as in the last few years it was indeed the case and because of this the Chinese economy began to slow down. (BBC 2019) China is also in this way trying to move away from the US dominated financial system and is now trying to create its own institutions like the Asian Infrastructure Investment Bank(AIIB) and Silk Road Fund. Similarly in recent years the Chinese are now trying to internationalize its own currency, the Chinese Yuan ¥ and the aim of this is to move away from the US dollar in the international transactions. Step in this direction is already taking place as several countries are now trying to move to Yuan level bilateral trade with China with Pakistan already has taken the step in this direction. (Gul 2017)

With this initiative, the Chinese also aim to readjust their economic model to move away from the middle income model of manufacturing goods to a high level income model through the

advancement of their economic model to more consumption led growth and also through high tech innovation. For this model to succeed, China is also leading the way in foreign direct investments in other countries in different infrastructure projects like high speed rails and highways. In Pakistan also China is investing alone to about \$33 billion in the energy projects as part of the CPEC which were to be initiated in 2017-18. (Faheem, Ji, & Fan 2016)

Another aim of the Chinese have in Pakistan is to stabilize the situation in Pakistan through development, which was effected by the war in Afghanistan. The Chinese have their own concerns when it comes to different separatist and militant groups in its eastern part. Groups like the East Turkistan Islamic Movement(ETIM) which has sanctuaries in the western tribal areas of Pakistan have been in the past involved in terror attacks inside China. There are also the threat of Pakistani Taliban and other groups like in Baluchistan province like the Baluchistan Liberation Army(BLA) which have openly opposed the Chinese involvement in the region. The Chinese tend to neutralize these less developed regions of Pakistan through the economic corridor and is mindful of the fact that economic development in the region would deter the people from engaging in illegal activities and in future would become the part of the mainstream and would “wean the population from fundamentalism” as the Chinese premier Li Keqiang put it. (Clarke 2018)

To conclude the chapter, the US goals in the region are mostly based on the US interests of maintaining the status quo of the global power dynamics and to contain the rise of China as it is now becoming a challenger to US supremacy. China on the other hand is asserting itself more with a goal to influence the region and the wider area with different trade and economic initiatives. This way it will dominate the future trade and influence the geopolitics.

### **3. PAKISTAN AND CHINA**

Since the founding of the modern China in 1949, Pakistan was one of the few countries in the world to recognize the People's Republic of China. (Reuters) Since then the two countries hold a special value on their relations with each other. With the passage of time the two countries forged better relations in the backdrop of regional dynamics. During the 1965 war between Pakistan and India, China provided military as well as material support to Pakistan against its foe India. (Malik) Both the countries see India has a block in their strategic interests and have fought wars with each other and because of this Pakistan has developed an axis with China. This and the regional considerations have kept the two countries close to each other despite the fact that the Pakistan has been in the western camp right from the start and against the communist ideology and joined the western pacts like the SEATO and CENTO to counter the rising Soviet influence.

After the 1965 war the Chinese military assistance kept on coming and at the same time the two countries expanded their relations further after the defeat of Pakistan in 1971 war with India which led to the dismemberment of the then East Pakistan. Furthermore China helped Pakistan in building its military and industrial infrastructure and kept on assisting even when it didn't get any support from any other country. (Small 2015) This is led to a relationship between two countries which is not even seen with its longtime ally, the US.

Since the early 1990's and with that the increasing economic growth in China has led to its rising ambitions in the region. China has by this time started to adopt market reforms and to open up its economy for foreign investments. The economic cooperation between the two countries started to increase later in the 2000's as Pakistan and China signed a Free-Trade Agreement (FTA) which was beneficial for the Pakistan and well as Chinese economy. The FTA which came into effect in 2006 increased the trade from both the countries. Pakistani exports to China increased from US\$500 million to \$2.6 billion in 2012. This is increased the bilateral trade volume between the two countries in 2006 from \$5.2 billion to \$16 billion in 2014. (Nation 2015) With this the level of military cooperation has also increased between the two countries as they are now cooperating in producing military hardware for Pakistan as well as the transfer of technology. With the increasingly developing relations between the two countries, it further flourished to new levels with the signing of the CPEC in 2013.



The relations between Pakistan and China have always been constructive for both the countries. since the start of their bilateral relations, Pakistan and China has seen in each other a partner which would benefit them for their own regional goals. The regional goals being the domination in the region by China and in doing that supporting Pakistan against the China's traditional adverse, India. Both China and Pakistan since their independence faced border clashes with India over disputed areas and this has further allowed Pakistan and China to move further towards each other besides the traditional military cooperation between the two countries towards a much more wider range of bilateral relations which includes the economic as well as scientific endeavors. Furthermore since the age of globalization and the rise of China it sees the region as a component to gain its influence in the region to further its status as a hegemon in comparison to the US. The BRI and its flagship project of CPEC are the basic components in this puzzle and because of this reason, the value of Pakistan as in a strategic chess board is elevated for both US and China as Asia which is home to the majority of the population is an important region for both the countries.

### **3.1. Belt and Road Initiative**

The increasing cooperation between China and Pakistan in the economic and military fields is important for both the countries. On the one hand Pakistan needs the much needed investment in its infrastructure and is a developing economy and on the other hand China is the only party willing to invest on such a massive scale. China's new BRI is a step in an another direction through which it is trying to revive the maritime silk route and well as the land route. In this progress China wants to develop its less developed western region and increase their connectivity through the rest of the world. The BRI component in Pakistan is an economic corridor dubbed as CPEC which would have an profound effect on the economy of Pakistan as it further links Pakistan to China.

With this framework the western part of the China gets access through Pakistan to the middle eastern trade routes from Chinese city of Kashgar to the deep water port of Gwadar which is located in strategic location at the opening of the straits of Hormuz. This gives China increased access to the rest of the world and also gives it an alternative route as well as trade and energy security (Bhattacharjee D. , 2015, p. 5) other than the strait of Malacca which has was recently seen to be a hotbed for China and US's show of assertiveness in the South China Sea.

The economic relations between the two countries used to be limited to a few mainstream and public projects like building of nuclear power plants and construction of infrastructure like major highway links. Usually cooperation was done in the military field more with China giving Pakistan military know-how to counter its foe India through Pakistan. All this is happening in the backdrop of the existing Pakistan-US relations which are with the due time are being strained since the end of cold war after the soviet withdrawal from Afghanistan and later on the after US imposed sanctions on Pakistan because of its nuclear program. The relations between the two countries got better after 9/11 when US placed Pakistan as its major ally for war against terrorism. But even with these developments since 2001 the two countries are fundamentally at odds with each other with each of them having their own strategic goals and own objectives in the region. US has also made India its strategic partner in the south Asia region which has effected its longstanding relations with Pakistan.

These developments with the waning relations between Pakistan and US and at the same time the rising influence of China with its emerging economy and new strategic goals are vying Pakistan in the company of two big powers, i.e. China and US. The rising tilt of US towards India and the increasing relations between Pakistan and China would make this region a battleground for influence between China and US in the future and with Pakistan in the center stage.

The CPEC is the flagship project of the larger geo-economic project of China's BRI. Since its announcement by the Chinese Premier Xi Jinping in 2013 at a conference in Kazakhstan, the BRI has expanded in its scale with the investments worldwide reaching to near a trillion dollars in more than 68 countries. (Phillips) The project which has been initiated in Pakistan has been of great importance since it's the single largest investment project by China with reference to this initiative and the largest in the history of Pakistan since its inception. The pledged amount by China is about \$62 billion currently which is largest in any single country in the BRI initiative. (The Express Tribune 2017)

The purpose of the larger BRI initiative and then on the micro level, its component the CPEC is to boost the regional connectivity by building roads, bridges and different infrastructure projects and to fill the infrastructure gap in the developing countries. The second reason for such a venture is to march towards the less developed part of China in West which has been lagging behind from the rest of China and to connect that part of China with the revival of the old Silk Route to parts of central Asia, Europe and by Pakistan. Through this China gains access to the newly build seaport of

Gwadar which lessens the shipping time of China's export by half towards the rest of the world.  
(CPEC: The Game Changer)

Presently, China sees Pakistan as a gateway to the rest of the world. Pakistan is the piece of the wider puzzle which the Chinese are making with respect to its global ambitions of trade dominance in the coming decades and the BRI initiative is the part of it. CPEC is the flagship project of BRI and is therefore vital for its success. Therefore the aims of China in Pakistan are many fold. On one hand they are of strategic importance when it comes to the region and keeping a check on India through Pakistan but also through different trade links in the region it wants to have an upper hand on the commerce and trade as well. Therefore in the recent years the economic cooperation between the two countries will increase many fold not just in the trade but also in the military cooperation and scientific research as well.

## 4. PAKISTAN AND US

Since the independence of Pakistan in 1947 and with that on the onset of the rising cold war between the western bloc and the communist bloc, Pakistan right from the start opted to be in the western sphere of influence and aligned itself against the soviet union. This was a start of the bilateral relations between the two countries. Pakistan was also a part of major western backed pacts like the SEATO and CENTO and US aid and help in the start after partition helped the country get on its feet and enjoy a stable economy.

On the Pakistan's war with India, US always played a reluctant part and didn't support Pakistan in the 1965 war and in 1971 conflict as well. They saw ups and downs between them but despite that they remain solid from issue to issue and both countries kept on relying on each other for support. US supported Pakistan against the communist bloc and provided material as well as investment to the country. On the other hand during the soviet invasion of Afghanistan, the US supported Pakistan to train people for jihad to be used against the Soviet's in Afghanistan and Pakistan was the focal point for that policy.

Since the end of cold war however as the US lost interest in the region and Pakistan began to pursue nuclear capability the US imposed sanctions on Pakistan. Despite the sanctions Pakistan was able to acquire the nuclear capability. The sanctions were only lifted later on due to changing geo-politics and with the terror attacks on 9/11. Pakistan then became a frontline state against terrorism and began supporting the US. Pakistan begun to support the US effort to fight against terrorism and with this got support and military aid from them. The relation was limited to different issues and couldn't get to a more broader range as both countries were pursuing different strategic interests in the region.

As already mentioned before it is known as a fact that the relationship of Pakistan and China dates back to founding years of both the countries and right from the start they have developed diplomatic relations. Pakistan was one the first country to recognize China in 1950's (Afridi & Jayshree 2010) and develop diplomatic relations during the times when China was facing political isolation from the world community. Pakistan also helped China in the 1970's for the rapprochement from the West by Richard Nixon through his Secretary of State Henry Kissinger (Ignatius 2012) during which

China was recognized by the western world and Pakistan played a crucial part during the diplomatic maneuvering between US and China.

Since the start Pakistan and US had shared strategic interests in the region. One of which was to cooperate on the military level as to counter the threat of communism and later on the war on terror in South Asia. US right from the start helped Pakistan military to boost their capacity and saw in Pakistan as an ally in the region. US also helped Pakistan in the start in terms of building up infrastructure projects related to energy in the early years.

#### **4.1. How this Competition Impacts Pakistan?**

The geopolitical competition between two superpowers impacts Pakistan in several ways. This in a way changes the value equation of Pakistan in front of the rest of the world when it comes to its strategic importance in the region. Pakistan lies in the center of a trade route which is also home to a population of close to 3 billion people and this market is largely untapped. In the north there are also Central Asian Republics(CARs) which are rich in natural resources and they are important for both China and US for their energy needs. Secondly Chinese BRI project's center piece lies in Pakistan as it gives it short access to the rest of the world. Because of these Chinese ambitions of making itself a dominant main player in the international arena, the US is concerned about its own role in the world and in this important region of Asia and recently has also initiated a trade war with China over the tariffs which have been detrimental to the US trade balance. (Shakil, 2018) It wants to frustrate the Chinese efforts to create this corridor and in this way limit the Chinese rise if it helps Pakistan through the economic assistance through international organizations like the IMF, which the Pakistan desperately needs.

When it comes to the economic benefits the impact on Pakistan is very clear and positive. As already mentioned CPEC has been a welcomed change in the economic landscape of the country and the project has several phases and objectives. The first phase of the project was focused more on the infrastructure and the power generation, the second phase which is currently underway is now more focused on the socio-economic, poverty alleviation and creation of economic zones in the country. (Irtaza, 2019) On the other hand the US also is not in the position to withdraw from

Pakistan even though Pakistan has got closer to China in the recent years. US is still providing the economic and technical assistance to various project it is doing in Pakistan and despite the political rhetoric there is no change in it. Furthermore as Pakistan currently needs a bailout package to maintain its balance of payment, the US through the IMF is also in position to help Pakistan and move it away from the Chinese fold. This is also happening in the backdrop of the Afghan peace process in which Pakistan is a vital player for helping the US pullout from Afghanistan. (Sender, Bokhari, & Omran, 2019) So this competition helps Pakistan to realign itself and its goals according to its own interests in the region and by doing that it gets to benefit from both China and US both financially and strategically.

## 5. PAKISTAN IN CHINA-US GLOBAL COMPETITION

In this chapter, the author would now see the trilateral relationship of Pakistan, China and the US through the scope of the economic cooperation in the last decade. How much that has impacted through the years based on the trade and investment data. First looking at the total trade of Pakistan starting from the last decade in the fiscal year 2008-2009 to the present 2017-2018 to have an outlook at the whole progress being made. As it can be seen from the Figure 1, the external total trade in the last decade from the fiscal year 2008-2009 was for the exports \$17.68 billion and for the imports in the same year it was \$34.82 billion. After ten years the situation has not much changed for the exports as it is currently hovering around \$23.2 billion for the exports and \$60.7 billion for the imports. (Pakistan Bureau of Statistics) There are several reasons for this imbalance as Pakistan after the signing of the FTA with China allowed the lowering of tariffs on many products and this made the Chinese able to take advantage of the situation as it had a more competitive market. Pakistan on the other hand had less diversified products to sell to China and because of this reason the imports from China have been constantly growing and today Pakistan's largest import partner is China. (Pakistan Today 2019) Other than that since the 2013 signing of the CPEC project between Pakistan and China, this bilateral trade imbalance has only grown as China is involved in various mega projects in Pakistan and for that there is a need to import large scale machinery for projects.

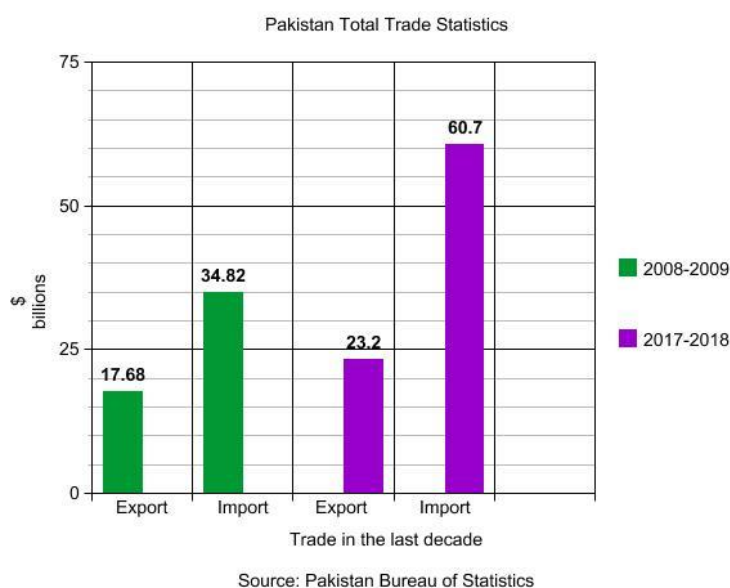


Figure 1. Pakistan Total Trade Statistics

Source: (Pakistan Bureau of Statistics)

After going through the overall picture of Pakistan’s trade, now let’s look at the Pakistan China trade since the year 2008 to 2017<sup>1</sup> and see the level of progress done since the FTA came into force in 2007. Looking at the export and import figures from Pakistan to China in this time period. Since the FY08-09 the exports of Pakistan were \$17.68 billion and the imports were \$34.82 billion. After a decade in FY17-18 the exports saw minor upward change to \$23.2 billion and the imports have ballooned to staggering \$60.7 billion. The reason for the rising import bill relates to the fact that most of import bill is because of country’s dependence of the import of oil as the middle class is increasing the appetite for goods such as cars and is also increasing and with it the energy needs. Second biggest part of the import is the machinery which is being imported for various mega projects related to CPEC. (Tahir 2018) This is the main reason for the rise of the import bill besides the depreciation of the Pakistani Rupee in the last few years which increased the cost of the import to the country.

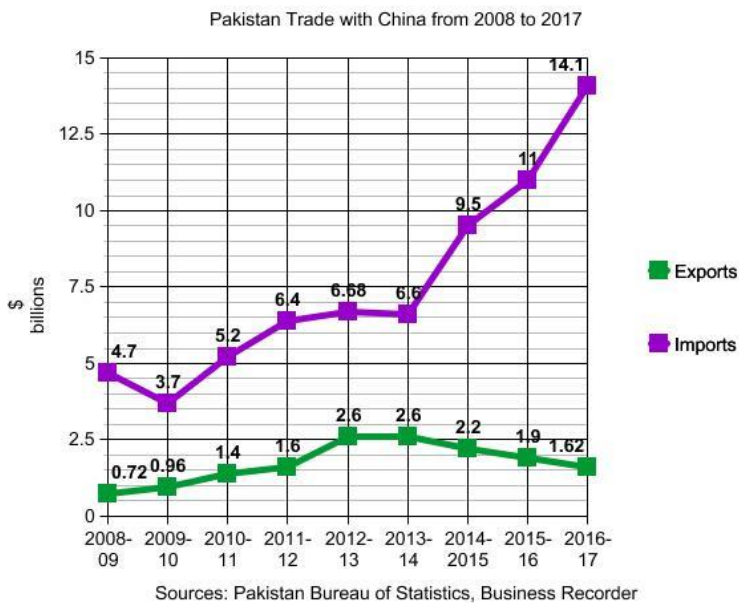


Figure 2. Pakistan Trade with China from 2008 to 2017

Source: (Pakistan Bureau of Statistics, 2016)<sup>2</sup>, (Saeed & Butt, 2017)<sup>3</sup>

<sup>1</sup> Pakistan fiscal year starts from 1<sup>st</sup> July to 30<sup>th</sup> June.

<sup>2</sup> 2008-16 data taken from *Pakistan Bureau of Statistics*, Pakistan Statistical Year Book 2016.

<sup>3</sup> 2016-2017 data taken from *Business Recorder*.



Now looking at the Pakistan-China relationship from the trade point of view, it is clear that from the early 2008 since the FTA came into effect the trade relationship between the two countries is one-sided as Pakistan is not able to benefit fully from the agreements since the last decade has seen the increase in the imports from China and a stagnate situation of exports from Pakistan. There are many reasons for this lack of growth in the exports, which is not the scope of this thesis research. Therefore the focus would be on the empirical data and looking at it from the point of view of the growth in relationship between the two countries. On that level certainly there has been exponential growth in the trade between the two countries and the total bilateral trade between the two countries is now reaching at around \$16 billion. (Nation 2015)

Now having looked at the economic relationship between China and Pakistan, now focus would shift to how the trade and economic relationship between Pakistan and United States is taking place in terms of volume and the growth which it has achieved in the last decade. We can see from the figure. 3 that the trade between the US and Pakistan has largely remained beneficial for Pakistan as it has grown considerably in the last decade with the trade between the two countries not totally lopsided as it was the case with Pakistan and China trade. The exports from Pakistan has been at a constant pace with highs and lows observed from over the decade. While the imports from the US are growing slowly but still the trade between the two countries in this case has largely been beneficial to Pakistan as there is no trade deficit.

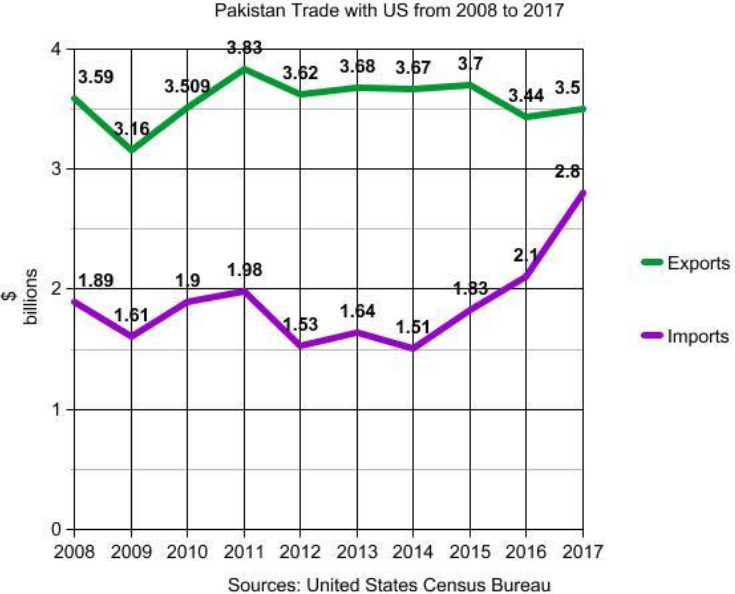


Figure 3. Pakistan Trade with US from 2008 to 2017

Source: (US States Census Bureau)

From the point of view of rising economic relationship between Pakistan and China and its impact on the trade between the two countries, it is clear that there has been no change in the direction of the trade between the two countries as Pakistan sees both the China and US as partners through which Pakistan wants to get the maximum benefit and also wants to maintain a parallel relationship between the two countries. Therefore analyzing the trade figures between the two countries there has been not much change in the trajectory as the political disagreements between Pakistan and US remained in the political arena only.

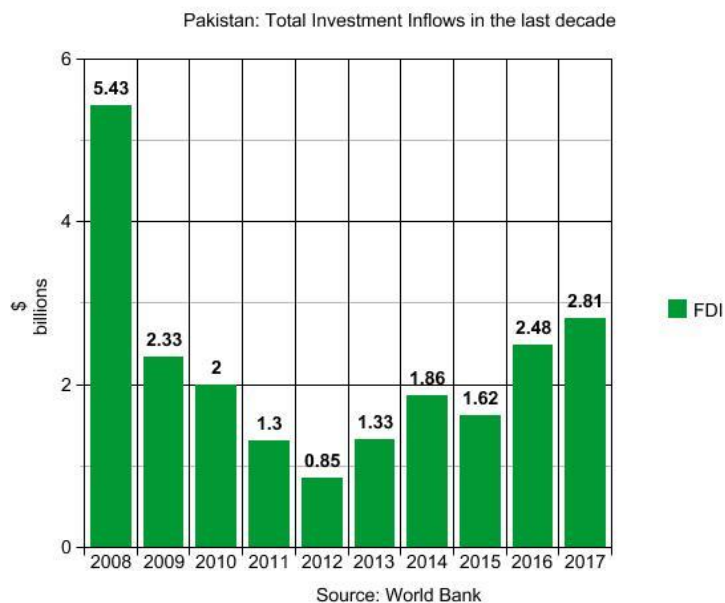


Figure 4. Pakistan Total Investment Inflows from 2008 to 2017

Source: (World Bank)

Now looking at the foreign direct investment in Pakistan in the last decade. It is clear from the numbers that during the start of the decade the inflows were good as there was comparative peace in Pakistan. But as the situation worsened the FDI inflows also decreased with the passage of time with

the worsening situation topping off around 2014. Then again with the relative peace returning and with the advent of CPEC, the investment environment also got better as it dropped from the high of \$5.43 billion in 2008 to \$85 million in 2012. Since then the FDI has been steadily increasing with the amount of inflows standing at \$2.81 billion in 2017.

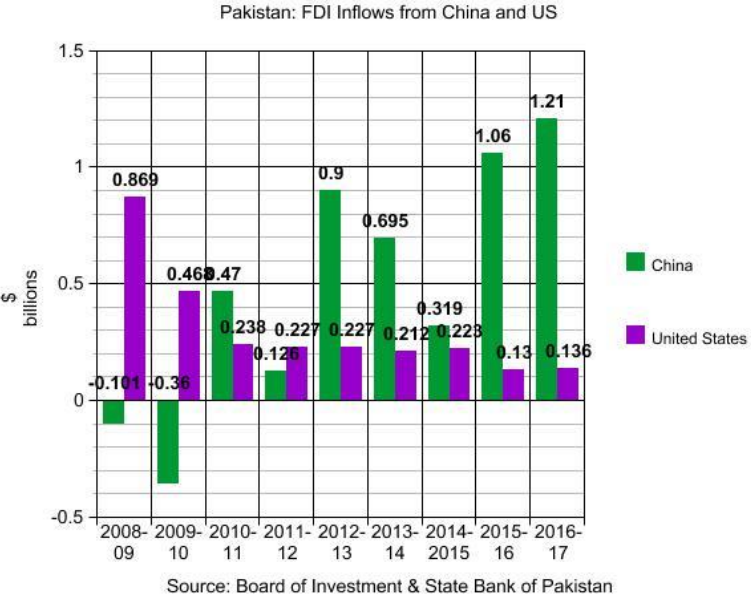


Figure 5. Pakistan: FDI inflows from China and US

Source: (Pakistan - Board of Investment), (State Bank of Pakistan , p. 59)<sup>4</sup>

Gauging the level of cooperation from the investments of the two countries, we can see that US and Pakistan had good economic relations as is seen from the investment levels while on the other hand the figures for the investment with China are in the negative, which means that there was no investment and there was outflow of capital from the country by China.(Fig. 5) But with time the US investments in Pakistan has dwindled and that has happened with the advent of the political tensions between the two countries regarding the direction of the war on terror in Afghanistan with US accusing Pakistan of supporting militant groups in Afghanistan against the US. (News 2011) In the meantime the relations between China and Pakistan are getting better and since the 2013 initiation plan of the CPEC, the data supports the claim that the FDI inflows from the China which were just

<sup>4</sup> 2008-2009 data from *State Bank of Pakistan: Annual Report 2010-11*.

\$128 million in the FY 2010-11, jumped to \$900 million in the FY 2012-13 and has been increasing since then and now in the last fiscal year of 2016-17, the FDI inflows from China and US were \$1.21 billion and \$136 million respectively.

Since the founding of Pakistan in 1947, the US and Pakistan has maintained close relations with each other on every level – social, military and economic. Both the countries have seen each other as partners for their strategic interests in the region as well as during the cold war against the soviet union. Looking at the relationship from the perspective of the US military and economic assistance to Pakistan, it can be seen from year on year basis that there has been a steady flow of economic and military assistance to Pakistan.

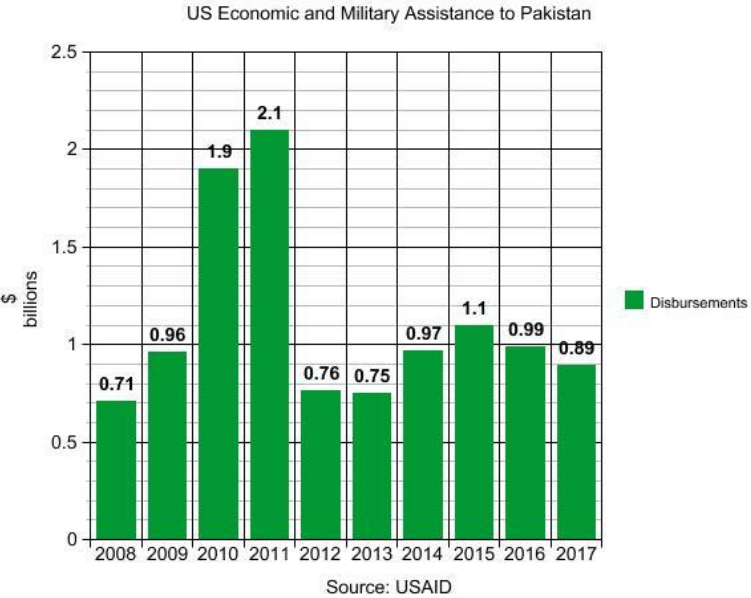


Figure 6. US Economic and Military Assistance to Pakistan

Source: (USAID)

The US aid includes both the military as well as economic assistance packages to Pakistan.(Fig. 6) The military assistance includes the coalition support funds which the US pays to Pakistan for using Pakistani ports and logistics to supply its troops in Afghanistan. (Gibbons-Neff & Lamothe 2017) As it can be seen from the distribution of the USAID over the decade, it is clear that the aid or the assistance which has been \$710 million in 2008 has been consistent with some upward trend seen

the 2010-11 time period in which it jumped to a high of \$2.1 billion.(Fig. 6) Since then the trends have been consistent with a close to a \$1 billion in USAID inflows to Pakistan yearly.

It is clear from the various data that has been analyzed that there is no co-relation in the better relations between Pakistan and China and its negative or positive effects on Pakistan-US relationship. In the field of trade, the Pakistan-China trade overall has grown enormous from the point when in 2007 FTA was signed. The bilateral trade which used to be around \$5.4 billion in 2008 has grown to \$16 billion in 2017.(Fig. 2) But that has grown more on the China's side and Pakistan trade deficit has increased tremendously. There are various other reasons for that which are not in the scope of this thesis. But all in all overall bilateral trade has increased and this has benefited Pakistan with the competitive products coming from China but somewhat at the cost of Pakistan own local industry.

On the US-Pakistan trade front, it is evident that the trade between the countries have been consistent and there has been no dramatic change in that avenue. The trade between Pakistan and US has been largely beneficial for Pakistan as it has trade surplus with the US even though the overall volume of trade is less than that of China. Bilateral trade which stood at \$5.48 billion in 2008 grew a marginal \$6.3 billion till 2017.(Fig. 3) Therefore there has been no change in this direction as both countries saw to maintain its relationship intact despite the political rhetoric from the US side as that has benefited both the countries because their interests converge on some levels.

In the investment front, China has been a strong partner when it comes to investing in Pakistan. The initial uptake was slow in the earlier years as China's investments in Pakistan were limited to few projects including in the telecom industry in the early 2007's. (China Mobile buys Millicom's Paktel, 2007) Since which China has diversified its investments in Pakistan in many sectors. After FY 2012/13 there is a uptake in the investments which is the result of the BRI and its flagship project in Pakistan, the CPEC. From this the investments in Pakistan by China have grown over the years and in the last FY 2017-18 it stood at \$1.21 billion.(Fig. 4) This went into various infrastructure projects mainly related to energy and road infrastructure as it was the part of the CPEC phase-I.

Moving to the FDI from the US which was received by Pakistan, the FDI from the US has been more or less consistent over the years. The inflows from the US were \$869 million in the FY 2007-

08 but since then it has seen a downward trend. In FY 2012-13 the investment from US amounted to \$227 million but has remained stable with no dramatic change in its trajectory and in FY 2017-18 the FDI was \$136 million. (Fig. 5). So it is a concurrent outcome from the data that there has been no change in the US investment policy towards Pakistan and that there has been no impact on the relations in this front.

Looking at the economic relationship of Pakistan with China and US, we can deduce from the data above that Pakistan holds its own interests when it comes to these two countries. The relationship with these countries have been forged with their own strategic interests in mind. The data shows from the trade to investment inflows, military and economic assistance that there is has been no abrupt change in the relations between the Pakistan and the US. The trajectory of Pakistan with respect to US and China is not parallel as seen from the data and they hold no connection between them. This means that Pakistan is independently pursuing its relations between these two powers and is able to maximum its gains keeping in mind its own interests in the region.

## CONCLUSION

The relationship of Pakistan and China has been examined and the subsequent effect it would have on the existing Pakistan-US relationship. To do that the author used various parameters: Pakistan trade with China, US, the investments by China and US in Pakistan in various sectors, and finally the US economic and military assistance to Pakistan through its various agencies including the USAID. The research question of the thesis was that as the economic relationship between Pakistan and China would get better it would have an impact on the existing Pakistan-US bilateral relationship as both the countries have been Pakistan's allies and are now competing for the world dominance.

Reviewing the research questions and the outcome of our findings it is clear from the data which we have analyzed that there is a definite emergence of bilateral economic partnership between Pakistan and China. Over the last decade the relations have grown not only in terms of trade but investments as well.(Fig. 2 & 5). The trade between the two countries has also increased as both countries have seen access to each other's markets after the FTA as largely beneficial. The biggest change seen from the Chinese side is the increase in the FDI towards Pakistan. It was negligible in the start of the decade and has grown exponentially. The main component of that being the BRI and the CPEC initiative. This has been the major factor in the increasing economic relations between the two countries as China sees Pakistan as being a strategic partner and a valuable ally in its future role in the region.

On the Pakistan-US front, the bilateral economic relations have been on a steady path as we have seen from the economic data(Fig.3 & 5) and US economic and military assistance to Pakistan.(Fig. 6) has seen no dramatic change in the economic outlook between the two countries. Pakistan and US both see the benefit in maintaining a cordial relations as it is set to benefit both the countries. The US sees Pakistan as an important country in the region for its own strategic objectives, like in Afghanistan and with respect to Iran. Pakistan also sees in its objective outlook to have better relations with US as it is benefitting Pakistan to not solely rely on US and therefore "balance" its moves with the US with the help of China.

The current strategy of Pakistan as we can see from the above discussion is to balance its relations between the two superpowers and then get the maximum benefit out of them. Pakistan in the last decade didn't build its profound relations with China on the expense of its relationship with US. To "balance" the unequal relationship with the US, Pakistan has now allied itself further to China. This has helped Pakistan in its "balancing" act to ward off the pressure from the US. Before that Pakistan has no other option militarily or from an economic point of view to look beyond the US as the Pakistan's relation with China was not at the same level. China in the earlier times was more focused on its domestic policies and had more inward approach in its foreign policy. This has changed since the record breaking growth of the Chinese economy and had also elevated the ambitions and scope of the Chinese state and its dealings with the rest of the world.

Therefore the author proposes that Pakistan should keep on pursuing the same independent approach to the relationship between the US and China. The independent foreign policy which would engage Pakistan with them individually would be more beneficial as both the countries have their own pursuits in the region. China has its economic and military interests in Pakistan and the wider region, related to the CPEC and the wider BRI initiative and the US has always seen the region from its own security lens policy through which it wants to have a presence in the region to have an outlook for countries in the region including Pakistan, Iran, China and the CARs countries which are rich in natural resources. Therefore the current direction of the Pakistani foreign policy and its objectives should be to get the maximum benefit out of its relationship with the China and the US.

The overlapping interests of Pakistan and US in the region is the security situation in Afghanistan as it is a priority for the US as it wants to withdraw its troops from the country but on the other hand it also affects the wider region including China. China itself is concerned by the region's stability as there are terror groups based in Western region of China with Muslim population which could find safe heavens in Afghanistan. The second common interest of them is the stability of Pakistan. Pakistan is the most important country in the region with nuclear weapons, big population of 200 million and a relatively advance military. The country's stability was compromised due to the spillover effect of the war on terror in Afghanistan which has negative consequences for the country. In that respect China and Pakistan see it as an priority to have a stable Pakistan as it is in their best interest.



So to sum up the trilateral relationship, it is evident from the analysis of the subject above that the Pakistan increased economic relationship with China had no deep impact on the existing bilateral relationship between Pakistan and United States. Looking at the economic relationship between the Pakistan and US there has been no significant changes which were seen in the last decade from the data analysis. From the trade to the foreign direct investments and also economic assistance, what the author analyzed is that there have minor changes in the data readings in the last decade. There has been some downwards trends which have been observed in few years but that has been leveled off mostly later on with some consistency. Because of this reason I would argue that there has been no significant change which has been observed in the last decade of relationship between Pakistan and US. On the other hand the economic relationship between Pakistan and China has grown in a significant way as the turning point of takeoff the author takes is from the FTA between Pakistan and China in 2007 and later on when China initiated the BRI initiative and the CPEC in Pakistan in 2013. Since then the relationship between Pakistan and China has grown exponentially and more progress would be made in this direction as it has been outlined in the CPEC long term plan.

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