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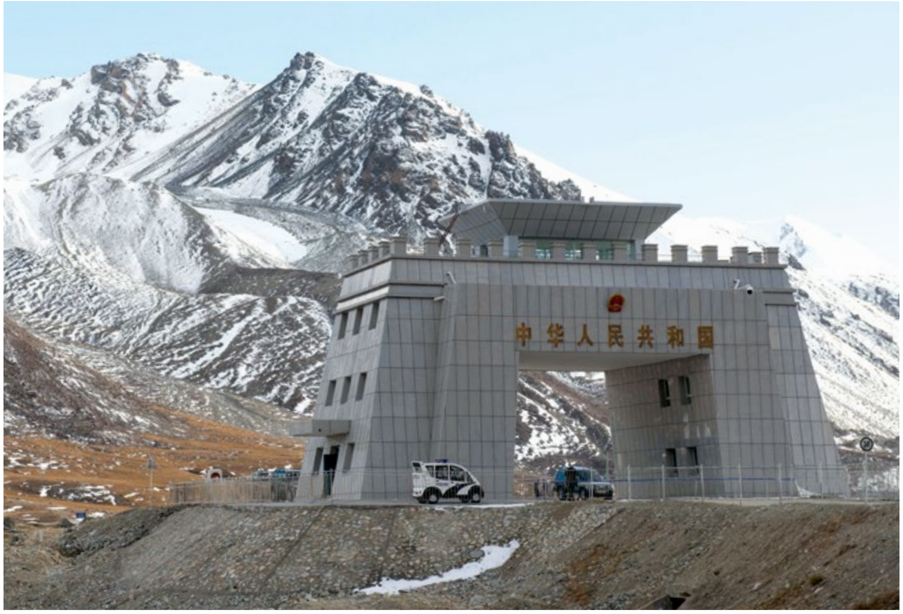
Strategic Implications of the China-Pakistan Economic Corridor

By James Schwemlein



The Karakoram Highway connects Pakistan and China through the Khunjerab Pass, the highest altitude border crossing in the world. (Photo by View Stock/Alamy Stock Photo).

Contents

Summary

- China's changing role in Pakistan offers an opportunity to examine China in a learning mode, in a challenging environment, and as an actor in the decades-long rivalry between Pakistan and India.
- China's long-term investments in the China-Pakistan Economic Corridor (CPEC) can be explained in at least three ways: to demonstrate China's attractiveness as a partner; to prove that China's development model can be exported; and to use Pakistan as an element of its strategic competition with the United States and India.
- Pakistan's hopes for CPEC are mitigated by China's apparent lack of interest in establishing an overland transit corridor and counterterrorism concerns, which are likely to be a persistent liability in the years ahead.
- There is a growing potential that China's surge into Pakistan could increase the threat that Pakistan poses to India, particularly if China expands its military position there and if Pakistan does not curtail its use of militant proxies. The resulting dynamic could prove a further impetus toward deepening the US-India partnership in the face of a common threat from China and Pakistan.
- The ultimate success of China's investments will continue to be threatened by political and economic instability in Pakistan and the country's ongoing support for terrorism.
- The United States could offer targeted support to help Pakistan determine how best to use Chinese infrastructure to grow its economy, which could contribute to improving and stabilizing Pakistan.

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ABOUT THE REPORT

This report examines how China's financial underwriting of infrastructure projects along the China-Pakistan Economic Corridor is altering the political landscape for the United States, India, China, and Pakistan. Supported by the Asia Center at the US Institute of Peace, this study is based on research and discussions worldwide, and specifically by Asia Center–led consultations with Chinese experts in December 2017 and with Pakistani experts in May 2019.

ABOUT THE AUTHOR

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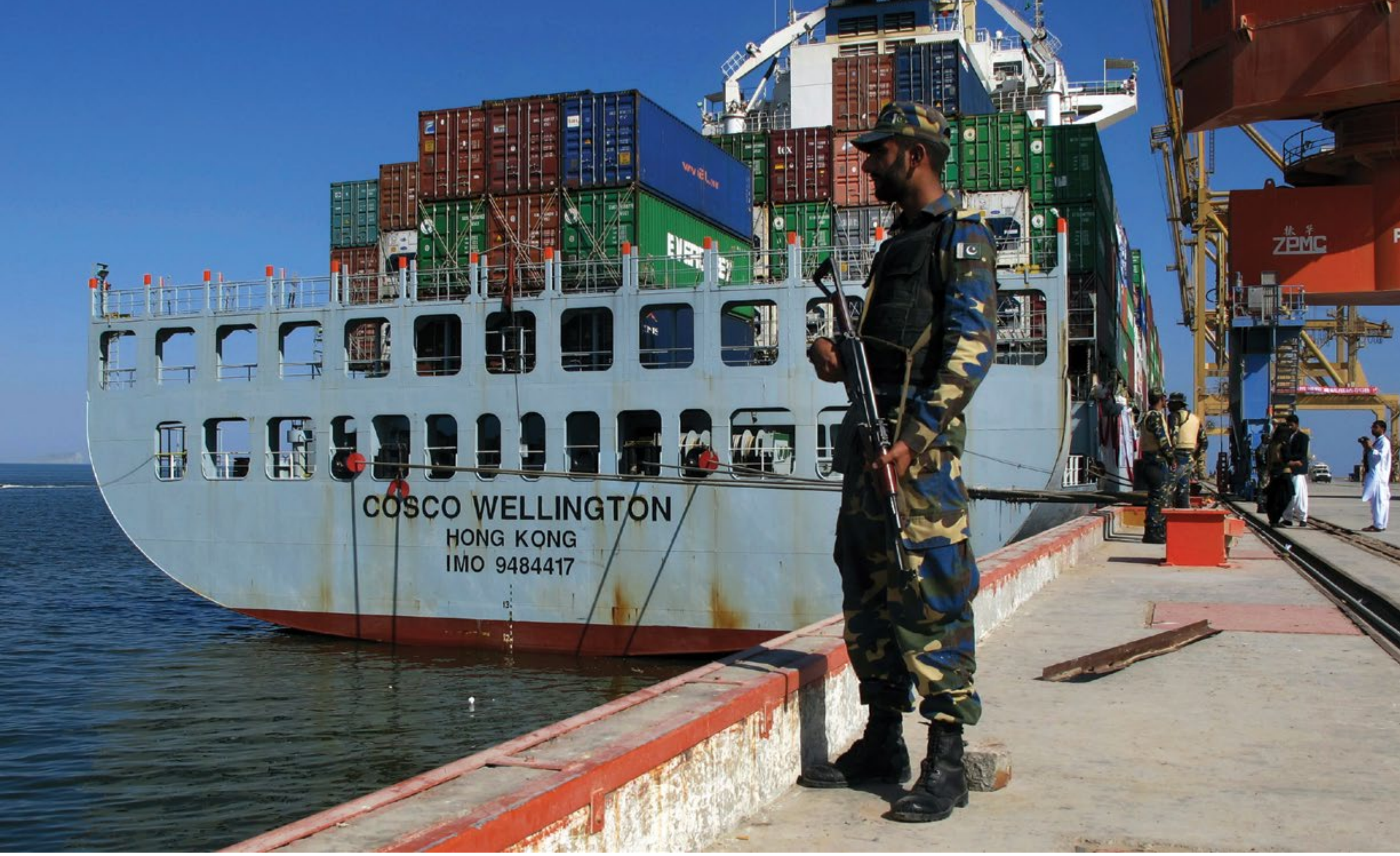


A Pakistan Navy service member stands guard while a Chinese ship prepares to depart with goods for the Middle East and Africa from Gwadar Port in 2016. (Photo by Muhammad Yousuf/AP)

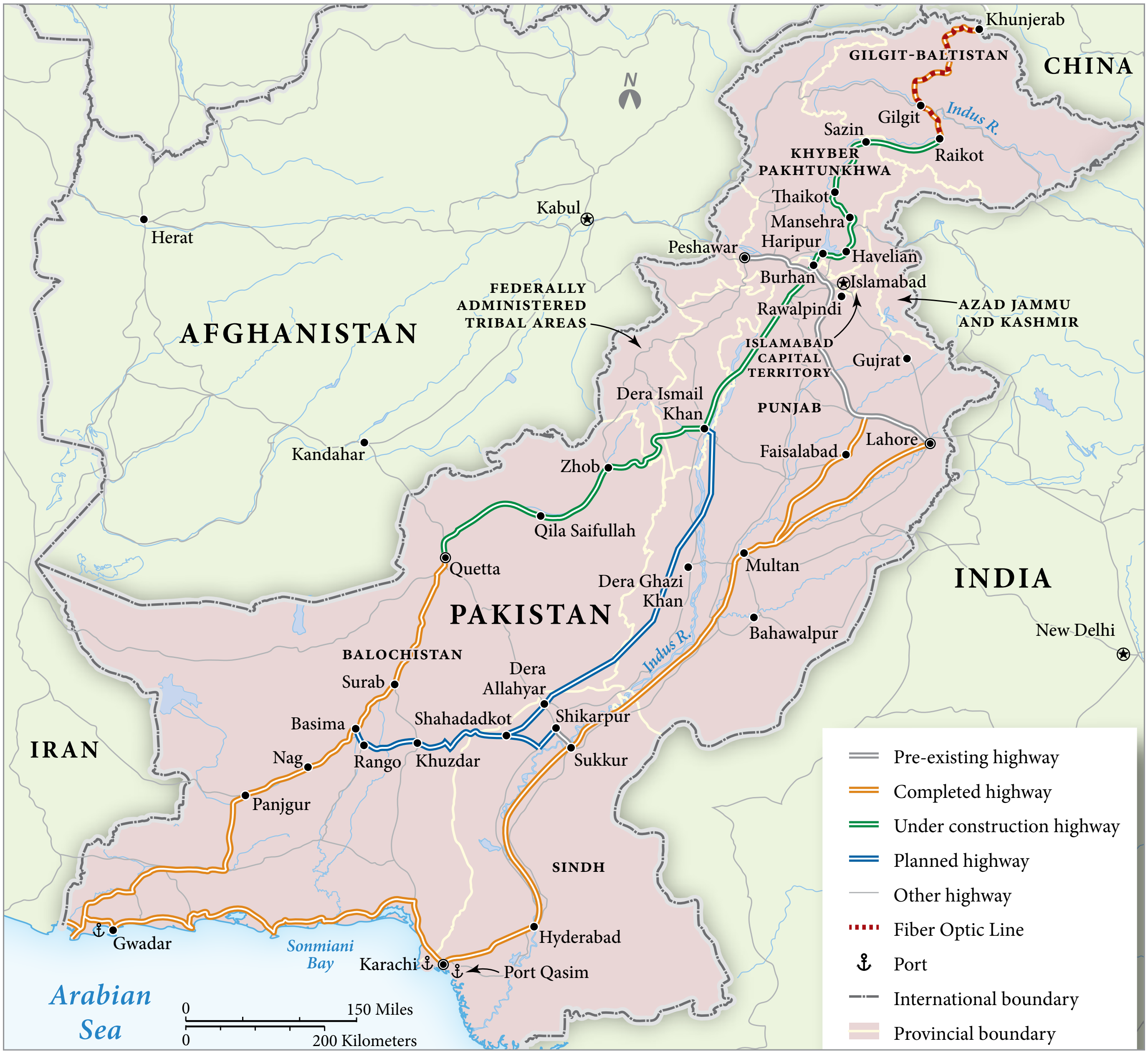
Origins

China's recent economic investments in Pakistan are built on a long-standing bilateral relationship. Pakistan was the first Muslim state to recognize the People's Republic of China (PRC), and one of the few governments in the world to maintain open relations throughout Beijing's period of isolation. The often repeated poetry of the China-Pakistan relationship—iron brothers, all-weather friends—reinforces the underlying reality that China has treated Pakistan as a special partner for decades.

China-Pakistan relations emerged at a time of rising Asian powers, shifting power dynamics, and increasing strategic competition. Beijing conceives of Islamabad as a partner in restraining India, Pakistan's stronger and larger neighbor and the only state in the world of comparable demographic size to China. In turn, following Pakistan's defeat in the 1971 war with India, Islamabad scrambled to bolster its strategic position. Beijing, given its own earlier war with India in 1962, also worried about a dominant and unchecked India emerging on the subcontinent.[1] Today, Pakistan courts China and other great powers both in recognition of its weaker strategic position in relation to India and out of a desire for countervailing influence by great powers in the region.

China-Pakistan relations developed during the Cold War. At the time, the United States, China, and Pakistan were aligned in seeking to restrain India, which was seen in the early 1970s as shifting toward greater Soviet influence. This apparent convergence of interests coincided with the historic normalization of ties between China and the United States, which was facilitated with the help of Pakistan. This period of relative alignment fractured after the Soviet withdrawal from Afghanistan and

MAP OF CPEC TRANSPORTATION AND TELECOMMUNICATIONS PROJECTS



Source: Author research and CPEC Portal (www.cpecinfo.com).
Adapted from artwork by Lucidity Information Design, LLC for USIP (based on Planning Comission of Pakistan information).

the Soviet Union's subsequent collapse. The development of nuclear weapons in India and Pakistan, and their dueling nuclear tests in 1998, raised risks for all involved in South Asia.

Nevertheless, China-Pakistan ties continued to accumulate. Small arms sales from China to Pakistan began in the 1950s; cumulatively, China has supplied approximately 40 percent of Pakistan's weaponry since that time, largely in the form of light arms and ammunition.[2] Beijing supported the development of Pakistan's ballistic missile and nuclear weapons programs beginning in the 1970s. In the 1990s, following the US decision to impose sanctions on Pakistan for its nuclear program, Beijing and Islamabad initiated a program to develop—and eventually co-manufacture—a jet fighter. That aircraft, the JF-17 Thunder, entered service in Pakistan's army in 2007.[3] This slow growth of tangible cooperation over five decades was the baseline for a surge in economic ties.[4] At each step in the maturation of their relationship, China and Pakistan preserved a mutual fixation on restraining India.

Although Pakistan had little to do with China's economic rise or its geopolitical resurgence, it has emerged on the forefront of the Belt and Road Initiative (BRI)—China's effort to translate its growing economic capacity into greater economic, political, and security influence by investing hundreds of billions of dollars into infrastructure projects across Eurasia and Africa. The China-Pakistan Economic Corridor (CPEC) is the only corridor under the BRI umbrella that is defined in strictly bilateral terms. Pakistan's emergence at the vanguard of the BRI makes it a focal point for examining the strategic implications of China's accelerating rise. As the United States draws closer to India and China invests more deeply in Pakistan, the risk increases that the India-Pakistan conflict will prove a flashpoint for US-China competition, or even future confrontation.

Economic Corridor

Announced in 2014 by Chinese President Xi Jinping during a state visit to Pakistan, CPEC is a fifteen-year package of investment support stretching to at least 2030. It was introduced in the middle of a ten-year decline in Pakistan's trade competitiveness, a decline fueled by a domestic security crisis, endemic power outages, poor economic governance, and uneven enforcement of the rule of law exacerbated by the Pakistan Army's dominance over civilian institutions. Pakistan's external relations at the time were also strained, especially given the role the Pakistani state played in fostering terrorist groups as an instrument of its national security policy. Xi's announcement was therefore received with rapt jubilation by Pakistan's elite, who must have felt in the moment as though China had thrown a life jacket to bail the state out of a difficult spot.

In November 2017, during the tenure of Prime Minister Shahid Khaqan Abbasi, Islamabad and Beijing released a joint strategy to define the scope of CPEC as "starting from Kashgar in Xinjiang, China, and reaching Karachi and Gwadar, southern coastal cities in Pakistan, via the Khunjerab Pass and several other nodal areas {and} for cementing China-Pakistan economic relations, promoting friendly cooperation and establishing the shared destiny of the two countries." The vision described in the master plan begins with verifiable specificity but becomes more vague as future phases are described. During the first phase, through 2020, the master plan envisions a series of energy and transportation projects to address critical gaps. In the second phase, from 2020 through 2025, the goal is to industrialize Pakistan to spur mass job creation and improve deteriorating economic competitiveness. In the third phase, from 2025 to 2030, the combination of increased modern connectivity and an improved industrial sector envisioned under the plan matures to create an integrated transnational corridor that closely links Pakistan's economy to China.[5]

From 2014 to 2019, projects under CPEC proceeded in step with the 2017 master plan. According to data collected by the World Bank, in these first five years of implementation, approximately $32 billion in Chinese investments were under construction, completed, or operational, and feasibility studies had been conducted on an additional $14 billion in projects. Approximately 70 percent of CPEC projects implemented or completed to date have been in the energy sector, with nearly all of the remainder in the transportation sector.[6]

The ascension of Prime Minister Imran Khan's government to power in August 2018 posed challenges to the strategy. During its successful electoral campaign, Khan's Pakistan-Tehreek-e-Insaf party railed against the alleged corruption of its predecessors, alleging unfair contracts and corrupt practices related to CPEC projects. One minister-level official told the *Financial Times* in September 2018 that the previous government "did a bad job negotiating with China."[7] The government moved quickly to reduce its request for a loan to Pakistan Railways, a dysfunctional parastatal. Khan himself visited China three times in his first fifteen months in office to push for more opportunities for local business and more access to Chinese technology to improve Pakistan's economic competitiveness.

Pakistan's economic situation caused further strain. Khan inherited a balance of payments crisis spurred by the serial fiscal irresponsibility of successive civilian and military governments, worsened by an overvalued currency, and sealed by declining competitiveness and a growing trade deficit. In March 2018, routine International Monetary Fund (IMF) consultations highlighted the structural risks that mismanagement of CPEC investments could pose to Pakistan's already fragile economy. The government of then Prime Minister Abbasi fiercely denied the allegation that debt from CPEC projects could destabilize the country's balance of payments. The financial terms and obligations for projects, it asserted, are almost entirely between Chinese engineering and construction firms and Chinese lenders, and do not fall on the government directly.[8] Khan's government hesitantly negotiated with the IMF in October 2018 but backed away in search of an easier alternative stabilization option. Instead, it sought support from Pakistan's traditional network of benefactors—China, Saudi Arabia, and the United Arab Emirates—and secured $9.2 billion in loans and commodity swaps.[9] This, however, was not enough. Khan's government returned to the IMF in April 2019 and quickly negotiated a three-year external finance facility valued at $6 billion.

The arrangement with the IMF brought additional scrutiny on CPEC. US Secretary of State Mike Pompeo said in August 2019 that "there's no rationale for IMF tax dollars—and associated with that, American dollars that are part of the IMF funding—for those to go to bail out Chinese bondholders or China itself."[10] Pompeo's remarks were unnecessarily alarmist given that the IMF requires that its debt repayments be prioritized over those of other lenders. Nonetheless, they highlighted fears that China may be designing debt traps through which it could secure political or security concessions from other states. Thus, for its final approval of Pakistan's new program, the IMF required commitments from all of its key sovereign debtors, including China, to defer or roll over Pakistan's repayment obligations. This additional step highlights the extent to which Pakistan relies on these partners for support.[11]

China's role in Pakistan's current economic crisis illustrates the dilemma Beijing faces regularly as its capital and resources are deployed around the world. CPEC investments added significant electricity generation, improved intra-Pakistan roadways, and installed a new fiber-optic communications line. Although the surge in China's investments under CPEC, along with favorable commodity prices, helped Pakistan achieve 5.2 percent growth in 2018, the fastest growth rate in more than a decade, it also appears to have strained Pakistan's economic stability. The IMF estimates that GDP growth will decline to 3.3 percent in 2019 and to 2.4 percent in 2020 as a result of structural deficiencies, including a poor business environment, inefficient state-owned enterprises, and low labor productivity.[12]

Pakistan's economic instability compounds the risks facing China's investments. One Chinese power plant manager complained to the Pakistani press in April 2014, for example, that his firm was losing money as a result of currency devaluation and difficulty collecting regular payments.[13]

Chinese investments have not arrested Pakistan's economic deterioration, but Pakistan's economic instability does put China's investments at risk.

This situation demonstrates that China's ability to achieve a return on its investment depends on Pakistan's stability. The irony is that economic reform, along the lines the IMF demanded, is necessary to improving Pakistan's economic conditions and enabling the success of Chinese projects—the same Chinese projects that Pakistan's leaders received rapturously in 2014 as a gold-plated path out of economic turmoil. Will China help push Pakistan to undertake reforms that benefit its own projects, or do the two states have different goals for CPEC? Determining how they proceed and how influential CPEC ultimately will be to the region's future is a matter of discerning their respective strategies.

Strategic Concept

Multiple narratives exist to explain China's changing ambition in Pakistan and what it means for China's strategy toward India and the South Asian region. Three are especially common: model friendship, exporting China's development model, and strategic competition.

The first of these is that China wants to make Pakistan a "model friend." Beijing's ambassador in Islamabad declared in April 2018 that "the relationship will stand out as a new model of state-to-state relations."[14] This argument, however, is both a standard talking point of Chinese diplomats around the world and an implicit acknowledgement of a weakness in China's claim to great power status: the PRC eschews allies and lacks historical relationships that Beijing would like to replicate or that potential partners would find appealing to replicate. Nonetheless, Chinese scholars argue that Pakistan is uniquely well positioned to serve as a model friend: Pakistan was, as noted, the first Muslim state to establish diplomatic relations with the PRC, Pakistan helped broker the US-China rapprochement led by Henry Kissinger and Deng Xiaoping, and Pakistan and China have a deep history of collaboration in military technology.

Given Pakistan's vulnerability to violent extremism and fragility, some Chinese scholars argue that China's history of partnership is at risk of being squandered and that, without change, Pakistan is at risk of becoming another North Korea—a pariah state subject to international isolation and reliant on Chinese support. These scholars argue that what makes Pakistan a unique case for China is that the two states have traditionally maintained a constructive, patron-client relationship, but that the client, Pakistan, is now under such threat that extraordinary measures are required to avoid another strategic liability on China's international balance sheet. Deploying Chinese state-owned firms, backed by Chinese capital, to serve in effect as a bulwark against fragility is, in this argument, a damage-prevention strategy to maintain a "model friend" in distress.

The second most common narrative, promulgated primarily by Chinese scholars who advocate for international cooperation, is premised on China's desire to demonstrate that its development model can be applied elsewhere. This premise is a step beyond friendship, however, and reflects the newfound confidence of the Chinese state in the power and desirability of its economic system. The logic behind this narrative is that making Pakistan a successful model friend is a way of bolstering China's international image.

The concept of transforming Pakistan is premised on an assessment that the country is a deeply fragile state and vulnerable to extremism, and that these conditions contribute to a sense of insecurity when it comes to Pakistan's relations with other nations, India in particular. This insecurity, the community of Chinese scholars contends, is the basis for Pakistan's need for a growing nuclear arsenal and for its reliance on militant proxies to manage asymmetric regional competition. These behaviors serve China's goal of restraining and distracting India. The Chinese concern is that allowing Pakistan's insecurity to continue to translate into malign behavior could open China to both reputational risk and potentially direct security threats in the future.

In this line of thinking, addressing Pakistan's insecurity problem is in China's vital interest above and beyond creating a model friend. In this frame, CPEC is a way of modifying Pakistan's behavior to be more consistent with China's interest in transforming it from a fragile and vulnerable position into a more modern and moderate Muslim state that is both a worthy and a capable partner of China and no longer a potential drag on China's other strategic interests. Such a dramatic transformation would not just make Pakistan a model friend of China, but also demonstrate that China's economic model can be exported successfully to third countries.

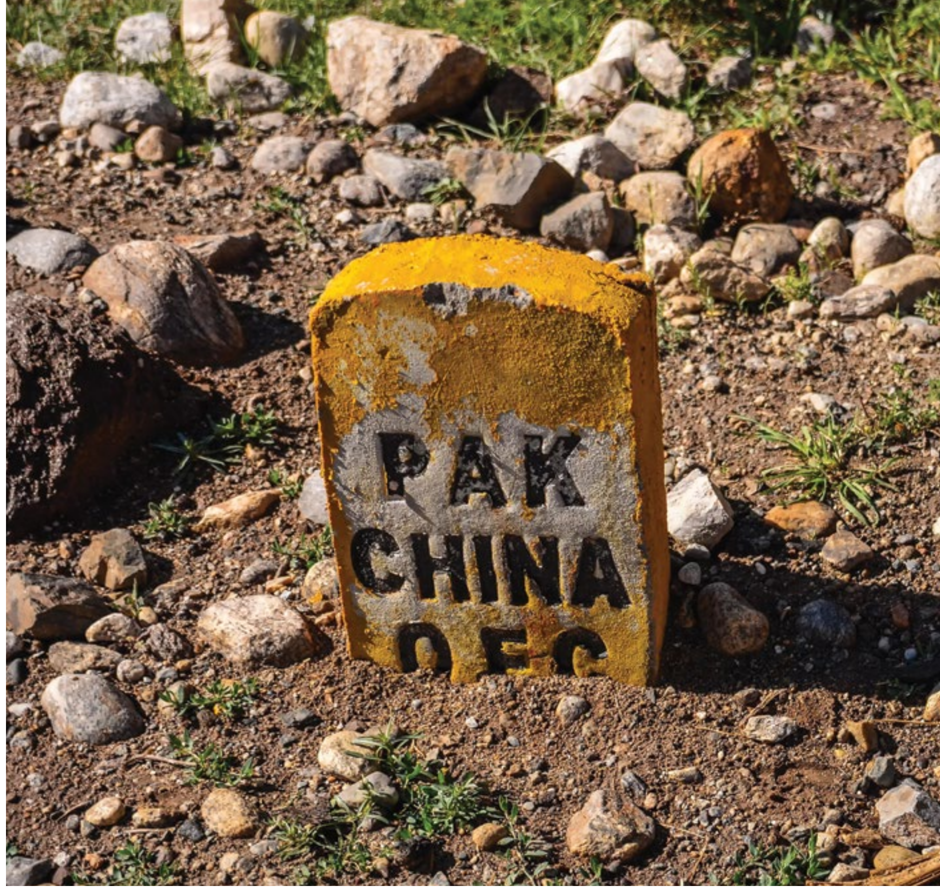
The third potential rationale for CPEC, as well as the broader BRI effort, is that it reflects a desire on Beijing's part to pursue strategic competition. This is the narrative most in vogue in Washington. The emergence of the BRI was complemented by talk of pan-Asian institutional arrangements, such as the Asian Infrastructure Investment Bank (an extension of the Shanghai Cooperation Organization), and investment in elite-focused influence efforts such as the Boao Forum. CPEC fit immediately into this broader revisionist effort. CPEC is, in this thesis, an effort to supercharge China-Pakistan relations in order to pressure India and to secure a foothold on the Arabia Sea capable of enabling China's People's Liberation Army to project power throughout the Indian Ocean region.

But the question is not whether China views Pakistan as a potential partner in geopolitical competition—Pakistan has been China's partner for decades—but instead whether China's ultimate intent is its own offensive positioning. Among Pakistani scholars and experts, the most common explanation of CPEC is diversifying China's maritime presence beyond the Straits of Malacca. As described in the November 2017 long-term plan for CPEC, the vision is to build up transport infrastructure connecting Karachi and Gwadar to Kashgar, Xinjiang.

Critiques

The strategic rationale for CPEC is shaded by several factors that also complicate discernment of a Chinese strategy. As a result, imaginations run wild seeking to discern the purposes of a comparatively straightforward series of economic initiatives. More likely than not what China is doing in Pakistan is done for more than one reason.[15]

The first dissonance that muddies the intent of CPEC is in its core conception as a China-Pakistan transit corridor. Chinese and Pakistani sources, principally the joint long-term plan released in November 2017, describe a corridor connecting Pakistan to Xinjiang, China. The Khunjerab Pass, the official China-Pakistan border crossing, is the highest altitude border crossing in the world. Ground traffic along the Karakorum Highway, which climbs from the Punjabi plain through the



This stone marks the presence of a fiber-optic cable running underground from China to Pakistan. (Photo by Ali Mir/Alamy)

Hindu Kush mountain range and into China, is not significant given both the sparse population in the region and seasonal closures. Landslides and other climate-related events cause disruptions.

Pakistan in particular has focused attention on creating a commercial transit corridor directly to China that is capable of handling substantial trade. Pakistani leaders, including Ishrat Hussain, a former central bank governor who advises Prime Minister Khan, estimate that one hundred thousand container trucks will move across the border because of CPEC, based in part on the highly improbable assumption that China's container trade will be diverted.[16]

But nothing today indicates that China prioritizes the creation of a robust cross-border corridor with Pakistan. Chinese scholars privately refer to CPEC as an "internal corridor" within Pakistan connected to Pakistan's ports, and supported by China, rather than an international transit corridor. Current customs and trade infrastructure, including the Sost dry port at the Khunjerab crossing, are small and underdeveloped; road connectivity itself remains limited. The northern portions of CPEC, through the Gilgit-Baltistan region, are mostly made up of improved two-lane roads through mountainous terrain. At nearly sixteen thousand feet above sea, the Karakoram Highway through the high mountain pass at Khunjerab requires heavy trucks not typically driven in Pakistan as well as commercial refueling, storage, maintenance, rehabilitation, and overhaul capabilities not planned along the route. Prime Minister Khan's government picked up its predecessor's discussion of a possible $9 billion loan to be used to construct and refurbish Pakistan Railways (known as the ML-1 project), but Khan's government reduced the size of the loan on the grounds that it was unpayable and sought to renegotiate the terms and duration of the agreement. China has not confirmed that it will offer the requested package.

Fiber-optic communications is one area where progress is being made under CPEC. The Chinese multinational Huawei installed a $44 million, 820-kilometer (510-mile) fiber-optic line from Kashgar to Islamabad in January 2019. This new connection is perhaps the only direct cross-border connection that will have meaningful effects on Pakistan, particularly coupled with the installation of enhanced surveillance and data collection regimes under a Huawei-sponsored "smart cities" program, of which Pakistan has been the largest partner.[17]

Bilateral trade flows between China and Pakistan also highlight the unbalanced nature of connectivity. The two states signed a free trade agreement in 2006, after which trade flows increased by 11 percent on average per year through 2018 to $16.2 billion. But the relationship is heavily one-sided, with Chinese exports to Pakistan accounting for $14 billion in trade in 2018 and Pakistan's to China only $1.75 billion.[18] Beijing and Islamabad amended the agreement in April 2019 to improve duty-free access for Pakistani goods to the Chinese market, but the underlying issue of Pakistan's poor economic competitiveness relative to Chinese firms has not been addressed.

A second source of dissonance is in the nature of Gwadar Port, which is identified as part of China's so-called string of pearls investments in port infrastructure that could be used for dual civilian and military purposes. To naval planners in the United States and India, Gwadar and the Chinese naval installation in Djibouti extend China's naval capabilities in the Indian Ocean region and give China multiple supply locations proximate to the Persian Gulf. Between Djibouti and Gwadar, and other potential facilities in the region in the Maldives and Sri Lanka, the People's Liberation Army Navy (PLAN) would have greater freedom of movement and resupply to protect China's sea-based oil supply, more than half of which today comes from the Middle East and which is projected to double again over the next fifteen years.[19] From the PLAN's perspective, Gwadar could also be supplied by land (at least in theory), thereby reducing the cost of the venture. Also, the risk is growing that the increased presence and access enjoyed by the PLAN in the Indian Ocean region could enable Chinese forces to disrupt the freedom of navigation of commercial vessels in the region, as has occurred in the South China Sea in recent years.

Gwadar has deep roots in Pakistan's military doctrine. Since the 1971 India-Pakistan war, the Pakistan Navy coveted options to expand its basing and resupply footprint away from the Indus River delta, which had been the subject of a humiliating blockade by the Indian Navy. Originally designated as a potential deep-water port site in the 1950s by the US Geological Survey, President Pervez Musharraf secured an agreement from China in 2001 to develop the port, though China declined to operate it initially. The port became operational in 2007 and was managed by the Maritime and Port Authority of Singapore, but remained largely isolated. Until 2016—that is, until CPEC—no paved road ran between Gwadar and the Pakistani heartland.

Under the auspices of CPEC, China has expanded its participation in Gwadar. In April 2017, China Overseas Port Holding Company signed a forty-year lease, under which it committed to expand the port and develop an industrial area in association with other Chinese state-owned companies. Even so, Gwadar remains more idea than reality. Road connectivity remains sparse, though the completion of a coastal highway to Karachi and an inland link north toward Quetta are important steps. Rail and pipeline connectivity remain nonexistent, and Gwadar itself continues to depend on electricity imported from Iran.[20] Although plans to industrially develop Gwadar have been announced under the rubric of a special economic zone, materialization of these plans depend on the completion of a desalinization facility to provide steady fresh water, a power plant supported by coal imports, and rail connectivity.[21] The most visible sign of progress to date was the ground breaking in November 2019 for a $550 million, 300-megawatt, coal-fired power plant at Gwadar Port by the China Communications Construction Company.

The naval challenge presented by Gwadar grabs headlines, but the reality is that Pakistan and China have already taken important strides that alter the strategic situation in the Indian Ocean region. PLAN vessels, including submarines, have resupplied at Karachi and Bin Qasim ports, demonstrating that China is capable of substantial access. Within months, PLAN could operationalize a transformed relationship with the Pakistan Navy even without a stand-alone PLAN facility at Gwadar by staging the materiel, commodities, and personnel necessary to support any future forward operation in Pakistan. Gwadar's development is less strategically important in light of that reality, but it likely remains a long-term option.

The third source of dissonance about China's intentions relate to counterterrorism. Under UN Security Council Resolution (UNSCR) 1267, the United States successfully pushed for a raft of terrorist designations in the immediate aftermath of the 9/11 attacks. On numerous occasions since, China has protected Pakistan from multilateral sanctions related to the presence of militants in its territory, whether individual members of the Taliban and the Haqqani Network, charities linked to Lashkar-e-Taiba, Jamaat-ud-Dawa, Jaish-e-Mohammed, or other India-focused terrorist groups.

As a permanent member of the UN Security Council, China has the right to veto international sanctions or other matters brought before it. However, under the UN terrorist sanctions regime, which operates by unanimous consent, it has not needed to use its veto to protect Pakistan. Instead, China relies on a bureaucratic procedure to hold proposed listings with material of potential concern, including designations that reference individuals or entities of Pakistani origin or located in Pakistani territory; designations that relate to a group or action widely perceived as based in Pakistan that could represent grounds of multilateral censure of the Pakistani state; or designations introduced by India that, if approved, might be seen as legitimizing India's claims in the India-Pakistan conflict.

Despite its pattern of shielding Pakistan from sanctions, in some instances China has allowed new designations against entities or individuals in Pakistan to be executed, if not implemented. Immediately after the 2008 Mumbai attacks, for example, when a group of Lashkar-e-Taiba militants targeted the central business and tourist district of the city and killed 164 people, China acquiesced to the listing under UNSCR 1267 of the attacks' masterminds, who included Hafiz Saeed and Rehman Lakhvi. Since then, other sanctions have been passed, including those against members of the Haqqani Network, which was associated with attacks in Afghanistan against either US or international diplomatic facilities. In April 2019, after ten years of procedural blocks, China acquiesced to sanctions against Masood Azhar, the leader of Jaish-e-Mohammed, a UN-designated terrorist group responsible for multiple attacks against India, including the February 2019 suicide attack at Pulwama, in India's Jammu and Kashmir region.

Pakistani links to terrorism will remain a vulnerability for China's efforts. Directly, Chinese nationals in Pakistan have faced threats from terrorist groups operating from Pakistani territory. A number of recent incidents highlight the risk. In May 2019, Baloch militants stormed Gwadar's Pearl Continental Hotel, which is frequented by Chinese nationals as a result of CPEC investments; five Pakistanis were killed in the course of the attack. In November 2018, militants attempted to attack the Chinese Consulate in Karachi, killing local guards. Two Chinese nationals, reportedly language teachers, were kidnapped in June 2017 in Quetta, Balochistan, and later found dead. Internationally, the presence of terrorist groups in Pakistan also opens Pakistan up to sanctions scrutiny, including by the Financial Action Task Force (FATF). With China assuming the FATF's one-year presidency for the first time in July 2019, a test case of the country's maturation as an international stakeholder will occur in this context. During this time, Chinese officials will lead the international effort to provide enhanced scrutiny of the progress being made by Pakistan in addressing deficiencies in its anti–money laundering and counterterrorist financing regime and enforcement record.

Conclusions

China's economic surge into Pakistan comes at a time of heightened stakes in South Asia. Pakistan is in a deteriorating stalemate with its existential foe India, which has far greater conventional military and economic capabilities. Yet India faces a widening conventional arms deficit with China, whose economy has grown for nearly four decades far faster than India's has. With an eye toward fostering potential like-minded partners in a new era of great power competition, the United States has attempted to build a stronger partnership with India. At the same time, Washington continues to rely on Islamabad for access to Afghanistan. China's position remains flexible in the region, pursuing expansive trade and economic relations with India, embarking on growing investments in Pakistan through CPEC and across the broader region, while also investing in enhanced military capabilities that will eventually enable China to act on its growing ambitions in the Indian Ocean region. China's economic surge into Pakistan is an opportunity to test the proposition of whether Beijing can translate its growing wealth into growing political authority and security influence in the region.

Pakistan has a history of positioning itself as the near-term beneficiary of great power competition. It did so during the Cold War to solicit substantial economic and military support from the United States, building on its economic relationship stemming from its status as a former British colony. It used the unique platform it enjoyed as the junction between Europe and East Asia to facilitate Washington's opening to Beijing. Pakistan also leveraged its position to receive military support to counter the Soviet threat in Afghanistan as well as support from China to develop its nuclear weapons capability to check India's development.

Pakistan's current approach of accepting robust Chinese support while alienating the United States seems to break with its past flexible alignment posture. Unless relations with Washington are repaired, Islamabad's current course could result in a dependency on Beijing. But will China deliver on Pakistani hopes? Multiple areas of strategic dissonance undermine Pakistan's wish list. The notion of a China-Pakistan transit corridor across the Karakorum Mountains seems infeasible, and counterterrorism concerns are likely to be a persistent source of tension. Only from a naval perspective is Pakistan's strategic position clearly relevant—though not because of the port at Gwadar; rather, because Pakistan already affords access to China's navy on an ad hoc basis. Will China deliver on its promise to help industrialize Pakistan? The answer to this question may ultimately have more to do with Pakistan's economic competitiveness and whether an economic reform agenda, such as the one articulated by the IMF in July 2019, can stick than with the CPEC investments themselves. Without reform and expanded investment in Pakistan's industrialization, it is likely that the opportunity presented by new transportation and energy infrastructure will be lost. China is not the only potential source of this investment, but without a significant improvement in ties with the United States and a relaxation of global sanctions relating to counterterrorism concerns, right now China is Pakistan's exclusive bet.

For India, China's expanding role in Pakistan is a significant concern. The best-case scenario is that China's expanded presence raises the potential costs of conflict between India and Pakistan and thus reduces the likelihood of conflict. Yet during the February 2019 crisis after the terrorist attack at Pulwama, Beijing did not step in to shield Pakistan from Indian retaliation, nor did it prevent Pakistan from responding to India's cross-border air strikes. It is therefore an open question whether China will use its growing influence over Pakistan to prevent conflict with India. The greater risk remains that Chinese backing will embolden Pakistan to challenge India, both through terrorism and further expansion of Pakistan's conventional and strategic arsenals. As a result, India is likely to hedge against a more aggressive Chinese presence in Pakistan, including a growing military presence.

China's gradual expansion of ties with Pakistan has positioned Beijing to maximize its influence, seize market space, and advance military-to-military ties in the coming years. Going forward, China must navigate difficult trade-offs. Continuing CPEC along the lines of the current plan through 2030 will deepen China's exposure to risk in Pakistan and strategic risk in South Asia. As Chinese firms invest more in Pakistan, they will become vulnerable to its unstable economic and security environment. As more Chinese nationals live and work in Pakistan, the risks they face from violent extremists will grow. China has thus far avoided the type of threats from international terrorism that the United States and Europe face, but the more it participates in the lives of societies vulnerable to extremism, the greater hostility it will face from extremists.

China will also need to negotiate trade-offs between its engagement in Pakistan and its growing economic relationship with India. China and India boast an annual trade worth $69.4 billion, which is four and a half times Pakistan's with China.[22] Like the United States, China has attempted a de-hyphenation policy, by which it pursues parallel relations with both India and Pakistan. If China's support for Pakistan emboldens the worst of Pakistani behavior, Pakistan could become a strategic burden and not an asset for China in the context of its dealings with India.

For the United States, understanding China's expanded engagements is necessary to identify areas of competition and areas of convergence. China's naval and military role in Pakistan, for example, is a growing risk to the United States, though not particularly due to the development of Gwadar Port. If China's engagement in Pakistan bolsters Pakistan's development and deployment of advanced nuclear weapons capabilities or in deploying militant proxy groups, then clearly China's presence would be a threat to the United States. In this circumstance, China's engagement could accelerate the alignment of India and the United States. The more China is seen as enabling Pakistan to threaten India, the more India may require external support from the United States. This consequence of CPEC is, in this sense, an opportunity to grow the US-India partnership that should be exploited by US policymakers in the coming years.

On the other hand, CPEC is also revealing spaces where US and Chinese interests may again converge in Pakistan. China's investments are threatened by Pakistani instability and Pakistan's support for terrorism. Because of CPEC, then, China should have an increasing interest in addressing the sources of Pakistan's instability. Reducing the threat Pakistan poses to international peace and security, and at the same time improving Pakistan's viability as an economic partner, is a common interest of both the United States and China. To test Beijing's willingness to collaborate, the United States could offer targeted support to help Pakistan determine how to make the most of Chinese infrastructure to grow its economy. If the United States bets on its historical pro-market values, a stronger, more vibrant, and more competitive Pakistan could be built with the help of US firms leveraging the benefits of Chinese-built infrastructure.

Notes

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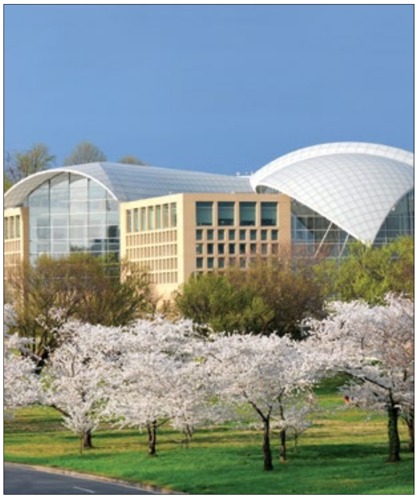

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