

Impact of Geo-economics on Pak-China Strategic Relations

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Abstract

Geo-economics is becoming an integral component of inter-state relations. States are employing economic instruments to project their power, thus, redefining their traditional relations with other states. Pakistan and China view each other as strategic partners. Over the decades, China has extended considerable economic, military and technical assistance to Pakistan. As both neighbours expand their economic relationship through infrastructure development and trade corridors, including the China Pakistan Economic Corridor (CPEC), such cooperation will directly interact with their existing strategic partnership. Beijing and Islamabad have been pursuing their geo-strategic interests in a framework that is progressively being shaped by geo-economics. The Chinese role and interests, in shaping the regional security order, are increasing. Geo-economic instruments are being employed to achieve geo-strategic objectives in a region, which is already marked by conflict and instability. This study explores how expanding economic relationship between Beijing and Islamabad will influence the bilateral strategic engagement, and in turn, impact the dynamics of the regional security.

Keywords: Geo-economics, China, Pakistan, China-Pakistan Economic Corridor (CPEC), Regional Security.

Introduction

Nations are resorting to geo-economics as an effective instrument of statecraft to pursue their geo-strategic interests. Trade, investment and economic cooperation are becoming first choice tools for conducting foreign policy. China and Pakistan, traditionally strategic partners, are also expanding their relationship in the economic sphere. The China-Pakistan Economic Corridor (CPEC) is its one manifestation. At the same time, both

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neighbours are pursuing their national interests under the shadow of complex regional security environment, marked by conflict and instability. The challenge for Beijing and Islamabad is to advance their economic and security interests, despite complex dynamics of regional security and stability.

This paper attempts to analyse the implications of China's strategic use of economic power in its ever-expanding strategic partnership with Pakistan. The questions explored are: Why the bilateral relationship is taking a geo-economic character? What are the means of geo-economic engagement between the two neighbours? How this interplay will impact the regional security order? In essence, this paper analyses and distinguishes between the traditional geo-strategic partnership i.e., defence cooperation and foreign policy alignment; and emerging economic relationship focusing on investments in Pakistan's energy and infrastructure sectors, while operationalising Gwadar port and the network of roads, railways and economic zones connecting China and Pakistan.

Theoretical Framework

In the post-Cold War era, the role of economic instruments, opposite to military power, has grown in foreign relations. However, economic and trade policies also entail geo-political consequences. Similarly, the geo-strategic manoeuvres and changes in national power impact health of economies and trade among nations. The phenomenon is broadly referred to as 'geo-economics.'

In the literature of strategic studies, only few studies have explored the use and impact of economic power. Traditionally, geo-economics has been studied as a sub-set of geo-politics, where geo-economic instruments were analysed along with the traditional strategic means of exercising power. Neo-realists perceive military force as the primary instrument of power projection in international politics. Even those who have analysed the role of non-military instrument in conducting statecraft have not distinguished according to the nature and usage of military and economic forms of power.¹

¹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, 3rd ed. (Boston: New York, 2001) and Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University

The first wave of intellectual debate on geo-economics, as an instrument of national power, commenced towards the end of the Cold War. Various scholars analysed ‘economics as continuation of war by other means,’² by putting it at a cross-section of geo-economic and geo-strategic competition among nations. The first major work to explore the relationship between national power and limited economic resources was Paul Kennedy’s authoritative study, *The Rise and Fall of The Great Powers*. He advanced the hypothesis of ‘imperial overstretch’ and argued that “all of the major shifts in the world’s military power balances have followed alterations in the productive balances; and the rising and falling of the various empires and states in the international system has been confirmed by the outcomes of the major Great Power wars, where victory has always gone to the side with the greatest material resources.”³

Next, Edward Luttwak furthered the concept of geo-economics as a post-Cold War manifestation of the geo-political competition. He posited that, with the spread of globalisation, inter-state conflict will increasingly adopt the ‘grammar of commerce.’ He argued that “methods of commerce are displacing military methods — with disposable capital in lieu of firepower, civilian innovation in lieu of military technical advancement and market penetration in lieu of garrisons and bases. States, as spatial entities structured to jealously delimit their own territories, [will] reorient themselves toward geo-economics in order to compensate for their decaying geopolitical roles.”⁴

This view echoed of neo-mercantilism in a globalised world. Samuel Huntington boldly expanded the argument and observed, “Economic activity is a source of power, as well as well-being. It is, indeed, probably the most important source of power and in a world in which military conflict between major states is unlikely economic power will

Press, 1999).

² Daniel Bell, *The Cultural Contradictions of Capitalism: 20th Anniversary Edition* (New York: Basic Books, 1996), 330.

³ Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), 439.

⁴ Edward N. Luttwak, “From Geopolitics to Geo-economics: Logic of Conflict, Grammar of Commerce,” *National Interest*, no. 20 (Summer 1990):18, <http://www.jstor.org/stable/42894676>

be increasingly important in determining the primacy or subordination of states.⁵

Huntington's argument that future conflicts and structure of the world order will be determined by economic power was essentially, a call for a strategy of 'economic power maximisation' by major powers. It comprised of five components:

- i. Seeking economic power over prosperity and well-being.
- ii. Building manufacturing capacities for domestic and foreign markets.
- iii. Focusing on increasing market share despite losses.
- iv. Restricting imports and incoming foreign direct investments.
- v. Building surplus foreign reserves and maintain favourable trade balances via strong currencies.⁶

Geo-economics, thus, focuses on pursuing the geo-strategic interests even in the absence of a mutually advantageous trade relationship. In essence, it is the geo-strategic exercise of economic instruments and resources.⁷ States often combine the elements of geo-strategy and geo-economics to project power. The geo-strategic display of power is overt, conducted through military and diplomatic means. The geo-economic power projection, however, is covert, exercised through the economic instruments for accommodation or even patronage of the other actor. The geo-economic means involve the incentives such as more investments, low-cost loans, lesser tariffs on goods, etc., which are operationalised gradually. In this way, geo-economics is essentially about employing the economic instruments to advance national interests for producing favourable geo-strategic outcomes and impacting other nation's economic and trade policies over their geo-strategic objectives.

In the inter-state relations, geo-economics operates in parallel with geo-strategy to enhance influence and power of a state through economic

⁵ Samuel P. Huntington, "Why International Primacy Matters," *International Security* 17, no. 4 (1993): 71-72, <https://www.jstor.org/stable/2539022>.

⁶ *Ibid.*, 73-5.

⁷ Mikael Wigell, "Conceptualising Regional Powers' Geo-economics Strategies: Neo-Imperialism, Neo-Mercantilism, Hegemony and Liberal Institutionalism," *Asia Europe Journal* 14, no. 2 (2015): 18, <https://link.springer.com/article/10.1007/s10308-015-0442-x>.

instruments, along with military elements. Sole reliance on military instruments leads to seeking zero-sum security, while employment of the geo-economic tools create and expand the space for outcomes beyond zero-sum, while being equally powerful in effect.⁸

Pak-China Economic and Security Relationship: Current Status

The Pak-China relations are based on a comprehensive geo-strategic and realist calculus. It is a multidimensional relationship and mandates that the top leadership, from both sides, continuously guide it. For Pakistan, the strategic partnership with China is a strong pillar of its foreign policy.⁹ For China, relationship with Pakistan is a crucial component of its South Asia policy. Both countries have always extended an all-out support to each other during critical times. Gradually, the closer political and military relationship has been expanding into economic sphere for regional cooperation and connectivity. The CPEC now forms the bedrock of the future ‘all-weather’ strategic engagement between the two neighbours, giving it a geo-economic character.

The genesis of the ‘all-weather’ friendship dates back to 1950, when Pakistan recognised the People’s Republic of China. In May 1951, diplomatic ties were established between Beijing and Islamabad.¹⁰ However, it was in 1955, on the eve of the Afro-Asian Conference in Bandung, Indonesia, when political leadership of the two nations exchanged views on international affairs and bilateral relations. At that time, Beijing was alarmed by Pakistan’s participation in the Southeast Asia Treaty Organisation (SEATO), a US backed regional security pact. Mohammad Ali Bogra, Prime Minister of Pakistan, explained to the Chinese Premier Zhou Enlai that Pakistan would not become party to any hostile action against China and it will not prejudice Pakistan’s bilateral

⁸ Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geo-economics and Statecraft* (S.I.: Belknap Press, 2017), 24.

⁹ Sartaj Aziz, *Strategic Vision of Pakistan’s Foreign Policy*, June 25, 2014, Statement at the Senate Standing Committee on Foreign Affairs, Islamabad, 4.

¹⁰ Ministry of Information, Broadcasting and National Heritage, *Major Events in the China-Pakistan Relations over the Past 65 Years*, http://infopak.gov.pk/pakchina.aspx?Page_ID=66.

relationship with Beijing.¹¹ Since then, the relationship has gradually grown through multifaceted cooperation and mutual support at international forums. Irrespective of the government in Pakistan — civilian or military — the relationship with China has remained a defining feature of Pakistan's foreign policy.

In March 1963, both countries signed a border agreement, delineating their boundary. Air links were also established, which opened the communist China to the wider world. Later, both the sides agreed to construct the Karakoram Highway (KKH), connecting Xinjiang region with the Northern areas of Pakistan. The year 1965, was the water-shed year in the bilateral relationship. During the 1965 Indo-Pak war, China extended political and material support to Pakistan while the US imposed an arms embargo during the war. It compelled Islamabad to search for another external balancer against New Delhi. Beijing agreed to provide military assistance and, hence, became an answer to Pakistan's quest for ensuring its national security.

Despite different cultures and belief systems, foreign relations between China and Pakistan have endured changing geo-strategic environment. First friendship treaty was signed in April 2005, when Islamabad and Beijing inked "China-Pakistan Treaty of Friendship and Cooperation and Good Neighbourly Relations." They agreed that 'neither party will join any alliance or bloc which infringes upon the sovereignty, security and territorial integrity' of either nation. Both neighbours also undertook to not allow their territory to be used by a third-nation or any non-state organisation to undermine sovereignty, security and territorial integrity of the other.¹² In July 2013, an agreement on the "Common Vision for Deepening China-Pakistan Strategic Cooperative Partnership in the New Era," was inked on the eve of Prime Minister Sharif's visit to China. This development added economic dimension to the relationship and deepened the existing strategic partnership.¹³

¹¹ Hafeez-ur-Rehman Khan, "Pakistan's Relationship with the People's Republic of China," *Pakistan Horizon* 14, no. 3 (Third Quarter, 1961): 212-232, <http://www.jstor.org/stable/41392669>

¹² "China and Pakistan Sign Treaty for Friendship, Cooperation and Good-neighbourly Relations," *People's Daily Online*, April 6, 2005, http://en.people.cn/200504/06/eng20050406_179629.html.

¹³ Ministry of Foreign Affairs of the People's Republic of China, *Common Vision for Deepening China-Pakistan Strategic Cooperative Partnership in the New Era*, July 5, 2013, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1056958.shtml.

The bilateral cooperation expanded to the sectors of defence, technology and energy continues. From mid-1960s, China has emerged as a key supplier of military hardware to Pakistan. The JF-17 Thunder fighter aircraft is the trademark of the bilateral defence cooperation. Beijing also extended technical assistance in establishment of the munitions factories in Pakistan, a step towards building Pakistan's self-reliance in defence production. Joint military exercises and trainings at military institutions has been a regular feature of the defence cooperation.¹⁴ Similarly, Beijing cooperated with Islamabad in the nuclear field, particularly, in civil-nuclear energy sector, after inking of 1986 nuclear cooperation agreement.¹⁵ Likewise, in early 2000s, both countries undertook construction of a deep-sea port at Gwadar, near the Strait of Hormuz in the Arabian Sea. In early 2013, Pakistan tasked a Chinese firm to operationalise the strategic port.¹⁶ Aside from a host of bilateral cooperation, it was an 'all-out' diplomatic support to each other at international forums that strengthened the bilateral relationship. China, for decades, supported Pakistan's position on Kashmir and lobbied against the proposals at the United Nations (UN) that otherwise, would have undermined Pakistan's interests.¹⁷ After dismemberment of East Pakistan in 1971, China vetoed Bangladesh's entry into the UN.¹⁸ Beijing only recognised the government in Dhaka after Islamabad had established diplomatic relations with it. Similarly, during Pakistan's often-tense relations with Washington, Beijing publicly supported Pakistan. For instance, after the US operation in Abbottabad that killed Osama Bin Laden, the Chinese Premier, Wen Jiabao, publicly supported Pakistan.¹⁹

¹⁴ For backgrounder on defence relations see Qandeel Siddique, "Deeper than the Indian Ocean? An Analysis of Pakistan-China Relations," SISA, report no.16, 2014, February 2014, http://strategiskanalyse.no/Publikasjoner%202014/2014-02-27_SISA16_Sino-Pak_QS.pdf

¹⁵ *Ibid.*, 35-42.

¹⁶ Declan Walsh, "Chinese Company will Run Strategic Pakistani Port," *New York Times*, January 31, 2013, <http://www.nytimes.com/2013/02/01/world/asia/chinese-firm-will-run-strategic-pakistani-port-at-gwadar.html>.

¹⁷ For a background on China's Kashmir policy see, John Garver, "China's Kashmir Policies," *India Review* 3, no. 1 (2004): 1-24, <http://www.tandfonline.com/doi/abs/10.1080/14736480490443058>

¹⁸ Robert Alden, "China's First UN Veto Bars Bangladesh," *New York Times*, August 26, 1972, http://www.nytimes.com/1972/08/26/archives/chinas-first-un-veto-bars-bangladesh-soviet-union-and-india-are.html?_r=0.

¹⁹ "China Endorses Pakistan's Response to US Raid: PM," *Express Tribune*, May 18, 2011, <https://tribune.com.pk/story/171099/gilani-hails-all-weather-friend-china/>.

Pakistan, on its part, reciprocated the friendly gestures by steadfastly supporting One-China policy by not recognising the government in Taiwan.²⁰ Pakistan also supports the Chinese position on Tibet. Pakistan has been a bridge between China and the US, which led to the establishment of relations between the two great powers.²¹ Meanwhile, Islamabad refrained from taking a public stance on the Uighur issue in China and ensured that it is also not taken up by the Organisation of Islamic Countries (OIC). Beijing acknowledged Pakistan's due role in this regard.²²

Despite strong defence and technical cooperation, trade and investment remained a weaker area in the bilateral relationship for decades. Islamabad has, occasionally, reached out to Beijing for economic assistance to meet its pressing financial needs. In 1996, China provided US\$500 million to shore up Pakistan's depleting foreign exchange reserves.²³ However, Beijing has not been eager to offer extended financial assistance every time. In 2008, while on the brink of default, Pakistan sought a soft loan of more than US\$1.5 billion from Beijing. China, however, only agreed to provide US\$500 million, which forced Pakistan to seek a comprehensive economic assistance package from the International Monetary Fund (IMF).²⁴ Meanwhile, trade between both countries has gradually increased from US\$774 million in 2001, to nearly US\$13 billion in 2016.²⁵ However, the balance of trade is tilted in the favour of the Chinese exporters, as they exported goods and services to the tune of nearly US\$11 billion to Pakistan. The volume of trade increased after conclusion of a Free-Trade Agreement

²⁰ Ministry of Foreign Affairs, *Joint Statement between the Islamic Republic of Pakistan and the People's Republic of China on Establishing the All-Weather Strategic Cooperative Partnership*, April 20, 2015, <http://www.mofa.gov.pk/pr-details.php?mm=MjczMw>.

²¹ "Getting to Beijing: Henry Kissinger's Secret 1971 Trip," USC US-China Institute, July 21, 2011, <http://china.usc.edu/getting-beijing-henry-kissingers-secret-1971-trip>.

²² Sajjad Malik, "Pakistan Saved China from Embarrassment on Xinjiang Violence," *Daily Times*, September 5, 2009.

²³ Rashid Amjad and Shahid Javed Burki, *Pakistan: Moving the Economy Forward* (Cambridge: Cambridge University Press, 2015), 87.

²⁴ Jane Perlez, "Rebuffed by China, Pakistan May Seek I.M.F. Aid," *New York Times*, October 18, 2008, <http://www.nytimes.com/2008/10/19/world/asia/19zardari.html?ref=asia%2C>.

²⁵ Neelum Nigar, "Bilateral Trade between Pakistan and China (1960-2016)," Institute of Strategic Studies Islamabad, Issue Brief, June 2017, <http://issi.org.pk/wp-content/uploads/2017/06/Bilateral-Trade-between-Pakistan-and-China.pdf>.

(FTA) between both the governments in 2006. To enhance the bilateral trade, both countries concluded a currency-swap agreement for trade in the local currencies in 2011.²⁶ In March 2017, Pakistan granted the license to the Bank of China for opening its first branch in Pakistan.²⁷

The Chinese Foreign Direct Investments (FDI) in Pakistan have increased steadily following the announcement of the CPEC. Prior to the CPEC, FDI from China, between 2006 and 2013, was recorded at US\$1.1 billion, with highest being US\$712 million in 2006-07. Conversely, from 2013 till April 2017, the Chinese firms invested US\$2.2 billion in infrastructure and energy projects in Pakistan.²⁸ The current wave of FDI is a part of the CPEC infrastructure development and energy generation projects, along with operationalisation of the Gwadar port.

Pak-China Strategic Partnership: Interplay of Geo-economics

In April 2015, on the eve of President Xi Jinping's visit to Pakistan, both governments announced an economic and a trade corridor.²⁹ The CPEC was announced at a time when a rising China was beginning to take greater interest in the regional and global politics. Instead of relying on traditional defence cooperation and arms sales, Beijing has been adding an active economic component to its foreign policy.

Military cooperation and strategic engagement in itself has their limitations in inter-state relations. Relations between nations are not only defined by cooperation in military affairs instead, military and security cooperation is but one aspect of the broader bilateral relationships. For nearly five decades' close defence and technical collaboration, including sensitive fields, defined China-Pakistan relationship. Even the construction of the KKH, which is largely a development project, had a strategic rationale to it. Military cooperation did deepen the bilateral relationship while expanding

²⁶ Shahbaz Rana, "Pakistan, China Sign Currency Swap Agreement," *Express Tribune*, December 23, 2011, <https://tribune.com.pk/story/311206/pakistan-china-sign-currency-swap-agreement/>.

²⁷ Sanaullah Khan, "Bank of China to Open First Branch in Pakistan," *Dawn*, May 13, 2017, <https://www.dawn.com/news/1332915>

²⁸ "Chinese FDI in Pakistan During 1999-2017," Institute of Strategic Studies Islamabad, <http://issi.org.pk/chinese-fdi-in-pakistan-during-1999-2017/>.

²⁹ Mateen Haider and Irfan Haider, "Economic Corridor in Focus as Pakistan, China Sign 51 MoUs," *Dawn*, April 20, 2015, <https://www.dawn.com/news/1177109>

Beijing's influence within Pakistan's policy-making elite. It worked smoothly till the time Beijing was not pro-active in the broader Asian affairs.

Extensive defence collaboration and technical assistance from Beijing enabled Islamabad to balance its arch-rival, India. Defence cooperation and sharing of military technology also has an un-intended potential of escalating the regional tensions, a prospect Beijing has counselled against. China supported Pakistan's position on Kashmir during 1970s and 1980s. In 1990s, however, the Chinese stance began to shift. In December 1996, in an address to Pakistan's Senate, the then Chinese President, Jiang Zemin, suggested that the unresolved disputes should be set aside, temporarily, for longer-term stability in the region.³⁰ Even during the Kargil conflict, China reiterated the call for resolving the disputes through negotiations, while emphasising need of 'defusing tensions.'³¹ Similarly, 15-years later, President Xi Jinping, emphasised the need for stability and security as a pre-requisite of development.³² In this sense, introducing a framework of economic cooperation and development inhibits the conflictual tendencies and also expands Beijing's footprint in the region.

With the CPEC, transformation in the bilateral relationship is underway. Large-scale investments by China's State-Owned Enterprises (SOEs) in infrastructure and energy projects implies that Beijing will prioritise the trajectory of economic relationship between both nations. Capitalising on existing strategic partnership, China intends to connect with Pakistan's US\$300 billion economy. The magnitude of the CPEC initiative makes it clear: consisting of three interconnected north-south routes, it is intended to upgrade transport infrastructure, boost energy production and industrial capacity of Pakistan. The CPEC will be connecting the populous Punjab province, the Gwadar port (Balochistan), Karachi (Sindh) and the city of

³⁰ "Speech by President Jiang Zemin of the People's Republic of China at Islamabad," Institute of Chinese Studies, December 2, 1996,

<http://journals.sagepub.com/doi/abs/10.1177/000944559703300213?journalCode=chra>

³¹ Sartaj Aziz, *Between Dreams and Realities: Some Milestones in Pakistan's History* (Karachi: Oxford University Press, 2009), 268.

³² Ministry of Foreign Affairs, the People's Republic of China, *President Xi Jinping Speech at Pakistan's Parliament 'Building a China-Pakistan Community of Shared Destiny to Pursue Closer Win-Win Cooperation*, April 21, 2015, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdjstjxgsfwbfydnxycxyfldrhyhwlhy60znjnhd/t1257288.shtml.

Kashgar (Xinjiang) while passing through Gilgit-Baltistan and Khyber-Pakhtunkhwa (KPK). In a way, security relationship opened the way for China's long-term access to Pakistan, particularly, the Gwadar port and the Arabian Sea.

For Pakistan, the CPEC presents an opportunity to redirect its economy towards growth and industrialisation. After nearly a decade, following construction of the Gwadar port, Beijing and Islamabad are jointly undertaking an economic development initiative. The initial announcements included the Chinese pledge to invest nearly US\$11 billion in infrastructure and US\$33 billion in energy production projects over the next 15 years.³³

The volume of the Chinese investments under the CPEC makes it the single largest influx of foreign capital in Pakistan, since its independence in 1947. The magnitude of the CPEC investments is twice the combined economic and military aid Islamabad received from Washington, since 2001, as a front-line state in war against terrorism.³⁴ For years, Pakistani economy has grown at an average rate of 4 per cent.³⁵ It is expected that the CPEC will boost the Gross Domestic Product (GDP) growth rate by another 2 per cent while allowing Pakistan to achieve much-needed political and economic stability and regional integration.³⁶

Yet for Beijing, the CPEC is one of the six trade corridors under the Belt and Road Initiative (BRI). Other five corridors require multilateral cooperation and, thus, are in varying stages of implementation. The CPEC, however, is a bilateral initiative. Successful undertaking of the CPEC is crucial for smooth implementation of the BRI. Beijing needs to demonstrate that its model of economic development produces the desired results and is equally beneficial for other countries participating in the BRI. It requires

³³ Haider and Haider, "Economic Corridor in Focus as Pakistan."

³⁴ Pakistan received Coalition Support Fund reimbursements of US\$14.5 billion, thus, subtract it and total aid is US\$18.8 billion. For details, "Direct Overt US Aid Appropriations for and Military Reimbursements to Pakistan, FY2002-FY2018," Congressional Research Service, May 23, 2017, <https://fas.org/sgp/crs/row/pakaid.pdf>.

³⁵ "Pakistan GDP growth (annual %)," World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2015&locations=PK&start=2007>.

³⁶ "CPEC to Boost Pakistan GDP Growth to 7.5%," *Nation*, October 08, 2016, <http://nation.com.pk/business/08-Oct-2016/cpec-to-boost-pakistan-gdp-growth-to-7-5>.

improvement in internal security of Pakistan and regional stability. Pakistan has committed itself to ensure security in those regions which are part of the CPEC routes. This again is manifestation of China attempting to achieve geo-strategic objectives through economic means.

Meanwhile, the traditional avenues of cooperation i.e., defence and foreign policy support between Islamabad and Beijing are also deepening. An assertive China is gradually showing the willingness to take on the responsibilities of international leadership.³⁷ Pakistan, on its part, has welcomed the 'peaceful' rise of China and looks to benefit from Beijing's global influence.³⁸ Given Pakistan's all-out support to the BRI, Beijing, in turn, has also extended all-out-support to Islamabad's foreign policy goals. Since onset of the CPEC, China has endorsed Pakistan's application for entry into the Nuclear Suppliers Group (NSG)³⁹ and held up the Indian-backed proposal to put Masood Azhar on the UN-designated terrorists list.⁴⁰ Beijing has supported Islamabad on these issues despite concerns raised by New Delhi. By disregarding the Indian reservations, China has taken public positions on these two issues, thus, also raising the commitment cost for itself.

In the realm of defence cooperation, in tandem with the CPEC, both countries announced a US\$5 billion deal for the sale of eight Chinese submarines to Pakistan. It is the single largest defence deal by China.⁴¹

³⁷ In 2014, President Xi Jinping called for building up of an Asian security regime by the Asian nations and in early 2017, he defended Globalisation as a force for good at World Economic Forum, as the US turned inwards following election of President Donald Trump. Please see, Jamil Anderlini, Wang Feng, and Tom Mitchell, "Xi Jinping Delivers Robust Defence of Globalisation at Davos," *Financial Times*, January 17, 2017, <https://www.ft.com/content/67ec2ec0-dca2-11e6-9d7c-be108f1c1dce?mhq5j=e2>. and, Remarks by President Xi Jinping on Ministry of Foreign Affairs, the People's Republic of China, *New Asian Security Concept For New Progress in Security Cooperation*, May 21, 2014, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1159951.shtml.

³⁸ "Pakistan's Foreign Policy: Challenges & Opportunities," Statement by Mr. Sartaj Aziz, Adviser to the Prime Minister on Foreign Affairs, at the Pakistan Institute of International Affairs, Karachi, Ministry of Foreign Affairs, Islamabad, Pakistan, February 11, 2017, <http://mofa.gov.pk/pr-details.php?mm=NDc1NQ>

³⁹ "Foreign Ministry Spokesperson, Lu Kang's Regular Press Conference," Ministry of Foreign Affairs, the People's Republic of China, May 14, 2016.

⁴⁰ "China Blocks US Move to Designate Jaish Chief Masood Azhar a Terrorist at UN," *Dawn*, February 07, 2017, <https://www.dawn.com/news/1313303>

⁴¹ Shahbaz Rana, "Defence Cooperation: Pakistan to Buy Eight Submarines from China," *Express Tribune*, July 24, 2015,

These submarines will enable Pakistan to deploy an operational sea-based deterrent, thus, augmenting its nuclear triad. It is a clear signal of Beijing's interest in enhancing Pakistan's power projection capabilities while being a balancer in the Indian Ocean Region (IOR). From Beijing's standpoint, these submarines will lead to stability in South Asia, as with growing geo-economic engagement with the region, the Chinese role in the regional security order is also increasing.

Pak-China Geo-economic Cooperation: Challenges

Every economic and development partnership brings with it few challenges due to its very nature. The CPEC-centric cooperation between Islamabad and Beijing is not immune to such risks. Pakistan faces governance problems. Handling of a huge volume of investments and their absorption in Pakistan's economy requires professional management structures, which can streamline the cumbersome administrative processes. As the CPEC envisions cooperation in diverse sectors of Pakistani economy, the managers of Pakistan's economy need to be cognisant of quick and efficient decision-making to reduce bureaucratic bottlenecks. Moreover, after adoption of the 18th Constitutional Amendment, the provincial governments have been empowered to take decisions on the subjects and issues related to economy. The CPEC management, thus, requires greater coordination and collaboration among the federal and provincial bureaucracies, as well as policy-makers.

Besides governance issues, scale and pace of economic cooperation will also be influenced by the on-going learning experience of Beijing and Islamabad as part of implementation of the CPEC projects. Both governments will draw their own lessons. Pakistan's negotiating space for getting favourable terms and conditions for future projects depends on smooth implementation of the projects underway. Islamabad is also constrained to cooperate with Beijing in the absence of a large-scale FDI option from the Western world or other lenders. This creates a new dependency of Pakistan on China. Meanwhile, for Beijing, the trouble-free implementation of economic projects is crucial to the claiming success of its development model as an emerging power.

<https://tribune.com.pk/story/925514/defence-cooperation-pakistan-to-buy-eight-submarines-from-china/>

Pak-China Geo-economic Cooperation and Regional Security Order

Evolving geo-economic dimensions in the Pak-China relationship, particularly, the advent of the CPEC has introduced another layer of complexity in the regional security order. For decades, India factor guided the Pak-China relations, where both viewed each other as strategic hedge against New Delhi. New patterns began to emerge, however, during the last decade. Terrorism and conflict in Afghanistan and Pakistan complicated China's regional calculus. Analytically, thus, regional security, here, comprises two sub-sets:

- i. China-India and India-Pakistan rivalries, essentially, the South Asian security framework.
- ii. Conflict in Afghanistan and instability in Pakistan's border regions.

Regional Security in South Asia

The South Asian security order is largely being dominated by the protracted conflict between India and Pakistan. The unresolved dispute of Kashmir and the military tensions continued to overshadow the prospects of meaningful engagement between the two contending states. Pakistan also contests the Indian attempts to be a hegemon in South Asia.⁴² At the same time, China and India also have an unresolved border dispute. Military tensions often spike between New Delhi and Beijing. However, over last two decades, their focus shifted towards managing the border dispute and expanding the bilateral economic relationship. Yet, China remains a crucial factor in India-Pakistan rivalry, because of its strategic partnership with Islamabad. Expanding geo-economic relationship with Islamabad implies that Pakistan would count on Beijing's active support, more than before, in its rivalry with India. China, also, would increasingly have greater interest in India-Pakistan relationship, but from a different perspective.

For China, economic corridors under the BRI have two goals: strategic and economic. Premier Li Keqiang, during his May 2013 visit to Islamabad, said that Beijing "hope(s) to create a giant economic corridor that would not only enhance China's strategic significance but would also help in restoring

⁴² Syed Sammer Abbas, "India's Pursuit of Hegemonic Policies Creating Instability in Region," *Dawn*, October 11, 2016, <https://www.dawn.com/news/1289498>

peace and stability in Asia.”⁴³ His emphasis on restoring “peace and stability” was a clear indication of the Chinese policy of pursuing stability in the regional politics. Beijing, thus, has a vital stake in maintaining peace and stability in the region, particularly, between India and Pakistan. In September 2016, as Pakistan-India tensions heightened over Kashmir, Beijing counselled both sides to ‘exercise restraint,’ ‘avoid escalation’ and defuse tensions through ‘dialogue.’⁴⁴ It was a departure from China’s existing policy of non-interference in the affairs of other nations. However, given the growing Chinese stake in Pakistan’s economic development, owing to the CPEC, Beijing now has an interest in a stable relationship between Islamabad and New Delhi.

Meanwhile, China is also focusing on expanding economic cooperation with India, while avoiding tension. In 2016, China-India trade reached US\$71 billion⁴⁵ and the Chinese investments increased over US\$1 billion during the fiscal year 2015-16.⁴⁶ In 2014, President Xi announced plans to increase investments to US\$20 billion by 2019. Similarly, India has also been made a part of the BRI through Bangladesh-China-India-Myanmar (BCIM) Corridor. New Delhi, however, has not been receptive to the Chinese connectivity and regional integration initiatives due to its ‘core concerns on sovereignty and territorial integrity.’⁴⁷

⁴³ Syed Fazl-e-Haider, “China’s Premier Li Keqiang in Pakistan,” *Asia Times Online*, May 23, 2013, http://www.atimes.com/atimes/South_Asia/SOU-03-230513.html.

⁴⁴ “Foreign Ministry Spokesperson, Geng Shuang’s Regular Press Conference,” September 30, 2016, http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1402904.shtml.

⁴⁵ “India’s Trade Deficit with China Climbs to US\$46.56 billion,” *Economic Times*, January 13, 2017, <http://economictimes.indiatimes.com/news/economy/foreign-trade/indias-trade-deficit-with-china-climbs-to-46-56-billion/articleshow/56522187.cms>.

⁴⁶ Reshma Patil, “More Chinese Companies Investing in India but Political Thaws, Barriers Remain,” *Hindustan Times*, April 10, 2017, <http://www.hindustantimes.com/business-news/more-chinese-companies-investing-in-india-but-political-relations-barriers-remain/story-MABF9zw9hBAFqUy6LasFSP.html>.

⁴⁷ “Official Spokesperson’s Response to a Query on Participation of India in OBOR/BRI Forum,” Ministry of External Affairs, Government of India, May 13, 2017, <http://mea.gov.in/media-briefings.htm?dtl/28463/Official+Spokespersons+response+to+a+query+on+participation+of+India+in+OBORBRI+Forum>

India has expressed reservations on the route of the CPEC, which passes through Gilgit-Baltistan, part of the disputed Kashmir region, under administration of Pakistan. India claims that territory as part of whole Kashmir.⁴⁸ So far, Beijing has brushed aside the Indian concerns by arguing that economic development in the region does not alter its formal position on Kashmir dispute.⁴⁹ Beijing and Islamabad have been collaborating on the development projects in Gilgit-Baltistan region for decades. The construction of the KKH is but one example. Nonetheless, since the CPEC is central to success of the BRI, it increases China's interest in the South Asian regional stability to advance Beijing's economic interests.

Conflict in Afghanistan

In recent years, the Chinese interest in its western neighbourhood, particularly in Afghanistan, has increased. Beijing has focused on stabilising Afghanistan and stability of Pakistan to advance its own security and economic interests. In terms of separatism and terrorism, China has a vulnerable region of Xinjiang, which it aims to stabilise through economic development and counter-terrorism efforts. Islamabad initiated a large-scale military operation, *Zarb-e-Azb*, against Tehrik-i-Taliban Pakistan (TTP) and foreign fighters in North Waziristan in June, 2014. During past three years Pakistan army has cleared North Waziristan of foreign and local militants. Beijing has appreciated Pakistan's military action against the terrorism and militancy.⁵⁰

Militancy and terrorism in Afghanistan and its surrounding region can only be addressed through political resolution of the war in Afghanistan. The conflict, however, is quite complex in Afghanistan with the involvement of various stakeholders including the warring Afghan factions, the Afghan government, the regional and extra-regional powers, including the US. For decades, China stayed away from a proactive engagement in

⁴⁸ "CPEC Violates Sovereignty: S Jaishankar Tells China," *Indian Express*, February 22, 2017, <http://indianexpress.com/article/india/cpec-violates-sovereignty-s-jaishankar-tells-china-4538588/>.

⁴⁹ "Foreign Ministry Spokesperson, Hua Chunying's Regular Press Conference," January 18, 2017,

http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1431615.shtml

⁵⁰ "No PR-375/2015-ISPR, Foreign Minister of China met Army Chief," ISPR, December 9, 2015, https://www.ispr.gov.pk/front/main.asp?o=t-press_release&cat=army&date=2015%2F12%2F9.

Afghanistan, in recent years, however, it has developed economic and security interests in Afghanistan. Beijing is investing in copper mines⁵¹ and thus, seeks stability, which would also weaken the matrix of Islamist militancy in the region.

Pakistan remains central to any peace talks in Afghanistan. For Beijing, geo-economic partnership with Pakistan is also one of the means to pursue a settlement of the Afghan conflict. From late 2014, China has made consistent calls for peace talks in Afghanistan. In October 2014, Beijing proposed setting up a ‘peace and reconciliation’ forum, with participation from the Afghan government, China, Pakistan and the Taliban.⁵² It was indication of China’s willingness to play a greater role in brokering peace in Afghanistan. Few months later, the Chinese Foreign Minister, Wang Yi, offered ‘facilitation’ in ‘realising reconciliation’ between Afghan government and ‘political factions.’ He also noted that Pakistan was willing to play a ‘constructive’ role in peace process.⁵³ This was a signal expressing readiness and seriousness from Beijing for a constructive peace process, with an active participation from Pakistan.

China reiterated the same message during the state visit of President Xi Jinping, as he called on Islamabad to play a proactive role in the Afghan reconciliation process while assuring cooperation in the fight against ‘non-traditional actors.’⁵⁴ His bid for peace talks came at a time when Beijing had announced investments for the CPEC projects. The unequivocal message was: China is ready to make large-scale financial investments to shore up Pakistan’s ailing economy but it necessitates peace and stability in the region.

⁵¹ Michael Wines, “China Willing to Spend Big on Afghan Commerce,” *New York Times*, December 29, 2009, <http://www.nytimes.com/2009/12/30/world/asia/30mine.html>.

⁵² Jessica Donati, “China Seeks Greater Role in Afghanistan with Peace Talk Push,” *Reuters*, November 11, 2014, <http://in.reuters.com/article/us-afghanistan-china-idINKCN0IV1ED20141111>.

⁵³ Maria Golovkina, “China Offers to Mediate in Stalled Afghan Taliban Peace Talks,” *Reuters*, February 12, 2015, <http://www.reuters.com/article/us-pakistan-china-idUSKBN0LG1UP20150212>

⁵⁴ Ministry of Foreign Affairs, the People’s Republic of China, *President Xi Jinping Speech at Pakistan’s Parliament ‘Building a China-Pakistan Community of Shared Destiny to Pursue Closer Win-Win Cooperation*, April 21, 2015, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdjstjxgsfwbfydinxycyfldrhyhwlhy60zjnhd/t1257288.shtml.

In early 2016, China and Pakistan joined a four-nation process for commencing peace talks between Afghan government and the Taliban.⁵⁵ The Quadrilateral Coordination Group (QCG), comprising Afghanistan, China, Pakistan and the US, was an effort by the regional powers to commence a peace dialogue between the Afghan government and Taliban. It was a major initiative in the sense that China and the US as G-2 were directly participating in the dialogue process. It reflected Beijing's willingness to go an extra mile in ensuring constructive and fruitful negotiations for settlement of Afghan conflict. Earlier Beijing had hosted representatives of Taliban and Afghan government for back-channel talks, but the QCG was a front-channel initiative with the direct Chinese participation, a deviation from its past practice.⁵⁶ Though the QCG mechanism stalled within few months, but it was a reminder that a peace in Afghanistan is linked to the result-oriented peace process, that leads to long-term stability.

As the QCG became dormant, China again moved to initiate a trilateral process bringing Kabul and Islamabad on the negotiating table. In June 2017, the Chinese Foreign Minister, Wang Yi, undertook shuttle diplomacy, visiting Kabul and Islamabad, with the goal to "mediate to improve Pakistan-Afghanistan relations and push forward Afghanistan's political reconciliation."⁵⁷ As an outcome of the visit, Kabul and Islamabad agreed to improve their relations and establish crisis-management mechanisms.⁵⁸ Meanwhile, a China-Afghanistan-Pakistan Foreign Ministers' Dialogue was also proposed. The first meeting of the three foreign ministers was held in Beijing in December 2017. The three sides agreed on building 'political

⁵⁵ "Joint Press Release: Quadrilateral Coordination Group Meeting of Afghanistan, China, Pakistan and the United States," Ministry of Foreign Affairs, Islamic Republic of Afghanistan, January 11, 2016, <http://mfa.gov.af/en/news/joint-press-release-quadrilateral-coordination-group-meeting-of-afghanistan-china-pakistan-and-the-united-states>.

⁵⁶ Edward Wong and Mujib Mashal, "Taliban and Afghan Peace Officials have Secret Talks in China," *New York Times*, May 25, 2015, https://www.nytimes.com/2015/05/26/world/asia/taliban-and-afghan-peace-officials-have-secret-talks-in-china.html?_r=0

⁵⁷ "Wang Yi Meets with Chief of Army Staff, Qamar Javed Bajwa, of Pakistan," Ministry of Foreign Affairs, the People's Republic of China, June 25, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1473787.shtml.

⁵⁸ "Joint Press Release by China, Afghanistan and Pakistan," Ministry of Foreign Affairs, Government of Pakistan, June 25, 2017, <http://mofa.gov.pk/pr-details.php?mm=NTA5OQ,>

trust and reconciliation' and working towards "development cooperation and connectivity, security cooperation and counter-terrorism" as the focus of trilateral cooperation.⁵⁹ Leveraging geo-economics, Beijing called for exploring ways to extend the CPEC to Afghanistan.⁶⁰ It aims to make Afghanistan and Pakistan stakeholders in the regional economic development and consequently, generate the momentum for peace talks to bring an end to the conflict in Afghanistan.

Conclusion

The geo-economic patterns of engagement between China and Pakistan have progressively been taking a concrete shape. Gradually, they are influencing the existing strategic relations and regional security dynamics. The decades-long Pakistan-China strategic cooperation opened the way for developing an economic relationship. Yet, the framework guiding the economic cooperation and infrastructure development is strategic in its very nature. It is taking place in the background of the protracted regional rivalries and instability in Afghanistan. China has been deploying economic instruments to persuade the regional countries to re-orient their policies away from conflict and towards economic development. As Beijing and Islamabad navigate the complex minefield conflict-prone region with the tendencies of crises and instability, it is imperative that both countries work towards evolving a mechanism for frequent dialogue on peace and stability in the region. Constraints being imposed by geo-economics should be understood well, as the conflictual tendencies can undermine progressively growing economic relationship. In turn, that can also adversely impact strategic partnership, as breach of trust can be easily overcome.

⁵⁹ "Joint Press Release of the 1st China-Afghanistan-Pakistan Foreign Ministers' Dialogue," Ministry of Foreign Affairs, Government of Pakistan, December 26, 2017, <http://mofa.gov.pk/pr-details.php?mm=NTczNQ,>

⁶⁰ Ben Blanchard, "China, Pakistan to look at Including Afghanistan in US\$57 billion Economic Corridor," *Reuters*, December 26, 2017, <https://af.reuters.com/article/worldNews/idAFKBN1EK0EI>