

The rebalancing of the China-Pakistan relationship

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China's relationship with Pakistan is in transition. For decades it has operated largely within a South-Asian security context. China benefited from Pakistan's role as a counter-balance to India, while Pakistan benefited from China's willingness to provide the capabilities it needed to do so effectively. This shared strategic framework, and the ensuing cooperation on sensitive military and intelligence issues, has resulted in an unusual level of trust between the two sides. Pakistan was the country Beijing counted on to play a diplomatic and physical bridging role during its years of isolation during the 1960s and 1970s, while China has been Pakistan's political protector and most reliable arms supplier since 1965. Although the relationship expanded well beyond its original India-centric rationale, it has still been underpinned and conditioned by this guiding logic. Until last year, economic links were modest, bar a few symbolic projects that were more significant politically than they were commercially. Cultural and personal relations were narrow, restricted to professional ties between the two sides' senior leaders and militaries. Even in the security sphere, while China was intimately involved in the development of Pakistan's most advanced weapons systems, notably its nuclear and missile programs in the 1980s and 1990s, Beijing more often occupied the position of a distant patron rather than a day-to-day partner. And when it came to Afghanistan and dealings with militants in the region over the last two decades, China virtually outsourced its policy to the Pakistani intelligence services. The "all-weather friendship" between the two sides has been a firm feature of the region's geopolitics but its limits have always been clear.

While elements of this framework remain intact, the balance of the relationship is now shifting. China's focus on an expanding spectrum of economic and security interests that stretch out from its western borders puts Pakistan in a different place in the overall scheme of Chinese foreign policy. China's Silk Road Economic Belt and 21st Century Maritime Silk Road, the "Belt and Road" initiative (OBOR), has given this westward push additional profile and impetus, but many of the driving factors predate it. The heightened terrorist threat that China has faced in Xinjiang since 2008, and the 2011 announcement of the drawdown of US forces from Afghanistan, were already pushing Beijing to take more active steps to stabilize its western periphery. Its interest in access to reliable facilities for power projection in the Indian Ocean and beyond has been intensifying since the PLA Navy's Gulf of Aden

operations started in 2008. China's desire to develop alternative transit corridors to the maritime routes that pass through vulnerable chokepoints is also longstanding. But it is the confluence of these strategic factors with China's urgent economic challenges that has catalyzed a more concerted drive west. As the Chinese economy faces a significant slowdown, the need to find ways to mitigate the impact on major industrial sectors and the Chinese workforce has grown more acute. The proposed solution has been an expanded program of infrastructure and connectivity projects that are intended to serve several purposes - outsourcing excess industrial capacity, building new overseas markets for Chinese products, and developing stronger growth drivers in the Chinese interior.

Pakistan is one of the early hubs of this initiative. South and Central Asia are regions with substantial infrastructure needs, but have lacked investors willing to risk the capital to finance it. In principle then, China's new silk road schemes, and the financial firepower it has lined up behind them, should be welcomed. But many of China's neighbors are understandably cautious about accepting a major influx of Chinese money, particularly given the associated expectation that much of the work will be undertaken by Chinese firms. Some economies are too small to comfortably absorb investment on such a large scale, while others – such as India – have reservations about the security and political ramifications of Chinese-built ports and other sensitive infrastructure. Pakistan, by contrast, has a long list of shovel-ready projects that it has been pitching to Beijing for over a decade, and a unique level of comfort with the strategic factors that underpin OBOR. It stands virtually alone in being able to move so quickly to offer opportunities for industrial ventures on a scale that matches the scheme's ambition. Consequently, the China-Pakistan Economic Corridor (CPEC), the umbrella under which these investment plans have been brought together, has been accorded the status of a “flagship project” for the Belt and Road initiative, and is arguably the most developed set of plans under its auspices to date.

“If ‘One Belt, One Road’ is like a symphony involving and benefiting every country, then construction of the China Pakistan Economic Corridor is the sweet melody of the symphony’s first movement,” Wang Yi, Chinese Foreign Minister, Feb. 2015

CPEC's formal announcement, during Xi Jinping's April 2015 visit to Pakistan, was greeted with a degree of skepticism by most outside observers. Between 2001 and 2011, a sum of \$66 billion of financial assistance was pledged by China, but only 6% of it ever materialized. The last Pakistani government, under President Zardari, had been assiduously seeking Chinese investment, to little avail. There were exceptions –

the expansion of the civil nuclear program, and the assumption of control of Gwadar port by Chinese companies – but Pakistan was simply not seen as a safe or productive investment location, particularly after a spate of kidnappings and killings of Chinese workers. For several years, notably from 2004-2008, Pakistan was the most dangerous overseas location for Chinese nationals, who faced politically-motivated targeting from groups ranging from the Balochistan Liberation Army to the Pakistani Taliban. The security situation in the country as a whole was poor and deteriorating. Economic growth after 2007 – partly as a result – was lackluster. There were also bilateral tensions over the continued presence of Uighur militants on Pakistani soil, and the willingness of Pakistan’s security services to take determined action against them. While the capabilities of these groups were limited, they were a source of propaganda that Beijing blamed for encouraging the worsening attacks in Xinjiang. As a whole, although the underlying Sino-Pakistani relationship was still sound, there was a tangible sense of frustration on Beijing’s part with the Zardari government, more discreetly-expressed worries about Islamist sympathies in the Pakistani army, and longer-term concerns about where the country was headed.

The period following the election of the new Pakistani government and the appointment of a new chief of army staff, Raheel Sharif, in 2013 has seen progress in addressing a number of these problems. Elaborate new security measures meant that China had already gone several years without any successful attacks on its own workers in Pakistan, but the improvement in the security situation in the country as a whole has been marked, with an estimated 70% decline in terrorist attacks in the first nine months of 2015. The Pakistani army’s Zarb-e-Azb operation in North Waziristan, one of the contributing factors, also dealt with a longstanding Chinese irritant by displacing Uighur militants from their bases there. At present it appears that the Turkistan Islamic Party is no longer meaningfully active in Pakistan. Nawaz Sharif and the PML-N’s historic track record of delivering grand infrastructure initiatives made it a more appealing partner, and the government moved quickly to place China at the center of its economic planning.

Under Xi Jinping, China has also more actively sought to use economic tools as means to achieve regional stability, including in Pakistan itself. The rationale is that helping to kick-start the Pakistani economy, addressing its energy challenges, and putting on the table the prospect of tens of billions of dollars of investment will generate growth and employment while restraining Pakistan’s proclivities for regional adventurism and making it a stronger and more capable partner. A pithier account is provided by Li Keqiang, who is quoted in the readout from a meeting with his Indian counterpart describing CPEC as being “designed to wean the populace from fundamentalism”. China’s reservations about investments in Pakistan have

certainly not gone away. It has requested an extraordinary level of protection for the projects, in the shape of a new 12,000-strong Special Security Division of the Pakistani army, raised specifically for CPEC. There are good reasons to doubt Beijing's equation of investment flows with stability. But the political conditions for Beijing to push ahead with its economic plans for Pakistan, even in the face of threats, are now far stronger than they have ever been.

The popular conception of CPEC is that of a transit corridor, connecting Xinjiang to Gwadar via a series of different land routes. This is in many ways misleading. CPEC's first phase does include road-building projects and the upgrade of Gwadar into a functioning port, but the bulk of the initiative is composed of energy projects in diffuse locations around Pakistan. China envisages CPEC more as an investment package than as a set of transportation connections. There are still difficulties in establishing a detailed breakdown of the CPEC projects. While figures cited have ranged from \$28 billion (the project list that appeared to have been agreed in time for the Xi visit) to \$46 billion (a number from the Pakistani government that included a number of other projects under negotiation too), the reality is that this is a process in flux, with many of the details of the first phase of activities still subject to rolling negotiations after the terms had been agreed. Some of the initiatives cited in the April 2015 list have already been put on ice, while new ones have emerged since. But the composition of the list is at least indicative – three-quarters of the projects, in dollar value, are focused on energy, with road, rail, mass transit, fiber optics and Gwadar forming the rest of the investments. This excludes the new generation of 1000MW Chinese nuclear power plants, which have not been formally designated as part of the initiative.

The details of the financing, primarily in the form of loans but also a small number of outright grants, have not been publicly released, and the terms vary considerably. The rates of return on a number of energy projects are notably high – 30-40% - with certain other projects even up at 100% within a year. While the timeline for CPEC as a whole is long – plans run beyond 2030 – the first test of the corridor will be the early harvest phase, concluding in late 2017. Coming shortly before the next Pakistani elections, this will be the first indication of how much new energy has been added to the grid, whether Gwadar itself has made meaningful progress, whether the initial road-building process has been completed, and the contours of the 25 industrial zones that are also envisaged under the scheme. CPEC's opacity has already been the source of some controversy. The leaderships of Khyber-Pakhtunkhwa and Balochistan have complained that their provinces are not going to attract a due share of investment and that the Punjabi-based leadership is directing the resources to its home region. Yet despite some of the political disputes that are

still underway, there is a tone of cautious optimism around CPEC: that, while it may not deliver on its most ambitious goals, even if a modest portion of the plans are realized it will represent a significant influx of investment for an economy that is still in real need of it.

“I informed the [Chinese] president that Pakistan desires a peaceful neighborhood to focus on pursuing growth and delivering prosperity to the people. To this end, we want peaceful relations with all our neighbors.” Nawaz Sharif, April 2015

A resource commitment on this scale does come with heightened expectations. China has made clear to Pakistan that its investments there rely on a degree of stability being maintained in the country and in the neighborhood. This has particular significance when it comes to Pakistan’s approach to Afghanistan. China’s concerns over the impact of militancy in the region on Xinjiang, and on its strategic projects across South and Central Asia, have resulted in it taking on a considerably greater hands-on role, a subject addressed in more detail during testimony to the USCC’s prior hearing on “China Looking West” in March 2015. There has been a commensurate shift in the demands on Pakistan, which has been under pressure from Beijing over the last year to do its part to facilitate a viable Afghan peace process. The Murree meeting in July 2015, attended by Chinese officials, was a product of these efforts to bring the Taliban to the negotiating table, and recent months have seen a series of US-China-Afghanistan-Pakistan quadrilateral meetings to put a more sustainable track in place.

This does not amount to a broader recasting of China’s approach to militancy in the region. Beijing has evinced no greater interest in the Kashmiri groups, for instance, and its continued willingness to extend protection to Pakistan in this respect was evident at the UN Security Council sanctions committee in its defense of the release of suspected Mumbai attack mastermind, Lashkar-e-Taiba commander Zakiur Rehman Lakhvi. China has conveyed its general concerns to Pakistan about its handling of militancy issues, but while Beijing is more willing nowadays to encourage Pakistan towards the limits of its comfort zone, it does not attempt to push beyond them. China is still heavily reliant on the Pakistanis for intelligence on jihadi groups, and on their judgments over how best to manage and influence their behavior. Nonetheless, the fact that Afghanistan now features so prominently in the China-Pakistan relationship, and that Beijing has a strategic agenda there that goes beyond the protection of Chinese assets and the targeting of Uighur militants, is a shift of qualitative importance. It will not fundamentally change Pakistan’s approach

but it does implicitly constrain the degree of license that Pakistan felt it had when its most important partner was disengaged.

Over the last couple of years, CPEC and China's heightened involvement in Afghanistan have drawn attention away from the more traditional elements of Beijing's military support to Pakistan. China's position as the world's third largest arms exporter relies to a significant degree on sales to the Pakistanis. These weapons transfers have rarely been restricted solely to outright purchases but have involved defense co-production, and the continuous sharing of Chinese expertise. Some of the largest joint projects of this nature, such as the JF-17 combat aircraft, are longstanding but the last couple of years have seen a couple of developments of note. The confirmation in 2015 that China would be pressing ahead with the sale of eight Yuan-class diesel submarines, a \$4-5 billion deal that will be one of Beijing's largest ever arms sales, is significant not simply for Pakistan's navy but for plans to develop the sea leg of its nuclear triad. While the most important phase of Sino-Pakistani nuclear cooperation came in the 1980s and 1990s, China has remained closely involved in the development of Pakistan's nuclear programs, and is believed, for instance, to have provided assistance with the miniaturization of warheads for Pakistan's growing arsenal of battlefield nuclear weapons. The development of Pakistan's naval nuclear capabilities looks set to become the next frontier.

Another notable development over the last year was Pakistan's first use of armed drones, in September 2015. While these, like many of Pakistan's systems, were purportedly based on indigenous technology, they are generally believed to have Chinese lineage. It is illustrative of a broader trend: with the exception of its nuclear programs, Chinese military cooperation with Pakistan had historically been limited to lower-grade equipment but as the PLA's technical capabilities improve, Pakistan is becoming one of the principal beneficiaries of these advances. Pakistan's position as China's most closely trusted partner also makes it one of the most reliable locations for the PLA as it grows its international footprint. Gwadar itself is likely to be utilized by the PLA Navy in the long term, though this will still depend on ensuring that the port is rendered functional for other purposes first. If security and logistics challenges there persist, China is likely to use other ports, notably Karachi, but potentially also Ormara, as its primary naval facilities in Pakistan instead.

Conclusion

The rebalancing of the China-Pakistan relationship detailed in this testimony has a number of implications. The launch of CPEC means that China is now a far more active factor in day-to-day Pakistani politics and economic life than ever before. At

one level, this is likely to make for a more comprehensive and broad-based relationship, better balanced than the narrow security ties that characterized it in the past. But it is also likely to see the relationship demystified: Beijing has benefited from its status as the mythologized “all-weather friend”; it would be a surprise if China’s stratospheric opinion-poll ratings survive at quite the same level after the more expansive set of interactions with Chinese officials and companies that are now in motion. The political squabbles and resentments of recent months are an early indication of some of the problems that China is likely to face. Similarly, while the traditional India-centric framework of the relationship saw the two sides’ interests structurally (if not always tactically) aligned, there is considerably greater scope for differences over Afghanistan. China’s growing interest in seeing a stable outcome there is not wholly consonant with Pakistan’s demonstrated willingness to sustain ongoing conflict in Afghanistan when other strategic imperatives weigh more heavily. There is no doubt that Beijing’s growing involvement in the broader region comes with substantial opportunities for Pakistan, particularly in the economic sphere, but it also brings a new set of pressures.

For the most part, though, this is a relationship that is going through an upswing. During a phase when China is placing greater attention on consolidating ties with its friends and allies, Pakistan occupies a privileged position. Its central role in Xi Jinping’s signature foreign policy initiative, the Belt and Road, has resulted in an unusual level of energy being put into relations with Islamabad. And China is now far more willing to embrace the relationship openly, in marked contrast to the period when this was a relationship to be preserved and defended but not advertised. The year since Xi’s visit has seen previously unfamiliar language being used by leading Chinese thinkers that Pakistan is China’s “one real ally” and that the relationship is a “model to follow”. Despite the differences between the two sides, China is keen not only to ensure that it looks after its closest partner, but is also seen to be doing so.

In the context of the US-China relationship, this rebalanced framework for Sino-Pakistani relations is leading to a greater congruence in views between Washington and Beijing. Many of the steps that China has been taking – supporting infrastructure development in Pakistan, more active efforts at utilizing its relationship with Islamabad to address Afghanistan’s political future, and even exerting a degree of pressure on Pakistan’s internal militancy issues – have been urged on China by the United States for some time. This does not imply that there will be active Sino-US coordination of the sort that has been in evidence in Afghanistan, but it is a very different context from the period when the China-Pakistan relationship was primarily of interest to the United States as a proliferation concern. There are many areas of disagreement, from China’s investments in coal-

power plants to its ongoing support for Pakistan's nuclear programs. But unlike in the 1990s, or even a few years ago, it is now impossible to imagine Chinese officials being pushed to rebuff US pressure with the single, blunt line: "Pakistan is China's Israel".