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## ABOUT THE AUTHOR

**Sushant Sareen** is Senior Fellow at Observer Research Foundation. He was previously a Senior Fellow at Vivekananda International Foundation, New Delhi; and a Consultant for the Pakistan Project of the Institute for Defence Studies and Analyses, also in New Delhi. He obtained his Master's degree in Economics from the Delhi School of Economics, University of Delhi. He is author of *Balochistan: Forgotten War, Forsaken People* (Monograph, 2017); *Corridor Calculus: China-Pakistan Economic Corridor & China's comprador model of investment in Pakistan* (Monograph, 2016); *Zarb-e-Azab: An evaluation of Pakistan Army's anti-Taliban operations in North Waziristan* (Monograph, 2015).

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# China and Pakistan's 'Iron Brotherhood': The Economic Dimensions and their Implications on US Hegemony

## ABSTRACT

There was a time when the United States (US) was Pakistan's most important ally. This paper argues that China has now overtaken the US in both economic footprint, and political influence in Pakistan. Even in popular perception, China appears a more dependable ally than the perfidious one that is the US. The paper examines data on arms transfers, loans and credit, grants, trade, and foreign direct investments, to show how deeply embedded China has become in Pakistan. Some analysts hold that the US must continue with its economic and military assistance to Pakistan to prevent China from wooing Pakistan entirely into its sphere of influence. It will be difficult for the US, however, to dislodge China from its position in Pakistan; it will also be likely counterproductive, as it will only serve to embolden Pakistan to stonewall on its bilateral issues with the US.

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## THE PAKISTAN-CHINA-US TRIANGLE

In one of his first tweets on the first day of 2018, US President Donald Trump accused Pakistan of “lies and deceit”, and lamented having “foolishly given Pakistan more than 33 billion dollars in aid over the last 15 years”. He ended his tweet with the words, “No more!”<sup>1</sup> The tweet—and the subsequent suspension of US\$255 in military aid<sup>2</sup>—was greeted in Pakistan with a combination of outrage and bravado.<sup>3</sup> Pakistan’s foreign minister, Khawaja Asif, declared that Pakistan can survive without US aid as it had in the past. He also rejected any notion of Pakistan being diplomatically isolated and said, “China, Saudi Arabia, Turkey, Russia, and Iran expressed complete solidarity with us after August 21 speech of US President Trump (outlining US’ South Asia Policy).”<sup>4</sup> The Pakistan military spokesperson threatened that the aid suspension will impact bilateral security cooperation, but added that Pakistan did not fight for money but for peace.<sup>5</sup>

Pakistan appeared unconcerned. After all, China had also just then reiterated its commitment to “further deepen cooperation with Pakistan.”<sup>6</sup> The then adviser to the prime minister on finance (and later finance minister) Miftah Ismail, brushed aside the impact of US aid suspension and said that Pakistan did not seek US financial assistance and Pakistan’s “economic health was safe and bright on account of CPEC related activities.”<sup>7</sup> According to Pakistan’s calculations, the aid it was receiving from the US had historically been only less than one percent of the country’s budget and therefore could be easily made up for by other sources.<sup>8</sup>

In the US, too, various analysts and officials expressed scepticism about the efficacy of using the threat of denying economic and military aid as a leverage to force compellence on Pakistan. They argued that by suspending or stopping all aid to Pakistan, the US would lose whatever

little influence it still exercised on Pakistan; that aid, in fact, was one of the few remaining tools for the US in its relations with Pakistan. The more the US tightened the screws on Pakistan, the faster it would push Pakistan into China's sphere of influence.<sup>9</sup> These same analysts theorise that Pakistan's inexorable slide into China's clutch can at least be stalled, if not entirely stopped, by keeping the aid tap open.<sup>10</sup>

Pakistan, for its part, even as it continues to defy the US and dismiss threats of an aid cut, continues to encourage America to use aid as a tool to retain its influence.<sup>11</sup> The last thing Pakistan wants is open and unbridled US hostility, which will inevitably impact on Pakistan's relations with other Western countries, multilateral financial institutions, international financial markets, and even Arab states that have bankrolled Pakistan.<sup>12</sup>

Pakistan would not want a complete break with the US and stake all with China for another important reason. Ideally, Pakistan is keeping the US as an option in case ties start to sour with China. While China has not been overbearing as yet, there have been occasions when it has proved that it can be so.<sup>13</sup> As China gets more deeply embedded in the Pakistani system, it could become more demanding, especially on issues where the positions of the two countries may diverge. For example, Pakistan has yet to take a firm position about China's treatment of its Muslim minorities. While there are media reports of Pakistan raising the issue with China, both sides have denied it.<sup>14</sup>

The infrastructure project, China-Pakistan Economic Corridor or CPEC, is another issue that could cause a cleavage between China and Pakistan. While the project has been touted as a game changer for Pakistan, there are worries that CPEC will only serve to further expand Chinese footprint in Pakistan..<sup>15</sup> In private gatherings, senior Pakistani military officials have been heard saying that they "took the Americans

for a ride” for 70 years and now “its China’s turn.”<sup>16</sup> Indeed, even as the Pakistani civilian government is publicly calling for a review of CPEC projects, the Pakistan Army chief has declared commitment to the Corridor.

What is certain is that today, China occupies the privileged position in Pakistan that a few decades back was reserved for the US. Over the past many years, Pakistan has looked for viable alternative options to the US – i.e., China, for the longest time, and increasingly, too, Russia. The clout that the US wielded on Pakistan by virtue of its long history of providing economic and military assistance, has considerably weakened. For Pakistan, the price it will pay for continued US support is not worth the compromise it must make in its strategic calculus.

Even in the realm of public opinion, China is seen as a dependable ally and true friend while the US is fickle and overbearing. Among Pakistan’s policymaking circles, China’s importance cannot be overstated, not only in terms of the defence and security relationship but also increasingly in diplomatic and political support. While the US has been distancing itself from Pakistan and not giving it the sort of support it did in the previous century, China has bailed out Pakistan, both economically and diplomatically.<sup>17</sup>

Consequently, while US demands, hectoring and inimical moves are received in Pakistan with equanimity, there is enormous trepidation when China puts the spotlight on Pakistan in a negative way. China’s stance becomes an argument for reform and correction for Pakistan,<sup>18</sup> while US demands tend to provoke defiance.<sup>19</sup>

## **THE CEMENT OF DEFENCE AND SECURITY**

The roots of China-Pakistan relations are old, born out of their shared animosity towards India. As China’s relations with India started going

south, its relations with Pakistan blossomed; in 2002, a top Chinese general termed Pakistan as “China’s Israel”.<sup>20</sup> The 1962 Sino-Indo war cemented the Sino-Pak relationship. For the first few decades, at least until the turn of the 21<sup>st</sup> century, Pakistan was able to maintain a balance in its relations with both the US and China. The fact that US-China engagement picked up momentum as China opened up its economy in the 1970s, benefited Pakistan: as China gained in strength, its utility as a counter-balance to India increased. Equally important was the fact that Pakistan did not face any pressure from its primary patron, the US, to restrict its relations with China. Pakistan got the best of both worlds, so to speak – the US supplied it with modern weapons and economic assistance, while China assisted Pakistan in building its defence capabilities and its nuclear programme.<sup>21</sup>

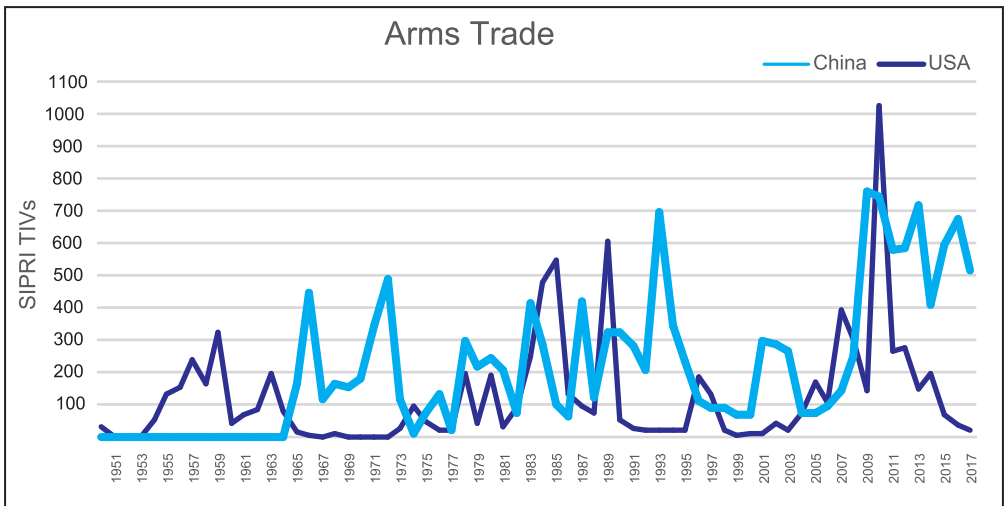
What drew Pakistan closer to China was the unreliability of US assistance. Although, until the first decade of the 21<sup>st</sup> century, China was not seen as a replacement for the US. The rise of China and its emergence as a major global player, coupled with the perception of the decline of the US, hastened the process of Pakistan looking upon China as a real and viable alternative to the US.

As can be seen from Table 1 and Graph 1, the first weapons deal between China and Pakistan took place in 1964 after the border agreement between China and Pakistan following the 1962 Sino-Indo war. In 1965, the US imposed an arms embargo on Pakistan. At that point, China stepped in to supply weapons and military equipment to Pakistan. The US-Pakistan defence relationship remained lukewarm until the Soviet invasion of Afghanistan, after which Pakistan once again became a “frontline state” for the US, and the beneficiary of its weapons transfers. This ended in the 1990s after the Pressler Amendment was invoked.<sup>22</sup> China once again stepped in. Until 9/11 and the US-led ‘War



on Terror' in its aftermath, China dominated the weapons trade with Pakistan. After 9/11, the US restarted its military assistance to Pakistan, but except for the period from 2003-04 to 2010, China continued to be the bigger partner. Since 2010-11, the US weapons trade with Pakistan has steadily fallen while China's remains robust. Over the last 70 years, according to data from the Stockholm International Peace Research Institute (SIPRI), in aggregate terms, China's arms trade with Pakistan is close to double that of the US. The data imply that while the US has always maintained a transactional relationship with Pakistan to serve its own strategic interests, in the case of China it was the mutuality of strategic interests – i.e., the India factor – that formed the basis of the similarly transactional relationship. With the US moving closer to India, it no longer serves Pakistan's interests to hedge the perceived threat from India; to begin with, Pakistan's interest is centred around finding a partner, or more appropriately a *patron*. China, for the time being at least, fits the bill.

Graph 1



Source: SIPRI Arms Transfer database; Accessed at <http://armstrade.sipri.org/armstrade/page/values.php> on 02-10-2018; All figures are SIPRI Trend Indicator Values (TIVs) expressed in millions

**Table 1: Arms Trade with Pakistan**<sup>23</sup>

Year	China	USA
1950	0	36
1951	0	0
1952	0	0
1953	0	0
1954	0	53
1955	0	135
1956	0	155
1957	0	242
1958	0	168
1959	0	323
1960	0	42
1961	0	69
1962	0	88
1963	0	198
1964	2	81
1965	165	16
1966	448	6
1967	117	0
1968	168	11
1969	158	0
1970	183	0
1971	346	0

## CHINA AND PAKISTAN'S 'IRON BROTHERHOOD'

Year	China	USA
1972	489	0
1973	121	31
1974	11	95
1975	76	51
1976	135	24
1977	25	24
1978	297	200
1979	217	46
1980	245	194
1981	207	36
1982	77	93
1983	418	254
1984	289	479
1985	105	549
1986	68	134
1987	422	97
1988	123	79
1989	324	608
1990	325	55
1991	283	28
1992	210	25
1993	697	26
1994	346	25

## CHINA AND PAKISTAN'S 'IRON BROTHERHOOD'

Year	China	USA
1995	234	25
1996	115	188
1997	93	135
1998	92	25
1999	73	8
2000	69	11
2001	299	15
2002	286	44
2003	267	24
2004	77	74
2005	78	171
2006	98	109
2007	144	395
2008	250	303
2009	758	146
2010	747	1027
2011	578	269
2012	583	276
2013	719	151
2014	413	198
2015	597	73
2016	673	39
2017	514	21

## NO MORE 'FREE LUNCH'

One of the great ironies of Pakistan's relations with the US and China is that even though the US has coined the aphorism, "there is no such thing as a free lunch", it has given plenty of free lunches to Pakistan in terms of grants. China, on the other hand, despite being ideologically inclined to doling out free lunches in keeping with its socialistic ambitions, has done little in this regard. Data from *Pakistan Economic Surveys* since 1980-81 reveal the scale of US assistance in terms of loans and grants. According to data from the Pakistan's finance ministry (See Table 4), it was not until 1996-97 that the first grant assistance agreement was initialled by China. Since then, except for two years – 2010-11 and 2014-15 – when a respectable amount was given as grant, China has given a pittance in grants to Pakistan – only around US\$600 million. Compared to China, in the entire period since 1980-81, America has given Pakistan almost US\$ 8 billion in grants.<sup>24</sup>

The US grants were, however, aligned with its strategic requirements. During the 1980s the grants flowed as Pakistan became the "frontline state" against the Soviet occupation of Afghanistan. After 1990-91, the aid tap was virtually turned off for a decade until 9/11, when the US' War on Terror made Pakistan relevant once again. Another decade later, after the Abbottabad operation in which the Al-Qaeda leader Osama bin Laden was slain, US-Pakistan relations went downhill once again. Pakistan's official budget documents show that after 2012, US grants reduced to a trickle. (See Table 2).

**Table 2: Estimates of Foreign Assistance**

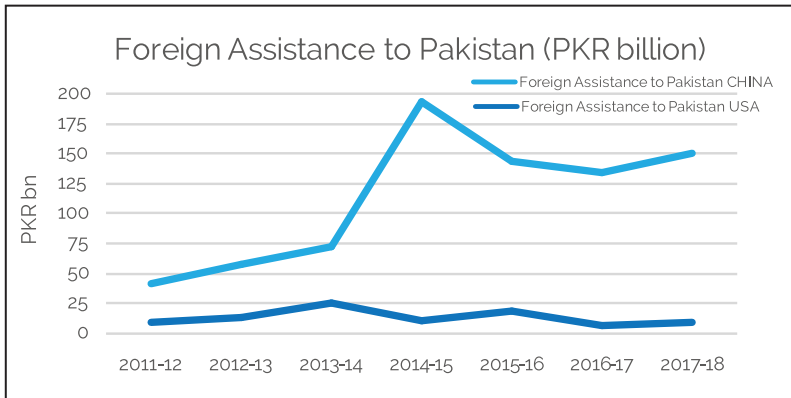
Year	China	USA
2011-12	42	9
2012-13	58	13
2013-14	72	26
2014-15	194	11

Year	China	USA
2015-16	144	19
2016-17	134	7
2017-18	150	10

All figures in PKR billion (rounded off to nearest billion)

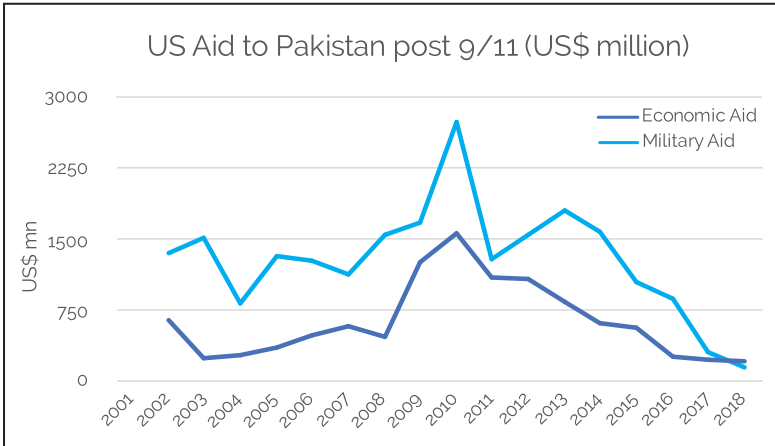
Source: Ministry of Finance, Government of Pakistan, Annual Budget Documents, Estimates of Foreign Assistance, various years

**Graph 2**



There is a huge discrepancy between the aid that the US claims to have given and what Pakistan records as having been received. This is in part because while Pakistan takes into account only the aid that was disbursed through the government of Pakistan, the US includes in its accounting the assistance to the private sector and NGOs.<sup>25</sup> According to Pakistan, in the 17 years since 9/11, the country received on an average only US\$250 million annually.<sup>26</sup> Quoting official data, Pakistani newspapers reported that there was a huge gap between commitments and actual disbursements in US-funded projects.<sup>27</sup> The finance adviser, Miftah Ismail, calculated that Pakistan received only around US\$27-28 billion since 2001, and not over US\$33 billion as claimed by President Trump in that tweet of 1 January 2018. Out of the amount received, over US\$14 billion was in the form of reimbursements (Coalition Support Funds) for expenses that Pakistan had made and therefore did not technically qualify as US assistance.<sup>28</sup>

**Graph 3**



**Table 3: US Aid to Pakistan post-9/11 (US\$ Million)**

Year	US CLAIM		PAKISTAN CLAIM	
	Economic	Military	Economic	Military
2001			360	
2002	640	1346	16	
2003	239	1505	50	
2004	277	818	74	
2005	350	1313	329	
2006	475	1260	377	
2007	572	1127	433	
2008	457	1536		
2009	1251	1674		
2010	1554	2735		
2011	1092	1277		
2012	1067	1537		
2013	834	1799		
2014	608	1569		
2015	561	1043		
2016	246	872		
2017	223	303		
2018	211	134		

Source: Susan B. Epstein & K. Alan Kronstadt, "Pakistan: US Foreign Assistance, April 10, 2012, CRS Report for Congress, accessed at [https://digital.library.unt.edu/ark:/67531/metadc83969/m1/1/high\\_res\\_d/R41856\\_2012Apr10.pdf](https://digital.library.unt.edu/ark:/67531/metadc83969/m1/1/high_res_d/R41856_2012Apr10.pdf) and Epstein & Kronstadt, "Direct Over US Aid Appropriations for and Military Reimbursements to Pakistan FY2002-FY2018", accessed at <https://fas.org/sgp/crs/ro/pakaid.pdf>

Note: Military assistance from 2012 includes CSF funding; 2018 gures are requisitions, all others are appropriations For Pakistani claims see Mubarak Zeb Khan, "Pakistan received \$5bn in civilian aid since 2001, Government nds", Dawn 06/01/2018, accessed at <https://www.dawn.com/news/1381014/pakistan-received-5bn-in-civilian-aid-since-2001-govt-nds>

**Table 4: Grant Assistance Agreements & Loans and Credits contracted**

Year	GRANTS		LOANS & CREDITS	
	USA	CHINA	USA	CHINA
1981	0.3	0		
1982	27.5	0	146	5.4
1983	109.5	0	199.5	47.4
1984	205.7	0	141.3	-
1985	167	0	256.4	4.2
1986	190.9	0	233.8	-
1987	174.4	0	224.5	156.9
1988	270	0	169.6	57.1
1989	271	0	292.9	-
1990	275	0	256	10.6
1991	0	0	133.3	75.6
1992	0	0	238	141.1
1993	0	0	327	-
1994	4.6	0	200	9.2
1995	1.9	0	235	124.5
1996	0	0	350	80
1997	1.9	6	428.6	-
1998	1.9	6	305	-
1999	41	6.4	1	-
2000	147	7.7	500	18.2
2001	80.8	6.6	10.3	44.4
2002	630.6	46.7	9.3	287
2003	155.2	6	-	118.2
2004	218.4	0.2	-	-
2005	325.8	12.1	-	355.4
2006	514.3	28.1	-	322.3
2007	269.4	49.4	-	-
2008	118.9	0.4	-	328
2009	377.4	0	-	800
2010	1046.1	0	-	1979.8
2011	1215.3	249.5	-	213.7
2012	197.8	41.2	-	851.1
2013	70	11.4	-	448
2014	150	0	-	6493.8
2015	0	123.9	-	37.7
2016	43	4.5	-	9422.7
2017	677.3	0	-	729.4
2018	7979.9	606.1	4657.5	21304.2

*All figures in US \$ million*

*Source: Pakistan Economic Survey Statistical Supplement, various years Excludes US\$ 2300 million in commercial loans from Chinese banks*



Table 4 shows interesting patterns. In the 1990s, although the US stopped giving grants to Pakistan, it continued to sign loan and credit agreements. Following 9/11, while American aid spiked, there were no loans and credits contracted between the US and Pakistan. China, which has been parsimonious with their grant assistance, was similarly reluctant to give big loans and grants to Pakistan until the start of this century. For almost 20 years from 1980-81 to 2000-01, the loans and credit contracted by Pakistan with China were very modest. Around the time the US started plying economic and military assistance to Pakistan – 2002 onwards – the Chinese loans and credits started to balloon. After the global financial crisis in 2007-08, when China began to emerge as a

**Table 5: China's Loans and Grants to Pakistan**

Year	Loans	Grants
1997	0.00	0.00
1998	0.00	0.00
1999	0.00	0.00
2000	2.37	17.99
2001	787.50	59.93
2002	1.88	0.00
2003	1280.32	0.20
2004	0.00	0.05
2005	179.00	38.50
2006	522.30	8.08
2007	0.00	400.63
2008	1032.32	305.46
2009	1244.00	19.63
2010	6531.04	355.07
2011	1650.00	5.85
2012	0.00	0.00
2013	492.00	0.00
2014	12198.47	0.00
2015	0.00	0.00
2016	0.00	0.00
Total	25921.21	1211.38

Source: Dreher, A., Fuchs, A., Parks, B.C., Strange, A. M., & Tierney, M. J. (2017). *Aid, China, and Growth: Evidence from a New Global Development Finance Dataset*. AidData Working Paper #46. Williamsburg, VA: AidData.

global financial and economic power to reckon with, the loans and credits contracted by Pakistan rose. And from 2013-14 onwards, with the agreement on the CPEC project, huge amounts of loans were given to Pakistan. Over the entire period from 1980-81, the total quantum of loans and credits contracted by Pakistan with the US and China – US\$4.6 billion and over US\$21 billion, respectively – lays out the entire story of Pakistan's growing indebtedness to China. The data collated by independent scholars is, in fact, even more stark as it reveals that the total amount of Pakistan's loans from China since 1997 are almost US\$26 billion since 1997, while the grants are double of what is shown in Pakistan official documents – i.e., over US\$1.2 billion (See Table 5).

Setting aside such discrepancies in data as reported by Pakistan, and those from the US and China, what is clear is the trajectory of Pakistani indebtedness to China. Data published by the State Bank of Pakistan on country-wise outstanding debt shows how the Chinese debt has risen in this decade even as the US debt has steadily fallen (See Table 6).

**Table 6: Pakistan's Outstanding External Debt (US\$ Million)**

Year	USA	CHINA
1975	1,856	53
1976	2,015	74
1977	2,187	91
1978	2,261	115
1979	2,290	120
1980	2,416	127
1981	2,470	138
1982	2,521	136
1983	2,563	181
1984	2,667	163
1985	2,699	158

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Year	USA	CHINA
1986	2,763	169
1987	2674	147
1988	2787	142
1989	3028	200
1990	3070	192
1991	2975	171
1992	2970	230
1993	2930	305
1994	2725	397
1995	2675	464
1996	2779	477
1997	2824	412
1998	2752	369
1999	2,705	397
2000	2,702	409
2001	2,722	172
2002	2,927	128
2003	1,929	256
2004	2,104	466
2005	1,627	568
2006	1,603	619
2007	1,567	817
2008	1,542	925
2009	1,524	1,491
2010	1,507	1,762
2011	1490	2020
2012	1472	3224
2013	1451	4063
2014	1427	5481

Year	USA	CHINA
2015	1399	6496
2016	1368	7329
2017	1313	8209

**Graph 4**

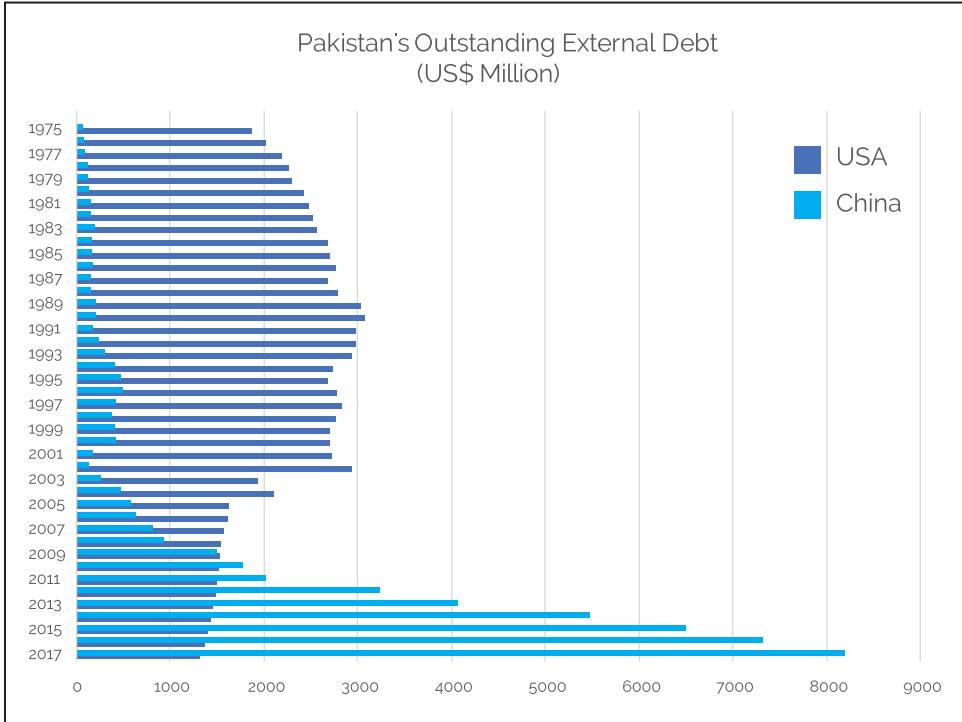


Table 6 shows that in the last 10 years, Pakistan's outstanding debt to China has risen every year by around a billion dollars. By the end of financial year 2017, while Pakistan owed the US just over US\$1.3 billion, the outstanding debt with China had galloped to over US\$8 billion. The manner in which China has replaced the US as the principal financier of Pakistan is apparent from the graphical representation in Graph 4.

In July 2018, the US Secretary of State Mike Pompeo warned that the US would obstruct any bailout for Pakistan from the International

Monetary Fund (IMF) if it meant giving money to Pakistan to repay its loans to China.<sup>29</sup> The warning seemed to validate concerns expressed by Pakistani economists on how the US could use its influence in multilateral financial institutions like IMF and World Bank and prevent them from giving budgetary and Balance of Payments support to Pakistan.<sup>30</sup> Pakistan, however, insisted that the debt repayments to China were a fraction of Pakistan's debt servicing obligations. The then finance minister, Miftah Ismail, scoffed at talk of Chinese loans breaking Pakistan's back and claimed that the annual debt repayments and profit expatriation would not cross US\$1 billion until 2023.<sup>31</sup> China, too, weighed in on the debate of "debt-trap diplomacy", using data from Pakistan's finance ministry that say the debts contracted under CPEC framework were only 10 percent of Pakistan's total foreign debt. The bulk of Pakistan foreign debt was held by Western countries (18 percent) and multilateral financial institutions (42 percent). China's Foreign Minister Wang Yi claimed that 47 percent of Pakistan's foreign debt was held by ADB and IMF.<sup>32</sup> The issue, however, is not only about the quantum of Pakistan's loans from China, but also the speed at which they have been rising. Moreover, CPEC is being critiqued for its "shadowy funding mechanism", the details of which have still not been made public.<sup>33</sup> Clearly, the data outlined above tells part of the story.

The data released by the Economic Affairs division (EAD) of the Ministry of Finance, Government of Pakistan, is quite stark on the amount of money that has been pumped in by China as loans to Pakistan. Since the year 2006-07, China has committed some US\$21.3 billion and disbursed US\$9.3 billion to Pakistan. The disbursement amount does not include the US\$4.5 billion that Chinese commercial banks have lent Pakistan for Balance of Payments (BOP) support (See Table 7). Compared to Chinese loans, the EAD data puts US grant commitments during the same period at around US\$4 billion and actual

**Table 7: Chinese Loans to Pakistan (US\$ Million)**

Year	Commitments	Disbursements	BOP support	Commercial Loans
2006-07	10.36	118.99	0	
2007-08	327.74	99.78	0	
2008-09	800	550.12	500 <sup>1</sup>	
2009-10	1979.82	212.25	0	
2010-11	213.73	293.62	0	
2011-12	851.07	1042.19	500 <sup>1</sup>	
2012-13	448	848.8	0	
2013-14	6493.8	594.45	0	
2014-15	37.74	1088.85	0	
2015-16	9422.66	1041.81	0	
2016-17	729.44	1654.59		2300 <sup>2</sup>
2017-18		1810.57		2200 <sup>2</sup>
	21314.36	9356.02	1000	4500

Source: Economic Affairs Division, Ministry of Finance, Government of Pakistan, accessed at <http://ead.gov.pk/pubDetails.aspx> (various years)

Note: (1) Included in the disbursement data; (2) Commercial Bank loans for BOP support

disbursements at only US\$2.3 billion. Calculations made by a Pakistani investment house reveal that Pakistan will end up paying around US\$90 billion over the next 30 years to China against the loan and investment portfolio of around US\$50 billion. The average annual repayments will be US\$3 billion per year, initially, and between 2020-25 the repayments will range between US\$2 billion and \$5.3 billion per year.<sup>34</sup>

As far back as March 2017, independent economists in Pakistan had estimated that the CPEC loans would add US\$14 billion to the country's total foreign debt. The total was initially expected to cross US\$90 billion by the end of fiscal year 2018-19, but had in fact breached the US\$100-billion mark by December 2018 as the Imran Khan government contracted various loans from Saudi Arabia, UAE and China. The same economists also projected that because the CPEC loans and profits were underwritten with sovereign guarantees, the debt servicing payments would rise to over US\$8.3 billion by the end of 2018-19. Despite the fact

that these projections were dismissed as “alarmist”, they have turned out to be quite accurate.<sup>35</sup>

After US Secretary of State Pompeo’s July 2018 warning, Pakistan started doing the math on getting bailout packages to repay the instalments of CPEC projects. Initially, there was the typical underestimation of the quantum of money required and how it would be obtained.<sup>36</sup> By the end of the year, a news report revealed that the Ministry of Planning and Development, the nodal ministry for CPEC, had calculated that Pakistan would have to pay nearly US\$40 billion in debt repayments and dividend over 20 years to China for the latter’s US\$26.5-billion investment (See Table 8). This US\$40 billion included debt repayments of US\$28.5 billion and dividend of US\$11.5 billion. Even as the actual Chinese investments of around US\$26 billion were only less than half of the massive figure of US\$60 billion that Pakistan had initially expected, the average annual repayments would be around US\$2 billion. The bigger problem, however, was not the average amount but the fact that the repayments would rise in the next decade before tapering off.<sup>37</sup>

**Table 8: Projected Outflow of Dividend and Debt on CPEC Projects  
(\$ Million)**

Year	Outflow
2016-17	31
2018-18	219
2018-19	42
2019-20	1009
2020-21	1226
2021-22	1883
2022-23	2686
2023-24	2877
2024-25	2925

Year	Outflow
2025-26	3233
2026-27	3181
2027-28	3146
2028-29	3001
2029-30	2528
2030-31	2369
2031-32	2305
2032-33	1840
2033-34	1591
2034-35	1416
2035-36	1023
2036-37	520
2037-38	306

Source: Shahbaz Rana, 'Pakistan to pay China \$40b on \$26.5b CPEC investments in 20 years', *Express Tribune* 26/12/2018, accessed at <https://tribune.com.pk/story/1874661/2-pakistan-pay-china-40-billion-20-years/>

The Planning Ministry immediately came up with a clarification of the news report, claiming that it was “based on incorrect information, baseless assumptions and biased analysis.”<sup>38</sup> It claimed that the Pakistan government liability was “only” US\$6 billion in debt taken for infrastructure projects and the rest of the loans were taken by private investors and therefore the CPEC would not impose “any burden with respect to loans repayment and energy sector outflows.”<sup>39</sup> The official statement, however, obfuscated the fact that the projects were all guaranteed by the government to provide foreign currency for debt repayment by the investors. Further, these projects were given preferential treatment in terms of tax exemptions (which would cost the Pakistan exchequer around US\$4.5 billion) and were assured timely payments of dues through the instrument of a revolving account to prevent any circular debt. Rebutting the government argument, the reporter who revealed the total outflow on CPEC account disclosed that



out of the US\$40 billion, US\$7.5 billion would be paid by the government for the loan it took for infrastructure projects, US\$20 billion would be paid to Chinese financial institutions by the investors (money that Pakistan would ensure was made available) and around US\$11.5 for investors to power projects.<sup>40</sup>

Interestingly, the sheer opacity of the entire funding plan of the CPEC loans and investment can be gleaned from the discrepancy in the statements issued by the two governments to dispel the impression of Pakistan being ensnared in debt-trap diplomacy. In October 2018, Pakistan's Ministry of Planning stated that 22 projects worth US\$28 billion had been actualised.<sup>41</sup> However, when in December 2018, the report of the US\$40-billion pay-out came out, the Chinese embassy in Islamabad issued a press release giving a financial run-down for the 22 projects. According to the fact sheet, the total amount involved was US\$18.8 billion<sup>42</sup> – or some US\$10 billion less than what Pakistan was claiming.

## **FOLLOWING THE MONEY TRAIL**

Pakistan's growing indebtedness to China is only one part of the picture. Over the years, despite strenuous efforts to attract foreign investment, Pakistan has been largely ignored. Its so-called strategic location as the bridge between South, Central and West Asia has failed to impress investors. Except for 2007 when a big infusion of foreign investment was made mostly in the telecommunications sector, Pakistan remains largely outside the radar of foreign investors. Not only has foreign direct investment (FDI) been low in the last 10 years – while India was attracting US\$40 billion,<sup>43</sup> the inflow to Pakistan was under US\$2 billion, and increasingly limited to a single country, i.e., China. Over the last few years, the Chinese investment in Pakistan forms the largest component of total FDI.<sup>44</sup> Other countries appear to have no interest in Pakistan, and in fact many companies have shut shop and exited Pakistan.<sup>45</sup>

Data of the last two decades reveal that in the 10 years from 1997-2007/08, the US was a big investor in Pakistan. However, in the last five years, the US FDI has been falling while China's FDI has risen, outstripping the US. This is understandable, as this was also the period in which China initiated the CPEC project. Pakistan and China have both been declaring various figures on the amounts of investment that have been made. China says the entire CPEC investment is expected to be around US\$60 billion over three phases, and that anything between US\$16-22 billion has already been invested. The numbers, however, in Pakistani official documents are far lower. According to the State Bank of Pakistan (SBP) data on net FDI, China has invested only around US\$5 billion, nowhere close to China's official numbers. In fact, by September 2016, while both Pakistani and Chinese officials were claiming that US\$14 billion had been invested over 2015 and 2016,<sup>46</sup> official Pakistani data show only US\$2 billion in investment were in fact made in that period (and not all of it from China). In the five years from 2013-14 to 2017-18, the US FDI was recorded by the Board of Investment (BOI) at around US\$700 million. (See table 9)

**Table 9: Net FDI In Pakistan (US\$ Million)**

Year	USA	CHINA
1998	320.8	24.3
1999	226	19.8
2000	146.9	10.5
2001	54.9	0.1
2002	324.7	0.3
2003	222.6	3
2004	259.8	14.3
2005	373	0.4
2006	820.5	1.7
2007	1766.8	712.1
2008	1748.8	13.7

Year	USA	CHINA
2009	427.4	-101.4
2010	468.3	-3.6
2011	238.1	47.4
2012	227.7	126.1
2013	227.1	90.6
2014	212.1	695.8
2015	223.9	319.1
2016	13.2	1063.6
2017	44.6	1211.7
2018	92.3	1585.8

Source: *Handbook of statistics on Pakistan economy 2015*, Page 776-82 for 1998-2009  
 Accessed at [http://www.sbp.org.pk/departments/stats/PakEconomy\\_HandBook/Chap-7.10.pdf](http://www.sbp.org.pk/departments/stats/PakEconomy_HandBook/Chap-7.10.pdf)  
 Source: Board of Investment, Prime Minister Oce, Islamabad for 2010-2018  
 accessed at <http://www.boi.gov.pk/ForeignInvestmentinPakistan.aspx> on 25/09/2018

While Chinese data on FDI in Pakistan is scarce, its National Bureau of Statistics has data on the turnover of economic cooperation projects—which includes contracted projects, labour cooperation, and design consultation (See table 10).

The above numbers from Chinese official data indicate the country's deepening involvement in economic projects in Pakistan, as well as the steady rise of Chinese workers and labour working in Pakistan. Meanwhile, details of the investments and contracts that Chinese companies have undertaken in Pakistan are available from the Chinese Investment Tracker of the American Enterprise Institute and the Heritage Foundation. According to this data, since 2005, Chinese investments and contracts in Pakistan amount to around US\$51 billion. Further, out of the US\$51 billion, the Belt and Road Initiative (BRI) contracts and investments which commenced from 2013 are around US\$40 billion, with almost US\$32 billion in contracts and US\$7.5 billion in investments (See table 11). In fact, all the investments and contracts since December 2013 are in the BRI/CPEC basket.

**Table 10: Economic Cooperation Projects**

Year	Projects (US\$ million)	Dispatched Labour (number)	Persons abroad on contracted projects (number)
1997	0		
1998	372.24		
1999	307.98		
2000	329.41		
2001	424.89		
2002			
2003	615.78		
2004	586.01		
2005	751.54		
2006	987.97		
2007	1391.07		
2008	1943.83		
2009	1734.25		
2010	2110.55		
2011	2372.77	3606	4395
2012	2778.32	4204	5411
2013	3700.93	3541	5586
2014	4246.19	5122	7481
2015	5162.89	6292	9038
2016	7268.09	11830	14582

"Projects" denotes turnover of economic cooperation and includes contracted projects, labour cooperation and design consultation

source: National Bureau of Statistics of China accessed at <http://www.stats.gov.cn/english/statisticaldata/annualdata/> -- different years

**Table 11: China Global Investment Tracker**<sup>47</sup>

Year	Month	Chinese Entity	Quantity in Millions	Sector
2005	December	China National Nuclear	\$490	Energy
2006	September	Huawei	\$550	Technology
2006	November	China Communications Construction	\$490	Transport
2007	January	China Mobile	\$280	Technology
2007	February	Shanghai Shengong, Shanghai Municipal Government	\$100	Utilities
2007	May	China Mobile	\$180	Technology
2007	May	Sinomach	\$150	Energy

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2008	November	Three Gorges	\$320	Transport
2009	February	Three Gorges	\$180	Real estate
2009	November	Harbin Electric	\$600	Energy
2009	December	China Mobile	\$500	Technology
2010	February	Three Gorges	\$120	Transport
2010	March	Sinomach, Gezhoubai	\$2,690	Energy
2010	July	Sinomach	\$160	Energy
2010	July	Sinohydro	\$110	Energy
2010	December	China Communications Construction	\$160	Logistics
2010	December	China Communications Construction	\$280	Transport
2011	April	State Construction Engineering	\$450	Transport
2011	September	United Energy	\$750	Energy
2011	October	Three Gorges	\$240	Energy
2011	December	Three Gorges	\$130	Energy
2012	February	Three Gorges	\$270	Agriculture
2012	May	United Energy	\$200	Energy
2012	August	State Construction Engineering	\$230	Tourism
2012	November	Huawei	\$500	Technology
2013	January	China Communications Construction	\$300	Energy
2013	January	Three Gorges	\$260	Logistics
2013	August	Three Gorges	\$1,650	Energy
2013	December	China Communications Construction	\$100	Logistics
2014	January	Power Construction Corp	\$240	Energy
2014	February	China Communications Construction	\$230	Transport
2014	March	Shandong Ruyi	\$120	Other
2014	March	Three Gorges	\$900	Energy
2014	March	China Communications Construction	\$220	Transport
2014	April	China Mobile	\$520	Technology
2014	April	China Communications Construction	\$130	Transport
2014	June	Tebian Electric Apparatus	\$190	Energy
2014	August	Power Construction Corp	\$130	Energy
2014	August	China National Chemical Engineering	\$240	Energy
2014	September	Power Construction Corp	\$1,300	Energy
2014	September	Sinomach	\$1,130	Energy
2014	November	China Energy Engineering	\$140	Transport

CHINA AND PAKISTAN'S 'IRON BROTHERHOOD'

2014	December	Sinomach	\$100	Energy
2014	December	China National Nuclear	\$6,500	Energy
2015	February	Huaneng and Shandong RuYi	\$1,810	Energy
2015	March	China Railway Construction, China Energy Engineering	\$160	Transport
2015	April	Power Construction Corp	\$1,070	Energy
2015	June	China Railway Corp and Norinco	\$1,620	Transport
2015	August	Power Construction Corp	\$120	Energy
2015	August	ZTE	\$1,440	Energy
2015	September	Harbin Electric	\$1,100	Energy
2015	October	Sinomach	\$150	Energy
2015	November	Zhuhai Port Holdings, State Construction Engineering	\$1,620	Transport
2015	December	China Railway Construction	\$1,460	Transport
2015	December	State Construction Engineering	\$2,890	Transport
2015	December	Power Construction Corp	\$100	Energy
2016	January	China Energy Engineering	\$360	Energy
2016	January	Three Gorges	\$2,400	Energy
2016	January	China Communications Construction	\$1,320	Transport
2016	January	Power Construction Corp	\$220	Transport
2016	April	Power Construction Corp	\$910	Energy
2016	June	China Communications Construction	\$190	Energy
2016	July	Three Gorges	\$220	Energy
2016	July	China Energy Engineering	\$530	Energy
2016	December	State Grid	\$1,760	Energy
2017	January	China Energy Engineering	\$1,720	Energy
2017	February	China Mobile	\$200	Technology
2017	February	China National Building Material	\$130	Real estate
2017	February	Power Construction Corp	\$130	Energy
2017	March	State Power Investment	\$1,480	Energy
2017	July	State Construction Engineering	\$380	Transport
2017	August	Minmetals	\$200	Energy
2017	September	China Railway Engineering	\$100	Transport
2017	September	Sinomach	\$520	Energy
2017	September	China Communications Construction	\$140	Transport

2018	March	Alibaba	\$180	Finance
2018	April	Alibaba	\$150	Other
2018	April	Harbin Electric	\$280	Energy
2018	May	Sinomach	\$260	Energy
<b>TOTAL contract + investment</b>			<b>\$51850</b>	
<b>BRI contract + Investment</b>			<b>\$39510</b>	
BRI Contracts			\$31880	
BRI Investments			\$7630	

## CAPTURING THE MARKET

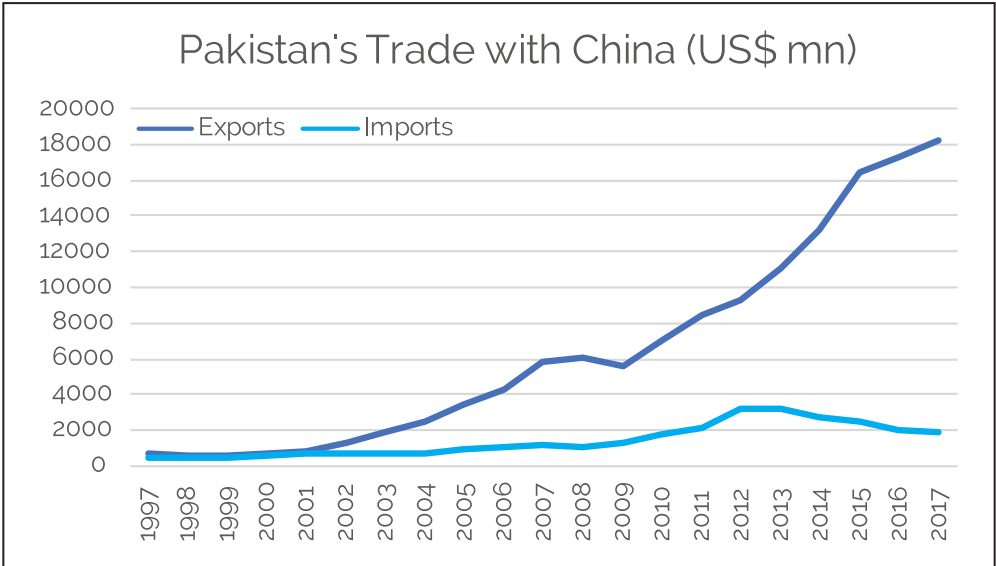
Perhaps the most crucial aspect of China's growing economic domination in Pakistan is the lopsided trade between the two countries. Over the years, China has become Pakistan's largest trading partner and controls over 30 percent of Pakistan's foreign trade. In the two decades since 1997-98, China's exports to Pakistan have risen dramatically and many Pakistani economists and businesses complain that Pakistan is facing de-industrialisation as the domestic market gets flooded by Chinese goods. Until the turn of the 21<sup>st</sup> century, the trade between the two countries was largely balanced; the gap started widening from around 2001. After the two countries signed the Free Trade Agreement in 2006, there was a dramatic rise in Chinese exports while Pakistan's exports rose slowly (See table 12 and graph 5). Even more significant is the difference in the export figures released by China and the corresponding import figures released by Pakistan. For instance, in 2016 and 2017, the difference was almost US\$8 billion. Although Pakistan has been trying to get more fairer terms with China in the phase 2 of the FTA negotiations, China has been unwilling to give any significant concession to far to their so-called "all weather friend".<sup>48</sup>

**Table 12: Pakistan Trade with China (US\$ million)<sup>49</sup>**

Year	Exports	Imports
1997	689	379
1998	524	389
1999	581	390
2000	670	492
2001	815	582
2002	1242	585
2003	1855	575
2004	2466	595
2005	3428	833
2006	4239	1007
2007	5789	1104
2008	6051	1007
2009	5528	1260
2010	6938	1731
2011	8440	2119
2012	9275	3138
2013	11020	3197
2014	13244	2754
2015	16442	2475
2016	17234	1913
2017	18250	1830



Graph 5

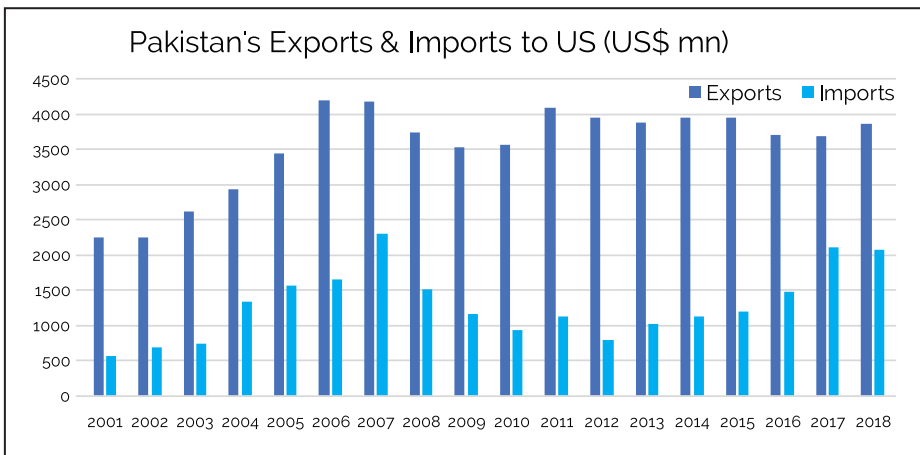


Compared to that of China, Pakistan's trade with the US is not only more balanced but is also more in favour of Pakistan. In fact, the US is one of Pakistan's largest export markets. However, unlike its trade with China, Pakistan's trade with the US has been largely static over the years (See table 13 and graph 6). Pakistan's dependence on the US and other Western markets is critical, and the remittances that overseas Pakistanis send from the West is what is keeping the economy afloat. This gives a leverage to the US and its Western allies to put pressure on Pakistan. But whether such pressure can pry Pakistan out of China's embrace is questionable. One reason for this is the strategic and security relationship between the two 'Iron Brothers'. Even on the economics front, China has managed to embed itself so deeply that Pakistan will find it extremely difficult to free itself from such state of dependency.

**Table 13: Trade with US (\$ million)**<sup>50</sup>

Year	Exports	Imports
2001	2246	566
2002	2258	688
2003	2617	735
2004	2944	1329
2005	3447	1563
2006	4193	1657
2007	4183	2304
2008	3740	1503
2009	3540	1160
2010	3561	934
2011	4102	1120
2012	3949	789
2013	3887	1018
2014	3952	1126
2015	3961	1197
2016	3717	1480
2017	3685	2102
2018	3862	2076

**Graph 6**



## CONCLUSION

China today exercises a vice-like grip on Pakistan. Not only is Pakistan completely dependent on China for diplomatic and political support in international forums, and for meeting its critical defence needs, but China is also virtually the only economic avenue available for Pakistan. If the Pakistani rhetoric is anything to go by, the CPEC is their economic lifeline, their only hope for the future. That CPEC might actually be the biggest mill-stone around Pakistan's neck is something that most Pakistanis are not even willing to consider. While the new political dispensation in Pakistan, after assuming office, did make some statements about re-examining the CPEC and resetting its priorities, even they have balked at taking on China. There is also hope being harboured by some Pakistani analysts and economists, that instead of Pakistan, it is China which will be caught in a bind. As the argument goes, if China does not want to lose the money it has invested in CPEC, then it must bail Pakistan out by giving it the free lunch that Pakistan used to get from the US.<sup>51</sup> It remains to be seen how China will tackle this situation.

For now, China seems to be adopting a multi-pronged approach. In the public domain, it is doubling down on its support for Pakistan. All the statements from Chinese officials and leaders about their abiding commitment to their all-weather friendship with Pakistan and to CPEC, in part because any negative fallout on CPEC could impact other BRI projects.<sup>52</sup> Behind the scenes, however, the first cracks appear to have emerged in the relationship. China was already concerned over the talk by the Imran Khan government to re-think and review some of the CPEC projects. They were reportedly furious over an interview to the *Financial Times* given by Imran Khan's de facto commerce minister, Abdul Razak Dawood, who complained about the unfairness of CPEC projects and wanted them to be put on hold for a year and perhaps even stretch them over five years.<sup>53</sup>

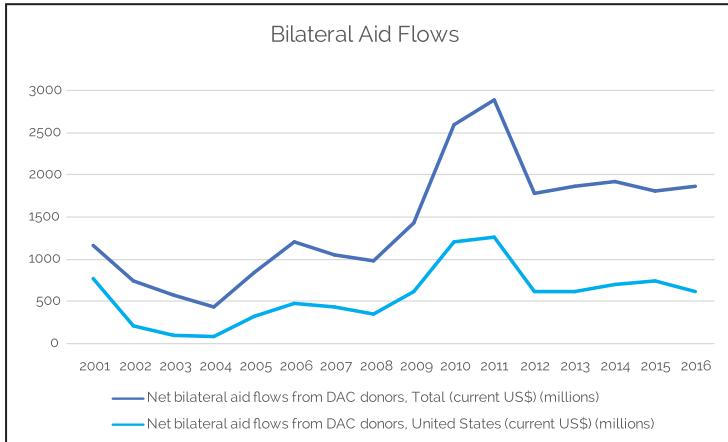
Within days of this interview, the Pakistan Army Chief had to rush to Beijing and avert a worsening of the situation.<sup>54</sup> In their own veiled way, the Chinese leadership warned the Pakistanis against questioning the CPEC. President Xi Jinping told the Pakistan Army Chief, "As long as high-degree mutual trust and concrete measures are in place, the China-Pakistan Economic Corridor construction will succeed and deliver benefits to people of the two countries."<sup>55</sup> Given the parlous state of finances, the Army Chief is also believed to have sought money from China. Later, Prime Minister Imran Khan visited China, expecting a big bailout package. After the visit, there was speculation that China was going to give US\$6 billion in aid - US\$1.5 billion grant, another US\$1.5 billion loan and the remaining US\$3 billion in CPEC-related assistance.<sup>56</sup> It was also reported that Imran Khan had asked for US\$6 billion in cash - US\$1.5 billion as deposit in State Bank of Pakistan, another US\$1.5 billion as grant and US\$2-3 billion as a soft loan.<sup>57</sup> Later, it transpired that what was referred to in the media as a "historic" visit of Imran Khan had resulted in virtually no visible gain for Pakistan. China pressed Pakistan to operationalise the currency-swap agreement that was already a few years old and was not being used by Pakistani traders.<sup>58</sup> This is something that China has been pushing hard in Pakistan and even have demanded that Chinese currency be allowed as legal tender in Gwadar Free Trade zone, something that had been refused by Pakistan at the time it was made, but could become a reality as the financial grip of China continues to tighten.<sup>59</sup> In addition, they agreed to increase imports from Pakistan by US\$1 billion. A few weeks later, it was reported that China had agreed to give Pakistan US\$2 billion loan but at an interest rate of eight percent.<sup>60</sup> Clearly, even as China continues to say seemingly all the right things in public, behind the scenes, they are now starting to pull the noose around Pakistan's neck. In mid-2018, when the Balance of Payments crisis was looming on the horizon, the chief economist of the Pakistan Planning Commission expressed confidence that with a few adjustments and better negotiations with China, Pakistan would be able to get enough to tide over any crisis. At that time,

a former State Bank of Pakistan governor had warned: “How delusional can you get? I don’t buy the rhetoric of deeper than the Arabian Sea and higher than the Himalayas’ friendship. China will demand nothing less than real assets in return for a bailout.”<sup>61</sup>

As far as the US is concerned, it is perhaps only nostalgia of an era long gone that makes top officials think they can claw back some influence with Pakistan by continuing with their economic and military assistance. Apart from the fact that the Pakistanis do not mind US freebies but abhor the *quid pro quo* that the US seeks. The way Pakistan sees it, the US assistance while welcome is hardly of a magnitude that will make them rethink and recalibrate their relations with China. This means that the US will literally have to outmatch China dollar for dollar, if it has to have any hope of regaining significant influence with Pakistan. But if the US was to get into a competition against China to woo Pakistan, the only one to gain would be Pakistan. Worse, in that event, Pakistan would be even less amenable to any kind of reform. Given the deep-seated suspicion and animosity that most Pakistanis harbour for the US, it is more likely that even as the Pakistanis party on US aid and trade, they will neither be beholden to the US, nor will they lessen their ardour for their ‘all weather friends’.

Instead of restoring economic and military aid and trade to counter China, a more effective and also economical strategy would be to exploit the emerging fault-lines between China and Pakistan. The debt-trap diplomacy of China, its predatory trade policies and the negative economic impact Chinese investment practises on local businesses can be exploited to rust the relationship between the two ‘Iron Brothers’. The Americans still exercise enormous economic leverage over Pakistan, not just in terms of bilateral aid and trade, but even more through their influence in both Multilateral Financial Institutions like IMF, World Bank and ADB, and the rest of the West which generally follows the US’ lead. (see table 14 and graph 7)

**Graph 7**




**Table 14**

Year	Net bilateral aid flows from DAC donors, Total (current US\$) (millions)	Net bilateral aid flows from DAC donors, United States (current US\$) (millions)
2001	1,164.47	775.64
2002	745.49	208.98
2003	570.66	102.28
2004	426.4	76.91
2005	837.1	323.07
2006	1,207.62	477.72
2007	1,047.94	433.57
2008	981.42	350.63
2009	1,429.45	613.04
2010	2,594.02	1,200.45
2011	2,882.31	1,262.13
2012	1,781.54	621.35
2013	1,867.04	609.85
2014	1,921.82	695.96
2015	1,811.02	746.1
2016	1,862.91	609.16

Source: World Development Indicators, World Bank, accessed at <https://databank.worldbank.org/data/reports.aspx?source=2&country=PAK>

The US remains critical for Pakistan not because it is the patron-in-chief of that country – that place has been taken by China. But China still does not have the comparable international financial and trading ecosystem that the US has, and on which Pakistan is dependent for its economic survival. Quite simply put, when the US engages a country like Pakistan, it also opens the floodgates of aid and trade flows from other Western countries that follow the US' lead. While Pakistan can do without the aid, it is in need of the trade.<sup>62</sup> From Graph 7 and Table 14, the correlation between US aid and that of other Western countries is quite apparent. This is a leverage that the US can bring to bear to drive a wedge between China and Pakistan. Alongside, Chinese treatment of Muslim minorities can also become a tool for driving a wedge between the two countries.

While it is quite apparent that Pakistan's dependence on China has surpassed its dependence on the US, the hard reality is that while the US cannot match China dollar for dollar in Pakistan, China also does not have the power to rescue Pakistan if the US starts to turn the screws hard on Pakistan. An equally difficult reality is that it is far from clear if the US even understands its power and influence – including the fact that no self-respecting Pakistan general, bureaucrat, politician or businessman wants their kids to study or settle in China as compared to the West. There is also the all-important question of whether the US even wants to exercise the hard, coercive and non-kinetic power it wields, or would rather continue playing soft-ball with Pakistan. Counter-intuitive though it may seem, the fact of the matter is that the more the US continues with the soft approach, the more it pushes Pakistan into China's embrace and the lower the incentive or disincentive for Pakistan to change its behaviour and policies; conversely, the smart exercise of hard, non-kinetic power has greater potential to force compellence on Pakistan while driving a cleavage in its relations with China. 

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20, Rouse Avenue Institutional Area, New Delhi - 110 002, INDIA

Ph. : +91-11-35332000 Fax : +91-11-35332005

E-mail: [contactus@orfonline.org](mailto:contactus@orfonline.org)

Website: [www.orfonline.org](http://www.orfonline.org)