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## RETURNING TO THE SHADOWS: 2020 AND BEYOND

If anyone had claimed, when Li Keqiang and Nawaz Sharif met in 2013, that by 2020 China would have moved ahead with \$25 billion of new investments in Pakistan, most of which would be nearing completion, they would have been greeted with considerable skepticism. Given the starting point for the economic relationship, any assessment of CPEC has to acknowledge the significance of the shift in the last few years. Not only are the existing investments far from negligible, China is set to play a larger role in Pakistani economic life than it did in the past. There will also be a lasting impact from the major increase in linkages between the two countries that took off alongside CPEC, from student scholarships to cultural exchanges.

Beyond CPEC, other elements of the relationship remain strong. Military cooperation continues to advance on all fronts, from the sale of advanced naval warships to Pakistan to the near-certainty that China is involved in assisting the country with the missing naval leg of its nuclear triad.<sup>1</sup> China's role in helping to build up Pakistan's digital infrastructure—from fiber optics and satellites to “safe cities”—is also expanding.<sup>2</sup>

The structural elements of the relationship are also unchanged. Pakistan will be increasingly reliant on China, given the long-term trajectory of U.S. ties with Pakistan and India. The People's Liberation Army's growing capabilities—along with its upgraded assistance to the Pakistani military—will weigh more heavily in the conventional strategic calculus in the region than it did when Chinese arms sales were restricted to low-end equipment.

For Pakistan and China, recognition of the very real limitations on the relationship has arguably been one of the factors behind its durability. The fit of mutual enthusiasm that consumed the two sides for a couple of years created expectations that could not be met and a level of familiarity that was clearly not breeding greater affection. The relationship may not have expanded in the way that both sides hoped, but it is now perhaps on firmer, more realistic, footing.

The CPEC slowdown also ensures that the two sides are unlikely to be faced with a major BRI debt crisis. While Chinese investments may well have led Pakistan into financial trouble—as they have in other countries—if CPEC had become a \$62 billion investment package, the much lower real numbers do not appear to impose an unmanageable burden on the Pakistani economy and there is ample scope for a rollover of debt payments during the current crisis.<sup>3</sup> Although the overall economic situation is unquestionably poor, CPEC

1 Iskander Rehman, [Murky Waters: Naval Nuclear Dynamics in the Indian Ocean](#), Carnegie Endowment for International Peace, March 9, 2015; Emanuel Sarfraz, [“Pakistan enters nuke triad club,”](#) The Interpreter, January 11, 2017.

2 Jeremy Page et al, [“America's undersea battle with China for control of the global internet grid,”](#) Wall Street Journal, March 12, 2019; Li Xia, [“1st land-based China-Pakistan cross-border optical fiber inaugurated,”](#) Xinhua News, July 14, 2018; Leo Kelion and Sajid Iqbal, [“Huawei wi-fi modules were pulled from Pakistan CCTV system,”](#) BBC News, April 8, 2019.

3 For other cases, see John Hurley et al, [Examining the debt implications of the Belt and Road Initiative from a policy perspective](#), Center for Global Development, March 2018.

financing and CPEC-related imports have played only a modest contributory role in worsening the situation. This may change with some of the contentious new projects that are currently under discussion but so far, while the scheme may not have achieved a grand transformation of the Pakistani economy, neither is it leaving the country with a bad hangover.

The difficult CPEC experience will nonetheless place certain limits on the Sino-Pakistani relationship for many years to come. It is highly unlikely that the Chinese government will attempt to pursue a comparably grand effort in the future, and both sides have been burned, though that sense is even stronger among Chinese officials and experts than among their Pakistani counterparts. In some ways, the next 18 months or so will be important less for what happens to CPEC itself, and more for what lessons are drawn from the last few years.

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Pakistan is certainly one of a growing number of cases of BRI rebalancing. The view that Beijing prioritized speed and scale over judicious selection of projects, attentiveness to political and economic risk, and giving due priority to international and local consent is well embodied by CPEC. The change in government in Pakistan in 2018 can be added to other similar developments in Malaysia and the Maldives the same year, in Sri Lanka in 2015, and in Myanmar before the BRI was even launched.

CPEC has undergone some major adjustments, including a significant paring back of the overall scale of the investments. But unlike with some of the other BRI countries, which have seen a major renegotiation of contracts and a significant adjustment of political ties with China, there is little indication of any “BRI 2.0” model emerging in Pakistan that would promise to put the whole initiative on a more sustainable footing.<sup>4</sup>

This is partly a reflection of the way power is exercised in Pakistan. One of the lessons that China appears to have learned can be summed up as: “Don’t trust the civilians.” There has been a reversion not just to the pre-CPEC relationship, but even to its pre-2008 phase, during General Musharraf’s time as leader. The reassertion of the army’s control over Pakistani politics is a reality that China has had to navigate. But the temptation for Beijing, given its preference for centralized decision-making authorities, is now to try to manage the relationship primarily through the military again. In many ways, China should have taken the opposite lesson: it is the failure to build a broad-based consensus in Pakistan, and even within the army itself, behind CPEC that ultimately proved costly. While it is possible to navigate a security relationship with the army and to get it to muffle “off-message” ministers, this is no way to manage the complexities of a broad-based economic relationship or the wider array of constituencies that are now active in Pakistani politics.

Unsurprisingly, neither has there been any move towards opening CPEC up to more scrutiny. Rather, the limited debate about CPEC that was underway in the broader Pakistani polity has largely been closed down

<sup>4</sup> Bloomberg, “China’s Xi defends Belt and Road, vows ‘zero tolerance’ of graft,” April 25, 2019; David Lawder and Richard Borsuk, “IMF’s Lagarde says China’s Belt and Road should only go where sustainable,” Reuters, April 26, 2019.



*The Pakistani side of the China-Pakistan border, Khunjerab.*

and ministers are extraordinarily cautious about making any statements that might embarrass Beijing. This is partly conditioned by the growing reputational battle over the BRI that China is waging with the United States, but its effect will be invidious when it comes to the crafting of a well-conceived and mutually beneficial economic agenda.<sup>5</sup>

Similarly, it remains to be seen whether China's supposed willingness to engage in more third-country cooperation will translate into concrete action. It was reluctant to have Japanese finance or even European consultants involved in Pakistani infrastructure projects, for example, and insisted that the government cut them out.<sup>6</sup> Yet, as long as China plans on continued involvement in Pakistan's economic life, it will benefit from the experiences of other outside actors rather than pretending that their insights—including the negative lessons gleaned from their mistakes over recent decades—cannot usefully be applied, and that China's development model, applied by businesspeople and officials with little understanding of Pakistan, is the only path to success.

The gamble that China undertook with CPEC was that it could boost the Pakistani economy, gradually rebalance the country's strategic thinking, and mollify India simultaneously. The whole approach was characteristic of a long-running strand in China's handling of Pakistan, which is to suggest that the country would benefit from treating its economic and strategic choices rather more like China did: stabilizing ties with India

<sup>5</sup> U.S. Department of State, [Advancing a Free and Open Indo-Pacific Region](#), November 18, 2018.

<sup>6</sup> Interviews, Pakistan, 2015-2019.



and ensuring mutually beneficial economic interactions, prioritizing economic growth as the underpinning of national power, and following the Chinese development model on everything from infrastructure to special economic zones. Talking to Chinese officials over the years, it was clear that they believed Pakistan's future success was contingent on its replicating an assortment of the decisions that Beijing had taken in its own "reform and opening" process since 1979.

Today, it is clear that this strategic advice has run into resistance on almost every front. What is more, it appears that addressing CPEC's underlying issues is not the main priority for China in Pakistan. If Beijing's effort to influence the country's thinking about its own future has failed, the alternative is not necessarily to try to fix the problem. Instead, both sides have effectively decided to double down on the security-focused version of the relationship, which worked successfully in the past, combined with just enough visible CPEC action to keep alive the narrative that the BRI is still moving ahead successfully.

While Pakistani's case is—as this report argues—in some respects *sui generis*, given the special relationship that existed with China before CPEC was launched, there are other cases where Beijing may draw the same conclusion. The assumption from some analysts has been that the BRI will roll forward with only a few minor tweaks in the years to come. In some countries, this may well be true. But where it is clear that the model is failing to deliver either strategic or economic benefits, there is likely to be a substantially smaller, slower and more cautious approach in future. This may—as with CPEC—amount to an outright stalling of joint initiatives, as China loses confidence that its boldest and most transformative developmental ambitions are realistic.

In addition, the coronavirus crisis will exacerbate all the challenges that Pakistan and CPEC face. China is now dealing with a wave of BRI renegotiations across the world and it already appears that some of the projects that may have made economic sense during normal times now look like liabilities. The capacity of the Pakistani government to finance new projects itself is going to be limited, given its financial situation and current growth projections, but even the terms of existing investments will almost certainly have to be revisited.

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CPEC is also an illustration of the fact that assessing the BRI's future direction will continue to require a close read of the practical developments in the countries concerned, rather than a scan of public pronouncements and a hunt for data to fit a preexisting analytical framework. Discussion of CPEC has consistently been characterized by a major gap between the facts on the ground and how it is described. Even some of the best, and most thoughtful experts continue to use figures that have long lost their connection to reality. The BRI meta-narrative casts a long shadow over whichever specific case is being examined, whether it be lines drawn on maps across Asia, superlative numbers, dual-use ports, debt traps, and other tropes.

In the case of Pakistan, some of these framings have been misleading. The "corridor" concept and transportation routes from Xinjiang to Gwadar have been a consistent, distracting focal point from the nature of the investments that have been made. Rumors of large-scale debt distress—which are founded in several other BRI cases—have not been fully borne out by the facts. There continues to be more interest on the part of many

outside observers in potential dual-use facilities at a barely functional port than out-and-out military cooperation taking place in plain sight.

Indeed, CPEC has at times even been a distraction from the nature of the military relationship between Pakistan and China as a whole: there is no need to dig out secret documents and hidden plans when vast arms sales, naval cooperation, and joint weapons systems development all occur openly, with no need of any “cover” from CPEC. And as the relationship between China and India faces a turning point after the clash in Ladakh in June 2020, it is these traditional elements of military cooperation between China and Pakistan that are likely to come to the fore again, potentially in an even less inhibited way.

The result is that the Sino-Pakistani relationship of the future is likely to look somewhat more like the narrower form of the past than the more broad-based version that started to emerge after 2015. Deep security ties will persist, but without the scale of economic and political engagement that characterized the initial years after CPEC’s launch. The strategic salience of the two countries’ ties is undimmed. In the past, that always meant that the relationship was treated as an unusually sensitive one that needed shielding from critical attention and kept as closed and tightly managed as possible. For a short window of time, CPEC brought the China-Pakistan into the light, and it appeared possible that ties between the two sides might be placed on a more comprehensive footing. But that would have required CPEC to be a clear, demonstrative success. Instead, while it has not failed, it has undoubtedly disappointed. And as a consequence, the China-Pakistan relationship is returning to the shadows once again.