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CPEC IS DEAD, LONG LIVE CPEC

Enter Imran Khan

While Imran Khan's PTI fell just short of winning an outright parliamentary majority in the 2018 elections, he was quickly able to pull one together with the support of smaller parties and independents, enabling him to take his place as Pakistan's prime minister.

China and CPEC merited a special mention in his post-election remarks, as he commended the "huge opportunity" the initiative represented to "drive investment into Pakistan."¹ Unlike his predecessor, Khan made no mention of high-speed rail links or power stations; instead, he focused on Pakistan's opportunity to learn from China "how they brought 700 million people out of poverty." Khan also suggested that his country learn from "the measures they have taken against corruption, how they have arrested more than 400 ministers there."² While these were already well-established talking points to link China to his election agenda, such comments did not suggest much enthusiasm for the version of CPEC that he was going to inherit.

The Chinese government already had cause for anxiety when the PTI took office. While it had fixed its relationship with figures such as Parvez Khattak, the PTI chief minister of Khyber-Pakhtunkhwa, the experience of the previous few years of criticism had left a bad taste. The PTI's campaign agenda also seemed to be a poor fit for CPEC. The party's key priorities—including an anti-corruption drive, a push for the redistribution of benefits among Pakistan's provinces, and a socioeconomic development initiative—were not goals that CPEC or the BRI were designed to deliver.³

Though CPEC was sold as an economic development initiative, its projects were still supposed to yield solid returns on the investments, which meant that they were generally located in the more economically functional parts of the country. Despite a couple of token aid projects in Gwadar, there was little about CPEC by that time that had succeeded in building any grassroots base of support for the initiative.⁴ And an anti-corruption push by the new PTI government could pose direct risks to CPEC projects—and to the wider Sino-Pakistani relationship—if it started accusing the PML-N of corrupt behavior in regard to these investments.

Nonetheless, China was willing to figure out terms with the PTI. It took a conciliatory stance in the aftermath of the elections: incoming government ministers were told that, as long as they honored existing contracts,

1 Imran Khan, "[Imran Khan's speech in full](#)," Aljazeera, July 26, 2018.

2 Ibid.

3 PTI, "[The Road to Naya Pakistan](#)," 2018.

4 Drazen Jorgic, "[Hoping to extend maritime reach, China lavishes aid on Pakistan town](#)," Reuters, December 16, 2017. For a good summary, see International Crisis Group, "[China-Pakistan economic corridor: opportunities and risks](#)," June 29, 2018.

everything else was on table. Chinese officials signaled to their new counterparts that the terms of existing loans could be revisited, provided this was done discreetly, as well as a clear willingness to accommodate the PTI's political agenda. The message, delivered by Foreign Minister Wang Yi during his visit to Islamabad in September 2018, was simple: just tell us what you need.⁵ If, as one Chinese official suggested, what the PTI wanted was a move from "mega projects" to "peanut projects" that was possible too.⁶

The PTI line was that it was supportive of CPEC as a general concept, but it did not like the way the PML-N had implemented it: it was too Punjab-centric; not enough benefits flowed to Pakistani businesses; it was not green enough; its terms had been poorly negotiated; and projects were almost certainly corrupt.⁷ Privately, there are accounts that Imran Khan was even more doubtful. As one senior member of the new government noted, "Imran made clear that he saw CPEC skeptically. He viewed it as part of the PML-N pitch. He went into it with a lot of questions, including about corruption."⁸

The PTI line was that it was supportive of CPEC as a general concept, but it did not like the way the PML-N had implemented it.

China still expected that the criticism leveled at CPEC by the PTI when it was in opposition would abate once the party got into government. Instead, it was blindsided by an explosive interview with the Financial Times from the new commerce minister, Abdul Razak Dawood, a prominent Pakistani businessman.⁹ He stated that Pakistan planned to review or renegotiate the CPEC agreements, that the previous government had given away too much, and that the whole scheme should be put on hold for a year.¹⁰ Dawood had made virtually identical comments a few months earlier in his private capacity, but he was now one of the leading economic policy voices for the PTI government. He also gave his interview during Wang Yi's visit, in what seemed to be a clear slight.

Other key figures, such as Planning Minister Khusro Bakhtiar and Finance Minister Asad Umar, trod more carefully, but Dawood's remarks appeared to be an authentic representation of at least one important strand of thinking in the new government. It was also the voice of the important parts of the Pakistani business community that had felt sidelined by CPEC and were still highly skeptical about proposals for special economic zones and industrial cooperation that they feared could be tilted against them.

For the Chinese side, determining what this all amounted to was difficult. One Chinese official complained that different Pakistani ministers essentially appeared to be freelancing—laying out their views on CPEC

5 Ministry of Foreign Affairs of the People's Republic of China, [Wang Yi talks about ten important consensuses reached by foreign ministers of China and Pakistan](#), September 8, 2018.

6 Interviews, Islamabad, September 2018.

7 Khawar Ghuman, "Protests not against CPEC, PTI chief assures Chinese envoy," Dawn, June 21, 2017; Qamar Zaman, "Politicians hit out at 'unfair' Pakistan-China economic corridor," Express Tribune, April 22, 2015; Nasir Jamal, "Descon head wants level playing field under CPEC," Dawn, January 8, 2018.

8 Interview, Islamabad, February 2020.

9 Jamil Anderlini, Henny Sender, and Farhan Bokhari, "Pakistan rethinks its role in Xi's Belt and Road plan," Financial Times, September 9, 2018.

10 Financial Times, "Pakistan rethinks its role in Xi's Belt and Road plan," September 9, 2018.

priorities without there being a consolidated government stance. An assortment of ideas was being thrown into the mix—some workable, some less so.¹¹ Both sides saw the value of some greater third-country involvement in CPEC, for instance.¹² But the PTI government's decision to solicit Saudi investment in a refinery at Gwadar—sensitively close to the border with Iran—without adequate consultation with Beijing was worrying.¹³ The move appeared to reflect the new government's predilection for seeking financing from friends in the Gulf States, rather than a new model for drawing in additional CPEC partners.

The Khan government's overall handling of the economic situation was equally confusing, particularly its unwillingness to negotiate a much-needed IMF loan package. Beijing also watched with discomfort as officials it had been dealing with on the CPEC projects were called in for questioning over corruption issues by the National Accountability Bureau.

As Chinese concerns over the Khan government's approach to CPEC continued to grow, China decided that the time had come to take its concerns directly to the Pakistani military.

As Chinese concerns over the Khan government's approach to CPEC continued to grow, China decided that the time had come to take its concerns directly to the Pakistani military. Ever since it had become clear that the elections were moving in the PTI's favor, Beijing had been trying to discern whether it needed to deal with the PTI on its own terms or if it could just cut straight through to the power behind the throne. Chinese officials noted that many of the new ministers were former figures from the country's last period of military rule under General Pervez Musharraf, rather than fresh faces from Imran Khan's "New Pakistan," which indicated less of a break from the past than Khan's electoral rhetoric seemed to suggest.

The Chinese ambassador, Yao Jing, was pointedly photographed meeting with army Chief of Staff Qamar Javed Bajwa just days after Dawood's Financial Times interview, and Bajwa paid a visit to Beijing the following week.¹⁴

Increasingly, China's practice would be to make a beeline for the army's General Headquarters when it had a problem with the new government. As one Pakistani official put it, "whenever someone says something out of turn, the Chinese ambassador calls the Pakistani army chief, who tells them to shut up."¹⁵

There would be several such occasions before the message got through. In October 2018, for example, Railway Minister Sheikh Rasheed publicly lamented the "huge burden" of CPEC loans, suggesting that those loans would be scaled back.¹⁶ Even worse, in September 2018, a press briefing claimed that Religious Affairs Minister

¹¹ Interviews, Islamabad, 2018.

¹² Catherine Wong, "China, Pakistan agree to open economic corridor to investment from other countries," South China Morning Post, September 12, 2018.

¹³ Tom Hussain, "With CPEC, Pakistan risks Chinese anger by courting Saudi Arabia," South China Morning Post, October 6, 2018.

¹⁴ Inter Services Public Relations, "H.E Mr. Yao Jing, Ambassador of China to Pakistan called on General Qamar Javed Bajwa, Chief of Army Staff (COAS) at GHQ, today," September 11, 2018; Dawn, "Bajwa starts three-day China visit," September 17, 2018.

¹⁵ Interviews, Islamabad, 2018-2019.

¹⁶ Mubasher Bukhari, "Pakistan cuts Chinese 'Silk Road' rail project by \$2billion due to debt concerns," Reuters, October 1, 2018.



Small village in the shadow of CPEC's HydroChina Dawood Wind Farm, Sindh.

Noor ul-Haq Qadri raised concerns about “restrictions” being placed on Uighur Muslims in Xinjiang in a meeting with Ambassador Yao.¹⁷ If criticism of CPEC were problematic, public reference to the Xinjiang situation from Pakistani ministers was seen as completely unacceptable. Beijing was waging a diplomatic offensive to counter growing global concerns about the mass internment of Uighurs, and it could ill afford public complaints from foreign Muslim leaders.¹⁸ There was an additional Pakistani dimension to the issue, given that the spouses of a number of Pakistani businesspeople had been caught up in the sweep.¹⁹ When pressed on the issue in public interviews, Imran Khan disavowed any knowledge of what was happening in Xinjiang.²⁰

Against this somewhat fraught backdrop, Khan's first trip to China as prime minister, in November 2018, was notably unsuccessful. He did not follow the usual protocol by making China his first trip, going instead to Saudi Arabia, the United Arab Emirates, and back to Saudi Arabia again, before finally heading to Beijing.²¹ Khan had his reasons for traveling first to the Middle East: the Gulf States were dangling substantial offers of

17 Zaheer Mahmood Siddiqui, “Cost of railways project under CPEC cut by \$2bn: minister,” Dawn, October 2, 2018; Javed Hussain, “Religious affairs minister discusses treatment of Xinjiang Muslims with Chinese envoy,” Dawn, September 19, 2018.

18 James Leibold, “The spectre of insecurity: the CCP's mass internment strategy in Xinjiang,” China Leadership Monitor, March 1, 2019.

19 Diaa Hadid and Abdul Sattar, “My Family has been broken’: Pakistanis fear for Uighur wives held in China,” NPR, November 15, 2018.

20 Ben Westcott, “Pakistan's Khan dodges questions on mass Chinese detention of Muslims,” CNN, March 28, 2019; Express Tribune, “PM ‘doesn't know much’ about condition of Uighurs in China,” January 8, 2019.

21 Express Tribune, “Two-day visit: Imran Khan in Saudi Arabia on first foreign trip as PM,” September 18, 2018; Gulf News, “Shaikh Mohammad Bin Zayed welcomes Pakistan Prime Minister Imran Khan in Abu Dhabi,” September 19, 2018; Asif Shahzad, “Imran Khan leaves for Saudi conference saying Pakistan ‘desperate’ for loans,” Reuters, October 22, 2018.

financial assistance, while China was demanding that the new government get its economic house in order first. Still, the departure from prior practice was noted in Beijing.

Typically, a visit of this level of importance would involve extensive advance groundwork by senior officials and trusted interlocutors on both sides. Yet Khan sent no such delegations prior to his trip.²² The Chinese authorities were left scrambling to figure out what Khan would actually be asking for. The answer was, essentially, several billion dollars of bailout money—the same ask that had soured Zardari’s first trip to China ten years earlier. The request went down almost as badly, even though Beijing was already far more financially embroiled in dealing with Pakistan’s balance of payments crisis than it had been during the PPP’s time in office. The message to the Pakistani government during the visit was very clear: first, do your homework.²³

China continued to provide short-term financing but did not want to be responsible for Pakistan’s financial situation without the involvement of the IMF, and it still had little confidence in the new government. For Beijing, any IMF package for the country would be somewhat of a mixed bag. The IMF would be in the position to make an authoritative pronouncement on CPEC’s economic impact on Pakistan, given it would have to be given access to a trove of information about Chinese loans as part of the negotiation process. This would not necessarily paint a rosy picture. At the same time, however, the IMF package would provide a stamp of international legitimacy, release funds from other sources, and force Pakistan to take unpopular economic decisions for which China did not want to be held responsible.

Yet the new government remained reluctant. In the months after the PTI took office, it was very clear that new ministers were still finding their feet. Some Pakistani officials were shocked at how little understanding there was among them about CPEC or the Sino-Pakistani relationship.²⁴ This was by no means an anomaly: missteps by the new government in other policy areas during its chaotic first months in office were just as pronounced.

The December 2018 JCC meeting that followed Imran Khan’s November visit to Beijing, where the detailed agenda for CPEC in the coming years should have been set, was therefore clearly lacking in political momentum. The main agenda items for China were simply to finish the existing projects—especially the Gwadar port project, which continued to lag well behind schedule—and to ensure that there was a respectable public narrative around CPEC in place for the second Belt and Road Forum, which was due to be held in Beijing in April 2019.

Whatever was actually happening on the ground, CPEC’s political status as the “flagship” and “most comprehensive” BRI package meant that sensitivities around the image of the investments were acute on the Chinese side. As a result, Beijing was still willing to be flexible. Chinese officials had managed to come up with an internal justification for the socioeconomic projects that the Khan government was calling for: China could use Pakistan as a test case for its new aid body, the China International Development Cooperation Agency,

22 Interviews, Pakistan 2018-2019.

23 Interviews, Pakistan 2018-2019, and Dawn, “[PM’s China visit](#),” November 5, 2018.

24 Interviews, Islamabad, 2018/2019.

and was ready to put as much as \$1 billion into the projects over the next few years, high figures given how little money Beijing provides in direct aid.²⁵

Talk of renegotiating projects, however, largely stopped. The very word “renegotiation” raised hackles on the Chinese side, not least given that this was precisely what China was having to do elsewhere along the BRI, most prominently in Malaysia. For its part, while assessments of the energy projects ultimately found evidence of inflated prices, the Pakistani government had not found a level of corruption or egregious markups on CPEC investments that were comparable to the East Coast Rail Line or the 1MDB scandal in Malaysia, for instance, which made renegotiation even less likely.

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A residue of CPEC’s initial ambition was still there.²⁶ Some smaller pieces of the long-term plan, such as agricultural cooperation, were set in motion. The commitment to move ahead with SEZs was also maintained, albeit in a form that was still drastically pared back from the original plans—as the tortured language about industrial cooperation in the Chinese official statement released after the JCC indicated.²⁷ It was impossible to maintain the story that CPEC was simply undergoing a planned transition from large-scale capital investments to an industry-and export-focused second phase when there was such a tangible lack of energy, let alone concrete action, behind that element of the planning.

Unsurprisingly, given the project’s altered trajectory, China had also decided that it was better not to draw too much attention to CPEC for a while. What was once the subject of a pervasive focus in the Pakistani press was given much less prominence. Pakistani officials were discouraged from saying much about it; instead, they stressed the role of other key investors, such as Russia or the Gulf states.²⁸ In the absence of a clear narrative of success, both sides decided that it was better to play the whole thing down.

There were also renewed concerns on China’s part about CPEC security. In late 2018 and early 2019, Baloch militant groups launched two high-profile attacks. An armed assault on the Chinese consulate in Karachi in November 2018 was followed in May 2019 by an attack on the Pearl Continental Hotel in Gwadar, the principal destination for visiting delegations. Though no Chinese citizens were killed in either attack, the two incidents were disturbingly near-run cases.

As Pakistan’s economic picture continued to deteriorate, and Gulf and Chinese sources continued to signal limited willingness to provide more financing, the PTI government concluded that it had to seek an IMF bailout, despite the fact that Khan had argued strenuously against just such a move during the campaign only

25 CPEC, [Socioeconomic development MOU of CPEC to be finalized tomorrow](#), April 22, 2019; Business Standard, [“China to provide USD 1 billion grant to Pak for socio-economic development,”](#) June 21, 2019.

26 Express Tribune, [“JCC meeting: Pakistan, China finalized MoU on industrial cooperation,”](#) December 21, 2018.

27 Embassy of the People’s Republic of China in the Islamic Republic of Pakistan, [Latest progress on the CPEC](#), December 29, 2018.

28 Interviews, Islamabad, 2018-2019.

months earlier.²⁹ Under the \$6.3 billion deal with the IMF, which was finalized in July 2019, Pakistan agreed to undertake a series of market reforms and to cut fuel and other subsidies. Once the package was finalized, China committed to the largest additional contribution of outside support for the first twelve months of the three-year program.³⁰

But it appeared that CPEC itself was largely on ice. As one Pakistani China expert put it: “We’ve got what we’re going to get out of CPEC on the really big stuff. It’s over.”³¹

CPEC 2.0 and the Sino-US Rivalry

It was only in late 2019 that China and Pakistan appeared to find a new equilibrium with CPEC. As one Pakistani official who has followed the relationship closely put it in early 2020, “the new government didn’t know much about the relationship with China or about CPEC. It had its anti-corruption focus, and there were prominent people in the government who felt they had lost out on the China trade front. But about six months ago [in the fall of 2019] the strange dynamic stopped.”³²

Imran Khan had a notably more successful trip to China in October 2019 than he did the previous November. It signaled a turning of the page on the difficulties that had emerged between his government and Beijing. Notably, Khan traveled with Chief of Army Staff Qamar Javed Bajwa, who had either preceded or accompanied him on his major trips. The Chinese side was careful not to repeat even a hint of the old ambiguities about parallel civil and military tracks: Xi Jinping received the two men together.

Some of the CPEC sensitivities had been fixed ahead of the trip. A new CPEC authority was to be established, chaired by a retired Pakistani general, Asim Saleem Bajwa (not related to the army chief) who was the former head of the army’s information wing. It closely resembled the plans that had been shot down by the PML-N government a few years earlier.

After Khan’s visit, the ninth JCC meeting, scheduled for the following month in Islamabad, had a credible mandate. What emerged was a considerably slimmed-down set of ambitions. Still, the plan at least represented some clarity about what was coming next, and what it lacked in scale, it made up for in terms of its feasibility.

The core of the new package contained various elements including: a package of small socioeconomic initiatives, such as “smart classrooms” and renovations of vocational schools; special economic zones in Rashakai, Faisalabad, and Thatta; and a push to get the details of the ML-1 railway line upgrade from Karachi to Peshawar agreed. The rail line upgrade was an expensive project—worth around \$8 billion—for a Pakistani government chronically short of resources.³³ But it was perhaps the only large-scale project that still made sense to both

29 Salman Masood, “Pakistan to Accept \$6 Billion Bailout from I.M.F.,” New York Times, May 12, 2019.

30 International Monetary Fund, Pakistan, July 2019.

31 Interviews, Islamabad, 2019.

32 Interviews, Islamabad, 2020.

33 Drazen Jorgic, “Fearing debt trap, Pakistan rethinks Chinese ‘Silk Road’ projects,” Reuters, September 30, 2018.



Confucius Institute, National University of Modern Languages, Islamabad.

sides, and that would support the story that CPEC was still on track, just in time for a second proposed visit to Pakistan by Xi Jinping.

Other outstanding issues were still being resolved, including the impact of payment delays and currency depreciation on CPEC energy projects. But the push was to get a sufficiently credible array of new projects in motion ahead of Xi's trip, which was then tentatively scheduled for late spring or early summer 2020. The two sides were due to hold another JCC meeting in April to wrap them up. It was all much more low-key than the high-wattage announcements that followed JCCs a few years earlier, but the narrative—that of China and Pakistan working together and “on the same page,” moving into CPEC's second phase—was set.

There was one unexpected shift, however, to the political and strategic environment in which these deliberations were playing out. Pakistan and China had both grown used to a neutral, and at times even relatively positive, stance toward CPEC from the leading U.S. State Department South Asia officials. The region had been seen by many U.S. and Chinese officials as one in which, though Washington and Beijing were in competition across some domains, was also amenable to certain forms of cooperation. This was most evident in the Afghan peace process, where they had continued to operate in reasonably close coordination during the Trump administration, and it was thought to be the case for Pakistan as well.

At the most basic level, both sides wanted to see a level of security and stability in Pakistan, and this was believed to necessitate an economic development agenda. For U.S. officials who had been struggling with the

myriad of challenges facing their own programs in the region over the years, there was a degree of humility when evaluating China's efforts. While it appeared that Beijing had little interest in learning any of the lessons from the U.S. experience since 2001, this was still an environment where, on balance, the United States largely wanted to see China's economic efforts succeed.

Yet with the launch of the economic strand of the Free and Open Indo-Pacific Strategy in the summer of 2018, the Trump administration's outline for its own counterpoint to the BRI, the United States' qualified support for CPEC became harder to maintain. On the one hand, the line being promoted by the Trump administration was the BRI was economically predatory and harmful to any country that bought into it. Instead, senior administration officials argued, developing countries should choose investment partners from "free and open" economies—ideally the United States. On the other hand, the United States had been explicitly encouraging countries like China to invest more heavily in Pakistan and Afghanistan, including in conjunction with U.S. efforts.

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CPEC's status as the "flagship" project of the BRI made this contradiction especially acute. U.S. officials had begun to make the case against the initiative in virtually every region the world and it would seem strange if the highest-profile investment scheme under it was exempted from this critique.

And yet, the toughest place to make the anti-BRI argument was in Pakistan. The United States had been scaling back its own economic support to the country especially sharply in the previous two years. Even before this, Islamabad had turned to Chinese financing as much out of desperation as enthusiasm, which had direct ramifications for the contract terms it was able to negotiate. Other "free and open" economies had also been treading around Pakistan with a degree of trepidation, and not only because of security risks, economic challenges, or concern for their more important economic relationship with India. The prospect that Pakistan would face further rounds of financial pressure from the United States over its hosting and support of the Taliban had also given serious grounds for pause.

The Chinese and Pakistanis had grown used to critical references to CPEC by U.S. Secretary of State Mike Pompeo after the Free and Open Indo-Pacific Strategy was launched. These verbal jabs were by no means without consequence: the United States had influence over key elements of the IMF package for Pakistan, for example, and its demand that no bailout funds go to Chinese investors was reflected in some of the unusual wording in the agreement. But the dynamics with U.S. officials working on the region had not seen such a dramatic change: the U.S. Special Representative for Afghan Reconciliation, Zalmay Khalilzad, had continued his shuttle diplomacy with Beijing, and the Chinese ambassador in Islamabad had held candid discussions about CPEC with the U.S. State Department's top official for South Asia, Alice Wells, in the past.

Even in the middle of worsening dynamics in the Sino-U.S. relationship then, a broadside against CPEC from Wells in November 2019 therefore still came as a surprise. Wells' speech echoed much of the criticism that Pakistanis had made—including serving government ministers.³⁴ It was not an indiscriminate hatchet job; instead, she offered a detailed critique that chronicled many of CPEC's known problems. Wells also covered other BRI cases in South Asia, including the more obviously troubled projects in Sri Lanka and the Maldives.

Wells made a case for expanding commercial ties between the United States and Pakistan too, and laid out some of the successes of U.S. development efforts in the two countries. But the recent history between the United States and Pakistan made it virtually impossible for those messages to be heard. The speech elicited an aggrieved response across virtually the entire the Pakistani political spectrum. At the same time, her remarks—and other efforts by U.S. officials to paint the BRI as a serious threat—led to concerns in Pakistan that the growing zero-sum dynamics between the United States and China were going to be very difficult to navigate.

Just a few months earlier, in July, Prime Minister Khan and General Bajwa had visited the United States, hoping for a reset in relations. During that visit, Pakistani officials made the case that U.S.-Pakistani and Sino-Pakistani ties could happily coexist, as they so often had in the past. One specific message conveyed was that the United States should stop fretting about Gwadar, which, Pakistani officials pledged, no country would be allowed to use for naval purposes.³⁵

After that largely successful visit, China expressed an uncharacteristic note of disquiet. It had generally seen closer U.S.-Pakistani ties as falling in line with Chinese interests—ensuring that Pakistan was bolstered by U.S. backing with arms and money rather than subjected to political, financial, or even military pressures from Washington. Now, even modest Pakistani attempts to restore what had been a deeply troubled relationship with the United States in recent years were being viewed by Beijing with a jaundiced eye. To Pakistani officials, it seemed that a squeeze was taking place from both sides. These dynamics were also being replicated over Afghanistan. The expectation had once been that Chinese investments would flow into the country after any peace deal that stuck. Instead there was growing anxiety in Beijing, Islamabad, and Kabul that proposals to link CPEC and Afghanistan's economic connectivity agenda were more likely to be caught up in the wider Sino-U.S. strategic competition.³⁶

When Ambassador Wells visited Pakistan in January 2020, senior Pakistani officials conveyed their concerns about being forced to pick sides. They also signaled the risk that in the current context, any choice they did make would have to be in China's favor.³⁷

34 Alice Wells and Michael Kugelman, [A conversation with Ambassador Alice Wells on the China-Pakistan economic corridor](#), U.S. Department of State, November 21, 2019.

35 Interviews, Washington, D.C. 2019.

36 Interview, Islamabad, 2020.

37 Ibid.



Signage at the Karakoram Highway Phase II (Thakot-Havelian Section) being built under CPEC, near Abbottabad.

Pakistan's headache over Sino-U.S. dynamics was soon eclipsed by the coronavirus crisis. The government was initially uncertain how to handle the outbreak in China, given the large number of Pakistanis—businesspeople, students, and others—living there, including in Wuhan. Many other governments moved quickly to evacuate their citizens, but Islamabad came under considerable pressure from Beijing not to do so (despite Khan's preference for an evacuation) as part of the wider efforts by the Chinese government at reputation management through the crisis.³⁸

China's line to the Pakistani government was that it was better placed to deal with any health issues faced by Pakistani nationals in the country, given its immediate experience. It was concerned about the implications for CPEC and the wider relationship if large numbers of returning students from Wuhan resulted in a major outbreak in Pakistan itself. And Beijing portrayed this as a vote of confidence: that Pakistan trusted China to deal with the situation effectively.

The pressure worked and, after a period of wobbling, Islamabad made clear that there would be no evacuations. "the Pakistan government and its people are standing firmly with their Chinese brethren," the health minister declared in February 2020.³⁹ A ripple of such solidarity statements from Pakistan followed. Flights from elsewhere in China resumed (as Beijing had wished) soon thereafter, and when coronavirus cases started

38 Ibid.

39 Yang Han, "Pakistan confident in 'iron-clad' friend," China Daily, February 5, 2020.

emerging in Pakistan, the Pakistani authorities made sure to identify those cases as coming from Iran rather than from China.

As the number of infections in Pakistan continued to climb in March and April, China stepped up its humanitarian support, including much-needed healthcare equipment, teams of medical doctors, and other forms of assistance. But, despite continued public assurances by the Pakistani government that CPEC was on track and that all was well, the economic fallout was soon too much to contain. Once again, Pakistani officials were forced to head to Beijing to ask for emergency economic support. Pakistan's back was truly against the wall: real GDP growth in 2020 was projected by the World Bank to fall by 1.2 percent, with little or no growth projected in 2021.⁴⁰

Despite continued public assurances by the Pakistani government that CPEC was on track and that all was well, the economic fallout was soon too much to contain.

When he traveled to Beijing in March, President Arif Alvi became the first head of state to visit China since the coronavirus outbreak. Publicly, Alvi and Xi Jinping made repeated pledges of solidarity and reiterated their commitment to the all-weather friendship. But the core substance of the meetings involving the ministers on the delegation focused on Pakistan's economic woes and steps that China might take to help.

One of the ways that Pakistan hoped to address the economic crisis was by revisiting the terms of its purchasing agreements with independent power producers. This was assisted by a major new report suggesting that project costs had been inflated, including for two of the most prominent CPEC projects—Sahiwal and Port Qasim. The Pakistani delegation asked for a doubling in the repayment period incorporated in the tariffs and—in their opening position—a slashing of the interest rate.⁴¹

Pakistan was also embroiled in negotiations on its short-term debt. In April 2020, China reluctantly acquiesced to a Paris Club push at the G20 to suspend debt payments from the least-developed countries for the remainder of the year, given the sheer magnitude of the economic crisis. While Pakistan was able to agree terms with the Paris Club itself, the larger debts in the next fiscal year are owed to China. At the time of writing, the negotiations are still underway but it will be almost impossible for China simply to say no: Pakistan cannot afford the existing terms.

This has not stopped new projects from being added to the books. In one sense, the necessity of deficit spending induced by the crisis has created some more fiscal flexibility. With plans for Xi's visit moving ahead and the need for measures to stimulate the Pakistani economy growing more urgent, some of the CPEC plans have been expedited.

⁴⁰ World Bank, [Pakistan Overview](#), April 10, 2020.

⁴¹ Khaleeq Kiani, "[Pakistan urges China to soften terms for power deals](#)," Dawn, April 16, 2020.

As of July 2020, several projects were being pushed forward. Many of them are the lagging parts of the old CPEC agenda. Gwadar is being moved toward conclusion, as are the final stages of the Lahore Metro Orange Line and some motorway upgrades connecting Quetta to the Karakoram Highway. A small number of special economic zones will finally be launched too. But there is a set of new items too. The Pakistani government has agreed plans for the ML-1 rail line, even if the financing for it is still to be finalized. Some hydroelectric power projects have been given the green light.⁴² And—although not formally part of CPEC—Chinese firms have been involved in the controversial plans to move ahead with the biggest of the hydro projects: the Diamer Bhasha dam.

Some of these new projects are more financially risky than the CPEC package that was already in place. Like many large rail projects, there is considerable debate over whether ML-1 makes economic sense, and there have been numerous attempts to shoot it down by those who consider it a liability for the railway sector and the country's public finances.⁴³ Diamer Bhasha has repeatedly failed to attract international financing. Whether the new slate of Chinese investments moves ahead as planned remains uncertain. What is clear, however, is that in a state of real economic desperation, China is—yet again—Pakistan's first port of call.

42 Faseeh Mangi, "[New China deals signal Belt and Road revival in Pakistan](#)," Bloomberg, July 16, 2020.

43 Interviews, Pakistan, 2017-2020.