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POLICY BRIEF

The US-China rivalry in South Asia and Pakistan’s hedging dilemma

China’s re-emergence as a great power, and the ensuing competition with the United States over the norms, rules and values underpinning the international order, has signalled the return of great power rivalry in global politics. Asia is at the very heart of these dynamics, as testified by the competing Belt and Road Initiative and the Free and Open Indo-Pacific strategies, with significant implications for Asian states that are learning how to navigate the US-China rivalry. Situating the analysis in the literature on hedging, this paper focuses on Pakistan’s «hedging dilemma», centred around the country’s bilateral relations with the US and China. Drawing on a range of archival material and interviews, the analysis shows that Pakistan’s hedging options are limited, as a result of two intertwined trends, namely the implementation of the Beijing-backed China-Pakistan Economic Corridor (CPEC), the «flagship project» of the BRI, combined with the US withdrawal from Afghanistan and Washington’s recalibration towards competition with China.

Author
Filippo Boni, The Open University
Introduction

The US-China strategic rivalry is playing out on an increasingly global scale, with competition extending into the political, economic, and technological domains, as well as encompassing several world regions. Nowhere is the new great power competition between Washington and Beijing more intense and evident than in Asia. The latter is home to two of the most important foreign policy initiatives – the Belt and Road Initiative (BRI) and the Free and Open Indo-Pacific (FOIP) – deployed by the Chinese and American administrations respectively in the past decade.

On the one hand, China’s BRI is a set of infrastructure projects at the heart of President Xi Jinping’s vision of a more muscular China, which is growing increasingly more conscious of its power and seeking to elevate its status on the global stage. With more than 139 countries subscribed to the initiative to varying extents and intensities, sixty-three percent of the world’s population now lives within the borders of BRI countries. On the other hand, FOIP was initially launched by the then Japanese Premier Shinzo Abe and subsequently embraced by the United States, most notably during former US President Donald J. Trump’s visit to Vietnam in November 2017. In that context, Mr Trump rolled out the US vision for “a free and open Indo-Pacific — a place where sovereign and independent nations, with diverse cultures and many different dreams, can all prosper side-by-side, and thrive in freedom and in peace”. Such an approach represented the evolution, and, in many ways, the continuation, of the «Pivot to Asia» that was initiated under the Obama Administration in 2011.

Under the aegis of these competing policy initiatives, a myriad of states are learning how to navigate the new great power rivalry. The vast majority of Asian countries have therefore been trying to find a middle-ground between Washington and Beijing, in an attempt to avoid alienating either major power. In other words, countries are hedging between China and the US, in order to minimise risks and maximise benefits in an uncertain strategic environment.

Hedging is a concept that the discipline of international relations has borrowed from the financial realm, and is typically defined as a «third way» between balancing and bandwagoning, a middle-ground that states pursue to «offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects under the situation of high-uncertainties and high-stakes». While the vast majority of the academic and policy literature on hedging has focused on East and South-East Asia, less attention has been devoted to how countries in South Asia have navigated their ties between Washington and Beijing. This policy brief therefore seeks to fill this gap and to extend the existing analyses on hedging by incorporating South Asia, and Pakistan in particular, into debates about how states deploy hedging strategies in their foreign policy in this new era of great power competition.

The importance of South Asia as a case study cannot be overstated. It is home to India, a key US partner in Asia and one of the staunchest opponents of the BRI, as well as to Pakistan, the country that historically enjoys strong political and military bonds with China, and that in the past 20 years has been a major non-NATO ally of the United States. Against such a backdrop, Islamabad represents an ideal case to assess the implications of the US-China rivalry and how states respond by hedging, as well as the limitations that such a hedging strategy might present. Pakistan is currently facing the policy conundrum of wanting to mend fences with the US and to revitalise ties with Washington after the

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2 Ministry of Foreign Affairs of Japan, ‘Address by Prime Minister Shinzo Abe at the Opening Session of the Sixth Tokyo International Conference on African Development (TICAD VI)’, 27 August 2016.
difficult years of the Trump administration, while simultaneously being squarely in Beijing’s camp, with USD 25 billion worth of Chinese-backed projects, either completed or under implementation.

This policy brief therefore details the contours, limits and prospects of what I call Pakistan’s «hedging dilemma», centred around Islamabad’s ties with Washington and Beijing. The analysis argues that Pakistan’s hedging options are growing slim, as the country finds itself in the difficult position of having progressively shifted towards China, while simultaneously realising that it best not lose the support of the US completely. To develop this point, the analysis draws on a range of primary sources, including interviews and archival material from the «Cold War» and the «China in South Asia» collections from the Wilson Centre’s digital archives, triangulated with secondary academic literature and relevant policy reports. The analysis proceeds by first contextualising hedging in Pakistan’s foreign policy during the Cold War, before moving on to assess the current policy predicament that policymakers in Islamabad are facing.

Pakistan’s hedging during the Cold War

One of the first examples of Pakistan’s ability to navigate its relations with the US and China came in the years following the independence in 1947. On the one hand, Pakistan adhered to the US-led defence pacts, namely the South-East Asia Treaty Organisation (SEATO), also known as the Manila Pact, and the Central Treaty Organisation (CENTO), pacts that were aimed at containing the Soviet threat in South-East Asia and the Middle East respectively. On the other hand, Pakistan was keen to establish ties with China and to reassure its neighbour that its alignment with the West was not aimed against Beijing.

In a speech to the Political Committee of the Afro-Asian Conference in 1955, then Chinese Premier Zhou Enlai noted that during a meeting with the Pakistani prime minister at the time, Muhammad Ali Bogra, he was told that «Pakistan did not join the Manila Pact for the purpose of opposing China [...].» The Chinese premier welcomed such a reassurance «because it led to mutual understanding and allowed us to know that this treaty does not obstruct us from cooperating and reaching agreements for collective peace». In the following year, Iskander Mirza, the Pakistani president, decided to visit China despite concerns expressed by the US administration. He reassured the US that Pakistan would «abide by all [our] obligations to the United States and noted that the country had «faith in the Southeast Asia Treaty and the Baghdad Pact,... [and] we will abide by all the treaties [we’ve] signed [...]» but he felt that «there will be no danger in going to Beijing.» Further evidence of Pakistan’s desire to keep a door open to China while being tied to the US system of Cold War alliances, can be found in a 1956 cable from the Chinese Embassy in Pakistan, in which Chinese diplomats noted that Pakistan was «relatively enthusiastic about developing trade between the two nations. [...] The number of solo meetings that our ambassador and chargé d’affaires had with the Pakistani president and prime minister in May and June is unprecedented. The various leaders of landlord and capitalist political parties, and giants in industry and commerce, all emphasise when [we] meet that China’s progress is amazing, that it is the strongest nation in Asia, and that Chinese and Pakistanis should be friendlier.»

Fast forward 25 years, and during the Soviet invasion of Afghanistan, Pakistan was able to capitalise on its central position in the fight against the Soviet invasion. Pakistan’s close ties with the US during this period are very well documented, as it is the US reliance on the Pakistani military and intelligence agencies to fund and train the Afghan resistance against the Soviet occupiers. Less known is the fact that, during the same period, Pakistan was able...
to receive significant military support from China too, as Figure 1 below shows.

**Figure 1 – Arms transfers to Pakistan from the US and China, 1979-1989**

![Arms transfers chart]

**Source:** Data compiled by the author, based on the SIPRI Arms Transfers Database.

As the figure above highlights, Pakistan obtained roughly the same amount of arms transfers from both China and the US (US$ 2.5 billion and US$ 2.56 billion respectively) during the period under examination. Evidence of Pakistan’s successful hedging strategy in securing benefits of cooperation with these two major countries, the ones now shaping the international system, can also be found in the concerns expressed by US administration officials in the 1980s, regarding the delivery of military technology to Pakistan. In a 1982 memo for the then Deputy Secretary of Defense, concerns emerged that «Pakistan’s close military relations with China suggest that Islamabad may at some point give Beijing access to new US weapons it receives, despite having signed a General Security of Military Information Agreement». The memo then notes that «for the near term, however, we believe Pakistan probably will safeguard the new US arms it receives to protect its arms supply relationship with the US», and warned that «major strains in the relations with the United States – reinforcing Islamabad’s doubts about United States’ reliability – could cause the Pakistanis to give China access to US arms».

As these historical examples demonstrate, the lesson that Pakistan has learned during the Cold War is that it could maintain relations with both Beijing and Washington, and also benefit from navigating its relations between the two. Overall, Pakistan’s assessment of its ties with the US and China was best captured in an interview with a senior Pakistani official who highlighted that «the US are not reliable in times of crisis as their regulations do not allow them to transfer military equipment to Pakistan» while «China has always been willing to provide Pakistan with military hardware also when the country was under sanctions».

It will be difficult for Pakistan to replicate the Cold War pattern outlined in this section in the current geopolitical scenario for a number of reasons. First, the ongoing US-China competition has become strongly polarised and has escalated to an extent that is unprecedented. Second, Washington has limited appetite now to pay attention to Pakistan. The US is still willing to engage, but not as a strategic partner and with much more caution than in the past. Third, since 2011, Pakistan has progressively set in motion a recalibration of its foreign policy that has moved it closer to China and away from the US, a process that is epitomised by the implementation of the China-Pakistan Economic Corridor, a USD 25 billion investment in Pakistan under the aegis of the BRI, one of the most significant and visible set of infrastructural projects that Beijing has deployed abroad.

The next section discusses some of these points in greater detail, focusing in particular on how the development of CPEC, and the simultaneous American disengagement from Afghanistan, have significantly limited Pakistan’s hedging options.

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14 In particular, the 1982 document refers to the AN-ALR-69 radar warning receiver, that was going to be supplied to Pakistan as part of the deal for 40 F16s.
16 Ibid.
17 Interview with the author, Islamabad, January 2015.
18 Ayesha Siddiqa, ‘Team Bajwa now betting on UK to promote Taliban — to get to US indirectly’, The Print, 26 July 2021.
CPEC meets the US-China rivalry

When Chinese President Xi Jinping visited Pakistan to officially launch CPEC in April 2015, the set of energy and infrastructure projects coming under the BRI were dubbed in Pakistan as game changers. In the intentions of policymakers in both Islamabad and Beijing, CPEC was going to be one of the most consequential undertakings in the history of Sino-Pakistani relations, given the transformative potential of such a gigantic development package for Pakistan’s economy, politics and overall security.

CPEC clearly delivered on energy projects and, six years on, has significantly reduced the country’s electricity shortages, despite the complex web of interactions in Pakistan’s domestic politics, including centre-provincial tensions, civil-military relations and a change of leadership following the 2018 elections, have somewhat slowed down the evolution of CPEC into its second phase.

When CPEC was first launched, the Obama administration saw China’s investments in Pakistan in a relatively positive light. According to the then USAID director in Pakistan, John P. Groarke, both China and the US shared an interest in promoting sustainable development in Pakistan. He noted that if successfully executed, CPEC could bring great benefits to Pakistan. After all, China was stepping in to try to address some of the chronic issues affecting Pakistan’s economy in order to stabilise the country, an aim that the US failed to achieve in the previous 14 years of development and military assistance. More generally, Beijing taking responsibility in the region was viewed favourably by the US.

But as the Trump administration was gearing up for a much tougher line on China than its predecessor, the US tone and approach to CPEC changed significantly. The most visible manifestation of this more assertive and openly critical stance were the remarks made in November 2019 by Ambassador Alice Wells, former Acting Assistant Secretary of State for South and Central Asian Affairs in the US State Department. Wells very vocally expressed US reservations regarding CPEC, which revolved around the debt-burden that the projects would place on Pakistan, the lack of transparency and the paucity of actual job opportunities that were expected to have materialised under CPEC for Pakistani workers.

While these remarks were strongly rejected both by the Chinese embassy in Islamabad and by the Pakistani foreign office, they epitomise how CPEC was caught in the US-China competition. The US remarks and the country’s wider approach to the initiative have, de facto, limited Pakistan’s ability to hedge between the two great powers. Circling back to the definition of hedging provided in the introduction, Pakistan’s ‘multiple policy options’ that a hedging strategy would entail have significantly shrunk. Islamabad has tried to mend fences with the US and to rebuild the bilateral ties, yet to no success at the end of 2021. Pakistani leaders have sent messages on multiple fronts directed at the US administration, in the hope that President Biden and his foreign policy team would mark some discontinuity from the difficult Trump years.

In March 2021, the Pakistani government formed a 14-member ministerial apex committee, whose aim was to discuss ‘a range of economic and commercial proposals to warm ties with the US’, with the ultimate goal of reviving bilateral economic relations with Washington. To this end, the Board of Investment (BoI) has proposed that Pakistan can offer certain areas of cooperation to the US under CPEC, but that the country needs to be mindful of the sensitivities of both the US and China. One option that the Pakistani Ministry of Commerce has put forward has been that of an American-Pakistan Economic Zone in Karachi, the city that represents Pakistan’s business centre and that hosts one of

20 ‘Kashgar-Gwadar project “a game changer” for whole region: Sharif’, Dawn, 7 July 2013.
22 ‘CPEC to be of great benefit to Pakistan’, Dawn, 16 October 2015.
24 Similarly to the rebuttal of Ambassador Wells’ remarks, in October 2021 the Special Adviser to the Prime Minister on CPEC Affairs noted that “[…] one thing is clear: the United States supported by India is inimical to CPEC. It will not let it succeed. That’s where we have to take a position,” also adding that Pakistan “has more than once burnt its fingers in (the Western) alliance in the past”. Pakistan accuses US of trying to derail CPEC’, The Express Tribune, 24 October 2021.
the largest ports in Asia. During the same month, the Pakistani Chief of Army Staff, General Qamar Javed Bajwa, said at the Islamabad Security Dialogue that «while CPEC remains central to our vision, only seeing Pakistan through [the] CPEC prism is also misleading», a message that a number of seasoned analysts interpreted as an overture to the US. When asked about whether Chinese companies were receiving preferential treatment in Pakistan, a member of Parliament of the ruling party, Pakistan-Tehreek-e-Insaf, rejected such claim, noting that «the ground is open for both Chinese and Western companies».

As mentioned above, Washington has not been receptive to the signals of rapprochement coming from Islamabad. The only high level engagements between the two countries occurred at National Security Advisor level, and while U.S. Defence Secretary Lloyd Austin has visited Delhi, and Secretary of State Anthony Blinken has hosted India’s Foreign Minister Subrahmanyam Jaishankar in Washington, when Pakistan’s Foreign Minister Shah Mahmood Qureshi visited New York in May 2021, publicly at least, there were no meetings with administration officials, though he was able to see members of the Senate and Congress. Perhaps more importantly, as of October 2021, President Biden has yet to have a phone conversation with the Pakistani Prime Minister Imran Khan. Pakistan’s frustration about this lack of high-level interactions was expressed during the visit of the National Security Adviser, Dr Moeed Yusuf, to the US in August 2021. He noted how President Biden did not have a phone call with the Pakistani Prime Minister, and that «if a phone call is a concession, if a security relationship is a concession, Pakistan has options».

Geography might ultimately come to Pakistan’s aide as the country may exact a diminished form of leverage with the United States. In the run up to the US withdrawal from Afghanistan, there were talks about the US using a base in Pakistan in order to continue monitoring the Afghan scenario. While it is unlikely that Pakistan will allow this in the short term, there might be scope to find some form of accommodation that keeps Pakistan relevant for US interests in the region. Officials privy to negotiations noted that «in exchange for the use of a base in the country, they have effectively required that they sign off on any targets that either the C.I.A. or the military would want to hit inside Afghanistan». Similar to what happened during the Cold War, Pakistan is keen to retain a central role in the Afghan scenario, in order to be an indispensable interlocutor and to extract the benefits of this centrality, both in economic and military terms, from the US and from China. As a policy paper from a think tank in Islamabad advocated, Pakistan should «develop a carefully calibrated balance in its most important bilateral relationships» and «rather than being coerced into choosing either Beijing or Washington, Pakistan needs to set itself up as a mediator to allow the two great powers to pursue their shared interests». But, as this section demonstrated, such a course of action is proving increasingly difficult to pursue.

To sum up, Pakistan’s policy options vis-à-vis maintaining a balanced relationship with both the US and China have been significantly reduced. The change in the US approach to and interests in the region that began during the Trump administration and are continuing under President Biden, have put Pakistan in a difficult corner from which it will be difficult to emerge.

27 Ibid.
29 ‘How Chinese investments are capturing Pakistan’s economy’, Deutsche Welle, 2 August 2021.
30 NSAs met twice, once in May and once in July. See: ‘In first meeting, Pakistan and US NSAs discuss bilateral issues, ways to advance cooperation’, Dawn, May 2021; ‘Afghan situation: Pak, US NSAs agree to sustain bilateral cooperation’, The Express Tribune, 30 July 2021.
32 Katrina Manson, ‘Pakistan’s security adviser complains Joe Biden has not called Imran Khan’, Financial Times, 3 August 2021.
Conclusions

The aim of this policy brief was to foreground how states in South Asia are trying to take a middle ground in navigating the great power rivalry. To this end, by tracing the evolution of Pakistan’s hedging approach, the analysis sought to demonstrate how, in contrast to Cold War dynamics, Pakistan’s options for hedging are more limited. This is primarily due to a set of intertwined factors, including the implementation of the Beijing-backed CPEC, combined with the US withdrawal from Afghanistan and Washington’s recalibration towards competition with China, Pakistan’s long-standing partner. Beyond the specificities of the Pakistani case, this policy brief has contributed to bringing South Asia into debates around hedging, as well as to add incrementally to the burgeoning literature looking at how individual states are responding to, and navigating through, the new great power rivalry of the 21st century.36

The analysis presented here has provided some glimpses of the vibrant debate within the Pakistani academic and policy-making communities, regarding Pakistan’s foreign policy options. Scholars have opined that by choosing to align ever more closely with China, Pakistan is making «a grave strategic mistake» and that policy-makers in Islamabad should consider re-orienting the country’s grand strategy «in order to bring it closer to Western democracies» as a way to «ensure greater security, economic development and sovereign independence for Pakistan».37 As a seasoned observer of Pakistan politics noted, Pakistani policymaking elites have learned that the US-Pakistan relationship is «painfully enduring»,38 and that Pakistan will want to maintain some form of cooperation with the US, even as Washington diverts its interests elsewhere. As the analysis presented here has noted, however, Pakistan’s hedging options have become more limited, and it will take some time to rebuild the relationship with Washington.

38 Conversation with the author, September 2021.
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