Pakistan’s Economic Vulnerability and the US South Asia Strategy in Light of CPEC

Policy Analysis

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Abstract

US-Pakistan relations have seen highs and lows, and US aid flows to the country mirror the shifts in US foreign policy positions. Even after Pakistan’s initiation as a key non-NATO ally post 9/11 the bilateral relationship has been fluctuating. The Trump Administration’s new policy for South Asia and Afghanistan announced on 21st August, 2017, was a harbinger of change in relations with Pakistan. On January 4th 2018, the United States suspended all security-related assistance to Pakistan including payments through Coalition Support Funds (CSF) and the transfer of security-related equipment - a punitive measure in response to the alleged provision of sanctuaries by Pakistan to the Afghan Taliban and the Haqqani Network. The administration has also hinted at additional measures like revoking Pakistan’s non-NATO ally status, labeling it a ‘state sponsor of terror’ and withholding support at global financial institutions. However, due to American interests in the region tied to Pakistan’s stability and its co-operation vis-à-vis Afghanistan, there are limits to how much coercive pressure US may apply on Pakistan without hurting its own goals. As US aid declines and Washington seems less likely to extend economic favours to Pakistan, China is increasing its economic footprint in the country, primarily through the China-Pakistan Economic Corridor (CPEC). In the backdrop of its investments and CPEC’s role as the ‘flagship’ project of the Belt and Road Initiative (BRI), China has a heightened stake in Pakistan. As the US builds closer ties with India, effectiveness of the policy toward Pakistan also has to be gauged in light of shifting geopolitical landscape and the likely impact on bilateral ties in the region. Coercing Pakistan is unlikely to yield the desired results in the context of the South Asia strategy. The current policy only views Pakistan in terms of its immediate relevance for Afghanistan.
Introduction

The Trump Administration’s new policy for South Asia and Afghanistan, announced on 21st August 2017, was a harbinger of shift in relations with Pakistan. While the strategy acknowledged Pakistan’s efforts, it also accused the country of harboring terrorists, and was largely viewed in Pakistan as a coercive attempt to bend the country’s will towards American objectives in Afghanistan. This sentiment was only amplified following a New Year’s Eve tweet from President Trump that accused Pakistan of “lies and deceit”, in its role as an anti-terror ally, in return for “$33 billion in aid” from the United States. The new US South Asia policy also expressed a desire for a deeper “strategic partnership” with India, with an enhanced role in the economic development of Afghanistan (White House 2017), raising red flags for Pakistan which has long viewed Indian involvement in Afghanistan as an existential threat. On January 4th 2018, the United States suspended all security-related assistance to Pakistan including payments through Coalition Support Funds (CSF) and the transfer of security-related equipment (Mohammad & Landay 2018; Iqbal 2018). The administration took these measures as a punitive response to the alleged provision of sanctuaries by Pakistan to the Afghan Taliban and the Haqqani Network. While Pakistan has stated that these measures will not hinder important cooperation between the countries, there is increasing support in some policy circles in the US for using a more coercive approach toward Pakistan with regards to achieving results in Afghanistan. The Trump administration has also hinted at additional measures like revoking Pakistan’s non-NATO ally status, labeling it a ‘state sponsor of terror’ and withholding support at global financial institutions (Rayan, Gowen & Morello 2018).

Along with feeling coerced, there is disgruntlement in Pakistan that the country’s efforts and sacrifices are not recognized. Following the announcement of the US South Asia strategy in August 2017, Pakistan’s Chief of Army Staff, General Qamar Javed Bajwa remarked that “Pakistan does not need material or financial assistance from the US, but needs to be trusted and treated with respect” (‘Pakistan wants’ 2017). After the suspension of security aid in January 2018, the Foreign Office in Islamabad in an official statement termed the measures “counterproductive” (‘Pakistan says’ 2018). Officials in Pakistan see the current US posture as scapegoating Pakistan for America’s own failures in Afghanistan (‘US blaming’ 2018). Additionally, India’s anticipated increasingly prominent role in Afghanistan is a cause for grave concern.

Since 9/11, whenever doubts about Pakistan’s intention and credibility as an ally resurfaced in Washington, US policy makers questioned the rationality of extending financial assistance to the country. A constant bone of contention being the alleged tolerance of Pakistan’s military for certain extremist groups; purportedly a strategy employed to keep a check on India and hedge against uncertainty in Afghanistan (Department of Defense 2017). From the US perspective, the peace process in Afghanistan is jeopardized by Pakistan’s acceptance of ‘sanctuaries’ or ‘safe havens’, within its borders. On the other hand, Pakistan vehemently denies these allegations citing the efforts it has made, including incurring casualties and economic losses in its role as a US ally in the global War on Terror.

Objectives

This report studies the impact of the new US strategy for South Asia on US-Pakistan relations. It assesses the viability of the strategy towards Pakistan, with a focus on Pakistan’s economic vulnerability, as China builds closer economic ties with the country through the China-Pakistan Economic Corridor (CPEC). It also analyzes the policy in the context of the geopolitical environment in the region and if there is scope for cooperation vis-à-vis Afghanistan.
**US Aid to Pakistan**

US-Pakistan relations over the years have seen highs and lows. Correspondingly, US aid flows to Pakistan mirror the fluctuations and shifts in US foreign policy positions. For instance, US aid to Pakistan was negligible during the 1990s, following the exit of Soviet forces from Afghanistan and due to the imposition of sanctions for the country’s nuclear weapons program (Cookman & French 2011). After a decade of sanctions, the bilateral relationship transformed dramatically following 9/11. Subsequently, Pakistan became one of the leading recipients of US assistance, owing to its status as a key counterterrorism ally and its importance for regional stability (Kronstad 2015).

Pakistan formally became a major non-NATO ally (MNNA) in 2004. The MNNA status symbolized a stronger US-Pakistan relationship, and recognized the country’s increasingly important role in the Global War on Terror (Borger 2018). In essence, a move to strengthen military co-operation with Pakistan, owing to the country’s importance for US objectives regarding regional stability in South Asia (ibid). However, even after Pakistan’s initiation as a MNNA post 9/11, the bilateral relationship and US aid flows have fluctuated. In 2011, the bilateral relation deteriorated owing to a series of events that stoked acrimony on both sides; the January arrest of accused CIA operative Raymond Davis, the May raid on Osama bin Laden’s compound in Abbottabad, and the NATO airstrike in November along the Afghanistan-Pakistan border which killed at least 24 Pakistani soldiers, later termed the Salala incident. These events culminated in the US withholding around $800 million of planned security related aid in July 2011 along with approximately $1 billion in previously approved CSF reimbursements (Kronstad 2012). As relations worsened, Pakistan’s government took a number of reactionary steps, including the closure of ground lines of communications (GLOCS) to the landlocked Afghanistan (Masood & Schmitt 2011). After a six-month blockade in the supply routes, following an official apology by the US Secretary of State Hillary Clinton for the Salala incident, Pakistan conceded to re-open the routes. Renewed bilateral engagement also in turn led to a decision to release previously held CSF funds worth $1.1 billion, to Pakistan (‘After US’ 2012).

Focusing on the period post 9/11, according to latest numbers by the Congressional Research Service (CRS), total US foreign assistance appropriated by Congress for FY2002-2017 to Pakistan amounts to $33 billion dollars approximately ($14.5 billion is for CSF reimbursements, $11 billion is Economic-Related and $8.2 billion is Security-Related) (Kronstad & Epstein 2017; Kronstad & Epstein 2014). Comparing ‘Direct Overt US Assistance’ figures for FY2002-FY2018, there is an obvious dip in appropriated funding, starting in FY2011. After 9/11, Congress has reimbursed Pakistan, amongst other nations, for its support of US led counterterrorism missions through CSF. It compensates Pakistan’s military for the costs incurred during military operations, payments for food and ammunition, and reimbursement for use of airfields and seaports (Kronstad 2015). Technically CSF is not aid, but at approximately $14 billion, it forms the largest chunk of the $33 billion of US assistance to Pakistan in the last fifteen years. Following the breakdown in US-Pakistan relations in 2011, the Congress legislated a number of conditions on CSF to Pakistan but the conditions could be waived in the interest of US national security (ibid). In FY2015, for the first time, a portion of CSF was conditioned upon Pakistan’s actions against the Haqqani Network, a restriction which unlike in the past could not be waived by the executive branch (Tankel 2017); out of the $1 billion appropriated, $300 million was withheld that year (Curtis 2016a). These conditions have continued, with $400 million out of $900 million for FY2017 not eligible for a waiver (Ferdinando 2018). Due to the freeze imposed at the start of 2018, payments for FY2017 and beyond were suspended.
Using Aid as Leverage

The US has a long history of using aid as leverage. In the 1990s the sanctions were enforced on Pakistan in response to its pursuit of nuclear weapons. At the time, the Afghan Soviet war had ended so Washington was no longer dependent on Pakistan’s support. However, the current freeze is imposed at a time when the success of US efforts in Afghanistan depends on Pakistan’s support. As the Trump administration increases troops in Afghanistan and frustration grows over the long-drawn war, current sanctions could just be the first step toward a much harsher approach and a sign of Washington’s willingness to adopt a different strategy toward Pakistan. In fact, the current administration prides itself on its resolve to put ‘America First’ and not shy away from adopting a hardline approach to protect US interests. Under this administration, the suspension of military aid could be a prelude of harsher measures like, labeling Pakistan a ‘state sponsor of terror’ or expanding drone strikes (Kugelman 2018a).

However, if pushed too far, a hardline policy could hinder the US’ ability to achieve its own goals. Serious sanctions could destabilize Pakistan, which would further complicate the region and the US’ presence in it. For instance, the label of ‘State Sponsor of Terrorism’ could inflict financial restrictions on the country, amongst other dire consequences (US Department of State 2013). Additionally, sanctions could directly damage US efforts in Afghanistan. If Pakistan reacts by closing air and ground lines of communications, limiting intelligence sharing or other forms of cooperation, the cost of supplying US troops in Afghanistan would skyrocket and the success of an Afghan peace process could be compromised by an uncooperative Pakistan.

According to Pakistan’s Ministry of Finance, since Pakistan’s involvement in the ‘War on Terror’, the country has suffered direct and indirect monetary losses of $123.13 billion from 2001-2017 (Ministry of Finance 2017), in addition to the loss of life (‘Pakistan lost’ 2018). Strategically, payments through CSF have also served as an incentive to keep ground lines of communications (GLOCs) open and also as leverage to gain Pakistan’s cooperation for counterterrorism efforts (Tankel 2015). Rescinding payments through CSF is not inconsequential for Pakistan. CSF have been integral in stop gapping financial losses. However, US leverage through CSF may be decreasing as these payments have been declining over time. For instance, CSF was $1.4 billion 2013 and $550 million in 2016 (Security Assistance monitor n.d.). Since 2015, a portion of CSF has been continuously withheld. Importantly, suspending aid has not delivered the desired outcome. US leverage through CSF is also limited due to its own interests in Afghanistan. For instance, on the issue of aid cuts in January 2018 Miftah Ismail, Prime Minister’s adviser on Finance at the time, said: “I can’t imagine how the US financially or militarily hurts us and their own war effort doesn’t get hurt” (‘Pakistan shrugs’ 2018). Some officials in Pakistan assert that given the current scale of Pakistan’s requirements, the US does not have any serious leverage over Pakistan through these payments (personal communication, March 2018). Also, due to the suspension of security assistance, Pakistan could turn to Russia or China to get the security assistance it needs, pushing it further into the influence of Washington’s adversaries, stated Leon Panetta in an interview to Wolf Blitzer on CNN (Panetta 2018). Pakistan’s deepening relationship with these countries also gives the impression that it has alternatives to US support. Subsequently, pressure tactics like the current freeze in military aid and CSF could backfire on US objectives in the region (Marlow & Dilawar 2017).

Development aid, or economic-related assistance, is not a part of the current freeze, but legislation for limiting or ending all aid to Pakistan has also been discussed periodically. The stated purpose of US civilian assistance is to achieve long-term development and promote stability in Pakistan (USAID n.d.). Consequently, scholarship on the subject suggests avoiding the urge to use development aid to Pakistan, for extricating short-term diplomatic or security objectives (Birdsall, Elhai & Kinder 2011; Birdsall,
Vaishnav & Cutherell 2012). Also, the current level of US development aid, down from over $1 billion in FY2012 to $246 million in FY2016, is shrinking and relatively small as compared to the country’s GDP of $305 billion for FY2016 (World Bank 2017). The inherent nature and purpose of development aid, along with the relative size of the program, make it an ineffective leverage tool in the current scenario.

**US Leverage and International Institutions**

History indicates that the use of US aid to Pakistan, either as punishment or reward, has been an ineffective tool for aligning US and Pakistani strategic priorities (Cookman & French 2011). However, the US can exert significant pressure on Pakistan through International Financial Institutions (IFIs).

Highlighting Pakistan’s economic vulnerability and its increased external financing needs, some policy experts point out the opportunity for the US to use its leverage in IFIs to pressurize Pakistan. US leverage comes from its presence and voting power in these institutions (personal communication March 2018). Particularly, IMF has a long lending history with Pakistan with the most recent bailout totaling $6.6 billion in 2013 (International Monetary Fund 2013). Hence, it could use its influence over IMF to extract desired behaviors as Pakistan will most likely need a bailout as CPEC related debts come due (Kugelman 2017).

For instance, in August 2018, the US Secretary of State Mike Pompeo stated that there is no reason for the US to support an IMF bailout package to Pakistan for paying off Chinese loans (Rana 2018a). The new Pakistan government is trying to explore its options for stabilizing the economy and has not yet approached the IMF for a bailout (Rana 2018b).

Although Pakistan’s economy is growing, it still faces significant challenges, making it dependent on the support of institutions like the IMF, ADB and World Bank (‘As US’ 2018). Punitive measure through IFIs can hurt Pakistan’s economy due to its high dependence on external financing. A report issued by the IMF in February 2018 had stated that despite an expected GDP growth rate of 5.6% for FY 2017/18, the macroeconomic instability in the country could dampen the progress and hurt the country’s ability to fulfill its obligations to the fund (International Monetary Fund 2018a). Also, the rise in imports (in part due to the execution of import-intensive CPEC related projects) had widened the current account deficit (CAD) and depleted foreign exchange reserves; by mid-February 2018 the foreign exchange reserves could only cover 2.3 months of imports (ibid).

According to a statement issued by IMF’s staff team that visited Islamabad during September 27-October 4, 2018: “Pakistan is facing an increasingly difficult economic situation, with high fiscal and current account deficits, and low international reserves” (International Monetary Fund 2018b). The annual report of the State Bank of Pakistan (SBP) for FY 2016-2017, while declaring the highest growth in real GDP in ten years (5.3%) had pointed out the need for raising exports and managing the CAD, going forward (State Bank of Pakistan 2017). According to ‘Pakistan Economic Survey’ 2017-2018 the CAD widened by 50.5% in the July-March period to $12 billion (Ministry of Finance 2018). The country’s CAD was $17.994 billion (5.7% of GDP) at the end of FY2018 (Siddiqui 2018). The SBP’s third quarterly report for FY2018, raised concerns about Pakistan’s balance of payment situation and depleting foreign exchange reserves (State Bank of Pakistan 2018).

Accordingly, growing external vulnerability and high fiscal deficit could pose a downward risk to the 6.2% real GDP growth rate target set for FY19 (ibid).

Chinese investments promise economic stability, but paying for CPEC debts will be a difficult task, actually making the economy more vulnerable to external shocks in the short-run (International Monetary Fund 2017). The scale of the investment initiative, along with opacity of loan terms, have led to concerns about Pakistan’s ability for repayment (Jamal 2017; Rana 2017a). Unlike loans from the World Bank or IMF, a bulk of the loans for ‘early harvest’ projects (totaling $28 billion), have been acquired on interest rates as high as 7%, leading experts to believe that Pakistan will need another bail-out, once these debts
are due (‘Never Say’ 2017). Before the CPEC investments start bearing fruit, Pakistan also has to pay for the requisite imports and handle debt repayments. Consequently, due to a high CAD and rising external debt-service (partly due to CPEC) Pakistan’s external financing needs are expected to rise dramatically: from $21.5 billion (7.1% of GDP) in 2016/17 to $45 billion (9.9% of GDP) in 2022/23 (International Monetary Fund 2018a). Another assessment of the debt vulnerability of BRI participant countries, while highlighting the need for infrastructure investments for economic growth, predicts (based on available financing data and each country’s debt situation at the end of 2016) that Pakistan could suffer from debt sustainability problems (Hurley, Morris & Portelance 2018). The expected long-term socio-economic benefits of the corridor correspond with US intentions for Pakistan. If Washington decides to put pressure on Pakistan through IFIs, it could potentially hurt the prospects of CPEC, which goes against its interests.

Washington could also use its influence at global forums or through its alliances with other countries; the Financial Action Task Force’s (FATF) decision to put Pakistan on the ‘grey list’ in June 2018 is one example. It is important to note that Pakistan’s allies, like China and Saudi Arabia, after favoring Pakistan initially eventually submitted under pressure from the US and did not avert the nomination earlier this year. China has since criticized the political motives behind the FATF decision on the US-led motion (Hussain, Z 2018). Pakistan had recently been on the ‘grey-list’ for three years, up till 2015. Earlier, this status did not hurt Pakistan’s ability to raise money from the international bond market or secure loans from international financial institutions (Younus 2018). However, this time it can be problematic due to the country’s increased dependency on external financing and more importantly because it could be the next step in a series of measures used to up the ante against Pakistan. For instance, it could dampen foreign investments, it could raise the transaction cost of doing business with Pakistan due to additional regulations and hurt Pakistan’s ability to borrow from some international institutions, if it is deemed a riskier country (Jorgic, Price & Chatterjee 2018). While the US can use its influence to inflict punishments on Pakistan, measures that could potentially destabilize Pakistan are not in its interest. For instance, Pakistan’s former interior minister, Ahsan Iqbal, while making a case for US-Pakistan cooperation over Afghanistan, commented that: “...the economic impact of the FATF decision would shrink the budgetary resources for the ongoing security operations in the country” (‘US Wants’ 2018).

**US Leverage and China-Pakistan Economic Corridor (CPEC)**

US wants to pursue a coercive policy toward Pakistan at the same time as China is strengthening its economic ties with the country, particularly through CPEC. Hence, the effectiveness of the policy has to be studied in this context as well. As the US signaled its disapproval by freezing military aid earlier this year, China vocalized its support for Pakistan by appreciating Pakistan’s counterterrorism efforts and promising support and cooperation in various fields (LaFranchi 2018). As US aid dwindles and Washington seems less likely to extend economic favors to Pakistan, China is increasing its economic footprint in the country. Pakistan is borrowing money from Chinese banks, in the form of foreign commercial loans, to support the country’s budgetary needs. The country borrowed approximately $5 billion from China during the previous fiscal year ending in June 2018 (Jorgic 2018). Also, China’s FDI has surpassed US FDI in Pakistan since 2014 and the same situation holds in bilateral trade numbers since 2010 (Marlow & Dilawar 2017). According to a report published by Stockholm International Peace Research Institute (SIPRI) in March 2018, US arms exports to Pakistan fell by 76% in 2013-17 as compared to 2008-12. This development coincided with a decline in US military aid to the country, indicating a souring in bilateral ties (Stockholm International Peace Research Institute 2018). Recently, Pakistan has increased its reliance on China for military hardware, China is investing in the country through CPEC and public attitudes in Pakistan are also more favorable toward China (Hathaway 2018,
Consequently, US leverage over Pakistan, through the provision US assistance, is reduced by strengthened Sino-Pakistan ties (ibid).

Formalized in 2015, the CPEC project envisions investments of over $60 billion in Pakistan over a fifteen-year period, focusing mainly on power-generation and infrastructure development (Rafiq 2017a). The longstanding bilateral relationship between the two countries seems to be strengthening in the recent past in part due to CPEC. Official sources in Pakistan might only emphasize the positives while skeptics would present a gloom and doom scenario about CPEC; however, independent sources, while highlighting concerns about debt sustainability, expect CPEC to boost economic growth in Pakistan. A recent report, published by collaboration of various institutes like WB and ADB, focusing on the prospects of transport corridors in South Asia, claims that CPEC has enormous potential to boost Pakistan’s economy (World Bank 2018). Amongst other factors, CPEC related investment is a major contributor to positive growth performance in the country, according to an IMF report published at the beginning of 2018 (International Monetary Fund 2018b). BMI’s ‘Country Risk Report’ for Pakistan, predicting a relatively moderate economic growth outlook, predicted the GDP growth rate of 5% in FY 2017/18 and 4.4% in FY 2018/19 (BMI Research, 2018). It shies away from presenting an overly optimistic forecast with regards to CPEC (citing operational and security challenges), but still expects Chinese investments to have an overall positive impact on Pakistan’s economy (ibid).

The global context of CPEC goes beyond the relationship between China and Pakistan as it has linkages to Pakistan’s ties with US and the ongoing crisis in Afghanistan (Burki 2018). Due to its investments in Pakistan, and CPEC’s role as the ‘flagship’ project of the Belt and Road Initiative (BRI), China has a heightened stake in the stability of Pakistan. Also, US penalties that hurt Pakistan’s economy could have detrimental effects on Chinese investments as well. Gradual downturn in US-Pakistan relations and diminishing US financial assistance combined with strengthened Pakistan-China ties, certainly lower US leverage over the country which makes the current policy less effective. Pakistan has historically maintained close ties with both China and the US; its relationship with China is not new and has not been counter-US or zero-sum. However, the new South Asia strategy, which includes stronger ties with India and certain penalties towards Pakistan, may nudge Pakistan to pursue a deeper relationship with China. Also, US exaggeration of the ‘strategic’ elements of CPEC could eventually end up making it a “self-fulfilling prophecy” (Rafiq 2017a, p.30), which is more likely in the context of the new coercive approach toward Pakistan. Pitting the loss in financial support from the US to expected gains from China is an overly simplistic view of the situation. There is more to US-Pakistan relations than economic dependency through aid and financial assistance. Pakistan’s Foreign minister, Shah Mehmood Qureshi, during an event at the United States Institute of peace while on his first official visit to the US, stated that Washington is a global power; the two countries have economic and military ties along with a history of cooperation (Qureshi 2018). However, the situation presents China with some opportunities and challenges (Grossman & Zhu 2018). China is already investing heavily in Pakistan through CPEC, it is lending money to the country to appease its budgetary concerns and is involved in reconciliatory efforts for improving Pak-Afghan ties. China would not want to bear the additional burden of being the primary external force responsible for stabilizing Pakistan; it would not take up US responsibilities in Pakistan in terms of financial assistance or counterterrorism efforts but it could use the opportunity to occupy a policy space in the country that it didn’t before (ibid). The current scenario presents a realignment of regional alliances, perhaps accelerated by the Trump administration’s policy toward South Asia (Shah 2018). The current US policy only views Pakistan in terms of its immediate relevance for Afghanistan, without considering implications on long-term diplomatic ties. In this broader context, a coercive approach toward Pakistan is less likely to work.
As the US builds closer ties with India, effectiveness of the policy toward Pakistan has to be gauged in the context of shifting geopolitical landscape and the likely impact on bilateral ties in the region. In particular, it has to be evaluated in the context of rising competition between China and the United States. According to the synopsis of the 2018 US National Defense Strategy, Washington has concerns about China’s (and Russia’s) strategic ambitions, especially in terms of adopting authoritarian practices with regards to influencing other nations in their diplomatic, security and economic matters (Department of Defense 2018). Pakistan’s Director General of Inter-Services Public Relations (ISPR), during a press conference on 28th March, 2018, while commenting on the strategic situation in the region stated that the overall environment and Pakistan’s bilateral relations were affected, to some extent, by the US president’s new year’s tweet, and the ensuing events (Ghafoor 2018). He highlighted the likely impact of power contestation in the region on the success of CPEC and shared reservations regarding India’s efforts to destabilize Pakistan, through its role in Afghanistan (ibid). One of the contentions against Pakistan’s role regarding peace in Afghanistan is its alleged hyperbolic focus on its rivalry with India while considering any reform in its policies regarding Afghanistan (Kaura 2017). Whether Pakistan’s apprehensions regarding India are accurate or exaggerated, the Trump administration’s South Asia policy, declaring an enhanced Indian role in Afghanistan’s peace process while sharply criticizing Pakistan, has only exacerbated Pakistan’s anxieties about its ‘encirclement’. Hence, the policy could be counterproductive in this aspect. The closer Indo-US alignment is also compelling Pakistan to make diplomatic engagements, with regards to Afghanistan, with other countries in the region, including China, Iran, Russia and Turkey (ibid). This new US policy is unlikely to work because it makes Pakistan insecure and further entrenches the perception about US ‘abandonment’ (Afzal 2017).

There are some concerns in Pakistan about the US adopting a more Indo-centric view of CPEC as tensions worsen and US tilts more towards India. For instance, US Secretary of Defence James Mattis, seemingly supported India’s stance by stating that, “CPEC passes through disputed territory” in a briefing to the Senate Armed Services Committee in October 2017 (Iqbal 2017). CPEC has attracted attention not just due to its scale and scope but also for its potential geostrategic ramifications. India has raised a number of objections: CPEC passes through ‘disputed territory’, hints at China’s hegemonic ambition and the detrimental impact of an emboldened Pakistan (due to China’s support) on India’s security (Markey 2017). A strain in geopolitical circumstances could also negatively impact the success of CPEC (Yusuf, S 2018). The November, 2017 cancellation of the Diamer-Bhasha hydroelectric dam, in Pakistan’s Gilgit-Baltistan region of Kashmir, is an example of geostrategic risks that can impede CPEC projects. Pakistan, citing financing disagreements with China, decided to take the project out of the framework of CPEC (Rana 2017b). Previously, the same project couldn’t be financed through World Bank or other financial institutions due to opposition by India, claiming rights over the disputed territory (ibid). In March 2018, Pakistan eventually approved the construction of the dam with the plan of primarily relying on local sources for funding (Rana 2018c).

Pakistan maintains that India’s apprehensions regarding CPEC are exaggerated; Mr. Asad Umer asserted that it is an infrastructure project and it should be considered as such (personal communication, 5 December 2017). US and India are establishing closer ties, amidst convergence of geostrategic interests in the region. Fueled by its enhanced partnership with the US, following the rift in US-Pakistan relations, provides India an opening to advance its own agenda. This could also escalate tension between India and Pakistan, as India becomes increasingly vocal about its apprehensions (Kugelman 2017b). Prime Minister Imran Khan expressed his desire to improve ties with India during his victory speech, “If they take one step towards us, we will take two”, he also talked about mutually beneficial trade ties and the need to resolve the issue of Kashmir (‘Imran Khan’s’ 2018). On September 14 2018, Pakistan’s Prime Minister wrote a letter to his Indian counterpart and offered to hold peace talks on all issues, including Kashmir
and terrorism (Hussain, D 2018). India at first accepted the offer and later cancelled the scheduled meeting of the two foreign ministers on sidelines of United Nations General Assembly session in New York (ibid). If Pakistan experiences heightened antagonism from India, while the US encourages India’s involvement in Afghanistan, it is likely to carefully gauge developments in Afghanistan in terms of its own national security. This scenario will make the current US policy position on Pakistan ineffective; a policy that exacerbates existing fault lines in the region will not lead to a different outcome.

At a strategic level, there certainly are US concerns about the BRI and many of these are shared by New Delhi but the US government has repeatedly expressed welcoming any foreign investment projects that would help develop Pakistan's economy and ameliorate its water and energy crises, commented a US government official based in Washington, DC (personal communication, 22 March 2018). While CPEC raises an array of concerns about future debt and potentially decisive Chinese influence in Pakistan's politics and economy, US diplomats in Islamabad insist that the US government generally favors and is not opposed to CPEC (ibid). From the perspective of the South Asia strategy, if the US has concerns about China’s ‘predatory economics’ or hegemonic ambitions, then punitive measure like rescinding aid will only make Pakistan more dependent on China. One way to alleviate these concerns is by staying engaged with Pakistan and supporting CPEC (Wilsey 2015). The corridor can deliver some indirect strategic advantages to China, but it would be fallacious to overemphasize the strategic aspects of the corridor (Rafiq 2017b).

Amidst rumors that the new Pakistan government is dissatisfied with the terms of CPEC, stirred primarily by commerce minister Abdul Razzak Dawood’s remarks, Pakistan’s Chief of Army staff paid a three-day visit to China to reiterate the military’s continued resolve regarding CPEC’s safety (‘Bajwa starts’ 2018). The commerce minister later claimed that his comments were taken out of context and Imran Khan’s government reassured China that CPEC is a top national priority (‘No rollback of CPEC’ 2018). However, Pakistan’s soaring external debt, including obligations associated with CPEC loans, is a source of concern. Pakistan has to decide between going to the IMF or seeking new loans from its close allies, primarily China, to fulfill its external financing needs (Jorgic & Saied 2018). Pakistan has already been borrowing extensively from China. It took a $1 billion from China in July 2018 to bolster its declining foreign currency reserves (‘China lends $ 1 billion’ 2018). Additionally, China is also facing some backlash for its infrastructure lending practices toward developing countries under BRI (Wong 2018). In this backdrop, following a meeting of top officials of the two counties in Islamabad on September 9, 2018, it was announced that the corridor is open to investments from other countries (Kiani 2018). The new government has also added socio-economic and regional development targets to the plan, in order to realign the goals of CPEC with its own agenda (‘CPEC to’ 2018). On 20th September, Pakistan’s information minister announced that Saudi Arabia has been formally invited to join the corridor and it would be the third strategic partner of CPEC, with a high-level Saudi delegation expected to visit Pakistan in early October to initiate the process (Shahzad 2018). The announcement came a day after prime minister Imran Khan’s return from his maiden visit to Saudi Arabia. The new developments could help to appease concerns regarding the strategic intent behind CPEC (Wong 2018). Involving other stakeholders could also add financial stability to the projects.

**US Interests in Afghanistan and CPEC**

The anticipated socio-economic and security benefits from the corridor fit well with US intentions for Pakistan and the region; it is expected to enhance the country’s stability and allow it to deal with challenges like unemployment and radicalization (Lalwani & Haegland 2017). Also, on account of its heavy investments in Pakistan, China would want political and security stability in the country, suggested
the former Ambassador Touqir Hussain (personal communication, 6 February 2018). China also has a heightened stake in maintaining peace and stability in Afghanistan due to its apprehension regarding the spread of insurgency into its Xinjiang Autonomous Region (Curtis 2016b). Hence, China’s interests are not different from US interests for the region in that respect. This presents an opportunity for US-China cooperation on Afghanistan. China would also not gain from a complete collapse in US-Pakistan ties. Extreme punitive measures by the US, like labeling Pakistan a ‘state sponsor of terror’, expanding drone strikes or isolating it internationally, could destabilize the country. Sanctions that hurt Pakistan’s economy would not fare well for Chinese investments in the country or for future prospects of BRI. Strategically, a further deterioration in US-Pakistan relation doesn’t serve Chinese interests well with regards to India as it could allow the US to provide unhindered support to China’s strategic opponent in the region (Panda 2018). Hence, from an economic and strategic standpoint, China’s interests indicate that it would support relatively stable US-Pakistan ties.

Owing to mutual trust and underlying common interests, China’s reconciliatory efforts in Afghanistan are perceived positively in Pakistan. In the current scenario, China can play a positive role in Afghanistan’s stabilization and help improve US-Pakistan ties. Hence, there is scope for US-China co-operation. Deterioration of US-Pakistan ties along with CPEC’s implementation, is likely to elevate China’s role, owing to its close ties and common interests with Pakistan, to influence the country on sensitive matters (Sun & Haegland 2018). China has shown its willingness to play a mediatary role between Afghanistan and Pakistan; it brokered a deal to setup a bilateral crisis management mechanism between Afghanistan and Pakistan along with the establishment of a trilateral foreign minister’s dialogue forum for the three countries (Syed & Raza 2017). China hosted the first meeting of the ministerial forum, in December 2017; a mechanism intended to keep the dialogue going between Afghanistan and Pakistan and as an opportunity to co-operate on issues of common regional interests, like security, reconciliation, development cooperation and economy (Zhai 2017). In a joint statement, the ministers pledged support for an “Afghan-led, Afghan-owned” peace process while urging the Taliban to join the peace process (ibid). An offer was also extended to Afghanistan to join CPEC (Lo & Huang 2017).

CPEC could inadvertently turn out to be a solution for some of the regional problems, or at least a step in the right direction. As such, both Pakistan and China have formally invited India to participate. Although India has declined the offer for now, if it reconsiders this could be an opportunity to ease tensions in the region. For instance, bilateral trade between India and China reached $84.44 billion in 2017; a testament to the fact that expected economic benefits can create an opening for co-operation and flexibility (Hussain, T 2018). If all parties involved, see economic benefits in co-operation through CPEC, and their interests are mutually tied to stability in the region, then this could be an option to consider. In Afghanistan’s case, CPEC could be an opportunity to rebuild the country and boost trade; a strengthened Afghan economy is in US interest as well (Saifullah 2018). However, there are a lot of hurdles: Afghanistan-Pakistan ties, the security situation in Afghanistan, India’s aversion to joining CPEC and US concerns over China’s increasing strategic influence in the region (ibid). More realistically, the first step toward this initiative requires effort to stabilize Pakistan-Afghanistan relations and ease the US-Pakistan rift. Washington could potentially explore supporting CPEC projects in Afghanistan, by directing US aid toward ventures it deems appropriate, as part of a collaborative effort toward the mutual goal of bringing stability to Afghanistan.
Recommendations

Cooperation vs Coercion

The success of a coercive approach toward Pakistan, inherently relies on the leverage US has over Pakistan. In order to use national power as leverage over another country, it is essential to minimize dependence and provide assurance to the country that it is safe to cede to its requests (Hathaway 2017, p.5). In the same context, the country attempting to use its leverage should not overrate the power or benefits that can ensue from its favors to the target country (ibid). US dependence on Pakistan vis-à-vis Afghanistan inherently lowers its leverage over the country. India’s elevated role as defined by the new strategy triggers Pakistan’s long held apprehension about ‘encirclement’, which would make it less likely to cooperate with the US. The policy and US posture toward Pakistan also create the perception of another impending US ‘abandonment’. A subject-matter expert based in Washington, DC also said that coercing Pakistan is unlikely to yield the desired results in the context of the South Asia strategy (personal communication, 01 April 2018). It is not about which country, US or China, holds more sway over Pakistan vis-à-vis its economic dependence or vulnerabilities, rather it is the alignment of long-term national priorities and trust, that will determine the eventual trajectory of the bilateral partnership. In this context, incremental steps toward a mutually agreed upon goal can be a way forward.

Maintain Positive Engagement with Pakistan

Secretary of State Mike Pompeo’s visit to Islamabad on 5th September 2018, to initiate a dialogue with the new Prime Minister, was meant to “reset” the relationship between the two countries (Abi-Habib & Masood 2018). While it was a positive step, the trip followed a $300 million US aid cut for Pakistan (ibid). Despite its discontentment, the US still stands to gain from maintaining positive engagement with Pakistan, with respect to its goals in Afghanistan. Pakistan can play an important role in terms of bringing Taliban to the negotiating table, especially now that the US is willing to hold talks with Taliban for a political settlement in Afghanistan (Yusuf, M 2018). Pakistan did not support a military solution in Afghanistan so this is an opportunity for it to show its commitment to the cause. This also creates an opening for improving US-Pakistan ties (ibid). Pakistan’s foreign minister Shah Mehmood Qureshi, during an event at the United Stated Institute of Peace while on his first official trip to the US, stated that this convergence presents a great opportunity and it should not be missed (Qureshi 2018). Hence, disengagement from Pakistan at this important juncture and not providing training or equipment that can be used against terrorism, is not productive (ibid). He also reiterated that strategy wise the two countries are more or less on the same page and highlighted the need for US-Pakistan cooperation on Afghanistan. Sustained long-term commitment from Pakistan is unlikely without positive reinforcement. While there are differences, it is clear that both sides need each other. In this scenario, the focus should be on incremental steps toward cooperation.

Border Management

There is a need to study the war and troubles in Afghanistan more holistically; the current US approach is heavily focused on Pakistan’s behavior, suggested the former Ambassador Touqir Hussain (personal communication, 6 February 2018). Pakistan is apprehensive about Afghanistan’s instability and it doesn’t foresee a military solution to the war in the country. Pakistan had asked for US help to fence a part of its border with Afghanistan, which would limit cross-border movement and also sought assistance with repatriation of 2.5 million Afghan refugees (Wintour 2018). The Army Chief reiterated Pakistan’s position on these two fronts at the Munich Security Conference in February 2018, and stated the need for
a political solution to the Afghan crisis (‘Gen. Bajwa urges Afghans repatriation’ 2018). On September 17, 2018, Prime Minister Imran Khan promised to grant citizenship to 1.5 million Afghan refugees who were born in Pakistan (Parwani 2018). After receiving some backlash domestically, he didn’t backtrack but asked for some time for consultation (ibid). From Pakistan’s perspective, it bears the financial and security cost of supporting Afghan refugees and the country should be helped in this regard. A mutually acceptable and sustainable plan will require stable ties between all parties involved and positive engagement with Pakistan.

India’s Role

Pakistan already had reservations about India’s role in Afghanistan and its opposition to CPEC. The new policy adds to its apprehensions which would make Pakistan less likely to cooperate. Additionally, while India and the US have a common interest vis-a-vis Afghanistan, it is hard to say how far India would be willing to go, to assist the US in this regard. The US doesn’t have much leverage over India (Goel 2018), so while it is asking for India's co-operation in various domains, the country will proceed while considering its own interests, suggested another subject matter expert based in Washington, DC (Personal Communication 1st April 2018). Despite its deepening alliance with the US, India will be cautious regarding accelerating competition with China and will guard its own national interest in the Indo-Pacific region (Tarapore 2018). India has been contributing to humanitarian and economic aid efforts in Afghanistan but is reluctant to put boots on the ground to support the US mission (Krishnan 2017). There are also geographical limits to how much India can assist US military missions in Afghanistan from a distance (Clary 2017). Hence, despite an enhanced Indian role in Afghanistan, the US needs to maintain a positive alliance with Pakistan on Afghanistan. The current milieu in the region seems to be worsening tensions between the two nuclear armed neighbors. In the past, the US has played an important de-escalatory role in an Indo-Pak crisis, to ensure that the conflict doesn’t escalate into a nuclear war (Yusuf 2016), but the current rift in US-Pakistan relations could hamper its role if it is deemed heavily biased toward one nation. Washington should also consider supporting measures that have the potential to promote stability in the region.

Pakistan’s Foreign Policy

Pakistan’s new government has an uphill task; it has to mend US-Pakistan ties and improve its relations with Afghanistan and India. Pakistan’s Foreign Minister Shah Mehmood Qureshi, met with Afghan President Ashraf Ghani and agreed to cooperate on matters of peace and stability in the region, during his first trip to Kabul (‘FM Qureshi, Afghan President discuss’ 2018). Pakistan’s Foreign Minister, during his first maiden trip to the US, highlighted his government’s focus on improving socio-economic conditions within Pakistan and its “people-centric” agenda, which is predicated on peace and security in the country and the surrounding region (Qureshi 2018). Pakistan’s foreign policy should define the country’s vision for the future and pave its trajectory. With the changing regional environment, it should focus on economic growth and improving ties with its neighboring countries (Qazi 2017). This is also essential if Pakistan wants to reap maximum benefits from CPEC, or other regional connectivity initiatives; currently, its tense ties with India and Afghanistan could dampen expected gains from CPEC. Projects like the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI); a gas transmission pipeline between the four countries and Central Asia-South Asia power project (CASA1000); a project through which Pakistan and Afghanistan will import electricity from Kyrgyz Republic and Tajikistan, have the potential to promote economic development and connectivity in the region. However, the success of these projects, depends on stable bilateral ties; for instance, the prospects of CASA-1000, could get hurt by volatile Pakistan-Afghanistan relations (Putz 2017).
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