

# Background

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## The Limits of the Pakistan–China Alliance

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**Abstract:** *After the U.S. raid on Osama bin Laden's compound in Pakistan in May 2011, Pakistani political leaders played up their country's relations with China, touting Beijing as an alternative partner to Washington. But China's concerns over Pakistan's future stability will likely limit the extent to which it will help Pakistan out of its economic difficulties. While China has an interest in maintaining strong security ties with Pakistan, the economic relationship is not very extensive and the notion that Chinese ties could serve as a replacement for U.S. ties is far-fetched. Instead of wringing its hands over Chinese influence on Pakistan, the U.S. should seek cooperation from Beijing in encouraging a more stable and prosperous Pakistan—which will benefit all parties involved.*

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In the wake of the U.S. raid on Osama bin Laden's compound last May and deteriorating relations between Islamabad and Washington, Pakistani leaders sought to play up their country's relations with China, touting Beijing as an alternative partner to Washington. However, China's concerns about the future stability and development of Pakistan will limit the extent to which China will bail Pakistan out of its current economic difficulties, and the degree to which China will seek to drive a wedge between Islamabad and Washington.

Chinese security interests in Pakistan are driven primarily by China's desire to contain India. Beijing has built up Pakistan's conventional military as well

### Talking Points

- In the wake of the 2011 U.S. raid on Osama bin Laden's compound in Pakistan, Pakistani leaders have played up their relations with China, touting Beijing as an alternative partner to Washington.
- However, there are limits to what Pakistan can expect from its relationship with China. Chinese officials are concerned about stability and the lack of development in Pakistan and are reluctant to bail Pakistan out of its current economic difficulties, preferring that Washington continue to aid Islamabad.
- China is also increasingly concerned about Islamist extremism and terrorism trends in Pakistan, and there may be room for Washington to seek Beijing's cooperation in encouraging a more stable and prosperous Pakistan.
- The U.S. should make clear to China that adopting a more holistic approach to terrorism in Pakistan would help mitigate threats to both Washington and Beijing, since Islamabad's support for some terrorist groups strengthens all terrorist groups.

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as nuclear and missile capabilities over the years to help keep India off balance and focused on threats emanating from Pakistan. China's concrete economic and political interests in Pakistan itself are not that extensive. China's economic commitment to Pakistan, in particular, is not especially impressive in size and has shown clear limits. China has shown little interest in propping up Pakistan's economy and has not provided substantial economic aid, even during times of need.

In the past, U.S. officials have worried that pushing Pakistan too hard to crack down on terrorists could drive Islamabad more firmly into Beijing's embrace. But China's lukewarm response to Pakistan's recent overtures demonstrates that there are limits to what Islamabad can expect from its "all-weather friend"—a term often used by Pakistani officials when referring to China. While China has an interest in maintaining strong security ties with Pakistan, the notion that Chinese ties could serve as a replacement for U.S. ties has been overstated by Pakistani officials. The U.S. has provided considerably higher amounts of economic and military aid to Pakistan over the past decade and also serves as a link to the rest of the Western nations, which otherwise would likely be inclined to sanction Pakistan for its nuclear and terrorism activities.

U.S. policymakers must recognize these limits to the benefits that Pakistan will receive from China. China is increasingly concerned about Islamist extremism and terrorism in Pakistan, and there may be room for Washington to seek Beijing's cooperation in encouraging a more stable and prosperous Pakistan. The U.S. should make clear to China that adopting a more holistic approach to terrorism issues in Pakistan would help mitigate threats to both Washington and Beijing, since Islamabad's support for some terrorist groups strengthens the ideological base, logistical capabilities, and financial support for all Islamist terrorist groups.

## Long-Standing Security Ties

Pakistan and China have long-standing strategic ties, dating back five decades. China maintains a robust defense relationship with Pakistan and views a strong partnership with Pakistan as a useful way to contain Indian power in the region and divert Indian military force and strategic attention away from China. The China–Pakistan partnership serves both Chinese and Pakistani interests by presenting India with a potential two-front theater in the event of war with either country. Chinese officials also view a certain degree of India–Pakistan tension as advancing their own strategic interests, as such friction bogs India down in South Asia and interferes with New Delhi's ability to assert its global ambitions and compete with China at the international level.

China is Pakistan's largest defense supplier. The Chinese JF-17 Thunder fighter aircraft is currently under serial production at the Pakistan Aeronautical Complex, and an initial batch of 250 to 300 planes is scheduled. China also plans to provide Pakistan with J-10 medium-role combat aircraft, with an initial delivery of 30 to 35 planes.<sup>1</sup> Other recent sales of conventional weapons include F-22P frigates with helicopters, K-8 jet trainers, T-85 tanks, F-7 aircraft, small arms, and ammunition. China also helped Pakistan build its Heavy Mechanical Complex, Aeronautical Complex, and several defense production units. While the U.S. has sanctioned Pakistan in the past—in 1965 and again in 1990—China has consistently supported Pakistan's military modernization.

There are signs that Pakistan–China defense cooperation received a boost following the United States' May 2 raid on Osama bin Laden's hideout in Abbottabad, Pakistan. Two weeks after the raid, Pakistan's prime minister, Yousuf Raza Gilani, traveled to Beijing in an attempt to showcase the China–Pakistan relationship as the pillar of Pakistan's

1. Lisa Curtis and Dean Cheng, "The China Challenge: A Strategic Vision for U.S.–India Relations," Heritage Foundation Backgrounder No. 2583, July 18, 2011, at <http://www.heritage.org/Research/Reports/2011/07/The-China-Challenge-A-Strategic-Vision-for-US-India-Relations>.

foreign policy. The U.S. decision to pursue the bin Laden raid unilaterally without prior notification of Pakistani officials incensed the Pakistani military leadership.

To demonstrate its displeasure over the operation, Pakistan kicked out 90 U.S. military trainers from the country and turned its attention to its “all-weather” friend. In response to Pakistan’s overtures, China called on the U.S. to respect the “independence, sovereignty and territorial integrity” of Pakistan and announced it would expedite the delivery of 50 JF-17 aircraft equipped with upgraded avionics to Pakistan.<sup>2</sup> However, when Pakistan’s defense minister claimed that Pakistan had invited China to start building a naval base at Gwadar Port, Chinese officials publicly dismissed the notion. Despite Pakistani assurances that they did not provide Chinese officials with access to wreckage from the stealth helicopter used by U.S. Special Forces in the bin Laden raid, U.S. intelligence officials reportedly believe the Pakistanis did allow Chinese engineers to inspect the helicopter parts before they were returned to the U.S.<sup>3</sup>

#### **Nuclear and Ballistic Missile Cooperation.**

It is widely acknowledged that China transferred equipment and technology and provided scientific expertise to Pakistan’s nuclear weapons and ballistic missile programs throughout the 1980s and 1990s, enhancing Pakistan’s strength in the South Asian strategic balance. The most significant development in Chinese–Pakistani military cooperation occurred in 1992, when China supplied Pakistan with 34 short-range ballistic M-11 missiles. Beijing also built a turn-key ballistic missile manufacturing facility near Rawalpindi, and helped Pakistan

develop the 750-km-range solid-fueled Shaheen-1 ballistic missile.

In a recently released letter from 2003, Abdul Qadeer (A. Q.) Khan, the Pakistani nuclear scientist who was instrumental in developing Pakistan’s nuclear weapons program and who confessed in 2004 to running a nuclear black market from Pakistan, suggests that China had supplied Pakistan with significant quantities of low-enriched uranium, allowing Pakistan to accelerate the production of weapons-grade uranium in the early 1980s.<sup>4</sup> There are also indications that China provided Pakistan with nuclear warhead designs from China’s 1966 nuclear test.<sup>5</sup> In 1994, information surfaced that China’s Nuclear Energy Industry Corporation had transferred 5,000 ring magnets to a Pakistani nuclear weapons lab for use in gas centrifuges to enrich uranium.<sup>6</sup> The harsh international reaction to the transfer prompted China to pledge in 1996 that it would not allow any further cooperation with unsafeguarded nuclear facilities.<sup>7</sup>

China helped Pakistan build two civilian nuclear reactors at the Chasma site in the Punjab province under agreements made before it joined the Nuclear Suppliers Group (NSG) in 2004. More recently, China has been planning to build two additional new nuclear reactors for Pakistan (Chasma III and Chasma IV), but the U.S. has indicated that Beijing must first seek an exemption from the NSG for any future nuclear technology transfers. When China joined the NSG, it subjected itself to rules that forbid the sale and export of nuclear technology to countries that have not signed the Nuclear Nonproliferation Treaty (NPT). Beijing has argued that the new proposed sale should be viewed as part

2. “China to Give Pakistan 50 JF-17 Thunder,” *Dunya News*, May 19, 2011, at <http://dunya.com/news/index.php?key=Q2F0SUQ9MiNOaWQ9MjYzNDA> (December 22, 2011).
3. “Pakistan Let China See Crashed U.S. ‘Stealth’ Copter,” *Reuters*, August 14, 2011, at <http://www.reuters.com/article/2011/08/14/us-pakistan-china-usa-idUSTRE77D2BT20110814> (December 22, 2011).
4. C. Raja Mohan, “Eastern Alliance,” *Indian Express.com*, September 28, 2011, at <http://www.indianexpress.com/news/eastern-alliance/852743/> (December 22, 2011).
5. Mark Fitzpatrick, *Nuclear Black Markets: Pakistan, A. Q. Khan and the Rise of Proliferation Networks* (London: The International Institute for Strategic Studies, 2007), p. 26.
6. Shirley A. Kan, “China’s Nuclear Technology Sales to Pakistan—Analysis,” *Eurasia Review*, March 25, 2011, at <http://www.eurasiareview.com/25032011-chinas-nuclear-technology-sales-to-pakistan-analysis/> (December 22, 2011).
7. Fitzpatrick, *Nuclear Black Markets*, p. 26.

of the earlier agreement struck with Pakistan before Beijing joined the NSG and thus be “grandfathered” into international acceptance.

An Obama Administration decision to allow the China–Pakistan nuclear deal to advance unhindered would contradict earlier statements by U.S. officials that the construction of the two new nuclear plants would be inconsistent with China’s NSG commitments. It could also jeopardize nuclear safety and security on the subcontinent, given that Pakistan’s increased access to civilian nuclear technology poses a potential proliferation threat.

Though Pakistan considers China a more reliable defense partner than the U.S., Islamabad should also recognize that China’s support has its limits, especially during times of conflict and tension between New Delhi and Islamabad. When Pakistan sought Chinese assistance during its 1965 war with India, Beijing encouraged Islamabad to withdraw its forces from Indian territory.<sup>8</sup> During the 1999 Indo–Pakistani border war in Kargil, Beijing privately supported U.S. calls for Pakistan to withdraw its forces from the heights of Kargil on the Indian side of the Line of Control to defuse the crisis, and apparently communicated this stance to Pakistani leaders. The Chinese position during the Kargil episode helped spur a thaw in Indian–Chinese relations. During the 2001–2002 Indo–Pakistani military crisis, China stayed neutral and counseled restraint on both sides, declaring that China was a “neighbor and friend of both countries.”<sup>9</sup>

## Rising Concerns About Terrorism

One source of tension between Beijing and Islamabad that has surfaced over the last few years is Chinese concern over some Chinese Uighur separatists receiving sanctuary and terrorist training on Pakistani territory. The Chinese province of Xinjiang is home to eight million Muslim Uighurs, many of whom resent the growing presence and economic grip of the Han Chinese on the region. Some Uighurs have agitated for an independent “East Turkestan.” To mollify China’s concerns, Pakistan has begun to clamp down on Uighur settlements and on religious schools purportedly used as training grounds for militants.<sup>10</sup> Media reports indicate that Pakistan may have extradited as many as nine Uighurs to China in April 2009 after accusing them of involvement in terrorist activities.<sup>11</sup> While it is unclear which percentage of Uighur separatists are affiliated with al-Qaeda, terrorism expert Walid Phares testified before the U.S.–China Economic and Security Review Commission in 2009 that jihadists make up about 5 percent to 10 percent of the Uighur movement.<sup>12</sup> He has also noted the presence of a “jihadi web” in Pakistan that includes Uighur extremists.<sup>13</sup>

In July 2009, ethnic violence broke out in Urumqi, the capital of Xinjiang province, in which at least 197 people were killed and 1,700 injured—mostly Han Chinese. The rioting began when roughly 1,000 Uighur protesters were confronted by riot police. The Chinese government blamed the

8. *Ibid.*, p. 36.

9. Paul J. Smith, “The China–Pakistan–United States Strategic Triangle: From Cold War to the ‘War on Terrorism,’” *Asian Affairs: An American Review*, Vol. 38, No. 4 (2011), pp. 197–220.

10. Ziad Haider, “Clearing Clouds Over the Karakoram Pass,” Yale Global Online, March 29, 2004, at <http://yaleglobal.yale.edu/content/clearing-clouds-over-karakoram-pass> (December 27, 2011).

11. Press release, “Freedom House Condemns Pakistan, China for Uighur Extraditions,” Freedom House, May 7, 2009, at <http://www.freedomhouse.org/template.cfm?page=70&release=815> (December 27, 2011).

12. Walid Phares, “China’s Strategic Interests in AfPak Conflicts,” testimony before the U.S.–China Economic and Security Review Commission, May 20, 2009, at [http://www.uscc.gov/hearings/2009hearings/written\\_testimonies/09\\_05\\_20\\_wrts/09\\_05\\_20\\_phares\\_statement.php](http://www.uscc.gov/hearings/2009hearings/written_testimonies/09_05_20_wrts/09_05_20_phares_statement.php) (December 27, 2011).

13. *Ibid.*

violence primarily on Uighur exiles, but Pakistani radical influence was also cited as contributing to the violence.<sup>14</sup>

More recent attacks in Xinjiang in late July 2011 that killed 20 people prompted Chinese criticisms of Pakistan for failing to crack down on the training of Uighur separatists in the tribal areas bordering Afghanistan.<sup>15</sup> The Chinese rebuke mirrored U.S. calls for the Pakistani government to do more to rein in Afghan insurgents who also find sanctuary in Pakistan. Local Chinese authorities in Xinjiang charged that the person who conducted the July attacks in Kashgar had received training in Pakistan. The accusations were repeated in the *China Daily* newspaper. Pakistani political leader Mushahid Hussain acknowledged in an op-ed that another attack similar to the one in Kashgar over the summer would have serious implications for China–Pakistan ties.<sup>16</sup>

Chinese officials are increasingly connecting the level of terrorist activity in Pakistan to instability in western China. One Chinese academic has noted in his writings that China has developed a more neutral position on the Indo–Pakistani dispute over Kashmir over the past decade in part because China believes that the dispute could have implications for ethnic-religious unrest in China, especially in

Tibet or Xinjiang.<sup>17</sup> In this context, the ascendance of Taliban forces in either Pakistan or Afghanistan is clearly not in China’s interest. But rather than encouraging Islamabad to adopt a comprehensive approach toward countering terrorism, Chinese leaders have used their relationships with Pakistani military officials, and with the Islamist political parties, to persuade them to discourage attacks on Chinese interests. Before 9/11, for example, the Chinese reached agreements with the Taliban to prevent Uighur separatists from using Afghanistan as a training ground for militant activities.<sup>18</sup>

The Chinese vice premier in charge of public security, Meng Jianchu, visited Pakistan in late September 2011, in what outside observers described as a mission aimed at strengthening cooperation with Islamabad in dealing with the challenge of militancy in Xinjiang.<sup>19</sup> But, according to American China expert Michael Swaine, Beijing is balancing its interest in suppressing the Uighur threat with the possibility that such suppression might further fuel Uighur separatism and provoke further attacks against Chinese interests.<sup>20</sup> One of the main reasons that China has refrained from providing material support to the NATO mission in Afghanistan is to avoid being portrayed as part of an alliance against Islam.<sup>21</sup> The Chinese believe that the United States’ low favorability ratings in Muslim countries is proof

14. Isaac B. Kardon, “China and Pakistan: Emerging Strains in the Entente Cordiale,” Project 2049 Institute, March 25, 2011, at [http://project2049.net/documents/china\\_pakistan\\_emerging\\_strains\\_in\\_the\\_entente\\_cordiale\\_kardon.pdf](http://project2049.net/documents/china_pakistan_emerging_strains_in_the_entente_cordiale_kardon.pdf) (December 27, 2011).
15. Jason Dean and Jeremy Page, “Beijing Points to Pakistan After Ethnic Violence,” *The Wall Street Journal*, August 1, 2011, at <http://online.wsj.com/article/SB10001424053111903341404576481312937363114.html> (December 27, 2011).
16. Mushahid Hussain, “Kashgar Must Not Mar Ties,” Dawn.com, August 9, 2011, at <http://www.dawn.com/2011/08/09/kashgar-must-not-mar-ties.html> (December 27, 2011).
17. Zhang Li, “To Manage Conflict in South Asia: China’s Stakes, Perceptions and Inputs,” Institute for Security and Development Policy *Asia Paper*, October 2009, p. 19, at [http://www.isdp.eu/images/stories/isdp-main-pdf/2009\\_li\\_to-manage-conflict-in-south-asia.pdf](http://www.isdp.eu/images/stories/isdp-main-pdf/2009_li_to-manage-conflict-in-south-asia.pdf) (December 27, 2011).
18. Andrew Small, “China’s Caution on Afghanistan–Pakistan,” *The Washington Quarterly*, July 2010, p. 86, at [http://www.twq.com/10july/docs/10jul\\_Small.pdf](http://www.twq.com/10july/docs/10jul_Small.pdf) (December 27, 2011).
19. Mohan, “Eastern Alliances.”
20. Michael D. Swaine, “China and the ‘AfPak’ Issue,” *China Leadership Monitor* No. 31 (Winter 2010), at <http://carnegieendowment.org/2010/02/23/china-and-afpak-issue/39y> (December 27, 2011).
21. Raffaello Pantucci, “China Passes the Buck in Afghanistan,” *Foreign Policy*, October 28, 2011, at [http://afpak.foreignpolicy.com/posts/2011/10/28/china\\_passes\\_the\\_buck\\_in\\_afghanistan](http://afpak.foreignpolicy.com/posts/2011/10/28/china_passes_the_buck_in_afghanistan) (December 27, 2011).

that U.S. interference in the internal affairs of these countries comes with serious blowback.<sup>22</sup>

Tension has also surfaced between Islamabad and Beijing in recent years over attacks by Islamist extremists on Chinese workers, which number about 10,000 in Pakistan. This tension came to a head in summer 2007 when Islamist militants kidnapped several Chinese citizens whom they accused of running a brothel in Islamabad. China was incensed by this incident, and its complaints to Pakistani authorities likely contributed to Pakistan's decision to finally launch a military operation at the Red Mosque in Islamabad, where the militants had holed up for seven months. Around the same time, three Chinese officials were killed in Peshawar. Several days later, a suicide bomber attacked a group of Chinese engineers in Baluchistan. Senior Chinese leaders, such as President Hu Jintao, have called on Pakistani leaders to increase protection of Chinese workers in the country and threatened to pull funding from projects where Chinese workers have come under threat.<sup>23</sup>

Another sign that China was feeling increasingly compelled to pressure Pakistan to adopt stricter counterterrorism policies was when, in December 2008, Beijing dropped its resistance to banning the Jamaat-ud-Dawa (JuD—a front organization for the Pakistan-based Lashkar-e-Tayyiba, responsible for the November 2008 Mumbai terror attacks) in the United Nations Security Council. Before then, China had vetoed Security Council resolutions seeking to ban the JuD.

## The Economic Relationship: Surprisingly Limited

Pakistan's portrayal of its relationship with China features exaggeration of the economic dimension of the relationship. Pakistani media routinely report huge numbers for investment and financing with the People's Republic of China (PRC), numbers that cannot be verified by any independent source, including by the Chinese government or the Chinese companies supposedly involved. While Pakistani officials talk of a total of \$25 billion in Chinese investment in Pakistan so far, the PRC's official figure of direct investment through 2010 is \$1.83 billion.<sup>24</sup>

The Heritage Foundation's China Global Tracker documents investments as well as engineering and construction contracts of \$100 million or more since the beginning of 2005, as reported by the companies. The China Tracker shows only \$1.2 billion in such investment and contracts combined through 2010.<sup>25</sup> These are dominated by telecommunications, with China Mobile acquiring Paktel and investing in improvements in Pakistan's telecommunications system, such as paying the Chinese engineering company Great Wall to launch a satellite.

The Heritage Foundation figure precludes transactions initiated before 2005 and is therefore too low for a country like Pakistan, where Chinese involvement is long-standing. But it also does not include road and port projects that have not begun and are unlikely to look anything like the gigantic

22. "The Future of U.S.–Pakistan Relations in an Asian Context," Council on Foreign Relations, Workshop in Washington, D.C., July 14, 2011, at [http://www.cfr.org/content/thinktank/IIGG\\_FutureUSPakistanRelations.pdf](http://www.cfr.org/content/thinktank/IIGG_FutureUSPakistanRelations.pdf) (December 27, 2011).

23. Andrew Small, "Intensifying China–Pakistan Ties," Council on Foreign Relations, July 7, 2010, at <http://www.cfr.org/china/intensifying-china-pakistan-ties/p22603> (December 27, 2011).

24. Fauji Munda, "Chinese Investment in Pakistan Crosses \$25 Billion Mark," All Voices, August 6, 2011, at <http://www.allvoices.com/contributed-news/9879021-chinese-investment-in-pakistan-crosses-25-billion-mark> (December 27, 2011), and China Ministry of Commerce, "2010 Statistical Bulletin of China's Outward Foreign Direct Investment," Beijing, September 2011, at <http://hzs.mofcom.gov.cn/accessory/201109/1316069658609.pdf> (December 27, 2011).

25. Derek Scissors, "China Global Investment Tracker: 2011," Heritage Foundation White Paper, July 5, 2011, at <http://www.heritage.org/research/reports/2011/01/china-global-investment-tracker-2011>.

endeavors advertised by Pakistan. While Pakistan touts the expansion of Gwadar and other ports as multibillion dollar projects, the leading enterprise China Communications Construction notes only a modest project to expand facilities in Karachi.<sup>26</sup>

In sum, Chinese investment activity in Pakistan is quite modest. It is a negligible fraction of total Chinese outward investment of more than \$250 billion since 2005 and dwarfed by Chinese activity in Indonesia, for example.<sup>27</sup> This should not be a surprise. Chinese outward investment is motivated more by domestic economic needs than by foreign policy goals. What the PRC deems to be strategic sectors—iron, copper, oil, coal, and gas—are materials needed to keep domestic industry humming and hundreds of millions of people employed. Farmland is similar, though it has proven more difficult to acquire. Pakistan has comparatively little in the way of any of these resources.

Chinese private investors, which are far smaller than their state-controlled counterparts, seek either an asset that will considerably strengthen their position in the home market, or a new market they can sell to because they are hampered at home. Textiles might be attractive now that Chinese costs are rising, but most of the textile investment moving out of the PRC to this point is foreign-funded. Pakistan again has fairly little to offer commercially and the political connection has proven inadequate to spur exchange.

While China is not spending much money itself in Pakistan, it might be financing Pakistani spending. Here the evidence is not clear because the

### Chinese Outward Investment, 2005–2011

#### Select Countries

Peru	\$7.18 billion
Nigeria	\$5.44 billion
Afghanistan	\$3.27 billion
India	\$3.22 billion
Hungary	\$2.11 billion
Philippines	\$1.02 billion
Pakistan	\$0.76 billion
Turkey	\$0.75 billion

**Total, All Countries**                      **\$310.10 billion**

Sources: Heritage Foundation dataset, China's Outward Investment: Non-bond Transactions over \$100 million, from January 2005 to December 2011, available upon request from The Heritage Foundation.

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principal vehicle for Chinese financing, the China Development Bank, does not provide information of the same quality or quantity as many Chinese enterprises investing overseas. The China Development Bank's foreign loan portfolio has been stated as more than \$140 billion, but the many claims made around the world about its loans add up to far more than that.<sup>28</sup> One important reason for the gap is that countries boast about lines of credit, not actual loans made.

In this somewhat unclear environment, it does not appear that realized Chinese lending to Pakistan is large or even moderate. Scattered claims of large loans are again unverified by independent sources and tied to projects or shipments that have not yet

26. "Gwadar–Pakistan's Future," GwadarCorner.com, 2007, at <http://gwadarcorner.com/index.php?action=about> (December 27, 2011), and Jia Xu, "Chinese Firm Participates in Karachi Harbor Project," *China Daily*, March 31, 2010, at [http://www.chinadaily.com.cn/china/2010-03/31/content\\_9670739.htm](http://www.chinadaily.com.cn/china/2010-03/31/content_9670739.htm) (December 27, 2011).
27. Derek Scissors, "Chinese Outward Investment: More Opportunity than Danger," Heritage Foundation *Background* No. 2579, July 13, 2011, at <http://www.heritage.org/research/reports/2011/07/chinese-outward-investment-more-opportunity-than-danger>.
28. China Development Bank, "CDB Posts Impressive Results for 2010," January 27, 2011, at <http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=3543> (December 27, 2011), and Simon Romero, "Chávez Says China to Lend Venezuela \$20 Billion," *The New York Times*, April 18, 2010, at <http://www.nytimes.com/2010/04/19/world/americas/19venez.html> (December 27, 2011).

been made. The PRC typically lends large amounts in barter—such as loans for oil—or to fund sizable engineering projects, and neither is frequent among Chinese–Pakistani economic transactions.<sup>29</sup>

Indirect evidence comes from the Pakistan–China Investment Company (PCIC). The PCIC is an alliance between the China Development Bank and the Pakistani government.<sup>30</sup> Elsewhere, the China Development Bank uses such entities extensively. The China–Africa Development Fund, for instance, was set up about the same time as PCIC but is 25 times larger in terms of capital, and far more active.<sup>31</sup> According to the public record, PCIC does not seem to be doing much of anything.

Chinese humanitarian aid to Pakistan also has been modest, especially when compared to that provided by the U.S. After massive flooding in Pakistan in the summer of 2010, for instance, the U.S. provided nearly \$700 million in flood relief and in-kind assistance. China eventually committed to providing \$250 million, after a meager initial contribution of \$18 million.<sup>32</sup>

While U.S. humanitarian aid outstripped that from China, Beijing has provided much-needed reconstruction aid for the worst-hit flood areas. U.S. media reports claimed in September 2010 that 7,000 to 10,000 People’s Liberation Army (PLA) troops were deployed to Gilgit–Baltistan in north-

ern Pakistan to help rebuild areas devastated by the 2010 floods.<sup>33</sup> Indian analysts also noted the presence of PLA logistics and engineering corps in the region to provide flood relief and to build infrastructure projects, such as roads, railways, and dams. In early October, Indian army chief General V. K. Singh noted that about 3,000 to 4,000 Chinese troops were stationed in northern Pakistan focusing on construction projects.<sup>34</sup>

The final, and perhaps most important, indication of the limits of the China–Pakistan financial relationship is the PRC’s not-so-gentle shunting of Pakistani aid requests to the International Monetary Fund (IMF). The PRC denied large-scale aid requests made by Pakistan immediately after the September 2008 financial shock, forcing Islamabad to accept a multi-billion-dollar IMF program with stringent economic conditions.<sup>35</sup> In the end, China did agree to provide around \$500 million in concessionary lending to Pakistan, but its refusal to provide large-scale loans indicates clear limits on China’s willingness to take primary responsibility for Pakistan’s financial woes.

### **Gwadar Port Project: More Symbolism than Substance?**

Chinese lending for the Gwadar Port project in Pakistan’s Baluchistan province on the Arabian Sea

29. See, for example, Erica S. Downs, “Inside China, Inc.: China Development Bank’s Cross-Border Energy Deals,” The Brookings Institution, March 21, 2011, at [http://www.brookings.edu/papers/2011/0321\\_china\\_energy\\_downs.aspx](http://www.brookings.edu/papers/2011/0321_china_energy_downs.aspx) (December 27, 2011).

30. Pak China Investment Company Limited, “Welcome to PakChina,” 2011, at <http://www.pakchinainvest.com/> (December 27, 2011).

31. China Development Bank, “CAD-Fund,” 2007, at <http://www.cdb.com.cn/english/Column.asp?ColumnId=176> (December 27, 2011), and Carli Lourens, “Jinchuan, Chinese Fund, to Invest in South African Platinum Miner Wesizwe,” Bloomberg, May 24, 2010, at <http://www.bloomberg.com/news/2010-05-24/jinchuan-chinese-fund-to-invest-in-south-african-platinum-miner-wesizwe.html> (December 27, 2011).

32. “China Pledges \$250m Flood Aid to Pakistan,” *China Daily*, December 18, 2010, at [http://www.chinadaily.com.cn/china/2010wenindia/2010-12/18/content\\_11721909.htm](http://www.chinadaily.com.cn/china/2010wenindia/2010-12/18/content_11721909.htm) (December 27, 2011).

33. Selig S. Harrison, “China’s Discreet Hold on Pakistan’s Northern Borderlands,” *The New York Times*, August 26, 2010, at <http://www.nytimes.com/2010/08/27/opinion/27iht-edharrison.html> (December 27, 2011).

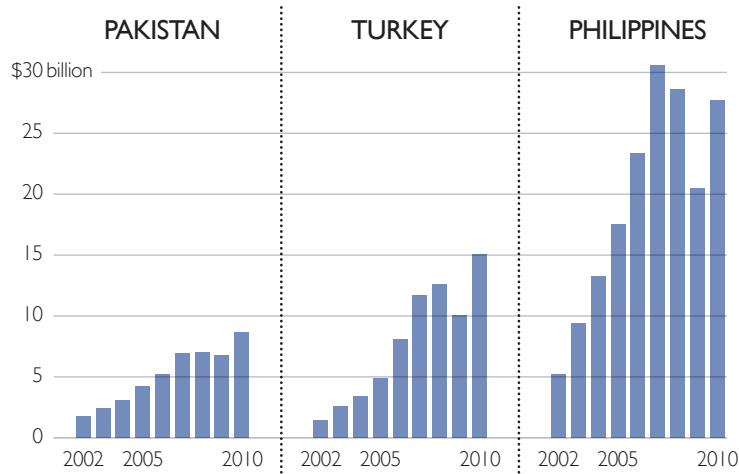
34. “4,000 Chinese, Including PLA Men in PoK: Army Chief,” *The Times of India*, October 6, 2011, at [http://articles.sofindia.indiatimes.com/2011-10-06/india/30250405\\_1\\_beijing-islamabad-pok-gilgit-baltistan](http://articles.sofindia.indiatimes.com/2011-10-06/india/30250405_1_beijing-islamabad-pok-gilgit-baltistan) (December 27, 2011).

35. Jane Perlez, “Rebuffed by China, Pakistan May Seek I.M.F. Aid,” *The New York Times*, October 18, 2008, at <http://www.nytimes.com/2008/10/19/world/asia/19zardari.html> (December 27, 2011), and “IMF Outlines \$7.6 Billion Loan for Pakistan,” *International Monetary Fund Survey Magazine*, November 15, 2008, at <http://www.imf.org/external/pubs/ft/survey/so/2008/car111508a.htm> (December 27, 2011).



## China's Trade with Pakistan Comparatively Modest

China conducts far more trade with Turkey and the Philippines, neither of which are allies.



Source: National Bureau of Statistics, *China Monthly Statistics*, Beijing, Vol. 1, 2010.

Chart 1 • B2641 [heritage.org](http://heritage.org)

has received a great deal of media attention. China has reportedly financed around 80 percent of the \$250 million estimated cost for completion of the first phase of the project, and has agreed to fund most of the second phase, which could cost nearly \$500 million and feature the construction of several additional berths and terminals.

China's financing of the port has drawn attention since access to the port would allow China to secure oil and gas supplies from the Persian Gulf and potentially project power in the Indian Ocean.<sup>36</sup> The port complex is expected to provide industrial facilities for more than 20 countries and eventually have the capability to receive oil tankers with a capacity of 200,000 tons. Pakistan signed an agreement with the Port of Singapore Authority (PSA) in 2007 to run the port for the next 25 years. However, progress on

construction of associated road, rail, and pipeline infrastructure needed to create the core export-processing zone has lagged due to security risks and continued attacks on sites and workers.<sup>37</sup>

India, the U.S., and other countries are concerned that China may eventually seek access to the port for its warships. Indeed, Pakistan's defense minister recently claimed that Pakistan had invited China to start building a naval base at Gwadar; Chinese officials publicly dismissed the notion. It is unclear whether Islamabad made the statement without coordinating with Beijing or whether the episode was carefully choreographed to send a signal to the international community (i.e., the U.S. and India) about the potential global impact of a cozier Sino-Pakistani alliance.

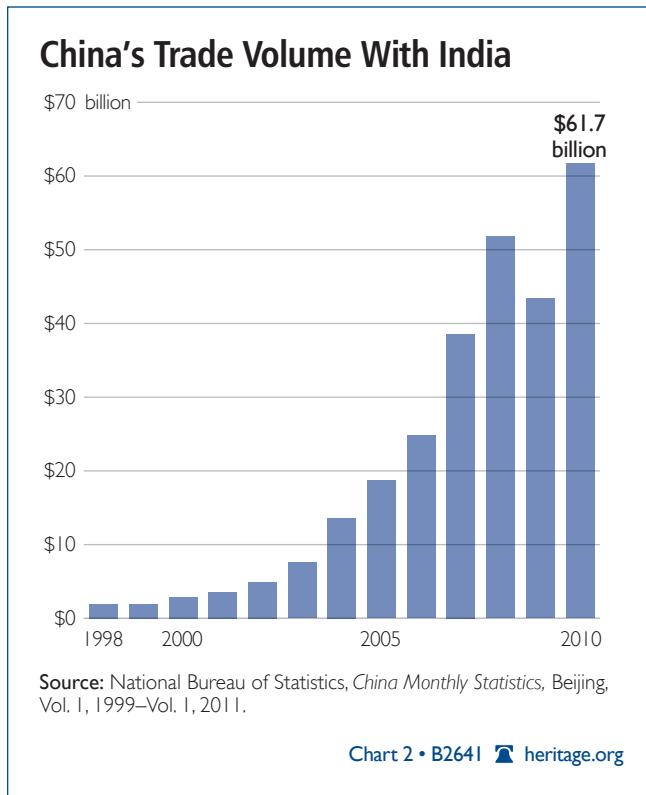
## Trade also Lagging

Trade is not exaggerated by Pakistan or rendered unclear by Chinese secrecy. As with investment and (apparently) finance, though, it is relatively insubstantial. On Chinese figures, bilateral trade volume was below \$9 billion in 2010 and grew slightly less quickly than the PRC's overall trade. The Philippines are similar to Pakistan in GDP and not as close politically with China. The Philippines mining sector is underdeveloped. Yet China's bilateral trade with the Philippines in 2010 was still three times larger than its trade with Pakistan, and grew faster.

Not only is the trade relationship small, it is imbalanced. The PRC's 2010 surplus was \$5.2 billion, tiny by Chinese standards, but huge in comparison to bilateral trade volume. If Beijing wanted to assist Islamabad for political reasons, it could

36. Lisa Curtis, "China's Military and Security Relationship with Pakistan," testimony before the U.S.–China Economic and Security Review Commission, May 20, 2009, at <http://www.heritage.org/research/testimony/chinas-military-and-security-relationship-with-pakistan>.

37. Kardon, "China and Pakistan: Emerging Strains in the Entente Cordiale."



artificially inflate imports from Pakistan, at least on a temporary basis. Cosmetic efforts along these lines are routinely made with the PRC's major economic partners,<sup>38</sup> but Pakistan clearly does not qualify.

In contrast to lagging trade with Pakistan, China's trade relationship with India is increasing at a relatively fast pace. Sino-Indian trade has increased from around \$5 billion in 2002 to more than \$60 billion in 2010, and the two sides have pledged to boost trade over the next five years to \$100 billion annually. While Sino-Indian border tensions persist, their rapidly expanding trade relationship is a positive indicator and could encourage mutual interest in regional stability, and greater attention on the part of Beijing to balancing ties between Pakistan and India.

## U.S. Policy—Dos and Don'ts

Pakistan's effort to spotlight its growing ties to China is partly an attempt to build confidence domestically in the wake of the Osama bin Laden raid, which embarrassed the Pakistani military and fueled doubts about the U.S. as a reliable partner. Islamabad is also signaling Washington that it has other foreign policy options to pursue if the U.S. pushes the Pakistani government too far on counterterrorism issues. Some in the U.S. accept this line of thinking and worry about pushing Pakistan further into China's embrace, viewing China as a tool of leverage that Pakistan holds over the U.S.

But U.S. policymakers must recognize that there are limits to what Pakistan can expect from its relationship with China. Pakistan has traditionally sought close ties with both China and the U.S. and it would have to seriously consider the risks of putting all its eggs in the China basket. China's lack of interest in bailing Pakistan out economically and the substantial influence the U.S. wields within international lending organizations, such as the IMF and World Bank, are factors that Islamabad would have to take into account. Moreover, China is increasingly concerned about the spillover of extremism and terrorism in Pakistan, and there may be room for Washington to seek cooperation with Beijing in encouraging a more stable and prosperous Pakistan.

## What the U.S. Should Do

- **Pursue U.S. counterterrorism policies directed at Pakistan without worrying about the policies' impact on Pakistani-Chinese relations.** Some in the U.S. argue for softer counterterrorism policies toward Pakistan because they fear a tough approach would push Islamabad further into Beijing's embrace. This is a straw-man argument, however, as China does not want full responsibility for Pakistan and its economic challenges and prefers that Washington remain

38. "Mr. China Goes Shopping," *The Economist*, January 13, 2011, at [http://www.economist.com/node/17902635?subjectid=3856661&-story\\_id=E1\\_TSJDNGPV](http://www.economist.com/node/17902635?subjectid=3856661&-story_id=E1_TSJDNGPV) (December 27, 2011).

engaged with Islamabad. U.S. policymakers should recognize that Pakistan uses the China card to scare U.S. officials into thinking they have no choice other than to appease Pakistan when it comes to terrorism and provision of military aid.

- **Enhance dialogue with China on Pakistan's future prospects for stability, including ways to dampen extremist trends in Pakistani society and to reduce terrorist recruitment.** There are indications that China is worried about the prospect of further destabilization in Pakistan and has engaged in contingency planning for different possible scenarios in Pakistan, including spreading Islamist militancy and nuclear weapons falling into the wrong hands.<sup>39</sup> The U.S. should convince China to adopt a more holistic approach to terrorism issues in Pakistan, explaining that Pakistan's support for some terrorist groups strengthens the ideological base, logistical capabilities, and financial support for all Islamist terrorist groups. As part of this effort, Washington should share any available intelligence with Beijing on the possible presence of Chinese citizens at Pakistan-based terrorist training camps.
- **Initiate discussions with Beijing about U.S. and Chinese investment and trade with Pakistan that would contribute to its stability.** Fears of China "owning" Pakistan are unfounded, as the economic relationship is simply not that substantial. Indeed, the U.S. should welcome greater Chinese–Pakistani economic interaction, particularly additional Chinese investment, construction, lending, and trade, since bolstering the Pakistani economy will help create conditions for greater stability and prosperity in the country. While joint Sino–American assistance projects are impractical because the two countries operate so differently commercially, the comparative advantage of U.S. direct investment in areas such as agriculture, finance, and education could complement Chinese investments in telecommunications and port construction. Shared information could improve the quality of both sides' work.
- **Include China in some multilateral approaches to Pakistan's economic challenges and coordinate with China on bilateral assistance.** China should be invited to participate fully as the IMF continues to work with Pakistan's private creditors, for instance. At the moment, due to the unusual nature of its financial assistance, China largely deals separately with Pakistan, an arrangement that does not benefit private creditors or American interests and does not seem to have appealed much to China, either. A more unified approach would increase outside leverage and coherence in pushing Pakistan to make needed reform.
- **Discourage China's sale of new nuclear reactors to Pakistan, citing concerns over proliferation.** The U.S. must hold firm to its opposition to the sale of new nuclear reactors to Pakistan outside the international nonproliferation regime. Pakistan is expanding and improving its nuclear arsenal more rapidly than any country in the world, and is estimated to have produced sufficient fissile material to manufacture an additional 100 nuclear weapons to supplement the approximately 100 weapons already in its possession. At its current rate of production, Islamabad is poised to become one of the top four largest nuclear powers in the world. Given concerns over extremists gaining access to Pakistan's nuclear technology and past incidents of nuclear proliferation from Pakistan, namely the A. Q. Khan nuclear black market that facilitated the Libyan, Iranian, and North Korean nuclear weapons programs, China should demonstrate that it is a responsible international actor when it comes to Pakistan and nuclear issues. Moving forward with the sale of two new nuclear reactors outside the international regime to a country at high risk for further proliferation would call China's own nonproliferation credentials into question. Indeed China's concerns over prospects for stability in Pakistan should prompt China to take greater interest in measures to enhance the security of Pakistan's nuclear weapons arsenal.

39. Small, "Intensifying China–Pakistan Ties."

## Conclusion

China's concerns about the future development of Pakistan will likely limit the extent to which it will help Pakistan out of its economic difficulties. While China has an interest in maintaining strong security ties with Pakistan, the notion that Chinese ties could serve as a replacement for U.S. ties is far-fetched. Instead of wringing its hands over Chinese

influence with Pakistan, the U.S. should seek Beijing's cooperation in encouraging a more stable and prosperous Pakistan.

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