

## CHINA-PAKISTAN ECONOMIC RELATIONS IN THE POST-COLD WAR ERA: AN OVERVIEW

**Mr. Ajay Kumar**

*Assistant Professor*

*Department of Political Science*

*Rajiv Gandhi Govt. Degree College,*

*Shimla*

*Email: ajaygarg867@gmail.com*

**Dr. Sanjeev Kumar Bragta**

*Associate Professor*

*Department of Political Science*

*Department of Evening Studies*

*Himachal Pradesh University*

*The Mall-Shimla*

*Email: sanjeevbragta@gmail.com*

### **Abstract**

*China and Pakistan are often regarded as 'all-weather' friends. The shared border disputes, followed by confrontation and enmity with India drifted two countries towards each other. Strong convergence of strategic interests further strengthened their relationship. Both the states resolved their border disputes and signed the first trade agreement in 1963. However, trade between the two was initiated in the early 1950s, when China exchanged coal with Pakistani cotton. Economic interactions between the two nations continued during the Cold War period. However the economic dimension was outshined by the strategic collaborations during the Cold War period.*

*However, in the 1990s, when soft power emerged as the main tool of the foreign policy of the nations and geo-economics started replacing geo-strategy, the economic relations between the two also deepened. China's economic reforms followed by a boom in the Chinese economy presented an opportunity for China-Pakistan to strengthen their relations. Further, Pakistan's economic reforms in the late 1990s and the Free Trade Agreement (FTA) in 2006 expanded their relationship. Pakistan is playing a very crucial role in emerging China's dream project 'The One Belt and One Road initiative'. Multibillion-dollar China-Pakistan Economic Corridor (CPEC) has generated much hope and hype in Pakistan. It is against this backdrop, that the present paper will try to analyze in brief the economic dimension of China-Pakistan relations in the post-Cold War era.*

### **Keywords**

*Balance of Trade, CPEC, Economic Dimension, OBOR.*

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**Dr. Sanjeev Kumar Bragta,**

**Mr. Ajay Kumar**

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## **Introduction**

In the Foreign affairs, states as a significant actors in global politics interact with each other diplomatically, economically, and strategically. During the binary division of the Cold War era, geopolitics and geostrategy were overlooking geo-economics. But in the globalized world of the post-Cold War era, geo-economics is gradually replacing geostrategy. Economic interdependence has become the basic feature of today's world. The economic dimension of the much-hyped 'all-weather friendship' between China and Pakistan was also dominated by the politico-strategic considerations of geopolitics of the Cold War era. However, the post-Cold War period was empowered by the forces of globalization and geo-economics emerged as a dominant dimension of international relations. Economic reforms of China in the post-Mao period and the changed structure of international relationships in the post-Soviet period shifted the focus of Chinese foreign policy from strategic calculations to economic considerations. Forces of globalization also compelled Pakistan to reform its economy in the late 1990s. Pakistan is now the center point of new China's flagship plan of enlargement One Belt and One Road Initiative (OBOR). The multibillion-dollar CPEC has intensified the economic relationship. China-Pakistan's relationship in the present century is truly multi-dimensional.

## **Historical Background**

China's economic engagements with the Indian subcontinent are centuries old. Trade between undivided India and China used to be carried out through the old silk route. However, as modern nation-state relations between the two states initially started in the early 1950s.<sup>1</sup> Due to a dispute with India, Pakistan's trade with India was halted at that time and was searching new trade partner that could import its raw cotton and jute and, in exchange can deliver her essential commodities like coal, iron and cement.<sup>2</sup>

Beijing was also willing to search for a new partner and to fulfill the needs of raw materials like jute and cotton for its textile production and Islamabad was a suitable option for her. In 1950, Pakistan exported cotton to China in exchange for coal which was very crucial to Pakistan's railway and energy needs.<sup>3</sup> Ups and downs in the political relationship and international geopolitical calculations were dominating the early China- Pakistan economic engagements. When, Pakistan became part of the US alliance, economic engagements declined dramatically. Further, the normalization of the political relationship also led to the normalization of its economic interactions. The trade balance between the two sides in 1950, 1958 and 1959 was slightly in favour of Pakistan.<sup>4</sup> In 1960, Islamabad was mostly exporting

raw jute, cotton and jute manufacture to Beijing and China's exports to Pakistan were compromising coal, steel, drugs and chemicals.<sup>5</sup> After resolving the border issue, both economies signed a first trade agreement in January 1963 and gave the most favored nation to each other.<sup>6</sup> Additionally, to intensify their trade relationship both nations signed the 'Air Transport Agreement' on 29<sup>th</sup> August 1963. Pakistan exchanged raw jute for cement from China. Further, the barter agreement was concluded in 1968, China agreed to supply machine tools, and workshop equipment is and in exchange, Pakistan supplied jute manufacturers, cotton, textiles, medical herbs, and minerals and ores.<sup>7</sup> Both countries reopened the 'old silk route' between Gilgit and Sinkiang in October 1967. The Karakoram highway was completed with Chinese help in 1978 and opened to civilian traffic in 1982. Many arrangements related to overland trade were also signed. China also offered an interest-free loan to China during this period.

In addition to this, China also helped Pakistan's steel industry, heavy mechanical complex and heavy foundry and forges Taxila, a steel mill in Quetta, Khalats and in Baluchistan, was established with China's help.<sup>8</sup> The trade balance from 1971 to 1980 largely remained in favor of China, except in 1971. Beijing also provided easy loans to Islamabad.<sup>9</sup> In 1982, both countries constituted a joint commission on trade investment and technology.<sup>10</sup> Trade balance again shifted in favor of Pakistan from 1980 to 1983. In 1983, Pakistan's total exports to China were US\$ 1,274 million and total imports were US\$ 303 million.<sup>11</sup> Both the countries signed a bilateral investment protection treaty and the 'Avoidance of Double Taxation Treaty' in 1989.<sup>12</sup> China's economic reforms presented a big opportunity for both countries for economic cooperation.

### **Post-Cold War Era**

The collapse of the USSR changed the geopolitical landscape of the globe. Pakistan was now less important for US strategic calculations. However, Pakistan remained a close friend of her 'Iron brother' China. The growing economy of China, followed by Pakistan's economic reforms in the late 1990s presented more opportunities for economic collaboration. From less than US\$ 1 billion in 1998, trade between the two nations reached US\$ 2.4 billion in 2002 and about US\$ 7 billion in 2007. Chinese investment in Pakistan's infrastructure, ports, pipelines, roads and mining multiplied within a decade.<sup>13</sup> During General Musharraf's rule, Pakistan faced an economic crisis and reformed its economy. When, Musharraf visited China in January 2001, the economic cooperation was the basic agenda of his visit.<sup>14</sup> Furthermore, Beijing's flagship program 'OBOR' initiative intensified their economic interactions.

### Two-way Trade: Imports and Exports

The commercial relationship has also been expanded between the two nations in the post-Cold War period. Since the 1950s, Commercial exchanges have been dominated by China’s arms exports to Pakistan till the 1990s. However, in the 1990s, many new sectors of commercial engagements have emerged. Both the country signed the “Preferential Trade Agreement” (PTA) and use of Karakoram Highway for the border trade in 2003. In 2009, Pakistan relaxed shareholding restrictions on Chinese investment.<sup>15</sup> Supported by structural reforms and many agreements bilateral trade between two nations registered about 30% annual growth from 2000 to 2007 and rose from US\$ 1.2 billion in 2000 to US\$ 7 billion in 2007.<sup>16</sup>

However, along with the boom in the trade, it increased significantly in favor of China. Pakistan’s trade deficit with China increased from US\$ 291 million in 1999-2000 to US\$ 2.5 billion in 2005-2006. During in, President Hu Jintao’s visit to Pakistan in 2006, both the states signed an FTA. A blueprint of five years was also prepared to triple the trade-in next five years.<sup>17</sup> Understanding, the import-export in the following table no.1 enables us to draw certain inferences.

**Table No- 1. China’s Exports-Imports to Pakistan (in 10,000 dollars)**

Year	Total Trade	Export	Import	Balance of Trade	Year	Total trade	Export	Import	Balance of Trade
1997	106834	68923	37911	31012	2007	689327	578905	110422	468483
1998	91247	52343	38904	13439	2008	705787	605107	100680	504427
1999	97061	58061	39000	19061	2009	678834	552833	126001	426832
2000	116250	67032	49218	17814	2010	866862	693760	173102	520658
2001	139695	81508	58187	23321	2011	1055833	843971	211862	632109
2002	179961	124211	55750	68461	2012	1241365	927539	313825	613714
2003	139684	81497	58187	23310	2013	1421644	1101960	319684	782276
2004	306054	246579	59475	187104	2014	1599835	1324448	275387	1049061
2005	426083	346766	83317	263449	2015	1891665	1644189	247476	1396713
2006	546184	423377	122807	223076	2016	2147000	1723446	423554	1923554

1999 to 2018.<sup>18</sup>

While, negotiating the FTA with China, Pakistan’s officials were expecting that its manufacturer would get more access to the expanding Chinese market. However, it was quite the opposite. Pakistan’s local manufacturers are badly impacted by this flood of Chinese goods. Data in the table above shows that the balance of trade between the two economies are in favor of China. Pakistan’s trade discrepancy with China is constantly growing. As a manufacturing hub of the global economy,

China usually imports raw materials like as jute, cotton, ores, and agro-products from Pakistan and usually exports furnished goods, machinery, chemicals and electronics items to Pakistan. Pakistan is the largest importer of China's arms. However, trade in the 21<sup>st</sup> century especially after the FTA increased significantly but was in favour of China's exports to Pakistan. Thus, posing a serious concern for Pakistan.<sup>19</sup>

### **Loans and Investments**

Keeping in view, its national interests in mind, China is investing in many infrastructural projects in Pakistan. Two major projects completed with Chinese help are the 'Highway of Friendship' strategic Karakoram highway and the Gwadar deep seaport. To consolidate its control and claim over Pakistan-Occupied Kashmir (POK) and to secure land route connections with China and initiated the Karakoram highway with Beijing's help in 1967. After two decades of work and planning, the highway was finally completed in 1988. Without Chinese financial and technical support, Pakistan was unable to complete the project. Both countries are working on the upgrade of the highway with an estimated cost of US\$ 795 million.<sup>20</sup>

China is also developing Pakistan's dream project, the strategic Gwadar deep seaport with the help of China and it was in 2001 inauguration of Gwadar, the Chinese prime minister's visit to Pakistan. China was agreed to provide US\$ 198 million out of the US\$ 248 million required investment initially. The Phase two of the project was also completed with Chinese financial and technical assistance.<sup>21</sup> Pakistan was able to attract investment in many other infrastructural ventures like road and railways and hydropower projects. Both states signed an agreement regarding the Haier-Ruba Special Economic Zone in 2006. Chinese public sector and private sector investments in Pakistan reached US\$ 4 billion and US\$ 1.7 Million respectively in 2005.<sup>22</sup> China has provided enough of the soft loans and extended financial help to Pakistan in the Cold War as well as in the post-Cold War period. Many Pakistani projects have been funded by China. To overcome its balance of payment crisis, Pakistan usually turns towards China for financial support. In the financial year 2018-2019, Pakistan received US\$ 6.56 billion from China.<sup>23</sup> There are apprehensions in Pakistan as well as in the international strategic circle that Pakistan is in the debt trap of China.

### **China-Pakistan Economic Corridor**

Multibillion dollars CPEC is China's trillions-dollar flagship program 'OBOR'. China aims to develop its least developed western Xinjiang province by connecting it to the Pakistani port of Gwadar. China is also willing to develop an

alternative route to overcome its Malacca dilemma. According to agreements, China will invest US\$ 34 billion in energy and US\$ 12 billion in infrastructure projects. Further, US\$ 15.5 billion will be invested in coal, wind, solar and hydropower projects for capacity building of 10000 MW till 2018. China's 'OBOR' initiative has two dimensions. The overland route is termed as the 'Silk Route Economic Belt Initiative' and the maritime dimension is known as the 'Maritime Silk Road'.<sup>24</sup>

Strategically speaking, Gwadar port is a convergence point of both the overland 'Economic Belt and Silk Route' and 'Maritime Silk Road' as well as geopolitics and geo-economics. Gwadar deep seaport is very close to the Strait of Hormuz, a key oil supply lane route. China wants to utilize its geostrategic location for its geo-economic and geostrategic interests. Besides, geographical hindrances, this much-hyped corridor is also facing security challenges, Uighur separatists in Xinjiang provinces of China and Bloch separatists in Baluchistan are creating problems for the corridor.<sup>25</sup> Despite of all the challenges, a noted Pakistani economist S. Akbar Zaidi terms the corridor as 'Fate Changer' and "The New Game Changer for Pakistan."<sup>26</sup>

### **Problems and Challenges**

The "all-weather friendship" among China-Pakistan started from the very beginning and is growing gradually. However, as Ye Hailin argues that, the focus of the relationship was not to strengthen economic ties but it was to safeguard their security interest.<sup>27</sup> Another Western scholar, Andrew Small puts it as, deviations of geography, cultural inclinations and commercial structure are responsible for the fragile commercial relationship between two countries. The economies of the two states also required complementarity. Especially, China is a big competitor for Pakistan's exports in the textile sector for the global market.<sup>28</sup> Pakistan's exports are very low to China and Chinese exports to Pakistan are continuously increasing. The flood of Chinese goods is badly impacting Pakistan's local industries. Attacks on Chinese nationals in Pakistan is an another area of serious concern for the two sides. Because of security concerns, a special division in the Pakistani Army has been created with a compromising 10000 soldiers headed by a major general.<sup>29</sup>

### **Conclusion**

International relations during the Cold War period were evolving around the binary division and its geopolitical reality. China emerged as a time-tested friend of Pakistan, while supplying crucial weapons to the former. Today, China is the largest weapon supplier to Pakistan. Economic interactions between the two nations started in the early 1950s, much earlier than that of strategic interfaces. As a well-

known Indian scholar, Swaran Singh argues that despite much illustrious China-India acquaintance during the early 1950's, trade between China and Pakistan was US\$ 83.8 million in 1952 about twice as much as between China and India at that time.<sup>30</sup> Although, the economic dimension was overshadowed by the much-celebrated strategic collaboration, it was still able to grow gradually.

However, in the post-Cold War period that was empowered by forces of globalization, geo-economics gradually started replacing geo-strategy. This is the reason, why economic interactions up surged between the two nations. China's economic reforms followed by the boom in the Chinese economy compelled her to search for new markets. Pakistan also reformed its economy in the late 1990s. As famous Pakistani analyst, Fazl -Ur- Rahman puts it forth by saying that, at the start of the 21<sup>st</sup> century, both countries realized that, to sustain a comprehensive relationship, the economic cooperation requires more significance.<sup>31</sup> China is the largest supplier of weapons and nuclear reactors to Pakistan.<sup>32</sup> The increasing trade deficit between the two has been an issue of distress for Pakistan. The overflow of Chinese goods is destroying local production as well as employment opportunities. Further, attack on Chinese workers on Pakistani soil is also an issue of concern for China. The 'Pakistan's road of high hopes', that is its CPEC with a Multibillion-dollar project has generated much hope and hype in Pakistan.<sup>33</sup> In short, China-Pakistan economic relations have up surged during the post-Cold war period. In the 21<sup>st</sup> century, strengthening its economic ties and making their relationship much more comprehensive than ever before.

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