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Beyond Borders: Revisiting the Indo-Pak Conflict Through the prism of the China-Pakistan Economic Corridor Dilemma

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Abstract
Foreign Direct Investment is a crucial instrument within the realm of geoeconomic strategy. The consistent and substantial financial inflows made by China towards the China-Pakistan Economic Corridor (CPEC) have emerged as a significant concern for India as it reexamines its strategic position in the region. India perceives this investment as unfavorable and a threat to its national interests. A potentially stable and economically prosperous Pakistan could effectively enhance its ability to advocate for the Kashmir cause within the power corridor. China's dream to revitalize its ancient silk route still exists as Pakistan and China are connected by a paved highway in the Uygur Autonomous Region of Xinjiang. China's investment flows have been identified as a possible trigger for conflict within the Indo-Pak dyad and the broader India-Pakistan-China triangle. The effects of this conflict can potentially jeopardize the region's stability and peace, consequently enhancing and multiplying existing global challenges. This study examines the impact of the Pakistan-India standoff on regional dynamics by explaining the potential conflict arising from using FDI as a tool for geoeconomic strategy.
Keywords: Foreign Direct Investment, Geoeconomic Strategies, Indo-Pak conflict

1. Introduction

The future of South Asia is substantially influenced by three prominent powers, China, India, and Pakistan. These nations possess significant capabilities to shape the trajectory of the region. The US agreed to withdraw from Afghanistan in February 2020 under the Doha Agreement that was followed by the country's chaotic exit from Afghanistan in August 2021. The outcome has been a decrease of the US influence in the region and creating a space of significant uncertainty as the complex nature of the Asian triangular strategic relationship between China-India-Pakistan – are poised to undergo further challenges unless China and India can establish the fundamental elements of the new regional order. The United States seeks to promote a "free and open" South Asia region from Chinese coercion. The United States is providing support to India to mitigate the escalating influence of China in the region. Consequently, this assistance contributes to India's rivalry with China. In contrast, it is noteworthy that China has persistently exerted its influence in the region by implementing a geoeconomic strategy known as China's Belt and Road Initiatives (BRI). The Belt and Road Initiative (BRI) encompasses a wide-ranging economic blueprint to promote investment and foster infrastructure development across multiple countries in the region, with the notable exceptions of India and Bhutan.

Nevertheless, it is important to note that currently, China exhibits minimal inclination towards engaging in any form of aggression with India. Instead, its primary interests seem to be focused on strengthening Pakistan's economic position by facilitating increased Foreign Direct Investment (FDI) inflows. China strategically utilises FDI to strengthen its national interests, primarily by channelling resources into infrastructure initiatives and employing coercive tactics in developing nations, leading to concerns regarding practices that align with the debt-trap diplomacy framework (Babic, 2023). This paper aims to understand the potential effects of the FDI inflows from China on the escalation of friction and levels of aggression between Pakistan and India. The dynamics of the China-India-Pakistan triangle and its impact on regional order are also considered through the lens of geoeconomic strategy and its role in driving economic development and as a source of conflict.

2. Historical Conflict between India and Pakistan

The protracted and enduring dispute concerning the region of Kashmir has consistently emerged as the primary catalyst for conflict between the neighbouring nations of India and Pakistan. Four wars have transpired between these two nations, in addition to various armed engagements in the form of border skirmishes. Kashmir is an insecure region well-known by significant political instability and violence. This insecurity is primarily caused by India and Pakistan's ongoing territorial dispute, which has the potential to drive a nuclear war. The issue of political sensitivity is critical for politicians, political analysts, and international organisations, among others, that have put forward various proposals and solutions to address the long-standing issue of Kashmir. However, implementing these proposals continues to present significant obstacles.

Both Pakistan and India have said they want to take over Kashmir, and as such, reaching an agreement is surrounded by major difficulties. India, in particular, presents itself as a secular state and points out that it was the home of India's first prime minister, representing an important part of the country's history. Moreover, India highlights the strategic

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importance of Kashmir in countering the potential aggression from the neighbourhood and its role as a gateway to central Asian states (Malik, 2002). In contrast, it is worth noting that Pakistan desires to incorporate the Kashmir region into its territory. This inclination stems from various factors, including the fact that Kashmir boasts a Muslim-majority population, aligning with the principles of the two-nation theory. Additionally, Pakistan recognises the strategic significance of Kashmir's geographical location, particularly in terms of defence considerations. Moreover, the strategic role of water is of particular interest as Kashmir is the origin of significant rivers – River Jhelum, River Indus, and River Chenab - that are crucial to fueling Pakistani agriculture (Asoori, 2020; Kalis & Dar, 2013). Undoubtedly, Kashmir holds strategic significance for both nations that are also nuclear powers under the surveillance of the international community, as any conflict among them can put the world's peace at stake.

The role of the U.S. in the Indo-Pak conflict is noteworthy, given the inherent characteristics and resultant implications of this ongoing dispute. The U.S. has strategically acknowledged India as a significant ally in its efforts to address China's growing influence over the long term. On the other hand, Pakistan has emerged as an indispensable player in the enduring conflict in Afghanistan, maintaining its status as a steadfast ally of the United States over the past two decades. In subsequent stages, Pakistan provided support in the Afghan peace negotiation. Concerning the Kashmir issue, the U.S. has maintained a consistent stance over time that the status of Kashmir should ideally be resolved through diplomatic negotiations between India and Pakistan. Furthermore, the resolution should align with the aspirations and desires of the Kashmiri people (Iqbal, 2021). The U.S. supports its position on human rights and religious freedom in Kashmir. It strongly condemned the decision to repeal Article 370, which granted special autonomous status to the state with more indigenous administrative powers (Kronstadt, 2020). The U.S. emphasises the importance of softening the negative consequences of this decision by taking on board all relevant stakeholders in the process.

3. Indo-Pak Conflict - A Potential Source of Instability in the Region

The South Asian economies are striving to address the predominant challenges arising from the long-lasting war in Afghanistan following the US-led invasion and its chaotic and deadly withdrawal in August 2021, ending America's longest war. The war was attributed to transnational terrorism in Pakistan due to the influx of Afghan refugees. It is worth noting that Pakistan's coalition with the US also fueled the phenomenon of terrorism in Pakistan to provide strategic support. Moreover, the issue of Indian insurgency in Balochistan (a province of Pakistan) through Afghanistan contributed to the exacerbation of terrorism and significant political and economic consequences for Pakistan (Zakaria et al., 2019). According to the Pakistan Economic Survey (2017), it has been estimated that terrorist activities cost approximately $123.13 billion, with over 60,000 individuals' causalities in that period. The Afghan war's repercussions manifest in the South Asian region in various forms, such as terrorism, human trafficking, illegal migration, transnational corruption, transnational organised crime, arms proliferation, genocide, and even deglobalisation, creating major challenges to the region's economic and social stability.

The South Asian region is currently grappling with various economic challenges, including poverty, food insecurity, income inequality, unstable inflation, and higher levels of unemployment. These factors have contributed to enhance political and economic instability in the region. Mounting pressures on regional conflicts between Pakistan and India can exacerbate the existing challenges in the region, particularly in the economic, social, and political domains. The South Asian Association for Regional Cooperation (SAARC) is currently working to promote economic integration within the region. However, it is noteworthy that interregional trade accounts for only 5 percent of the total trade volume, which is comparatively lower than that observed in other regions (Sinha & Sareen 2020). The escalation of aggression between the two nations can harm interregional trade, which is identified as a potential source of economic instability. The instability within the region is a continuous contributing factor that accelerates the ongoing separatist skirmishes in India, Sri Lanka, Nepal, and Pakistan.

In a demographic, economic, and geographical context, the stability of the South Asia region cannot be underscored by the global economies. In the realm of demographics, the region is home to approximately one-fourth of the global population. Notably, any turmoil in the region can contribute to global issues, such as an influx of refugees, heavy transregional migration, human rights violations, drug trafficking, terrorism, hunger and malnutrition, and the spread of infectious diseases. From an economic perspective, the South Asia region has an economy of USD 4.6 trillion (World Bank 2022a), and any attempt to jeopardise the region not only worsens the regional prospects but it will also impact global economic performance. In the context of an increasingly globalised world, it is worth noting that a single country cannot meet the ends of its people and import and exports paved the way to manage existing shortages and surpluses and contributed to countries levels of specialisation and materialisation of competitive advantages. In the present context, it is of importance to highlight that the trade volume of the South Asian region is 2.03 trillion USD (World Bank, 2022b). Furthermore, the strategic location of the South Asian region within the Indian Ocean holds significant importance. This is primarily because a substantial portion, specifically over 75 percent, of the global maritime trade and approximately 50 percent of the daily global oil transfers pass through this region (Ghosh, 2020). Therefore, in order to ensure stability and security in the Indian Ocean, it is imperative to mitigate the potential aggression among the nations of the South Asian region.

4. FDI as a Geoeconomic Instrument

Geoeconomics refers to the strategic utilisation of economic tools and policies in order to promote and protect a nation's interests, while concurrently generating favourable geopolitical outcomes. Geoeconomics focuses on the phenomenon wherein economic policy is subject to increasingly securitised and strategic policy becomes more focused on economic considerations. The geoeconomic perspective encompasses a wide range of power resources, including but not limited to the ability to capture global value chains, acquire knowledge and expertise, gain entry into emerging markets, and control strategic points in infrastructure networks (Babic, 2023). The emergence of globalisation has led to the formation of cross-country economic ties and prospects, and this phenomenon has granted states the potential to take advantage of these ties for strategic purposes (Farrell & Newman 2019). The presence of economic ties can help strengthen countries' prospects on their influence of state power within the geoeconomics framework. State power appears to be resurgent due to leveraging previously unavailable avenues facilitated by globalised networks. In the geoeconomics setting, Blackwill and Harris (2016) pointed out seven prominent geoeconomics instruments currently shaping global economic dynamics. These instruments encompass trade policy, investment policy, economic and financial sanctions, cyber operations, financial and monetary policy, as well as energy and commodities. All the identified instruments are present in the ongoing conflict between Russia and Ukraine and provide worrying insights on how the global landscape is reshaping (Aiyar et al. 2023; European Council, 2023).

Amongst the different geoeconomic instruments, there has been a notable resurgence in utilising Foreign Direct Investment (FDI) as an important geoeconomic tool. Many nations are currently formulating and implementing FDI as a means to strengthen their global influence for economic and geopolitical interests. Four decades ago, 90 percent of cross-border flows were trade-related, but now 90 percent are financial such as portfolio investments and direct investments (Blackwill & Harris, 2016; Sayvaya & Phommason, 2023)). The global estimated FDI stock was $25 trillion in 2015, up from $692 billion in 1980 (Giggy, 2017). The phenomenon of FDI has brought about significant changes in the strategies through which nation-states can exert their economic power.

The significance of FDI as a geoeconomic strategy becomes apparent as it facilitates mutual benefits for the country of origin and the host country. FDI to the origin country encompasses both political and economic benefits. Meanwhile, it contributes to the development process of the destination country. FDI plays a significant role in contributing to the stability of the foreign exchange market and can potentially enhance employment and productivity in the host country (Godart et al., 2020). Moreover, it is also closely linked to the transfer of technology to the host country, facilitating the development and transition towards a knowledge-based economy. FDI confers several benefits to the source economy to promote national interests, foster goodwill among the local population of the host country, and enhance corporate empowerment within the host nation.

In the global context, China has emerged as a leading nation and a significant global player in the realm of FDI as a geoeconomic strategy. Chinese outward FDI indicates a substantial growth from $57.95 billion in 2010 to $178.8 billion in 2021 (World Bank, 2021). This upward trajectory highlights Chinese enterprises' expanding their global economic influence and increasing propensity to invest in foreign markets. Transnational investment is significantly derived from China's Sovereign Wealth Fund (SWF) and state-owned enterprises. China's potential source of capital accumulation is noteworthy, as it is characterised by a substantial surplus of foreign exchange reserves, equivalent to thirty months' worth of import bills. Additionally, the balance sheets of the four largest banks in the country exceed $9 trillion, further contributing to the potential for capital accumulation (Blackwill & Harris 2016).

China strategically utilises FDI to strengthen its national interests, primarily by channelling resources into infrastructure initiatives and employing coercive tactics in developing nations. The transnational investment of China exhibits an observable positive correlation with political motives. Notably, geopolitical factors play a significant role in explaining the variance observed in the patterns of transnational investment, as evidenced in certain cases (Babic, 2023). For instance, Chinese FDI in Africa is contingent upon recognition and adherence to Beijing's one-China policy. Numerous African nations have attempted to revise their respective national security strategies in the interest of China. The research findings clearly show that, following China's substantial investment in Africa, the number of states that recognise Taiwan as a sovereign nation has declined from fourteen to a mere four (Carrai, 2022). Similar support for China has also been observed among certain member countries of the Association of Southeast Asian Nations (ASEAN) in refraining from criticising China's aggressive actions in the South China Sea. Conversely, it is worth noting that several other ASEAN nations have expressed condemnation towards China's aggressive behaviour in the region. In a nutshell, China strategically utilises FDI to support its national interests by focusing on infrastructure initiatives and exerting influence over developing nations.

5. FDI as a Potential Source of Conflict

Pakistan's economy is currently facing various economic, social, political, and regional challenges that require strategic measures to be implemented in order to mitigate their impact. The economic performance of Pakistan, in terms of GDP growth, has been consistently subpar over the course of the past four decades. According to the World Bank (2022c) estimates, the GDP per capita growth rate of Pakistan experienced an increase from $293 in 1980 to approximately $1,596 in 2022, with an average growth rate of a modest 2 percent during this period. In the same way, it is worth noting that the average FDI inflow has consistently hovered slightly above $1 billion, constituting less than one percent of the gross domestic product (GDP), as depicted in Figure 1 below. The observed decline in FDI and subsequent impact on economic growth in Pakistan can be attributed to the persistent presence of political and economic instability within the country.

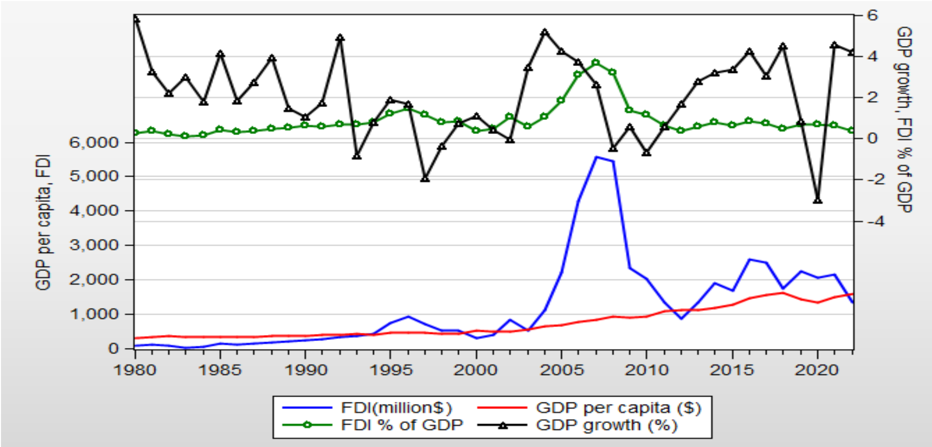

Figure 1. Dynamic pattern of FDI and GDP in Pakistan, source: WDI (2022c)

Pakistan has not been able to attract significant FDI inflows due to predominant political and economic instability, corruption, lack of human capital, and lack of technology adoption. Notwithstanding, China's FDI in Pakistan was contingent upon political stability, a condition that emerged in 2008 (see figure 2). While the overall FDI inflow to Pakistan has experienced a decline, it is noteworthy that the proportion of FDI sourced from China has consistently exceeded 30% on average from 2015 to the present (State Bank of Pakistan, 2022). The increase in FDI can be attributed to the implementation of the China-Pakistan Economic Corridor (CPEC). The CPEC is a significant initiative undertaken by China to strengthen its economy and enhance infrastructure development in Pakistan. This endeavour involves numerous financial arrangements, comprising various forms of funding. These include direct investments, interest-free loans, and loans with favourable terms and conditions. CPEC aims to support Pakistan's economic growth and facilitate the construction of essential infrastructure projects within the country. According to Invest Pakistan (2019), it has been suggested that the CPEC has the potential to contribute significantly to the country's growth rate, potentially adding up to 2.5 percentage points.

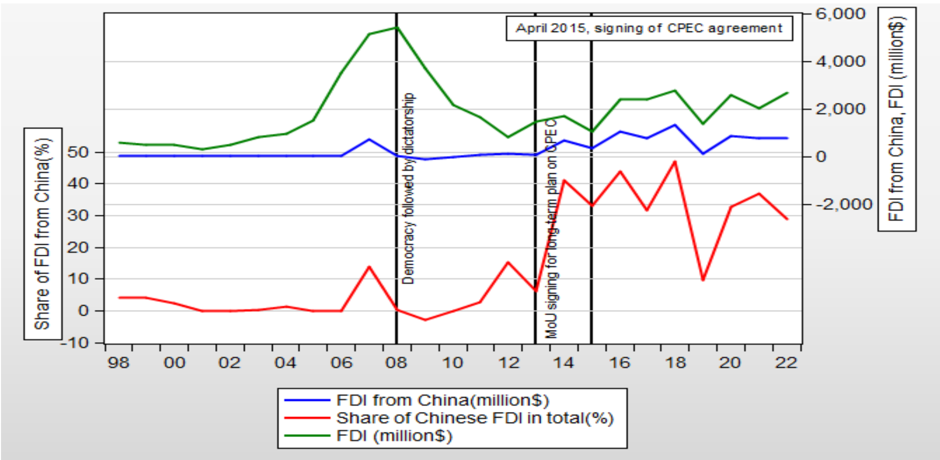

Figure 2: Dynamic pattern of FDI from China to Pakistan. Source: State Bank of Pakistan (2022)

Financial flows play a crucial role in sustaining the real and financial sectors of Pakistan's economy, as the stability of the real sector is contingent upon the maintenance of stable inflation. In contrast, the financial sector's stability is closely linked to upholding a stable exchange rate that can enhance political stability (Şıklar & Kocaman, 2018). FDI originating from China has the potential to significantly enhance production levels in order to effectively cater to the prevailing demand, which in turn can stabilise inflation rates. Simultaneously, it serves as a promising avenue for accumulating foreign exchange reserves, thereby contributing to the maintenance of exchange rate stability. The economic stability in Pakistan is expected to facilitate China in its pursuit of implementing the one-China policy as a stable Pakistan is essential to secure favourable support within the power of the economic corridor.

6. Belt Road Initiative – Pakistan – India – China Triangle & Stable Regional Order

The India-Pakistan-China triangle has a complicated history of unsolved border disputes, with intermittent military confrontations between India and China along the Line of Actual Control (LAC) and India and Pakistan at the Line of Control (LoC) (Tourangbam 2020). This long past led to India and Pakistan's four wars since 1947, the 1962 Sino-Indian Border War, and recurrent LAC and LoC confrontations. Pakistan was among the first countries to cut ties with Taiwan, starting an "all-weather friendship" with China (Lalwani & Haegeland 2018). China and Pakistan have historically used each other as a strategic hedge against India, driving Sino-Indian competition and Sino-Pak military ties. The India-Pakistan relationship continued to exhibit volatility, with a notable escalation occurring due to cross-border terrorism in both nations. This development has further complicated the chances of normalising bilateral relations between the two nations.

The potential for economic integration and cooperation between China and India holds promise in mitigating the existing confrontation between the two nations. China actively participates in various forums with India, including but not limited to BRICS, RIC, SCO, and bilateral top leadership summits. Furthermore, it is crucial to acknowledge the strategic significance of the Belt and Road Initiatives (BRI) within the framework of the One Belt, One Road initiative. India has expressed its concerns regarding the economic relations with Pakistan within the framework of the CPEC. Conversely, India did not exhibit interest in the Bangladesh, China, India, and Myanmar Economic Corridor (BCIM), which was initially proposed as part of the Belt and Road Initiative (BRI).

Consequently, the BCIM corridor was subsequently abandoned. The potential for limited integration within the triangle can be attributed to a confrontational and aggressive dynamic between the US and China that has intensified over the years. Interestingly, Pakistan continues to maintain a strong and unwavering alliance with China within the context of India's neighbouring countries, as India stands out as the sole nation in the region that exhibits a relatively higher degree of capability to rival the expanding influence of China revealing China's political and economic interests on Pakistan as it tries to consolidate its dominant role in the region. Without a doubt, China has taken a prominent economic role in the region as a solid force that is strategically positioned as a key player by making substantial investments in infrastructure. This investment aims to establish novel trade routes, thereby mitigating transaction costs and fostering enhanced trade through economic integration.

In contrast, scholars and analysts view it as a potential instrument for implementing geoeconomic strategies and employing coercive measures in order to advance China's national interests. India has previously implemented a comparable approach, wherein it allocated a substantial amount of $3 billion towards the execution of infrastructure initiatives in Afghanistan (Aljazeera 2019). India's interest in regional integration is evident through its active involvement in the China-led Asian Infrastructure Investment Bank (AIIB) and in the Asia-Africa Growth Corridor (McBride et al., 2023). However, the presence of mistrust and an absence of positive-sum dynamics significantly constrain India's policy pertaining to regional integration with the triangular players. Moreover, the examination of the response and counter-response of the United States assumes a significant role in influencing the regional order within the context of the triangle.

7. Conclusion

In the context of our increasingly interconnected and globalised world, it is worth noting that FDI holds significant potential as a crucial instrument within geoeconomic strategy. Specifically, in Pakistan's case, FDI can play a pivotal role in fostering economic stability. It is worth noting that the China-Pakistan-India triangle has the potential to derive economic benefits through a comprehensive understanding and recognition of the importance of regional development and integration. Furthermore, it should be noted that any endeavour aimed at addressing the issue of mistrust within a triangular relationship and countering zero-sum perspectives is likely to have a detrimental effect on the overall influence exerted on the existing conflict. The discourse surrounding counterterrorism, nonproliferation, and regional security in global forums can potentially enhance the triangular proximity. Finally, the significance of both the US and international organisations in resolving conflicts cannot be overstated, as their involvement is crucial in managing and ultimately eliminating such conflicts.

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