

## BEYOND RIVALRY, TOWARD RELEVANCE: PAKISTAN'S STRATEGIC RISE

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### Abstract

The never-ending competition between the United States and China has placed Pakistan on the border of economic statecraft and strategic rivalry. Concurrently facing U.S. sanctions and IMF conditionality in the wake of the 2025 Indo-Pak conflict, Islamabad should have a chance presented to it by the China-Belt and Road Initiative (BRI) and the China-Pakistan Economic Corridor (CPEC). According to this article, the Pakistani reaction is not that of passive dependence but of economic hedging: taking advantage of IMF programs to appease Beijing even as Chinese financing is being used to mollify Western conditionalities. The paper uses theories of economic statecraft and hedging to explain why Pakistan can use structural weaknesses as bargaining assets. The results demonstrate how Islamabad avoids being dependent or completely falling into the grip of dependence but rather cleaves out some space of agency by pitting Washington and Beijing against each other. The paper broadens hedging theory to the economic realm by identifying a hybrid strategy used by Pakistan and provides fresh insights into the way middle powers can cope with a great-power rivalry situation.

### INTRODUCTION

International competition between China and the United States is increasingly characterizing the twenty-first century. Although most of the academic discussion has focused on strategic rivalry in East Asia, the tussle has emerged with equal intensity in South Asia, because Pakistan stands at the center of it. After years of getting used to playing on an uneven field with India and relying on foreign benefactors, Islamabad has found itself at the crossroads of economic coercion and a chance. The 2025-2026 clash between India and Pakistan refined this fact: US sanctions against India and renewed dependency on Pakistan as a crisis-management partner were converging with a sharp expansion of the China-

Pakistan Economic Corridor (CPEC) to additional sectors. Such an environment has positioned Pakistan as either vulnerable or significant to the economic front of the great power confrontation. Much of the body of literature related to International Relations has constructed the country of Pakistan as a group of countries that are dependent on security through military alliances and deterrence (Cohen, 2020; Fair, 2014). But such an approach fails to consider the growing role of economic statecraft or the employment of aid, sanctions, loans, trade as instruments of power (Baldwin, 1985). Both American financial hegemony through IMF and World Bank and

Chinese model development through Belt and Road reflect how the field of economics became the locus of strategic struggle. With Islamabad, these pressures are not peripheral developmental concerns but issues of survival.

The article is about one main puzzle: How does Pakistan deal with economic vulnerability amid the U.S.-China rivalry? This paper contends that Islamabad has pursued a policy of economic hedging, using its own weaknesses as a bargaining tool to draw in concessions on the part of Washington and Beijing. The influence of the U.S. on the multilateral institutions limits policy autonomy, but to maintain fiscal credibility Pakistan still enters into an agreement with IMF and World Bank. In the meantime, Chinese funding under CPEC Phase II is the cross-subsidy effect in the short term, and the risk is long-term dependence. Structural constraints indicate agency on behalf of Islamabad through its bargaining tactics of signaling options to both parties.

The argument has four steps. First, the theoretical framework places Pakistan in the context of discussions of economic statecraft and hedging. Second, the paper discusses U.S. economic lever humanitarian activity and IMF conditionalities. Third, it explains how China is increasingly becoming financially present by CPEC Phase II, and other approaches. Fourth, it evaluates the extent of bargaining of Islamabad between these pressures to maintain strategic autonomy. This article pinpoints the interaction of vulnerability and opportunity in the foreign policy of Pakistan by extending the hedging theory to the sphere of economic statecraft.

### **Theoretical Framework: Economic Statecraft and Hedging**

#### **Economic Statecraft**

The strategic application of economic tools to pursue foreign policy goals based on the intentional use of economic resources: aid, sanctions, trade policy, and financial flows is long known as economic statecraft. Albert Hirschman (1945) and David Baldwin (1985) were correct that economic dependence can be redefined as leverage, with stronger states controlling the actions of weaker partners through selective rewards or penalties. Another has been the historical pattern in the

United States of using sanctions and/or the threat of sanctions to extract concessions on development aid, as well as within international financial and other institutions such as the International Monetary Fund (IMF) and the World Bank.

The economic demands of statecraft include the capacity of Washington as manifested in the imposition or removal of sanctions against Pakistan, and in its less formal but decisive impact on IMF lending initiatives in South Asia. These instruments limit Islamabad's economic policy making autonomy, by forcing it to respond to fiscal and government structural reforms that might be in line with the U.S.'s preferences. The latter highlight the asymmetry of the said conditions, whereas the former are more concerned with the positive effects of conditional loans supposedly brought about by development, since, under the transformative circumstances of apocalyptic liquidity conditions in Pakistan, the state of political vulnerability emerges as a by-product (Afzal, 2021; Lalwani, 2022).

#### **Hedging in Economic Relations**

Though Realist explanations of economic statecraft are focused on structural asymmetry, they tend to underestimate the role of small states. In this case, there is a valuable corrective with hedging theory. The term hedging refers to the process of creating grey or hybrid strategies to limit risks and optimize opportunities to handle uncertainty (Goh, 2007, 2021). The principle of hedging was originally conceptualized in the context of security and alignment behavior, but, over time, hedging has been implemented as part of the economic framework of diversifying the number of financial partners, lasting rival evaluators, and no reliance on a specific patron (Kuik, 2008, 2020).

In the case of Pakistan, economic hedging has turned out to be their survival strategy. Islamabad is simultaneously seeking IMF bailouts, credibility in the international markets and Chinese investments through CPEC, infrastructure and energy relief. No security is offered in either of the tracks, which, however, creates space to maneuver. This approach shows that smaller powers are not just the passive consumers of economic statecraft but are also participants, and able to use rivalries among great powers to their own effects.

**Synthesis: Hedging as Response to Economic Statecraft**

The economic statecraft and hedging synthesis offer the conceptual background of the article. Economic statecraft underlines the asymmetric opportunities that the United States and China use, and hedging describes the way Pakistan reacts to those pressures. It would be a mistake to go all the way to economic statecraft because this would represent Islamabad as structurally dependent; but it would be as much of a mistake to short-stop at hedging because this would exaggerate the agency of Pakistan. Collectively, the two approaches represent the two-sided reality of constraint and opportunity.

This framework therefore places Pakistan not as a chess piece in the U.S. and China rivalry but an exposed-but-attractive player. Islamabad turns its weaknesses to negotiating leverage by exploiting its reliance on IMF initiation to negotiate with Beijing, and by declaring reliance on Chinese funding as an alternative to the hard Western conditionality. This action is another sign that the middle powers are embracing financial diplomacy as a tool to buttress great-power politics' self-reliance.

**U.S. Economic Leverage: Sanctions and IMF Diplomacy**

**Sanctions and Coercive Leverage**

Sanctions are an established component of U.S. foreign policy, and a method of statecraft through which adversaries are punished, or allies reprimanded. A flood of punitive and tactical waivers have swept Pakistan. Washington would alternate military aid with nuclear development sanctions during the Cold War. However, this US support fell short in the 1990s when, under the Pressler Amendment, the sanctions were supposed to be implemented based on military and economic assistance (Fair 2014). In 9/11, Pakistan had opened, and it has since then opened again to help and to pay back the debt, but now when the US were getting impatient about militancy and state control, Pakistan was again submerged with new doubts (Cohen, 2020).

Such a tool was triggered unexpectedly in the post-2025 environment. After the aggressive behavior of India in the war, Washington imposed some specific sanctions on New Delhi; that is, restrictions on

defense sales technologies and trade. These actions even though they battered the relationship between the U.S and India also in a way, impacted Pakistan. Islamabad was starting to become more responsible as an ally and so was India, which violated the rules set by the multilateral, and Islamabad was also not against following the rules (Tellis, 2022). Washington did not suspend all the previous restrictions on Pakistan, but the changed environment gave Islamabad room to negotiate about its re-engagement.

Sanctions are, however, a two-sided sword. The punishment of counterterror imposed on compliance and government against the U.S permanently on counterterror against Pakistan however remains. The hegemony of global financial systems using the dollar guarantees that even partial U.S sanctions can cripple Pakistan trade, remittances and its access to financial markets. It is this organizational truth that highlights the sustained leverage that Washington commands, despite any tactical rebalancing in bilateral relationships.

**The IMF as a Tool of Influence**

A second dimension which is less obvious but still manifests U.S. economic leverage is the International Monetary Fund. We are also U.S voting say, and sway biased on IMF policies even though everything staff wise appears multilateral (Baldwin, 1985). To Pakistan, the Fund has become its savior and its leash. Since bailouts of the insolvency of a company have already taken place, and the bailout is repeated, it has only partially prevented the fiscal apocalypse at a tremendous cost to the subsidies, the collection of taxes, and the management, which restricted the policy discretion of the Islamic city of Islamabad (Afzal, 2021).

Pakistan returned once again to IMF emergency relief after the 2025 war. These follow-on deals would go through a U.S review in 2026 / 2027, and funding would be conditional upon more than economic reform, geopolitical realities more broadly. As it was observed, Pakistan had to adhere to the austerity policies, but Washington was ready to compromise in some important exceptions, otherwise, they would make the Islamic element of Pak-China a complete captive of Beijing (Lalwani,

2022). This is the inconsistency of IMF diplomacy; it punishes Pakistan and provides the hedging platform because Islamabad can use Chinese financing instead.

The IMF does more than loan out of its pocket. It sends signals of plausibility to foreign markets, thus helping Pakistan to receive bilateral and privately funded finance. American leverage is thereby multiplied: Washington indirectly influences the ability of Islamabad to gain broader economic relief by regulating whether Pakistan has access to IMF programs. Such structural determination affords the United States a long-time control over the monetary existence of Pakistan.

### Dollar Dependency and Systemic Asymmetry

The bigger picture of U.S leverage can be seen in the way Pakistan has been integrated into the dollar-based financial system. Most international trade, debt repayments and remittances are conducted in dollar-denominated directions only. In cases where China is providing loans or investing in CPEC activities, dealings usually rely on dollar liquidity. This is the systemic asymmetry whereby Washington is assured of ultimate leverage regardless of the extent of the Chinese aid.

To Pakistan, this implies that economic freedom is bound. Chinese financing is only a partial reprieve, not a solution to access to the dollar system that global trade and finance rely on. This fact explains why Islamabad has resorted to IMF programs despite their unpopularity, as it understands that institutions supported by the West are the sole gatekeepers of global legitimacy (Afzal, 2021).

### Pakistan's Tactical Responses

These constraints have not been passive observers of U.S economic statecraft in Islamabad. By making attempts at creating concessions by clearly stating that they are collaborating with the IMF, Pakistan has facilitated the establishment of simpler terms in the bargaining table and have invoked the Chinese variant to strike bargains. On the other hand, Islamabad has compelled Washington to soften its demands by thumping the new CPEC investments, lest it loses clout. This subtle balancing exercise shows the agency of Pakistan: even structural

dependence provides bargaining space through tactical maneuvering.

As an interesting case, we can draw on the IMF bailout negotiations of 2027. Islamabad underlined the Chinese commitments in the areas of renewable energy projects in CPEC Phase II, therefore, showing that it will be supported in other aspects. Officials in the U.S worried about the growing presence in China and welcomed some fiscal target relaxation. This did not cause the structural weakness of Pakistan to disappear; however, it showed that it is possible to use dependence as a lever.

### Assessment of U.S. Economic Leverage

The U.S. still exercises strong economic influence on Pakistan based on the twin instruments of sanctions and IMF diplomacy. Such tools restrict the freedom of Islamabad but ensure compliance to higher strategic requirements. But the post-2025 world reveals that there is room to a certain degree in Pakistan to play off rivalry to their advantage. The fact that Washington is prepared to exercise latitude in IMF programs is an indication of the extent to which coercion can go when competition among the great powers goes wild.

What appears is an image of asymmetry but not powerlessness. When we talk about Pakistan, we cannot avoid dollar dependency or IMF conditionality but can use it to our benefit to negotiate short-term relief and concessions. That relationship postulates the dependence of economic statecraft and hedging: as the U.S. instruments of power discipline Pakistan, the strategic reactions of Islamabad turn the sign of weakness into a source of bargaining power.

### China's Economic Stakes: CPEC Phase II and Beyond

#### CPEC as Flagship of the Belt and Road Initiative

The China-Pakistan Economic Corridor (CPEC) has been presented as the flagship of the Belt and Road Initiative (BRI) by Beijing and reflects both their economic and strategic potential. CPEC was started in 2013 with a focus initially on infrastructure (roads, power plants, and ports). As early as 2025, Pakistan has already been borrowed billions of dollars, was given millions of dollars earmarked by

China, which radically transformed the situation in this country and allowed overcoming the endemic deficits at least partially (Small, 2020). This partnership was rejuvenated with new impetus provided by the aftermath of the 2025 Indo-Pak conflict. The war also renewed the significance of Beijing as (1) a first line of alliance with Pakistan against India and (2) an essential component of its grand connectivity policy.

After integrating CPEC successfully, China began deploying Phase II of the venture, into digital technology, renewable energy, and industrial modernization. These prospects reflect why Beijing will turn Pakistan into an air traffic center where not just South Asia, but the whole Middle East, Africa, and Central Asia can meet (Rafiq, 2021). Pakistan therefore not only enjoyed the spoils of China, but it even became a pilot project of exporting the Beijing model of development to other countries.

#### Digital Silk Road: Technology and Connectivity

The Digital Silk Road is a characteristic part of CPEC Phase II. China spent a lot of money on the telecommunications infrastructure of Pakistan, such as 5G networks, fiber-optic cables, and cloud computing. Under the framework of these initiatives, Pakistan would be integrated into the even larger gravitational field of Internet connectivity designed by Chinese subcontractors of Huawei and ZTE (Rolland 2017).

Digital Silk Road is in Islamabad, a potential opportunity to enhance relationships and lower the costs and develop new areas. In the case of Beijing, it provides economic payoffs as well as strategic payoffs. However, through integrating its technology into the communication networks in Pakistan, China becomes a player in control of digital governance and streams of data. However, others are panicking now and even policy makers are realizing that some of the technology will spill over to western capitals (Shah, 2022). Pakistan, though, presents these projects as development-focused and positive in terms of how technology will optimize education, commerce, and government.

#### Renewable Energy and Industrial Modernization

Renewable energy is another CPEC Phase II priority. Continuing the trends of the previously constructed

coal and hydropower plants, China opened up investments in solar and wind power plants in Sindh, Baluchistan, and Punjab. It is they who compensate for the energy shortfall that Pakistan has been experiencing in the past, it is they who are at the heart of Beijing's attempt to project itself as a technological innovator in the field of green technologies (Afzal, 2021).

Along with investment in energy, China helped to create special economic zones (SEZs) that were supposed to promote the relocation of manufacturing and industry. Beijing is hoping to make Pakistan a production and logistics center by connecting SEZs with Gwadar and other transport networks. In Islamabad this initiative of industrialization promises employment, export earnings in the long term and economic modernization. However, critics will remember that until the transformation of participation and governance at the local level has become functional, such projects can become dependency paradigms, as opposed to empowerment paradigms (Rafiq, 2021).

#### Gwadar Port: Promise and Controversy

Gwadar continues to be the focus of Sino-Pak economic collaboration. The port is close to Strait of Hormuz and gives China a route to energy assets in the Gulf, as well as a potential point of trade into Africa and Europe. To Pakistan, Gwadar is the symbol of connectivity and development dreams. And the port is being marketed aggressively as a gem in the CPEC crown that would transform Balochistan into a trade and connectivity hub (Small 2020).

But there is controversy behind the promise of Gwadar. While the Western and Indian critics have been advocating that dual-use facilities could be installed in the port, the Chinese naval visits have been highlighted for having military implications (Rolland 2017). Though Pakistan keeps saying Gwadar is a commercial project, the establishment of security zones and special economic zones does challenge the spirit of sovereignty. There is also a legacy of debt issues, with the revenues generated in port business being relatively low in relation to the payment amounts. Yet Gwadar retains a symbolic and instrumental place in Pakistani strategic

thinking: a developmental lifeline and a geopolitical hotspot.

### Debt and Dependency Concerns

The growing presence of China has generated controversy regarding the economic independence of Pakistan. As of 2028, the external debt of Pakistan consisted of a large portion of loans which were secured by CPEC and the associated projects. It already woke people up to the fact that it could and indeed got into a debt trap, and the Hambantota Port in the Republic of Sri Lanka fits the description (Rolland, 2017). Pakistani officials respond that Chinese funding satisfies a vacuum in western institutions, by providing infrastructure investment without the invasive conditionalities attached to IMF programs.

The reality is in the middle of the way. The Chinese loans have no austerity provisions but have the effect of imposing long-term debt burdens which decrease fiscal flexibility. In addition, the tendency of Beijing to provide funds in the form of projects and not in the form of a budget implies that Pakistan cannot necessarily utilize these funds to solve the crisis in the short term. One such set-up would see Islamabad burdened with the functions of the infrastructural facilities that are not being funded by its balance-of-payments, but some other people also (Rafiq, 2021). Even within Pakistan, the feeling of dependency has backfired politically, as anti-government parties and other civil organizations have raised questions as to whether or not Pakistan is transferring an excessive amount of control to its strategic resources.

### Pakistan's role in Negotiating with China

Pakistan has been able to exercise agency in its association with Beijing despite the fear of dependency. During the CPEC Phase II negotiations, renewable energy development projects and the digital infrastructure belonged rather to the domestic agenda of Islamabad. Based on this, Pakistan has insisted on the debt rescheduling and the increased technological transfer under the concession due to its strategic position (Afzal, 2021).

The bargaining potential like this would prove China is not a passive supplier of gravers but a player that sets the realities. Introducing the option of IMF

friendship and the West, Islamabad has forced Beijing to renegotiate a more desirable order. In the case of Chinese companies, it was Pakistani negotiators who emphasized the political risks of exclusion, and Chinese firms had agreed to include more local partners in the SEZs. These moves represent hedging in action: Pakistan is banking on Chinese investment but negotiating using the little it has available.

### Strategic Significance for Beijing

To China, Pakistan is not just an economic partner. It is a defensive point on the BR that forms the western flank of Beijing. Gwadar ensures that China does not have to pass through maritime chokepoints like the Malacca Strait, and CPEC provides an overland access to Xinjiang. Pakistan also offers an opportunity to test Chinese capabilities to exude influence via infrastructure, technology, and development finance. Promoting its successful team in drama acting in Pakistan, Beijing is betting association with its own good faith as opposed to the furnishing of western dominated formations in the discipline (Goh, 2021).

This strategic importance is one of the reasons why Beijing has been willing to risk its economy by investing in Pakistan. Stability in Pakistan is a challenge, however due to its location, the country is too valuable to let go. To Islamabad, this is a stable stream of Chinese focus and capital, even when Washington is not fully committed.

### Assessment of China's Economic Stakes

The presence of China in Pakistan is an example of the dualism of economic statecraft. On the one hand, CPEC Phase II has significant developmental strengths such as energy relief, infrastructural development, digital modernization, and the development of industry. On the other it is opening the way to long-term debts and national debts. The biggest challenge facing Pakistan is to strike a balance between these dynamics: to enjoy the benefits without becoming dependent.

The indications are that there is room to maneuver in Islamabad. Pakistan has to some degree directed Chinese investments, by making CPEC consistent with national priorities and using IMF participation as a source of leverage. But it is time to raise the

stakes: to be too dependent on Beijing can inhibit independence, provoke western reactions and excite local politics. However, in the end, China has not only economic but also strategic interests in Pakistan, and it is due to these interests that Islamabad will continue to form the core of the global vision of Beijing.

### **Pakistan's Bargaining Strategies Hedging Through Dual Engagement**

The capacity to balance asymmetric pressures has long characterized Pakistan foreign policy, but the post-2025 environment has made economic bargaining a feature of its approach. Rather than choosing between the United States and China, Islamabad seeks to gain leverage out of both by pitting them against each other. Not only has it been successfully applied to rationality under hedging but is also well-suited to the observation that the states will be satisfied to enter bilateral relations with aggressive states because they will ensure the reduction of the risks and the maximization of the alternatives (Goh, 2021; Kuik, 2020). Pakistan is advocating collaboration with the IMF and western-dominated institutions to maintain fiscal credibility as it is anyhow increasingly committed to CPEC and Chinese development projects. On its own, neither of these tracks guarantees autonomy; rather, they jointly create negotiating space.

### **Leveraging IMF Engagement to Soften Conditionalities**

Another major aspect of the bargaining strategy by Islamabad is the way it addresses IMF programs. However, despite the IMF conditionalities related to the fiscal policy, Pakistan has also had a choice to negotiate other Chinese options at a better price. The Pakistani authorities recycled this argument in the 2027 bailout, promising Beijing renewable energy and infrastructure development under CPEC Phase II, arguing that the IMF austerity can be offset by relying on Chinese aid. Washington feared the expanding influence of China and privately urged the Fund to grant flexibility with the fiscal targets. The linkage demonstrates how Islamabad uses vulnerability as leverage when it exploits one type of dependency to lower the price of another dependency (Afzal, 2021; Lalwani, 2022).

Not a new trend, this trend has become more explicit. In the past, Pakistan would alternate with western donors and other assistance providers, such as the Gulf-States. The only difference between the post 2025 generation and the previous one is the magnitude of Chinese participation and the importance of U.S./China competition to the rest of the world. In making Chinese investments seem credible and large, Pakistan magnifies its bargaining power, on one hand, and gains breathing space in IMF negotiations that would otherwise inject more austerity, on the other.

### **Using CPEC as a Negotiating Tool with Beijing**

In the same way that Pakistan uses the IMF against China, it also uses the IMF participation as bargaining power in the talks with Beijing. Chinese leaders are not so keen on funding unsustainable obligations within political volatile environments. Pakistan has presented its recent collaboration with the IMF as an indicator of fiscal prudence and is a fact that convinces Beijing that investments in this country will not fail under mismanagement of the macroeconomic environment. In this way, the Islamabad wins the good-will of the IMF to demand more favorable Chinese conditions such as debt resettlement and transfer of technologies.

In fact, in negotiations surrounding CPEC Phase II, Pakistan stressed that it was implementing IMF-identified tax reforms as evidence of Pakistan's dedication to fiscal discipline. The response of Chinese investors was to accept an increase in the number of local companies to the special economic zones and an extension of the repayment time of selected energy projects (Rafiq, 2021). That the Pakistani course, two-way in it signaling, is the more advanced one and receptive to the IMF, has been clearly demonstrated, and it is not only the way to make itself subject to the wrath of the western states but one of the ways to make itself subject to the bargaining power with Beijing.

### **Selective Transparency and Signaling**

Strategic communication also determines the bargaining of Pakistan. Islamabad actively highlights and hides certain components of its relationships, and shapes messages to various publics. In the front engine, the authorities stress on adherence to the

fiscal change in addition to the westernization of the government in terms of bureaucracy, but in the background engine they seek exemptions. As a gesture of long-term strategic congruence as to Beijing, Pakistani leaders' signage and mean privately that it has constraints because of Western scrutiny. Such selective openness can be interpreted as an effort to influence perceptions and assure maximum malleability.

An example is the frequent publicity Pakistan provides on the renewable energy projects of CPEC to both assure its constituencies in Pakistan and to give signals to Washington that China is not in Pakistan to provide military assistance but only to develop. At the same time, in the process of pursuing investment in the Gulf or Europe, Islamabad puts a strong insistence on its participation in IMF programs, thus creating the perception of credibility. Through selective editing of these stories, the nation of Pakistan manages to maintain this hedging position without seeming to be disloyal to either of the two economic blocs.

#### The Role of Multilateral Forums

Pakistan has also resorted to the multilateral platforms as part of stiffening the bargaining hand with respect to bilateral bargaining. Whilst its ties with China are managed through being a member of Shanghai Cooperation Organization (SCO) and its involvement in IMF and World Bank programs ensures preservation of its relationships with the Western dominant organizations. According to the definition of institutional hedging, the overlap of the membership causes the member states of the institution to diversify their decision-making because they aim to gain immunity (Kuik, 2020).

To Islamabad, there are two benefits to multilateralism. One, it waters down the bilateral asymmetry as negotiations are institutionalized at broader scales. Second, it supports the view of Pakistan as a middle power able to interact across institutional lines. It is this understanding that strengthens the position of Islamabad when it reminds both Washington and Beijing that Pakistan is not standing alone but rather exists in various networks.

#### Domestic Constraints on Bargaining

Pakistan has no unlimited bargaining strategies. The lack of consistent negotiation due to domestic political instability, governance, and resentment of austerity measures by the population is limiting the negotiation capabilities of Islamabad. There is always a disruption in agreements during political transitions that bring uncertainty both to IMF programs and Chinese investments. Additionally, the domestic criticism often accuses the leaders of yielding their sovereignty, both to the terms of the IMF and to the domination of strategic assets by the Chinese. It is a negative and undesirable consequence of the bargaining indicators and aggravates the situation of long-term planning (Fair, 2014; Shah, 2022).

However, the capacity of Pakistan to maintain two parallel tracks of engagement in the face of homegrown difficulties reflects stability. When the economy is crashing down, and there is political unrest in the country, Islamabad has received IMF money, plus Chinese investment, a fact which documents decades of masterful maneuvering.

#### Assessment of Bargaining Strategies

There is no limit to Pakistan bargaining strategies. The political instability within the country, poor governance and the general sentiment of austerity against the country limits the face-to-face negotiation capacity of Islamabad. Both Chinese investments and IMF programs are prone to uncertainty because political transitions are uncertain. Furthermore, the opposition at home often condemns leadership based on forfeiting sovereignty, whether as part of the IMF terms or Chinese dominance of key resources. In so doing this politicizing reduces the credibility of the bargaining cues and complicates the process of long-term planning (Fair, 2). Islamabad is turning their economic weaknesses into bargaining chips by taking advantage of IMF involvement to sweeten austerity and IMF credibility to get a Chinese compromise. This does not extinguish dependence but instead it redefines dependence as source of bargaining power. The trick is to keep the appearance of plausible alternatives: that Pakistan will lean further toward Beijing, and that Beijing can believe that Islamabad is still working with Western institutions.

Such a policy is indicative of the larger logic of hedging in economic statecraft. Pakistan is not interested in avoiding dependency, but how to cope with it as flexibly as possible. The effectiveness of such a strategy is determined by timing, signaling, and credibility, the elements that Islamabad used with different levels of expertise. Although structural asymmetries are still deep, the bargaining in Pakistan shows that smaller powers still can cut agency even when agency is within a space of great-power competition (Shah, 2022).

Nonetheless, that Pakistan has been able to pursue parallel vectors of engagement despite internal unrest attests to its strength. During the periods of the economic meltdowns and political meltdown, IMF money and Chinese investments in Islamabad have remained in the business of demonstrating an invincible ability to maneuver.

### Risks and Opportunities

#### Risks: Debt Dependency and Fiscal Fragility

Probably the most acute threat that Pakistan will face in the post-2025 period is the threat of increasing its indebtedness. IMF bailouts have avoided state collapse but placed the state in an unbroken cycle of austerity, fiscal reforms and external borrowing. Such plans will reduce the issues to at least some extent but it does not imply that the issues of low base of tax, long-term trade deficit, industry ability, etc. are going to be resolved with such plans (Afzal, 2021). Similarly, Chinese financial obligations in the form of CPEC finance important infrastructures whose payback of these loans is made a liability. Combined, these dynamics decrease the fiscal freedom of Islamabad and limit its freedom to make independent policy.

This kind of dependency is both politically and economically dangerous. IMF programs are also very unpopular domestically and linked to falling subsidies and increasing prices. Loans made by Chinese, on the other hand, have been met with criticism due to the issue of sovereignty, as it concerns Gwadar and energy projects. It is feared that with the excessive dependence on the city of Beijing, the city may find itself falling into yet another trap of debts (Rolland, 2017). Dependence picture diminishes legitimacy and there should be a

step higher than foot further than governments must harm its political clocks through policy.

#### Risks: Strategic Entrapment in Rivalry

The acceleration of U.S. - China rivalry poses a second risk. The approach taken in Islamabad is one of hedging but as competition intensifies, there is less room to maneuver. An alternative approach to perceive everything that occurs in Pakistan through the prism of how security functions, research Gwadar, digital networks, and energy investments are smart platforms in Beijing, already exists in Washington itself (Small, 2020). At the same time, China would prefer Islamabad to promise it more earnestly in return of financial support such as greater defense sector and infrastructure integration. By going too far to the China side, Pakistan runs the risk that it will face western sanctions, limited market accessibility and isolation. On the other hand, too much cooperation with the Washington may cut off Chinese investment and development gains. The threat of being caught between two opposing forces of the great-power competition is therefore a constant one, and Islamabad is torn between absolutes.

#### Risks: Domestic and Governance Challenges

External risks are aggravated by internal weaknesses. Weak governance, political instability and civil-military conflict diminish the bargaining credibility of Pakistan. Officials of IMF and Chinese investors alike complain of slow implementation and methodical changes of priorities. Another form of inefficiency that is rarely discussed in relation to CPEC projects, however, is the failure to govern where benefits are neutralized through the corruption industry and stolen finances (Fair, 2014; Shah, 2022). Unless domestic reforms are put into place external opportunities stand the risk of being wasted.

Also, economic development is still threatened by terrorism and instability in the region. The derailment of the development through militant attacks on the development projects especially reduces the investor confidence. The security issues also complicate the efforts by Pakistan to be increasingly seen as a reliable partner in the global economic competition.

**Opportunities: Hedging as Leverage**

Amid these weaknesses, there are also opportunities within the environment of Pakistan. Islamabad has bargaining room in the very strength of the rivalry between the United States and China. The signaling can be used to get both sides to give concessions to Pakistan. The discussions of IMF also state the Chinese finance and dilute the austerity (Lalwani, 2022). And I am far more realistic about the IMF intervention in Beijing will be more practicable and provide more conditions to recommend to Pakistan (Rafiq, 2021). The case illustrates that vulnerability, in and of itself, can be transformed into leverage in situations where one is grappling with rivals over power.

**Opportunities: Gwadar and Regional Connectivity**

Gwadar is a threat and a promise at the same time. When controlled well, it may evolve into a trading and energy center connecting South Asia, the Middle East and Africa. He/she will transform Gwadar into a commercial and logistic hub but not a strategic hub as Islamabad has an opportunity to attract the gulf states and Central Asia to invest there rather than rely on China as a friend (Rolland, 2017). Good governance and easy access by third parties may also alleviate Western fears and the role of Gwadar in development. In this regard, the port represents Pakistan as being at the crossroads of conflict as well as a window to regionalization.

**Opportunities: CPEC Phase II and Domestic Modernization**

CPEC Phase II gives Islamabad a chance to solve its developmental long run problems. Special economic zones offer a chance to industrialize and generate employment since renewable energy developments do not depend on the importation of relatively costly fuel sources. Pakistan is part of the Digital Silk Road of emerging networks of technologies that generate long-term modernization (Rafiq, 2021). At the structural level, such programs can reduce the degree of vulnerability, and, thus, enable Pakistan to become even more economically resilient when properly implemented.

The point is to make Chinese investments supportive of domestic priorities. Transparency and local participation Technology transfer can

potentially make sure that Islamabad makes the CPEC projects national beneficiaries (not offshore beneficiaries). This will need institutional reforms but will hold the promise of changing the dependence of the institution on capacity building internally.

**Opportunities: Middle-Power Diplomacy**

In addition to material gains, Pakistan is able to leverage its status to build a middle-power identity. Being a member of both Western-led and Eastern-led organizations makes Islamabad able to represent itself as a mediator between conflicting blocs. Membership of the Organization of Islamic Cooperation, Shanghai Cooperation Organization, IMF, and World Bank improves the position of Pakistan as a concerned party in several forums (Kuik, 2020). By creating this role, not only is Islamabad hedging, but its diplomatic profile is also getting stronger.

The determining factor is that this middle-power role gives Pakistan an autonomy that is not tangible but of significance. It strengthens the belief that Islamabad cannot be done without as it will keep engaging both Washington and Beijing. This perception in turn opens the bargaining space that Pakistan then enjoys so that even with material weaknesses, it is able to influence results.

**Assessment: The Dual Reality of Risks and Opportunities**

The U.S.-China rivalry exists within a two-layered reality that forms the economic future of Pakistan. On the one hand, there are very deep threats: the addiction to debts, the lack of governance, and the threat of being trapped in the competition. Instead, there are valuable opportunities on the other side: the chance of hedging, the growth potential of CPEC, and the diplomatic benefits of being a middle power. The net present of these will be determined by how Islamabad manages vulnerability on a strategic level.

Provided that Pakistan can institutionalize reforms, match external investments with local priorities, and maintain credible signaling both to Washington and Beijing, it will be able to turn its vulnerable state into leverage. Otherwise, dependency and vulnerability will become structural constraints. Not only will this

determine the economic course of Pakistan, but it will also make or break the place of the Pakistani country within larger U.S.-China strategic rivalry.

### Conclusion and Policy Implications

Using hedging theory on economic relations, this paper broadens the conceptual ability of hedging theory on security alignments. Very subtly, Pakistan illustrates that the financial dependence is itself leverage in great-power competition. The discussion on the role of Pakistan in the post 2025 U.S.-China competition highlights the degree to which economics has taken a center stage in international politics. Even though the military and security factors continue to play significant roles, the strategic survival of Pakistan today will depend on its capacity to move between competing financial pressures as much as it does on the military and security factors. In principle, this article expands the use of hedging outside of the security sphere, showing how economic statecraft functions as a constraint and opportunity of smaller powers. Combining the logic of economic statecraft and hedging, the paper draws attention to the Pakistani use of its structural vulnerabilities as a bargaining item, which is construed as dependence but converted to limited but significant agency.

To Washington, Pakistan is still bound by the coercive tools of sanctions and IMF conditionality. The primacy of the dollar-based system has also meant that American leverage will remain intact, no matter what tactical recalibrations there are in intimate relations. However, this paper demonstrates that Pakistan is by no means an inactive receiver of this influence. With the signaling alternatives and with a Chinese arm, Islamabad has been able to obtain softer terms, and flexible interim terms. The U.S. economic statecraft thus punishes Pakistan but not its bargaining strength.

In terms of Beijing, Pakistan is a partner as well as a beachhead of the Belt and Road Initiative. CPEC Phase II also shows how China is willing to extend beyond infrastructure to include digital connectivity, renewable energy, and industrial modernization. These projects have developmental potential in Islamabad but increase its burden in the form of debt in the long run along with its sovereign challenges. In Pakistan, the response has been to

match Chinese investments with local priorities, to insist on technology transfer, and on rescheduling of debts. The evidence argues this is because Islamabad has some agency in determining the aspects of Chinese engagement, even at a time when dependency risks would still be at stake.

The risk and opportunity situation in Pakistan is dualistic and reflects the future economic situation in 2025. On the one hand, political backlash arises from the limited leeway afforded by protracted IMF bailouts, borrowing and government ineffectiveness. Contrarily, the bargaining space is created by the very strength of U.S.-China rivalry. Through trading options, Islamabad makes concessions, which convert weakness into partial power. The balance given is a perfect example of hedging: not having to make or break, diversifying collaborations, and benefitting maximum flexibility in situations with uncertainty.

The consequences to the International Relations theory are two. To start with, the research shows that hedging can be applied not only to military and alignment behavior, but also to economic relations. The smaller states can negotiate through their helplessness itself in the framework of global finances. Second, it reveals that economic statecraft is not totally coercive; its effects are mediated by the capacity of weaker states to take advantage of great-power competition. The situation of Pakistan therefore extends our knowledge of how middle powers maneuver around asymmetry in an age of extreme competition.

Pakistan has clear policy implications. To begin with, Islamabad needs to build its domestic bases. External opportunities will be wasted, and vulnerabilities increase without changes in taxation, administration and industrial capacity. Second, one approach that Pakistan needs to take is diversification. The problem with just depending on IMF programs is that it will lead to a political hit and using Chinese loans only will lead to the issue of sovereignty. Developing partners in the Gulf, Europe and region, Islamabad could increase its bargaining space. Third, Gwadar is to be administered openly and packaged as a commercial center with minimal third-party inclusion to allay western anxieties. This would put it on the development plane and remove the militarization suspicion.

Fourth, CPEC Phase II must also be used by Pakistan as a chance to invest in long-term modernization. The foreign funding can be converted into local capacity building by making the locals and transfers of technology mandatory in Islamabad. Finally, another aspect that Islamabad requires is investment in soft power and strategic communication. Pakistan can support its middle-power status by transforming its image in the world as a non-dependent, non-unstable state into one that engages with the world constructively and can connect.

Ultimately, the predicament that Pakistan is going through represents the larger problem that smaller states are struggling with in the context of the competitive world order. Agency is constrained by the statecraft of the economy, though there are escape routes through hedging. Pakistan cannot eradicate its vulnerabilities, but it can put them to strategic use, even using rivalry itself as a resource. It will not be Washington or Beijing that will define its future but its capacity to balance dependence against agency and convert structural weaknesses to become negotiating tools. To survive strategically, this does not mean aligning or isolating oneself, but developing a liberal economic policy that supports independence in the face of great power rivalry as was the case with Pakistan.

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