SOCIAL PRISM

Volume 3(6), 2026, 257-280
Online ISSN: 3006-8886
Print ISSN: 3006-8878

Navigating Great Power Rivalry through Economy and Trade: Pakistan's Strategic Balancing in the US-China Competition (2013-2025)

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Abstract

Based on the U.S.-China's growing strategic competition from 2013 to 2025, the present paper explores the Pakistan's strategic balancing with specific focus upon the economy and trade aspect of great power competition. It investigates four key facets of economic competition between the U.S. and China; that include tariffs and sanctions, as well as export controls; supply chain restructuring and decoupling; trade lawsuits and WTO litigation; and competing initiatives for investment, financing, and development of infrastructure, including the Belt and Road Initiative (BRI) by China and the G7 Partnership for Global Infrastructure and Investment (PGII). It next explores Pakistan's economy in terms of macroeconomic volatility, the balance-of-payments pressures, public debt, fiscal constraints, competitiveness of exports, external financial dependence and recurrent IMF stabilization programmes. The study is based on Neoclassical Realism theory in which external systemic pressure such as strategic and economic competition between the U.S. and China is considered as independent variables, structural economic vulnerability of Pakistan as intervening variable and Pakistan's strategic balancing is dependent variable. The study is a mixed-methods longitudinal (time-series) case-study, based on qualitative analysis of official documents and policy statements, qualitative process tracing and quantitative analysis of economic, trade, financial and strategic indicators. The results provide evidence that the escalation of the U.S.–China economic competition created overall pressures on Pakistan by changing business and trade formats, foreign investment, technology developments, supply lines, infrastructure financing, and international rules and regulations governing economy and trade. But such pressures did not bring about either simple alignment with one of the major powers. Rather, Pakistan's long-standing economic shortcomings limited their policy space and called for different kinds of interaction with the outside world. As a consequence, the study concludes that Pakistan was engaged in 'between the margins' rather than in 'opting out' of relationship with 'narrowing down' the options. The evidence does support the Neoclassical Realist thesis that systemic pressures impact the domestic economic constraints, leading to foreign-policy outcomes driven by state capacity, economic necessity, and strategy-seeking for strategic flexibility.

Keywords: U.S.-China Competition, Pakistan, Strategic Balancing, Neoclassical Realism, Economic Vulnerability, CPEC, Economic Statecraft, Trade Diversification, and External Financial Dependence.

Introduction

The intensifying competition of U.S. and China creates strong systemic pressures, that has now shifted from military competition to trade, tariffs, sanctions, technology limitations, supply-chain

Received 21 June 2026; Revised 23 July 2026; Accepted 09 August 2026; Published (online) 15 August 2026

Corresponding Author Email: ghulammuhtada.201209604@gcuf.edu.pk
DOI: https://doi.org/10.69671/ socialprism.3.6.2026.173

Online ISSN: 3006-8886
Print ISSN: 3006-8878

reconfiguration, investment screening, infrastructure finance and competitive development projects since 2013, for countries that have economic, diplomatic and security ties with both great powers. Located on important place, Pakistan case is important to examine how a state respond to the systemic pressures created if any by the great power competition. Since 2013, the cooperation between Pakistan and China on different segments has strengthened under Belt and Road Initiative (BRI) and China-Pakistan Economic Corridor (CPEC) in the domains of infrastructure, energy, transport, industrial development and connectivity. Meanwhile, Pakistan has kept important economic and institutional linkages with the USA and western friendly international financial institutions. Although the United States continues to be a key grower for Pakistan exports, and Westernized institution like International Monetary Fund (IMF), Asian Development Bank (ADB) and World Bank (ADB) has been helping to its rescue repeatedly for financial stability and development loans.

Pakistan suffers from many weaknesses at home and this has made the challenges even greater. The government lacks the fiscal means to attain its own independent foreign-policy goals and is forced to rely on foreign funding for its own initiatives as faced with recurrent balance-of-payments crises, limited expansion of fiscal capacity, external debt, export diversification, and lack of strong domestic resource mobilization. When times are bad, Pakistan's economic condition often forces economic decisions to be made that favor short term economic stability, market access and/or sources of funds over longer-term strategic objectives.

This interaction between systemic pressures and domestic constraints has been explained by Neoclassical Realism. The theory holds that when domestic conditions change, they provide a certain incentive, and a certain pressure, to respond to shifts in international distribution of power, but states interpret those shifts differently and face different pressures to respond in different ways. International distribution of power, in turn, provides a certain incentive and a certain pressure, alongside domestic variables, on how states respond. In this regard, the study defines the economic and strategic rivalry between the U.S. and China as independent variable of the study while structural economic vulnerability and external financial dependency as intervening variables and the strategic and economic balancing as dependent variable of the study. The study covers the timeframe from 2013 to 2025, starting from the introduction of the BRI and the development of CPEC and until the commencement of increased China–U.S. trade and smartness competition

The thesis states that the conventional analysis of Pakistan's policy towards the U.S.–China competition was seen as a membership of either the axle or the bandwagon was flawed and that Pakistan was responding to them not entirely with fidelity but more so, with pragmatic strategic balancing. Pakistan has been trying to woo the opportunities available in China's economy with access to the USA's markets, Western financial institutions and also other outside partners. This balancing activity mirrors more a constrained search for maximizing economic advantage than it does free strategic independence, and a minimization of external susceptibility than unfettered policy maneuverability within a growing international competitive environment.

Literature Review

Compared to earlier works that focused only on systemic pressures, the literature on Pakistan's strategic balancing in the wake of U.S.-Chinese competition increasingly stresses upon the inter-

Online ISSN: 3006-8886
Print ISSN: 3006-8878

play between these two sets of factors. A vantage point from which to draw insight on this relationship is offered by the theory of Neoclassical Realism, which posits that external pressure comes from shifts in international power distribution but that states react to shift this pressure within the framework of domestic institutions, state capacity, the elite perception, and economic conditions (Ripsman, N. M., Taliaferro, J. W., & Lobell, S. E., 2016). The same may well be true for Pakistan, whose foreign-policy decisions over the year 2013–2025 have been determined not just by the growing competitive dynamic of Pakistan's relationship with the U.S. and China, but also by its economic fragility, mixed civil-military dynamics, and its efforts to maintain a balance between competing external partners.

The larger body of U.S.–China relations literature recognizes the shift of economic interdependence to become an important facet of strategic competition. Economic instruments are now being used as a tool of statecraft, a way for bigger powers to promote geopolitical goals (Blackwill, 2016). Analogously, recent research on U.S.-China economic relations documents the gradual shift from economics cooperation towards strategic competition in the context of tariffs, sanctions, export controls, investment restrictions, and technology controls (Congressional Research Service, 2024) while, World Trade Organization (2024, 2025) reports on a growing number of bilateral trade disputes and legal challenges (World Trade Organization, 2024, 2025). The wagering of economic competition implies that these developments are now governing the strategic decisions of third countries. Researchers have also found that China has worked to minimize risks from reliance on foreign technology and external markets as part of its “dual circulation” policy (Center for Strategic and International Studies, 2020). Therefore, literature shows that restructure in the supply chain is not just an economic adjustment, it's part of a wider geopolitical competition.

Another dimension of the literature on infrastructure finance is "digital infrastructure," pertaining to telecommunication, information, and data processing hardware. The Belt and Road Initiative (BRI), begun by China in 2013, grew Beijing's economic and geopolitical reach via infrastructure spending, links between transport, energy and development finance. The People's Republic of China's ability to finance projects overseas was reinforced by the establishment of the Silk Road Fund and Asian Infrastructure Investment Bank (Ministry of Foreign Affairs of the People's Republic of China, 2017). Responding Chinese projects, USA initiated the Blue Dot Network, and then Build Back Better World and the G7 Partnership for Global Infrastructure and Investment (PGII) (U.S. Department of State, 2019; The White House, 2021; The White House, 2022). The World Bank (2019) and G7 (2024) suggest that finance for infrastructure now increasingly hinges upon transparency, sustainability, connectivity, resiliency of supply chains and geopolitical influence (World Bank, 2019; G7 Itlaly, 2024).

A brief survey of the literature on the economic vulnerability literature offers an important domestic-level explanation and analysis of Pakistan's foreign policy behaviour. These structural issues, including persistent balance of payments issues, weakness of fiscal capacities, limited export diversification, excessive dependence on external financing and public debt, have been identified as structural weaknesses of the Pakistani economy for long. (Zaidi, 2015; Husain, 2018; Noman, 2019). As a result, Pakistan's ability to forge its own foreign policy has been hampered and has been constrained time and again to take on external financial bailouts due to its vulnerability. Noman (2019) has tied various limitations in Pakistani foreign policy to the country's economic problems (Noman, 2019). At the same time, Pakistan has been maintaining official ties

Online ISSN: 3006-8886
Print ISSN: 3006-8878

with the IMF, the World Bank, the ADB, China and the Gulf countries. External stabilization finance is highlighted again in the 2013, 2019, 2023 and 2024 IMF programmes (Internatioal Monetary Fund, 2013, 2019, 2024). Meanwhile, Chinese investment via the CPEC is massive in the areas of energy, transportation, infrastructure and industrial development. Hurley et al. (2018) and Wolf (2016) highlight the monetary and strategic implications of China's infrastructure finance, whereas the studies done by the World Bank and the Asian Development Bank also focus on Pakistan's ongoing interaction at the multilateral development institutions (Wolf, 2019; Hurley, 2018). CPEC has been studied as a tool for economic development, modernization of the infrastructure, connectivity and energy security policy of China. The energy sector, transport, industrial cooperation, special economic zones and technological development are highlighted as significant pillars of CPEC (Government of Pakistan, 2015; Ministry of Planning, Development and Special Initiatives, n.d.). The literature also identifies issues like debt sustainability, transparency and Pakistan's ability to harness infrastructure-driven economic development for sustainable outcomes (Blanco Armas, 2019; Asian Development Bank, 2021).

Trade literature gives more proof of economic diversifications in Pakistan. The United States is one of the most significant markets for Pakistan, especially for textiles, clothing, agricultural products, and surgical goods, leather goods among others (Pakistan Bureau of Statistics, 2025; State Bank of Pakistan, 2024). China, however, has become an even more prominent source of imports, investment, infrastructure financing and industrial cooperation (Ali, 2024).

Existing literature tends to address specific events, and does not build a case for change over quite a period (12 years from 2013-25). Review exposed a gap in the literature. Many studies focus on U.S-China competition, U.S-Pakistan ties, Pakistan-USA ties, economic exposure or CPEC but limited studies undertook external systemic pressure created by U.S.-China strategic competition on other countries like Pakistan, economic vulnerabilities within its domestic context, and the country's strategic balance actions over a longitudinal period. The present study aims to bridge this gap by analyzing the convergence of two analytical tools – one longitudinal and economic, and the other process tracing and qualitative – to trace the impact of economic competition and generation of systemic pressure on Pakistan and its translation into the strategic balancing by mediation of domestic factors. Within this model, the independent variable is the economic and strategic competition between the U.S. and China, while structural economic vulnerability of Pakistan is an intervening variable, and economic and strategic balancing of Pakistan is the dependent variable. An integrated neoclassical realist interpretation here would offer a more holistic understanding of how Pakistan sought to strengthen its economic ties with China as well as keep open ties with the United States and the international economic bodies under Western control.

Methodology

Methodologically, it used a mixed-methods longitudinal case-study design, incorporating qualitative process tracing and quantitative analysis of longitudinal indicators. Pakistan had been analyzed as a longitudinal case study in its entirety from 2013 to 2025, while including sub-cases that represented major strategic turning points like the launch of the Belt and Road Initiative (BRI) and China-Pakistan Economic Corridor (CPEC), the suspension of United States security assistance in 2018, the United States' withdrawal from Afghanistan in 2021, and other significant

Online ISSN: 3006-8886
Print ISSN: 3006-8878

events that impacted Pakistan's strategic environment. This design allowed for causal analysis within the individual case as well as temporal comparisons of the two major policy episodes.

The qualitative approach used process-tracing to uncover the causal mechanisms that connected systemic pressures, domestic constraints and foreign policy behavior at pivotal moments. It had been accompanied by elite interviews with civilian and military officials, diplomats, foreign policy practitioners and strategic analysts, and qualitative content analysis of official policy documents, parliamentary debates, national security and foreign policy statements, and diplomatic dialogues. The qualitative techniques used in this research allowed for an analysis of the interpretation of the pressures that external factors placed on the decision makers, and how those pressures were turned into strategic choices.

The numbers and facts aspect of the study validated the qualitative analysis and examines trends over time from 2013 to 2025. Trade between two countries including investment, purchase of arms, cooperation in the field of defence, exchange of ideas through diplomats and other visible and measurable activities, reflected the interaction between Pakistan and other countries. The study also proposed special measures to understand the evolution of foreign policy of Pakistan overtime. It had statistically analyzed, took trends over time into account and was more reliable because of this and was checked with theory. That assists in obtaining a better understanding of the situation and made the study more reliable. By doing that, the study could provide a more detailed understanding of Pakistan's foreign policy and how it's changing.

Multiple primary and secondary sources had been used in order to ensure the triangulation and analytical robustness. Primary evidence was based on official government publications, parliamentary proceedings, foreign policy statements, bilateral agreements and interviews with key stakeholders. Secondary sources included internationally recognized trade, defence and economic-related databases as well as policy institute and international organization reports and scholarly literature. Multiple sources contributed to the validity of causal conclusion.

Economic and Trade

Competition in the economic and trade sphere is the other aspect of the strategic rivalry between the two countries. Rise or fall in economic competition is measured by changes in tariffs, sanctions, export controls, restructuring of supply chains, trade conflicts and competing infrastructure financing schemes. These collectively form a picture of the growing use of economic statecraft by both powers to further strategic interests and to change the international economic order. Thus, the economic aspect of systemic rivalry is measured through following measures:

Tariffs, Sanctions, and Export Controls

Tariffs, sanctions and export controls are assessed by tracking the development of key U.S. and Chinese trade restrictions, export control measures, sanctions, tariff actions and policy responses in 2013-2025. These are significant tools of economic statecraft as they affect international trade, access to technology, supply chains, investment, and production networks. As the frequency, size, scope, and strategic application of the changes evolve, they serve as observable markers of the economic dimension of the U.S.-China strategic competition (Congressional Research Service, 2024; World Trade Organization, 2024). Through the analytical framework, the economic dimension of U.S.-China strategic rivalry in the form of tariffs, sanctions, and export con-

Online ISSN: 3006-8886
Print ISSN: 3006-8878

trols is seen as an operational measure of U.S.-China strategic rivalry as systemic pressure. They track the shifts in economic coercion, trade restrictions, technology denial, restructuring of supply chains, and strategic economic competition, reflecting the external economic environment.

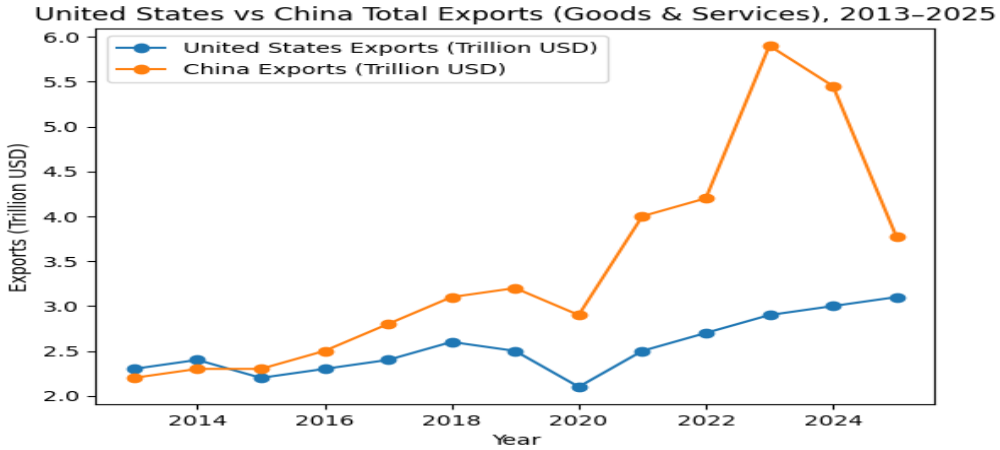
Tariffs, sanctions, and export controls were relatively small weapons in the U.S.-China strategic competition during 2013-2016. While widespread tariff confrontation had not yet come to the fore, the United States increasingly turned to export controls, Entity List designations and non-proliferation measures to protect sensitive technologies and national security interests, and China maintained its continued growth of preferential trade and industrial policies to build up its own technological capabilities. As a result, the competitive dynamic slowly evolved from commercial interaction to the "securitization" of trade and technology governance, paving the way for the onset economic competition that would become more pronounced that would gain steam as time went on (Blackwill, 2016; Congressional Research Service, 2024).

Tariffs and export restrictions played a key role in escalating U.S.-China strategic competition in 2017-2020. In 2017, the Section 301 investigation began and later Section 232 and Section 301 tariffs were put into effect, making trade policy a tool for strategic competition. In 2018, the United States applied Section 232 tariffs of 25 percent on imports of steel and 10 percent on aluminum imports on national security grounds and, in a series of actions, applications of Section 301 tariffs affected hundreds of billions of dollars of Chinese imports in manufacturing, electronics, machinery and intermediate goods (World Trade Organization, 2018; Office of the United States Trade Representative, 2018). At the same time, the rising tariffs had many trade-diversion effects along the global value chains. The United Nations Conference on Trade and Development (2019) found that increased in U.S. tariffs led to diversification of imports from China to other suppliers, though somewhat unevenly distributed by sector and supplier. Retaliatory tariffs by China were simultaneously applied and strategic economic integration further strengthened, including the second phase of the China–Pakistan Free Trade Agreement (CPFTA) in 2020, with a view to deepening economic integration with strategic partners amidst an increased strategic contestation (Ministry of Commerce, People's Republic of China, 2019). Tariffs thus became more than just a form of trade policy, influencing the flow of trade, the structure of production networks and global supply chains. All of these trends point to a growing volume and intensity of economic rivalry between the U.S. and China, and hence reinforce the economic dimension of U.S.-China strategic competition.

In 2021-2025, tariffs, sanctions and export controls grew more institutionalized and were more frequently used as whole-of-government economic tools of statecraft. The U.S. tightened entity list enforcement, investment restrictions, and proliferation-related sanctions for companies linked to advanced semiconductor, AI, quantum, and high-performance computing to control their exports (Bureau of Industry and Security, 2024). China responded through further measures to strengthen the implementation of export controls, enact countermeasures to foreign restrictions and increase regulatory control on strategic industries while fostering technological self-reliance and export supply chain adaptability. Consequently, tariffs became more tightly coupled with export controls, screening of foreign investment, technology constraints and industrial policy, and began to form a multi-dimensional system of strategic economic competition. In total, these developments have led to a new combination of tariffs, export limitations, sanctions and investor restrictions which are now used as an all-in-one tool of strategic economic competition by U.S.-China. Export performance is not an indicator of tariffs, sanctions, or export controls, but rather

Online ISSN: 3006-8886
Print ISSN: 3006-8878

changes in export trends offer context-based evidence of the overall level of economic competition resulting from trade restrictions, technology denial, industrial policy, and supply chain restructuring (National Bureau of Statistics of China, 2024; U.S. Census Bureau, 2024; World Bank, 2024). Figure 1 is the account of the comparative export performance of the United States and China during the period 2013 to 2025:



Note: Data compiled by the author from (World Bank, 2025; International Monetary Fund, 2025).

Several prominent features of U.S. and China's export performance from 2013 to 2025 are shown in figure 1. The empirical findings confirm that tariffs, sanctions and export controls are indeed an operational measure of the economic dimension of U.S.–China strategic rivalry as systemic pressure to other countries.

Supply-Chain Decoupling Measures

Supply-chain decoupling measures are operationalized as a combination of tariff, export control, investment screening policies, industrial policies, technology restrictions and supply-chain diversification policies that the United States and China implemented between 2013 and 2025. Supply-chain decoupling is a key aspect of economic statecraft as it aims to lessen strategic reliance on other economies, reengineer supply chains, diversify technology, and improve the resilience of key sectors. Changes in the scope, sectoral coverage, policy intensity, and strategic application of decoupling measures therefore provide observable indicators of the economic dimension of U.S.–China strategic rivalry. It captures the economic environment's external changes in the fields of economic securitization, technological competition, restructuring of the production network, strategic diversification, and economic resilience.

During 2013-2016, U.S formal "decoupling" policies were not entirely clear but there was some preparation for future supply-chain policies. Rising concerns in Washington about technological dependence and China's industrial policy (Made in China 2025) began to influence U.S. supply-chain security debates. The U.S. emphasized investment screening (for example, if a foreign company is interested in an acquisition, it could be denied because of national security concerns) and concerns related to access to critical technologies (Council on Foreign Relations, 2018). This period would be the foundation for trade instruments that would be used against the Chinese.

Online ISSN: 3006-8886
Print ISSN: 3006-8878

Early U.S. investigation and scale-back on investments and scrutiny were viewed as early signs of economic containment and has served as a reminder of the importance of indigenous innovation and supply-chain resilience. The Chinese industrial policies of this era explicitly sought to minimize reliance on foreign advanced technology, and to build up the country's own production capacity, which would subsequently help buffer against expressions of overt decoupling pressure (U.S.-China Economic and Security Review Commission, 2024).

In 2017–2018, the U.S. formally implemented tariffs and strategic measures to refocus trade flows and supply chain relationships. The implementation of Section 301 tariffs was a major expansion in the depth and breadth of supply-chain decoupling, expanding from individual trade actions to a more comprehensive approach to economic competition (U.S.-China Economic and Security Review Commission, 2024). Beijing's reaction to U.S. tariffs has been to publicly denounce them as protectionist and detrimental to global supply networks at an unprecedented pace and to accelerate the push to diversify supply routes and relationships with other countries around the world. In Chinese policy discourse, U.S. tariffs were viewed as an obstacle to the global production system, and U.S. state policy made it more important to seek out other markets and make production chains more robust (Center for Strategic and Emerging Technology, 2015; Wübbeke, 2016).

By 2019, decoupling in the supply-chains went beyond trade policies to technology denials, reflecting the broad contours of strategic economic competition. These steps went beyond trade policy to technology-intensive industries in expanding decoupling along the supply chain, and to strategic economic competition (See, 2023). Beijing labeled U.S. export restrictions as "economic coercion and unilateralism" and alleged that the restrictions had threatened the stability of bilateral trade, as well as of global technology cooperation. China's response focused on its own journey to self-reliance and its commitment to open trade while building up its capacities (Sutter, 2025).

In 2020–2021, the rhetoric of “decoupling” from the United States has been blended with the general trend of supply chain resiliency during the COVID-19 pandemic. The pandemic has reinforced supply chain resiliency as a strategic policy goal, adding to the economic pressures on systems. U.S. policy has increasingly entangled support for industry with security concerns related to supply chain restructuring (U.S. Customs and Border Protection, 2021). Beijing in turn was adamant in its resolve to “dual circulation” i.e. more focus on domestic demand and technological development and stated that unilateral U.S. measures would endanger the stability of the global economy. China continued to advance the development of self-sufficiency in strategic sectors such as semiconductors (Center for Strategic and International Studies, 2020).

In 2022-2023, the USA tightened export controls for advanced technologies and enacted regulations limiting outbound investments in sensitive technology sectors in China. The decoupling policies continued to gain momentum as export control measures, outbound investment screening, and allied supply-chain coordination were expanded (Sutter, 2025). In reaction, Beijing tightened its innovation and industrial policies and increased regional cooperation, including through involvement in trade agreements (e.g., RCEP), to offset pressure from the U.S. China has portrayed U.S. moves to decouple as damaging to global value chains, and wanted to maintain the stability of supply chains with other major trading partners (Huang, 2021). In addition to technology, U.S. decoupling focus shifted to critical minerals, clean-energy supply chains, and

Online ISSN: 3006-8886
Print ISSN: 3006-8878

tariffs targeting China dependence in strategic sectors in 2024. The Washington narrative was about diversification and geopolitical supply-chain security (Ministry of Commerce of the People's Republic of China, 2024). Chinese government warnings were loud and fierce against the U.S. tariffs as being "unilateral and damaging to global production structures" and of "economic bullying." China responded with a few of its tariff hikes and leveraged WTO tools to challenge U.S. trade measures, further proving that decoupling costs both economies (World Trade Organization, 2025).

By 2025, the concept of strategic decoupling was already becoming mainstream in the United States, and U.S. promotion was encouraging allies to decrease their reliance on Chinese supplies given the importance of rare earths and critical inputs. Tariff and export control measures aimed at accelerating supply-chain reorientation and diversification. The U.S. policy makers presented these steps as a way to "de-risk" and not completely end economic relations (Sheng, 2025). China, in late 2025, responded to allegations of coercive measures from the U.S. by asserting that its export control and strategic policies are purely regulatory, rather than coercive, and that supply-chain integration is not only essential but still a critical component. While China's military buildup and strategic rivalry with the West remained. The analysts pointed out that this did not mean that economic ties were impossible to be severed, highlighting the cost of bifurcated supply systems. (Jackson, 2025).

Trade Disputes and WTO Litigation

Trade disputes and WTO litigation are quantified based on the numbers, characteristics, scale, and resolution of significant trade disputes, tariff dispute cases, and formal World Trade Organization (WTO) dispute under process between the United States and China in 2013-2025. Trade issues and WTO litigations are a significant expression of economic statecraft in the sense that they formalize economic competition through legal challenges, tariff disputes, investigations of subsidies, and mutual trade actions. The economic dimension of U.S.–China strategic rivalry, therefore, has observable indicators in the frequency, nature and substance, and legal outcomes of WTO dispute-settlement processes. From the analytical perspective outlined, trade conflicts and WTO cases are an operational measure of the economic dimension of U.S.-China strategic rivalry. It tracks the evolution of external economic conditions through institutional economic contestation, legal contestation, tariff confrontation, and the strategic use of rules in multilateral trade (World Trade Organization, 2025). Disputes under the WTO framework and tariff conflicts continued in the 2020s outside of the formal process. China began to use the WTO mechanism to challenge U.S. duties on Chinese imports in 2025, with application for WTO dispute consultations to dispute the country-specific and universal additional tariffs in early 2025, marking the first time that China had requested consultations to challenge U.S. tariffs as part of its dispute settlement procedure (World Trade Organization, 2025).

During the entire period, WTO cases have been intertwined with the traditional trade conflicts involving tariffs, dumping and subsidy schemes and also the strategic tariff escalation and counter tariff conflicts between the two countries. Historically, WTO cases involving the United States and China have been in the dozens of bilateral disputes in the late 2010s, in which the United States has been the Complainant, and China has been the Respondent, and vice versa, but by the mid-2020s many of the most important tariff actions are consultations rather than final

Online ISSN: 3006-8886
Print ISSN: 3006-8878

panel reports as countries navigate WTO obligations and other trade-policy tools (World Trade Organization, 2025).

As a result, trade conflicts took the form of not just a legal controversy, but a tool of economic warfare and a measure of the broader U.S.-China competition. When taken together, the empirical results show that the U.S.–China trade conflicts and WTO proceedings grew in frequency and institutional scale, in legal complexity and in strategic gravity, throughout the years 2013–2025. Therefore, empirical results confirm that trade conflicts and WTO disputes are a good measure to assess the economic dimension of U.S.–China strategic rivalry as systemic pressure for other countries.

Competing Infrastructure Finance (BRI vs G7/PGII)

Competing infrastructure finance is assessed through the scale, financial mechanism, geographical distribution, strategic objectives and institutional evolution of major infrastructure led by China and G7 countries since 2013 up to 2025. It is a key economic statecraft tool, with states using it to have a larger influence on regional connections, bolster geopolitical alliances, and assert economic influence through long-term investments in infrastructure. The economic component of U.S.-China strategic rivalry can be seen through changes in the scale, geographic scope, funding strategies, governance practices, strategic connectivity, competition for development funding, and geopolitical orientation of competing infrastructure initiatives. These changes from the perspective of the analytical framework reflect the external strategic environment, thus operationalizing the economic dimension of the U.S.–China strategic rivalry.

The development of the competing infrastructure finance in 2013–2025 demonstrates how infrastructure finance developed into a growing field of economic statecraft in the U.S.-China strategic competition. In 2013-2016, China laid the groundwork for a new global strategy of infrastructure financing with the launch of the Belt and Road initiative (BRI) – the Silk Road Economic belt and the Twenty-First Century Maritime Silk Road (Twenty-One Belt and Road Initiative) (Ministry of Foreign Affairs of the People's Republic of China, 2017). The project aimed to improve regional connectivity by investing in large-scale transport, energy, logistics and digital infrastructure projects. To facilitate implementation, China announced a Silk Road Fund in 2014, formalized it in December 2014, and pushed for multilateral financing by introducing the Asian Infrastructure Investment Bank (AIIB) in 2016, with significant funds and wide international membership (Silk Road Fund Co., Ltd., n.d.; Ministry of Foreign Affairs of the People's Republic of China, 2017). These advances greatly increased China's ability to fund infrastructure initiatives overseas and demonstrated the growing role of infrastructure finance in its strategic economic diplomacy.

In 2017-2020 the BRI further spread its geographical footprint and got more money to invest in Asia, Africa, Europe, and the Middle East. At the same time, concerns regarding the transparency and the quality of the projects, the debt sustainability, and the governance of BRI projects were brought to the international agenda. Both the development impact and financial risks of China's overseas infrastructure investments were analyzed by institutions like the World Bank and some research institutions, and Beijing slowly started to make greater use of quality standards and financial risk management. Infrastructure finance was now becoming an increasing part of China's overall geopolitical game (World Bank, 2019).

Online ISSN: 3006-8886
Print ISSN: 3006-8878

Western economies started to create new infrastructure projects in this same time frame. The United States, Japan and Australia introduced the Blue Dot Network in 2019 to champion the creation of the international best practices for transparency, sustainability and quality infrastructure investment. While the project centered around certification, and not financial, it was the first coordinated Western response to the rise of the BRI and provided a basis for future G7 infrastructure partnerships (U.S. Department of State, 2019).

Infrastructure competition grew significantly during 2021-2025. The Build Back Better World (B3W) initiative is a values-based infrastructure partnership, launched by the G7 in 2021, to help to mobilize investment in developing countries. This was later formalized in 2022 as the Partnership for Global Infrastructure and Investment (PGII), which the G7 agreed to use up to US$ 600 billion by 2027 via public finance, development finance institutions, and private-sector investment. However, PGII was the first coordinated effort from the West to call for massively scaled public and private investment, further solidifying infrastructure financing as an important strategic weapon to compete with China (White House, 2021).

By 2023–2025, competition between the BRI and PGII was increasingly neither solely about financing volumes but also about other strategic factors, such as the capacity to mobilize money quickly, the governance conditions that come with infrastructure projects, the resilience of supply chains, and geopolitical influence in the Global South. Infrastructure investment thus was no longer mainly a tool for development but became a significant battleground between the United States and China's strategic rivalry. Competing connectivity initiatives have become a permanent part of the modern great-power rivalry, while both sides were trying to build political ties by funding infrastructure (G7 Itlaly, 2024).

Economic Vulnerability

One of the worst internal limitations on Pakistan's foreign policy is, in fact, the chronic economic crisis (Noman, 2019). Persistent balance of payments (BOP) deficits, high external debt, dependence on IMF packages and low export competitiveness diminish Pakistan's strategic autonomy by increasing the government's vulnerability to conditionality attached to the international financial institutions and donor countries, particularly the United States (Kapur, 2010). Economic vulnerability affects the policy choices, and Pakistan is compelled to focus on short-term financial stability instead of long-term strategic objectives (Noman, 2019). Partnerships like the China–Pakistan Economic Corridor (CPEC) can pave the way for some respite, but they can also leave Pakistan vulnerable to western dominated financial regimes, as seen in pressures from the Financial Action Task Force (Financial Action Task Force, 2022). This interaction is captured in neoclassical realism by emphasizing the constraint domestic economic weakness faces when responding in an autonomous way to systemic incentives (Ripsman, N. M., Taliaferro, J. W., & Lobell, S. E., 2016). Structural distortions have also severely impacted Pakistan's economy, including a consumption-driven growth model, chronic fiscal imbalances, and reliance on remittances instead of productive industrial growth (Amjad, 1997; Husain, 2018). These characteristics take up a vicious cycle of external susceptibility in which economic crises are not even episodic but systemic. Moreover, the country's relative lack of integration in the high value chains hampers export growth, thus adding to the need to rely on outside financing (Asian Development Bank, 2010). In the political economy view, this dependency is based upon the perception that

Online ISSN: 3006-8886
Print ISSN: 3006-8878

the domestic weaknesses were inextricably linked with unequal global economic structures, which scholars refer to as a ‘peripheral economy' (Wallerstein I. , 2004).

Structural Economic Vulnerability and Recurrent Financial Crises

The Pakistan economy has failed to recognize a pattern of structural vulnerabilities which would otherwise result in severe financial crises in every country. Pakistan has been facing structural vulnerabilities in its economy which produce severe financial crisis in every country periodically (Noman, 2019). The country has limited capacity to achieve stable economic growth because of persistent balance-of-payments deficits, a narrow export diversification, low tax collection and high public debt. During times of economic crisis, these structural constraints often force Pakistan to take outside funding (Kapur, 2010). Consequently, economic instability becomes a recurring constraint on national policy planning and government is forced to focus on short term stabilization policies instead of long-term development plans (Noman, 2019). Economic fragility, therefore, limits state's ability to pursue an autonomous foreign policy agenda as it is one of the pressing concerns of policy makers (Kapur, 2010; Noman, 2019). One of the biggest flaws in this vulnerability is the very low tax to GDP ratio in Pakistan which shows the inability of the country to generate its fiscal resources for development and strategic efforts (Husain, 2018). Furthermore, a lack of energy supply, poor governance and weak institutions have historically affected productivity of industry and investment (Looney, 2004). Pakistan is financed by the IMF, financial institutions and at the same time it is also relying on China for financing infrastructure projects, development finance, CPEC-related projects etc. This double dependency impacts fiscal autonomy and policy flexibility (Mustafa, 2026). During the study period, major economic crisis took place, which led to inflation, exchange-rate depreciation, growth slowdown, and repeated stabilization measures, all of which took place in the years 2013, 2020, and 2022-2023 (Zaidi, 2015). These cycles create and add to the economic insecurity and limit the foreign policy planning horizon for Pakistan as the short-termism effect diminishes long-term policy stability.

Table 1: Pakistan's GDP Growth Rate (2013–2025)

Year	GDP Growth (%)	Year	GDP Growth (%)	Year	GDP Growth (%)
2013	4.4	2017	5.7	2021	6.5
2014	4.7	2018	5.8	2022	6.2
2015	4.7	2019	2.5	2023	–0.2
2016	5.5	2020	–0.9	2024	2.5*
				2025	2.6*

Source: Compiled by the author using data from (Government of Pakistan, 2025; World Bank, 2024)

Note. Estimates for 2024 and 2025 are based on Government of Pakistan (2025) and World Bank (2024).

According to data, Pakistan's economic performance remained highly volatile throughout 2013–2025. Following moderate growth during 2013–2018, the economy experienced severe slowdowns associated with macroeconomic imbalances, the COVID-19 pandemic, inflationary pressures, floods, and external financing shortages. These fluctuations reduced fiscal space and constrained the state's capacity to pursue independent foreign policy objectives. Economic fragility in the state thus limited the power to turn domestic capacities into independent foreign policy re-

Online ISSN: 3006-8886
Print ISSN: 3006-8878

sults and led to an external economic diversification and strategic balancing principle that would guarantee financial stability while at the same time allowing highest possible degree of policy flexibility.

External Financial Dependence and Institutional Conditionality

This has resulted in high structural dependency in economic governance as Pakistan heavily depends on international financial institutions such as the International Monetary Fund (IMF), World Bank and Asian Development Bank (ADB), as well as external creditors (Noman, 2019). Frequently, engagements with the IMF and other multilateral lenders feature strict policy conditionalities—such as fiscal austerity, structural reforms and regulatory changes (Kapur, 2010). They can affect domestic economic policies and indirectly affect foreign policy options, by reducing them (Kapur, 2010). Moreover, Pakistan's financial system is still being used by the international financial institutions and financial regimes that are largely Western in character (Noman, 2019). Financial oversight institutions, like the Financial Action Task Force, have shown the level of pressure that they can put on domestic policy reforms (Financial Action Task Force, 2022). These are indications that economic vulnerability can become a political opportunity for outside parties (Noman, 2019). In addition to IMF conditionality, Pakistan's reliance on bilateral creditors, particularly China, Saudi Arabia and the other Gulf countries also adds a new dimension to economic diplomacy in terms of balancing the geopolitical tactics (Hurley, 2018). Chinese financing on the CPEC provides infrastructure and investment, but also poses a question of debt sustainability and repayment obligations in the long term (Wolf, 2019). At the same time, there exists an influence of Western financial institutions in the shape of credit ratings, access to the capital markets and anti-money laundering regime and others (Mosley, 2003). The combined dualism makes for a complicated scenario for Pakistan where it has to negotiate with each other pressure and financial strains in addition to geopolitical pressures. Chinese financing has not taken the place of Western finance institutions; instead, it has diversified Pakistan's sources of funding abroad and has established a financial dependency dualism that is requiring constant strategic balance between competing financial and geopolitical partners (Hurley, 2018; Wolf, 2019; Noman, 2019).

Table 2: Pakistan's IMF Stabilization Programmes (2013–2025)

Programme	Year	Approved Amount
Extended Fund Facility (EFF)	2013	US$6.64 billion
Extended Fund Facility (resumed)	2019	US$6.0 billion
Stand-By Arrangement (SBA)	2023	US$3.0 billion
Extended Fund Facility (approved)	2024	US$7.0 billion

Source: Compiled by the author using data from (Internatioal Monetary Fund, 2013, 2019, 2024).

After the Extended Fund Facility in 2013, Pakistan has been put on the Extended Fund Facility in 2019 due to fresh balance of payments crisis. The longstanding macroeconomic instability led to a Stand-By in 2023 and an Extended Fund Facility in 2024. Pakistan's external financing needs were, thus, structural and not temporary, as evidenced by the IMF programme's repeatedness.

Online ISSN: 3006-8886
Print ISSN: 3006-8878

The analysis shows that economic vulnerability was a pivotal factor of Pakistan's foreign policy as a domestic intervening variable, during 2013-2025. The state's capacity to raise domestic resources and effectively implement independent foreign policy goals was hampered by persistent macroeconomic instability, recurrent financial crises, limited fiscal capacity, and reliance on external financial sources. At the same time, on-going IMF engagement and multilateral financial institutions, bilateral partners, such as China in the China-Pakistan Economic Corridor (CPEC) provided a diversified, but long-term, pattern of external financial dependency, which needed constant strategic balancing. These results are aligned with Neoclassical Realism, suggesting that these domestic economic pressures were a crucial barrier to Pakistan's ability to translate its national capacity into an independent foreign policy in the presence of strategic rivalry between the U.S. and China. As a result, Pakistan pursued a pragmatic policy of 'strategic balancing' by maintaining ties with various external partners for economic security with the highest possible degree of foreign policy flexibility.

Economic and Trade Balancing

Economic and trade balancing becomes an integral part of Pakistan's strategic balancing in the context of growing U.S.-China strategic rivalry. Such rivalry was no longer limited to the military sphere but was now playing out in the economic arena, including trade, investment, infrastructure financing, development aid and economic statecraft, forcing Pakistan to engage in a competition for economic opportunities and strategic reliance on both nations. The implications for the country's economic policy options were conditioned by the country's fiscal vulnerabilities, external financing need, development priorities, institutional capacity, and the perceptions of the elite, as highlighted in the previous chapter.

Trade Diversification with the United States and China

Pakistan’s exports to the United States remained a major source of foreign exchange during 2013–2025, rising from approximately US$3.7 billion in 2013–14 to around US$6.2 billion in 2022, before moderating to approximately US$5.5 billion in 2024. The United States consistently remained Pakistan’s largest export destination, with textiles, apparel, made-up textile articles, leather goods, surgical instruments, and agricultural products forming major export categories. The persistence of a substantial trade surplus with the United States demonstrates Pakistan’s greater export dependence on the U.S. market compared with China (Pakistan Bureau of Statistics, 2024). However, Pakistan’s exports to China fluctuated considerably between 2013 and 2025, declining from approximately US$2.6 billion in 2013 to US$1.5 billion in 2017, before recovering to US$1.8 billion in 2018, US$2.0 billion in 2019, and reaching about US$3.0 billion in 2021. Thereafter, exports remained volatile, reflecting persistent structural constraints. Consequently, bilateral trade remains highly asymmetric, demonstrating Pakistan’s continuing economic dependence on China (Pakistan Business Council, 2024). Instead of replacing one with the other, Pakistan continued to have commercial relations with both, thus implementing an early economic diversification plan. The great reset and strategic competition between the U.S. and China have greatly reconfigured global supply chains (United Nations Conference on Trade and Development, 2023; World Bank, 2024).

Online ISSN: 3006-8886
Print ISSN: 3006-8878

Economic Engagement with Western Financial Institutions (IMF, World Bank, ADB)

The economic and trade balancing behaviour of Pakistan during 2013-2025 is significant in the context of economic engagement with the Western financial institutions in particular with the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). Since the establishment of CPEC in 2013, Pakistan has been getting financial assistance, development financing and technical support from the IMF, the World Bank and the ADB. IMF in September 2013 approved an extended fund facility (EFF) for three years that was worth about US$6.7 billion to restore macroeconomic stability, enhance fiscal management, and improve external accounts (International Monetary Fund, 2013). Simultaneously, the World Bank and ADB provided energy, education, water management, transportation and institutional development loans, indicating no clash between Chinese investments and western multilateral financing to Pakistan (World Bank, 2016; Asian Development Bank, 2015).

The government's own financing requirements were growing, and currents account deficits were expanding, so that there was greater cooperation with international financial institutions in Pakistan. This new $6bn Extended Fund Facility was recommended by the IMF to regain fiscal sustainability, strengthen monetary policy, and implement structural reform in 2019 (International Monetary Fund, 2019). The World Bank continued its efforts for governance reforms, social protection and public sector modernization, while the Asian Development Bank (ADB) ramped up its investments in energy, transport, climate resilience, and public sector modernization (Asian Development Bank, 2020; World Bank, 2019).

During 2021-25, Pakistan had significant interactions with the IMF, World Bank and ADB as well as continued with the progress of CPEC Phase II. Despite a series of economic shocks, including the Covid-19, high inflation rates in 2022, catastrophic floods in 2022 and the persistent pressures on the balance of payments, Pakistan negotiated additional IMF support, including the 2023 Stand-By Arrangement and the 2024 Extended Fund Facility (International Monetary Fund, 2023; International Monetary Fund, 2024). The World Bank's disaster recovery, disaster preparedness, energy transition, climate adaptation programmes, the Asian Development Bank's recovery, and governance reform programmes continue to support (World Bank, 2024; Asian Development Bank, 2024). During this period, Pakistan continued to tap the funds from these financial institutions and yet continued to have a robust economic cooperation with China, thereby pursuing a diversified external economic engagement.

Chinese Investment and CPEC Implementation

It is important to note that Chinese investment and the implementation of China–Pakistan Economic Corridor (CPEC) is an important reflection of Pakistan's economic and trade balancing behaviour in 2013-2025. Chinese investment was seen as an economic opportunity, Pakistan has taken CPEC as part of its overall development programme rather than excluding other investments from other international partners. In this regard, this measure focuses in the impact of Chinese investment and the attempt of the CPEC on Pakistan's economic balancing behavior from 2013-2025.

The flagship project of Belt and Road Initiative (BRI) was announced as China Pakistan Economic Corridor (CPEC) together by the government of Pakistan and China in 2013. The energy generation deal, the agreement on industrial cooperation and communications, the energy and in-

Online ISSN: 3006-8886
Print ISSN: 3006-8878

dustrial pacts, while visiting Pakistan in April 2015, President Xi Jinping led to the signing of the deals. Initial implementation efforts were mainly geared towards overcoming the severe energy crisis in Pakistan and providing national connectivity in the form of highways, motorways and transmission lines (Ministry of Finance, 2015; Ministry of Planning, Development and Special Initiatives, 2017). During this period Chinese foreign direct investment (FDI) saw a notable rise and China became Pakistan's top bilateral foreign investor.

From 2017 to 2020, the implementation focused on the development of transport infrastructure, Special Economic Zones (SEZs) and the development of Gwadar Port. Several key projects, such as Sukkur-Multan Motorway, Karot Hydropower Project and coal- and renewable energy-based power generation facilities went into operation or achieved significant progress. Although there has been some worry on global level about the debt sustainability and transparency of the projects, Pakistan has been moving forward with CPEC and has consistently pointed out that the project was planned to boost the national economic development and not to align itself particular geopolitical interest. (World Bank, 2019; Asian Development Bank, 2021). In this time period, Pakistan also received financial support from multi-lateral financial institutions, thus proving that the Chinese finance did not take the place of the other sources of external finance.

From 2021 onward, Pakistan and China started second phase of CPEC with greater focus on industrial cooperation, modernization of agriculture, IT, science and technology cooperation, and Special Economic Zones. The projects of Main Line-1 (ML-1) railway modernization and the projects of operationalization of Rashakai, Allama Iqbal and Dhabeji Special Economic Zones were supposed to boost the productivity of industries and bring wider foreign investments (Ministry of Planning, Development and Special Initiatives, 2023). At the same time, Pakistan was promoting investments from the Gulf countries, Western partners and international financial institutions, suggesting that Chinese investments were part of a broader diversification of its trade and investments portfolio, and were not solely dependent on the Chinese capital (Ministry of Finance, 2024).

Conclusion

The study concluded that the intensifying U.S.-China rivalry had increased beyond defence posturing into sanctions, tariffs, supply-chain restructuring, export controls, trade dispute, technological restrictions and infrastructure-financing initiatives competition; that generated such scenario for third countries those were trying to sustain their relationships with both powers, felt systemic pressure in formulating their strategic choices. According to Neoclassical Realism, the study illustrated that Pakistan' foreign policy did not the outcome of systemic pressure directly; instead, it was the result of well-thought design after analysis of external debt, limited fiscal capabilities, persistent balance of payments, recurrent financial crises, dependence on external financing and narrow export diversification. That persistent structural economic vulnerabilities reduced Pakistan's strategic autonomy and compelled policymakers to prioritize economic stability, development financing, economic access and diversified external partnerships.

The study therefore concluded that Pakistan's strategic balancing exposed neither continued dependence on the USA nor exclusive alignment with China. Instead, Pakistan's balancing strategy included mediation over systemic pressure and domestic economic vulnerability and followed a flexible approach based on selective cooperation, diversification and avoidance of excessive de-

Online ISSN: 3006-8886
Print ISSN: 3006-8878

pendence on either major power. Further, the study contributed to Neoclassical Realism by demonstrating how systemic pressure is translated with the mediation of domestic factors into foreign policy balancing of a strategic significant developing state.

Policy Recommendations

The conclusion of this dissertation put forth that strengthening the domestic capacities and implementing diverse external partnerships are key to balancing. In addition to diplomatic adaptability, strategic autonomy requires internal state energy, which calls for institutional coherence, economic resilience, technological upgrading and equated engagement with the international community in Pakistan's future policy trajectory.

The Government of Pakistan must ensure that foreign policy is kept pragmatic and interests based and must not be based on the exclusive dependency of any major power. Within the framework of ongoing U.S.-China strategic rivalry, Pakistan needs to focus on being ‘strategically flexible' and hopeful to foster mutually beneficial ties with various stakeholders while keeping the foreign policy trajectory in alignment with its national security and development goals. There needs to be a greater degree of coordination among political leadership, security institutions and policymaking institutions to maintain consistency and future foresight.

The Ministry of Foreign Affairs must increase its diplomatic outreach and deepen its strategic partnership with China while taking fresh steps in building up a constructive relation with the United States, European countries, Gulf countries, Central Asian countries, ASEAN countries, Türkiye and other emerging countries. There is a need to give greater emphasis to economic diplomacy, investment promotion, diversifying trade, technological cooperation and strategic communication to ensure that Pakistan’s position gets a boost on the global stage while minimizing the reliance on individual countries. Building up more robust institutional structures to analyze and design geopolitical policies would also enhance Pakistan's capacity to effectively cope with the changing dynamics of geopolitical affairs.

Modernization, self-reliance and balanced security cooperation must be the core of Pakistan's defence policies. Pakistan should sustain defence cooperation with China on defence capability building and production, including military technology, as well as opportunities for security dialogue, professional military exchanges, counterintelligence cooperation and confidence building, with other international partners. A higher proportion of investment in indigenous defence industry, cyber technology or new technologies and promotion of defence innovation would strengthen national security autonomy, minimize strategic vulnerabilities.

Resilience must be a core focus while building Pakistan's strategic autonomy in economic terms. Policymakers should pursue sustainable economic reforms focused on fiscal stability, decreasing external vulnerabilities, improving public institutions and increasing the competitiveness of the industries. The economic strategy should emphasize the expansion of export markets, diversified foreign investments, better productivity and increased regional and global value chain integration of Pakistan. On the other hand, Pakistan needs to foster greater economic ties with western nations, the Gulf economies, East Asia, and other foreign investors while enjoying the benefits of Chinese investment, such as the China–Pakistan Economic Corridor (CPEC).

Online ISSN: 3006-8886
Print ISSN: 3006-8878

It is important to strengthen the investment in research and development, digital infrastructure, artificial intelligence, cybersecurity, higher education and advanced manufacturing in Pakistan as technology is playing important role to respond and deliver the country's aggressive geopolitical competition. Development of indigenous technological capabilities will enhance the economic competitiveness, which will be a source of increased flexibility for foreign policy decision taking.

Last but not least, Pakistan must persist with a policy of dialogue, confidence building exercises and multilateral engagement for the promotion of peace in the region. Maintenance of strategic mistrust in South Asia and the importance of cooperative mechanisms will continue to be crucial in addressing the problems of security. Pakistan's strategic balancing approach will be more sustainable if it is backed by robust institutions, economy, technological capacity and diverse foreign relations. Pakistan will be able to secure strategic autonomy and effectively deal with the strategic challenges in the future, with the help of these foundations.

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Online ISSN: 3006-8886
Print ISSN: 3006-8878

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