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ALIGNMENTS AND AUTONOMY: ANALYZING PAKISTAN'S FOREIGN AND ECONOMIC POLICY RESILIENCE UNDER THE SHADOW OF US-CHINA ECONOMIC RIVALRY

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ABSTRACT
The study investigates Pakistan's policy persistence and strategic choices in the context of its dynamics with the United States and China during 2018-2026. The paper discusses the theory of securitized economic statecraft and strategic hedging approaches and studies the balancing game between Pakistan's massive economic and infrastructure cooperation with China and security and trade partnerships with the USA and Western multilateral financial institutions. This study employs a mixed-methods case-oriented research model, both qualitative (thematic policy analysis) and quantitative (macroeconomic data). The transition from traditional strategic hedging to extreme constrained hedging is largely a function of the asymmetric structure of the debt portfolio and the reality that there has been a clear alignment with Beijing in 87 percentage of the votes cast in the United Nations General Assembly since 2020. Pakistan is also responding to this change in structure by adjusting itself to a post-patronage maturity with the USA. This shift is evident in some geoeconomic projects such as the five-hundred-million-dollar critical minerals pact of 2025. Lastly, it concludes that policy measures like comprehensive domestic fiscal reform, debt restructuring, and active export diversification are suggested to ensure policy resilience, as Pakistan is under a dual-creditor challenge. These are the objectives that can be reached through the development of strategic autonomy in the long term.
Keywords: *Strategic Hedging, Constrained Hedging, Dependency Theory, US-China Economic Rivalry, CPEC, Pakistan Foreign Policy, Post-Patronage Maturity, Sovereign Debt*.

1.0. Introduction

1.1. Background of the Study

In the modern world, the entire society is increasingly defining China and the USA through their rivalry in terms of economy and strategy (Boni, 2021). This bilateral trade war has become structural, with strategic technological decoupling, transnational infrastructure networks (Kuik, 2021), and competition for critical mineral supply chains. This great power conflict is a key question for the maintenance of the strategic autonomy of the second-tier and middle power countries of the Global South, the economic, political, and security relations of which are becoming more and more strained under increasing economic and strategic pressures.

There is no doubt that Pakistan's strategic importance and position in the geopolitical landscape of this divided world are very complex (Ali Ch et al., 2025). Historically, Islamabad's approach of seeking a "dual track" relationship with the United States and an "all-weather" strategic cooperative partnership with China has been consistent (Hussain & Khan, 2025). However, the launch of the flagship connectivity project of China's Belt and Road initiative (BRI) in 2013, the China-Pakistan Economic Corridor (CPEC), had fundamentally transformed the situation of Pakistan's internal infrastructure and external economic characteristics and grounded firmly its long-term development course in the geoeconomic orbit of Beijing.

Meanwhile, the U.S.-Pakistan relationship has been transformed. The U.S. withdrawal from Afghanistan is emblematic of the transition from a "patronage" security assistance paradigm to a "post-patronage" security assistance paradigm. This new paradigm is marked by commercial investments, cooperation in trade facilitation, and joint operational security cooperation. This is a collaborative effort to establish a sustainable equilibrium, avoiding a complete divorce from strategy on either side.

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However, long-standing macroeconomic weaknesses severely limit the government's ability to achieve these objectives. The country suffers from chronic balance of payments problems, inadequate liquid foreign exchange reserves, and external debt, which is estimated to rise to about $137.6 billion by March 2026. This financial subservience of multilateral lenders—and especially of Chinese state creditors—is a tricky accounting and management issue that will influence the foreign policy decision-making of the sovereign lender.

In the changing strategic environment of 2025 and 2026, Pakistan has been following a more systematic approach to its foreign policy through a selective hedging strategy that aims to diversify its economic risks and maintain its autonomy in decision-making (Paradigm Shift, 2026). Islamabad has not gone for a one-sided power bloc approach but has decided to work with a number of global players—on an issue-based approach—to address its long-standing balance of payments issues and internal security concerns (Paradigm Shift, 2026). Pakistan's liquid foreign exchange reserves were close to sixteen point one billion dollars in early 2026, essentially a reflection of the successful receipt of an important International Monetary Fund bailout (Belfer Center, 2026). Another fundamental issue in Pakistan is being undermined by a precarious economic baseline where short-term economic survival is structurally dependent on Western financial institutions while the government focuses on long-term deep infrastructural engagement with Beijing (Belfer Center, 2026; Paradigm Shift, 2026).

The global tech war and policies of semiconductor decoupling are also driving the structural dimension of this competition and could lead to the fragmentation of the international trade system into competing technological clusters with their own standards (Taqi et al., 2026). For Pakistan, this technological containment is a high-stakes dilemma, as Pakistan cannot afford to be left out of the Western-dominated high-tech technological supply chain or denied access to the growing telecommunication and digital infrastructure architectures of China (Belfer Center, 2026). Thus, the geopolitical equation of Pakistan is not just about conventional regional security considerations but a new geoeconomic climate that is determining the country's stability through volume of trade, financial rollovers, and technological partnerships.

1.2. Statement of the Problem

The core problem examined in this study is the structural contradiction between Pakistan's declared foreign policy of non-alignment, which focuses on cooperative geoeconomics and no camp politics, and its actual, structurally coerced policy choices. While classical international relations theory suggests that secondary states facing superpower rivalry can successfully employ strategic hedging to optimize national interests, the efficacy of this approach is compromised in the case of Pakistan by an asymmetrical economic architecture. Specifically, Pakistan's massive trade deficit and mounting debt obligations to China coexist with its critical reliance on US supported IMF stabilization programs and access to Western export markets. This dual dependency raises critical questions regarding the viability of Pakistan's strategic autonomy and its long-term resilience under the shadow of great power competition.

1.3. Research Objectives

This study seeks to achieve two primary academic objectives:

1. To analyze the transition of Pakistan's foreign policy from classic strategic hedging to constrained hedging under the escalating United States-China economic rivalry.
2. To evaluate the impact of Pakistan's asymmetrical economic and debt profile, specifically comparing bilateral liabilities to China with multilateral liabilities to Western-dominated institutions.

1.4. Research Questions

This study uses the following central research questions to address the identified problem:

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1. How has Pakistan's foreign policy transitioned from classic strategic hedging to constrained hedging under the escalating economic rivalry between the United States and China?
2. In what ways does Pakistan's asymmetrical economic and debt profile, specifically the balance between bilateral Chinese liabilities and Western-dominated multilateral liabilities, constrain its sovereign policy autonomy?

1.5. Rationale of the Study

The study is relevant as it challenges the binary analysis of Pakistan's foreign policy and explores the highly nuanced space of constrained hedging. This study provides a sophisticated and modern analysis of the impact of economic statecraft and financial dependency on the diplomatic mobility of developing countries using empirical economic indicators, trade data, and diplomatic voting behavior between 2018 and 2026. Moreover, the results of this study provide policy-proof recommendations based on economic and political diversification of partner relations, vulnerabilities of debts, and the creation of strategic assets to maintain national sovereignty in a multipolar world order.

2.0. Literature Review

The theoretical prism of strategic hedging is applied to the analysis of secondary states in the crosshairs of great power rivalry (Kuik, 2021). Hedging is considered an insurance-seeking behavior in a high-stakes and high-uncertainty context, where the rational state avoids taking a definitive side and instead takes opposing measures to build reserves for alternatives (Kuik & Jamil, 2024). In contrast to the traditional realist concepts of balancing and band wagoning, this approach is concerned with risk sharing and selective engagement, as well as the preservation of foreign policy space and independence. In doing so, it investigates the extent to which external financial responsibilities might either inhibit or promote autonomous policy-making (Boni, 2021). In doing so, it introduces the notions of economic statecraft and dependence theories. According to Conlay Boni (2022), the notion of classical hedging is evolving to conform to the concept of restricted hedging in the context of Pakistan. Pakistan has consistently had to maintain a delicate equilibrium between its security alliance with the United States and its strategic partnership with China.

However, the rapid pace of the China-Pakistan Economic Corridor (CPEC) has ushered in a new era that has been more dependent on Beijing in terms of both financial and infrastructure matters (Waheed, 2021). The geopolitical interest in dealing with adversaries in the area has always been the foundation of China and Pakistan's strategic interactions; however, this interest is now being shown at the geoeconomic level rather than the military and strategic level (Small, 2015).

This integration has been a cause for concern regarding the sustainability of debt. Critics argue that concessionary loans and commercial loans could lead to a typical debt trap situation and loss of economic sovereignty (Hurley et al., 2018). CPEC has been able to feed the much-needed energy generation and transport projects, but it has also brought with it structural pressures on the balance of payments in the country due to the importation of heavy equipment and the fixed tariff rates in dollars (Saleem & Jabeen, 2020). Most of these projects are CPEC projects based on equity, but the sovereign guarantees provided to Chinese independent power producers have rapidly increased the public debt burden (Arsalan, 2025).

While mainstream media and media houses have portrayed a dichotomy of debt traps, it is evident that Pakistan's fiscal woes stem from internal structural problems. However, the credit trap under CPEC has significantly undermined the country's external policy manoeuvrability (Husain, 2021). The proponents of the proposed vision for export-oriented industrialization feel that Pakistan could benefit from CPEC if it is implemented through

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structural changes and fiscal discipline by the government and other stakeholders (Husain, 2022).

This internal economic insecurity has also forced Pakistan to conduct a delicate balancing act in a very polarized regional security landscape where great power dynamics have become intertwined with local conflicts (Awan & Munir, 2026). The strategic convergence between the United States and India under the Indo-Pacific approach has changed the regional geopolitical equation, and the economic and strategic option for Pakistan is to look for an economic and strategic offset (Iqbal et al., 2024). Previously, Pakistan's relationship with the US was transactional, but with its maturity, there is an attempt on both sides to establish a business-like and investment-based relationship, which reduces the chances of complete strategic abandonment by a significant margin (Hussain & Khan, 2025). However, such diplomatic balancing is structurally limited in the U.S. by the vast difference in the import/export market of Pakistan; the United States is the largest single export market, while China provides the bulk of its imports (Javed et al., 2026). A comparative analysis of the political regimes in Islamabad indicates that the structural need for rollovers of Chinese loans together with access to Western markets maintains a high level of continuity in Pakistan's balancing strategy even with domestic political changes (Afridi et al., 2022).

More recently, the research has shifted to studying the structural constraints of strategic hedging in South Asia and to what extent the rising polarization between the US and China constrains the diplomatic space of secondary states (Boni, 2021). In Pakistan, two systemic trends have been simultaneously underway as the options have been narrowing down gradually every year, one being the institutionalization of CPEC and another being the gradual reduction in consistent US strategic and military involvement (Boni, 2022). This structural imbalance is further compounded by the fact that China has effectively used "economic statecraft" to counterbalance the political partnership deficits of traditional Western powers, but China's economic engagement has subjected Pakistan to undue pressures (The Arctic Institute, 2025). Therefore, the strategic posture of Pakistan can no longer be discussed as a well-calculated balancing act but as a response and defensive strategy to protect its remaining autonomy with systemic influence shrinking (Boni, 2022; Ali Ch et al., 2026).

To grasp the operational limits of such a strategic approach, recent scholarly assessments have concentrated on the paradox of dependency and autonomy, which points to the fact that economic integration with a rising power rival can be a systematic process that erodes a state's sovereign capacity to shape its foreign policy (Cheema, 2024). While capital-intensive investments can improve short-term macroeconomic variables such as an increase in the local gross domestic product, they can also lock the receiving states into a long-term structural dependency that affects their long-term sovereign flexibility (Cheema, 2024). Multilateral voting patterns are a useful measure of this friction, and when states are arranged in such a way, states whose security relations depend on a particular set of states tend to adopt public diplomatic strategies that are more favourable to their main capital providers than to others they might profess to be nonaligned with (Ali Ch et al., 2026).

In addition, other theoretical approaches have risen to challenge the neat binary world of classical hedging theory and to conceptualize the nature of Pakistan's diplomatic flexibility as a condition of 'strategic waffling' in a decentred multipolar Asia (Research Journal for Social Affairs, 2026). This perspective suggests that the foreign policy of middle powers is not a series of "optimal" balancing decisions but a highly unstable "reactive" sequence of compromises to confront "structural shocks" in the current "polarization of great powers" (Research Journal for Social Affairs, 2026). The global value chain is constantly changing, and the process of infrastructure development is getting more and more securitized, and pipelines and deep-water ports are turning into geopolitical flashpoints (Research Journal for Social Affairs, 2026). It is

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for this reason that it has become more important for Pakistan to discover a way to strike a delicate balance between economic corridors and the continuation of its external asymmetries (Awan & Munir, 2026; Javed et al., 2026).

Furthermore, the financial statecraft of the Belt and Road Initiative (BRI) has been translated to the bilateral swap agreements and commercial credit lines that China offers as short-term liquidity backstops outside of the framework of the Bretton Woods Agreement (Bode, 2024; Sial et al., 2023). Although we consider the agreements as defensive measures, their primary purpose is to facilitate trade settlement and reduce dollar risk for debtor countries. However, these agreements also seem to have an offensive strategic character because they integrate debtor countries financially into the geoeconomic influence area of the Belt and Road Initiative (Bode, 2024; Sial et al., 2023). This situation leads to the formation of a multi-layered environment in which the creditor state must perpetually renegotiate the rollover and re-swap of the debt to avoid defaulting on the sovereign debt. According to Mahmood et al. (2024), the state that sends the message possesses stronger political and diplomatic authority than the state that receives the message.

A critical lens is required to understand the historical trajectory of the sovereign debt of the global south and how this fiscal vulnerability leads to repeated structural vulnerabilities. According to Sial et al. (2023), the large debt load of Pakistan is not the consequence of Pakistani policy errors or policy spending within the nation. Rather, it is the outcome of an unjust global financial architecture. It is vital to underline that this is the case. Some of the earlier strategic allies, such as South Korea or Taiwan, have been successful in transforming short-term geopolitical support into long-term state-led industrialization and internationalization through exports. On the other hand, the external alignments have not been successful in delivering any major and persistent financial inflows to Pakistan, with the exception of ad hoc and transactional financial inflows (Sial et al., 2023). This imperial-economic mooring has always required Pakistan to be a part of stabilization packages backed by the International Monetary Fund (IMF). These packages are characterized by regressive fiscal conditionalities that systematically infringe upon the state's development policy by prioritizing the interests of external creditors over the socio-economic development at the national level.

Both the dependence theory and the strategic hedging theory serve as the foundation for the theory that underpins the synthesis of the dynamics described above. Great powers pressure secondary states to increase their autonomy and decrease their systemic risk. As the hedging theory argues, secondary states take advantage of issue-specific alliances and strategic uncertainty in this manner (Kuik, 2021). The dependence theory, on the other hand, contends that the current international financial institutions and unequal flows of capital indicate a still-active subjection of the policies of periphery nations to the policies of core capital creditors (Ullah et al., 2025).

The dual framework applied to Pakistan reveals that the state attempts strategic hedging to maintain sovereignty, but the constant recourse to IMF stabilization plans and bilateral debt rollovers leads to a situation of constrained hedging (Mahmood et al., 2024). The two financial constraints underline the reality that financial precarity directly constrains the extent of Pakistan’s diplomatic maneuvering space, as measured by the extent of convergence with Beijing on sensitive multilateral issues, and is evidenced by a systematic decline in the credibility of the declared non-aligned policy of Pakistan (Ali, Ch., et al., 2026).

3.0. Methodology

The study explores the resilience, autonomy, and alignment strategies of Pakistan's foreign policy and economic policy in response to the escalating economic competition between the United States and China using mixed methods and a case-oriented research design.

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Geopolitical arrangements and macro-economic linkages are multidimensional in nature. Thus, the one-dimensional approach framework is inadequate. Qualitative thematic analysis is undertaken alongside quantitative economic indicators to obtain a comprehensive analysis. This study applies a mixed approach of strategic hedging theory and dependency theory to analyze the autonomy and alignment of Pakistan in the over-polarized global system by assessing how external financial commitments constrain or empower the sovereign decision-making capacity of Pakistan (Ullah et al., 2025).

The study draws on primary and secondary data sources over the period 2018-2026, a timeframe that includes major events in the trade and technology wars between the United States and China. Qualitative policy information is derived from official state documents such as joint statements, press releases, and white papers of the Ministry of Foreign Affairs, Pakistan; the United States Department of State; and the Ministry of Foreign Affairs, China. It also includes contextual analyses of CPEC framework agreements and bilateral trade and security cooperation agreements between the United States and Pakistan. The quantitative economic information is extracted from the verified databases of the country, as well as the country-specific databases, in the context of trade figures from the United Nations Comtrade database, external debt composition profiles from the State Bank of Pakistan, and foreign direct investment trends from the global economic database.

The main concepts of strategic alignment, economic dependency, and policy resistance are further operationalized with measurable qualitative and quantitative variables to address the research questions systematically. Strategic alignment is assessed by examining diplomatic and security orientations, including voting records in the UN General Assembly on issues of interest, participation in security architectures / coordinated exercises, and diplomatic statements at flashpoints around the world. Financial vulnerability indicators include the share of total external debt held by China compared to the western Paris Club and multilateral donors, debt of CPEC IPPs in the energy sector, and reliance on western-controlled financial architectures. The measures of policy resilience are the perception of Pakistan's autonomy and diversification, as exemplified by its signing of independent trade or security agreements without the threat of punitive action and the frequency of a policy of neutrality in the face of great power crises.

The analytical approach is undertaken in three interconnected stages, each with a distinct and well-defined timeline. It begins with a timeline mapping of key geopolitical developments in the region and at home in Pakistan. The second phase includes qualitative content and thematic analysis of official policy statements and documents in terms of the presence of strategic ambiguity and issue-specific alignment (between Pakistan and China) of infrastructure and (between Pakistan and the United States) of counterterrorism and financial integration (Mahmood et al., 2024). In the third phase, descriptive statistics are used to assess the economic leverage of Pakistan by comparing its trade surplus with the United States with the structural capital needs of China to identify an asymmetry of vulnerability (State Bank of Pakistan, 2023).

This study has some methodological limitations, among them the opacity of the confidential data on the terms of the bilateral loans and the quickness and reactivity of geopolitical changes. Credible institutional estimates and a focus on long-term structural dependency, rather than short-term political rhetoric, overcome such constraints.

3.1. Theoretical frameworks

The analytical architecture of this study is derived from a dual conceptual synthesis of strategic hedging theory and dependency theory, which are employed to provide conceptual vocabulary and methodological tools to operationalize the complex relationship between external alignment and policy autonomy. We operationalize this strategic hedging theory by

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monitoring diplomatic and security action that is not a binary choice as conceptualized by Kuik (2021). The study, therefore, can characterize Pakistan's policy actions, including its counterterrorism approach to the U.S. in particular and its infrastructure integration with China, as rational, risk-shifting strategies in the face of systemic great power polarization rather than policy swings.

However, the material and financial constraints on secondary state agencies are not always sufficiently considered in hedging theory, and thus dependency theory is incorporated in this study as an important structural counterweight. Methodologically, dependency theory provides analytical categories to outline the system of nested dependency, which revolves around unequal flows of capital, sovereign debt portfolios, and international financial conditionalities (Ullah et al., 2025). The research framework allows for the analysis of the dependency-autonomy paradox at multiple layers. The inflexibility of materiality in Pakistan's strategic hedging and retention of sovereign maneuverability constantly limits, transforms, and undermines the external debt situation.

4.0. Discussion and Analysis

4.1. The Transition to Constrained Hedging and Diplomatic Alignment

The strategic position of Pakistan has shifted from strategic hedging to "constrained strategic hedging" in the context of economic competition between the U.S. and China. Pakistan's policy was characterized by strategic multivectorism, and it had been able to pursue a policy of developing elaborate security relations with Washington and excellent infrastructure relations with Beijing. The geoeconomic rivalry between the two great powers has intensified, significantly reducing the scope for strategic ambiguity. Pakistan's financial commitments are growing as the U.S. interest in the region is diminishing after its withdrawal from Afghanistan, thus limiting its hedging options (Ali Ch et al., 2026).

Pakistan's multilateral voting patterns serve as a prime example. But the National Security Policy has articulated a policy of cooperative geoeconomics repeatedly in the public discourse, and camp politics has been avoided. However, Pakistan's diplomatic actions have conveyed a different narrative. Since 2020, Pakistan has aligned its votes with China in the United Nations General Assembly (UNGA) 87% of the time (Ali Ch et al., 2026). On controversial resolutions, such as those relating to human rights in Xinjiang, South China Sea disputes, and the political situation in Hong Kong, the state has abstained or voted with Beijing. But such a level of convergence in votes limits Pakistan's non-alignment credentials, leading to expectations of consistency from the international community and therefore high diplomatic and reputational costs if it tries to buck the trend.

Scholars call this diplomatic alignment a deliberate attempt to address the status dilemma in present South Asian geopolitics (Research Journal for Social Affairs, 2026). Pakistan is striving to maintain its diplomatic unity with China at a high level to establish a significant geopolitical bulwark against the negative regional powers and is also showing structural reliability to China. But this level of 'revealed alignment' can also cause disaffection among Western allies, who see such voting as a rejection of strategic neutrality. In multilateral forums such as climate justice or non-proliferation, the limited stature of Pakistan's reputation is further diminished by a sense of asymmetry, as Pakistan has to not only choose to join a few coalitions but also has to rely on its limited capacity to build coalitions. This situation makes it imperative for Islamabad to take a pragmatic approach to the issue on the basis of subtle and cautious rhetoric, as it has to try to avoid any punitive diplomatic reaction from either power bloc (Ali Ch et al., 2026).

4.2. The Dual Creditor Dilemma and Bretton Woods Resistance

Macroeconomic vulnerability is the main constraint on Pakistan's policy autonomy and has led to a difficult dual creditor dilemma. Pakistan is in a structural dilemma, where it needs

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funding from western-backed multilateral financial institutions for macroeconomic stabilization and capital from China for infrastructure development and regular refinancing of its existing debts (Ullah et al., 2025). Pakistan's external debt ballooned to an all-time high of around $138 billion by the end of 2025, highlighting the dire fiscal situation the country is in. This situation shows the different levers of influence available for external actors. Long-term multilateral loans and short-term chapters of bilateral rollover credits weave a web of financial dependency.

Category of Debt	**Principal Creditors**	**Estimated Amount (USD Billion)**	**Share of Total External Debt (%)**	**Strategic Leverage and Constraints**
Multilateral Debt	World Bank, ADB, IDB	38.81	28.2%	Western dominated; requires fiscal reforms and structural transparency.
Bilateral Chinese Debt	Government of China	19.64	14.3%	Strategic infrastructure funding; dependent on continuous rollovers.
Commercial Chinese Debt	Chinese State Commercial Banks	5.61	4.1%	Highly sensitive short-term commercial refinancing risk.
IMF Debt	International Monetary Fund Board	7.60	5.5%	Critical balance of payments support; enforces structural adjustments.
Paris Club Debt	Western Sovereign Creditors	7.54	5.5%	Traditional sovereign debt; subject to multilateral rescheduling.
Sovereign Bonds	Eurobonds, Sukuks	7.80	5.7%	Market-based commercial debt; highly sensitive to sovereign ratings.
Other Liabilities	PBOC Swaps, Central Bank Deposits, Private Debt	50.56	36.7%	Short-term liquidity support; high refinancing and rollover risk.
Total External Debt Profile	All Creditor Blocs	137.56	100.0%	Comprehensive external liability representing systemic financial precarity.

Table 1: (*Composition of Pakistan's External Debt and Liabilities Profile)*

This debt structure creates significant policy tensions. Pakistan needs to make major fiscal changes, including adjustments to energy taxes, to be eligible for vital stabilization loans from the IMF in 2024 (Mahmood et al., 2024). The conditionalities have direct effects on independent power producers (IPPs) financed by China under CPEC. Payment disputes with their domestic counterparts now embroil them, leading to frictions with Beijing (Arsalan, 2025). At the same time, the cost of repaying debt in Pakistan has also reached an unbearable

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level. According to a World Bank report, Pakistan's interest payments were 43 percentage of its total export earnings, making it one of the most indebted economies in the region. Otherwise, it will give China a lot of leverage in Pakistan's decision-making on external economic matters, and it will restrict Pakistan's strategic manoeuvrability. Pakistan has to look for successive rollovers of commercial and bilateral loans from China to avoid default.

The dichotomy of dual creditors has an intriguing structural conflict between two segments of Pakistan's political economy. Sial et al. (2023) claim that the government of Pakistan had tried desperately to evade the strict conditions imposed by the IMF Extended Fund Facility in the period from 2018 to 2022. This resistance was maintained through the exploration of other bilateral financial networks, the most important of which were short-term liquidity injections, commercial rollovers, and central bank deposits from Beijing, which appeared to offer an opportunity to escape Bretton Woods hegemony (Sial et al., 2023). This opposition, however, was of brief duration. Despite bilateral funds provided by a challenger power, the structural realities of low tax-to-GDP ratios, chronic fiscal deficits, and building up trade deficits forced Pakistan into the IMF nexus again (Ullah et al., 2025). Such borrowing and compliance is the usual IMF debt trap, resulting in a steady erosion of the sovereign policymaking ability of the state, which receives external debts as a timely "payment" (Mahmood et al., 2024).

Such structural dependency is evidenced by the restrictions on financial policy imposed during the implementation of the program under the 2019 Extended Fund Facility (Ullah et al., 2025). As a result of this stabilization regime, the government of Pakistan had to follow structural adjustment policies like capping the market-driven exchange rate, increasing indirect taxes, phasing out essential energy subsidies, and reducing government expenditure on public sector development (Ullah et al., 2025; Khan, 2026). External conditionalities denied the national legislative bodies the decision-making power for the key macroeconomic indicators and systematically eroded Pakistan's budgetary sovereignty (Ullah et al., 2025; Khan, 2026). The fiscal framework was heavily biased towards interest payments to external capital creditors rather than the socio-economic needs and development, poverty alleviation, or industrial capacity strengthening of the local population, which led to a cycle of debt and policy subordination (Ullah et al., 2025; Ullah, 2025).

This debt–structural adjustment cycle is an expression of a macroeconomic governance institutional dichotomy in Pakistan (Khan, 2026). The inefficiency of the public sector has hindered efforts to undertake structural transformation, mobilize sustainable domestic resources, and effectively utilize external bailout packages as models for such transformation. In IMF EWF systems, the tightening of monetary and fiscal policies has been systematic and has steadily reduced domestic industrial activity and joblessness in the country. But from the dependency theory perspective, this economic downturn is the result of the state no longer generating the export-driven surplus that would pay its debt obligations to the outside world. Therefore, the fiscal space for development expenditures, especially for large public sector infrastructure projects, is slowly declining, thus keeping Pakistan in a never-ending vicious cycle of borrowing to pay the interest on previous loans (Ullah et al., 2025).

4.3. Post-Patronage Geoeconomics and the United States Offset

To remedy this imbalance, Pakistan has sought to recalibrate its U.S. bilateral relationship (Hussain & Khan, 2025). This transition is a move from dependency on assistance and security to a maturity model for a post-patronage society based upon geoeconomic cooperation and commercial engagement. Pakistan is looking to trade and invest and enter into partnerships in key sectors of global supply chains instead of financial aid. This will ensure Pakistan remains both sovereign and won't lose the use of the Western financial networks without compromising its China-Pakistan alliance.

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This geoeconomic pivot took a major step with Pakistan signing a $500 million deal with US Strategic Metals for critical minerals in September 2025. This deal was about the exploration and development of rare earth elements, neodymium, and praseodymium. The Prime Minister announced that Pakistan will be the first country to supply these essential minerals to the United States in October 2025, making it a preferred choice for Western markets in the global high-tech and defense supply chains as an alternative to China's monopoly.

Economic Indicator	**United States Relationship**	**China Relationship**	**Strategic and Policy Implications**
Bilateral Trade Volume	8.7 Billion USD (2025)	21.39 Billion USD (2024)	China remains the largest import partner, while the US is the largest export destination.
Sovereign Trade Balance	+2.1 Billion USD (Surplus)	-15.61 Billion USD (Deficit)	US trade surplus provides vital foreign exchange; China trade deficit drains reserves.
Reciprocal Tariff Structures	Lowered to 19% (July 2025)	Governed by CPFTA Phase II	Lower US duties boosted exports to $5.4B, helping offset Chinese economic slowdown.
Investment Focus	Critical minerals, energy transition, tech	Infrastructure, power generation, SEZs	US focusing on high tech supply chains; China integrating into industrial policy.
Financial Synergy	Access to Western capital, IMF backing	Debt refinancing, rollovers, swaps	Enforces a dual balancing act between reform and debt survival.

Table 2: (*Key Geoeconomic Indicators of Pakistan's Relations with the United States and China)*

This geoeconomic shift is characterized by major trade facilitation. In July 2025, the government of the United States cut two-way trade duties on products from Pakistan from twenty-nine percentage to nineteen percentage. This helped grow Pakistani exports to five-point-four billion dollars. As the trade comparison table indicates, Pakistan has a big trade surplus of $21 billion with the United States at the same time, which is a crucial source of hard currency for the country and is helping its thin foreign currency reserves. But Pakistan's trade with China is very imbalanced, with a significant trade deficit of 15.6 billion dollars. For Pakistan, it is an economic necessity to balance its structural dependence on China. This is the starkest difference between the two, and it is clear that Pakistan needs a working relationship with Washington.

After the patronage ends, the two parties establish special operational security cooperation. Sharifullah was arrested in 2021 by the CIA, FBI, and Pakistani intelligence service in a joint investigation of the 2021 Kabul airport bombing masterminded by ISIS-K. This case is an example of a reduction in the overall level of military support, but there is still a very active targeted security synergy. Hence, Washington has kept its strategic interests in Islamabad and has been able to obtain loans from Western financial institutions and IMF packages without losing its strategic relationship with China through agreements like the Trade and Investment Framework Agreement (Ali Ch et al., 2026).

Considerable trade facilitation measures introduced in mid-2025 have further facilitated this geoeconomic recalibration (Paradigm Shift, 2026). In July 2025, the government of the United States reduced the reciprocal duty on Pakistani products from twenty-nine percentage to nineteen percentage. This move was a strong boost to the trade with the United States, thus

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enabling Pakistan to trade with the United States without meeting many of its rivals in the region (Paradigm Shift, 2026). Paradigm Shift, 2026; Boni, 2022). In Islamabad, much has been done to transform Pakistan's trade surplus with Washington into a key macroeconomic buffer and bargaining chip, including through the Trade and Investment Framework Agreement (TIFA). This transition from aid dependency to market access not only boosts Pakistan's foreign exchange position but also creates a valid geoeconomic geocounterweight, thus arguing for the necessity of Pakistan having a post-patronage relationship with Washington for even a modicum of strategic autonomy (Paradigm Shift, 2026; Ullah, 2025).

The geoeconomic shift is also intended to optimize Pakistan's geographies and metallurgical resources to forge new and non-traditional security associations (Research Journal for Social Affairs, 2026). Through its engagement in the United States' defense and high technology supply chains, Pakistan intends to shift from its traditional security-based image to that of an important geoeconomic partner of the United States. The Trade and Investment Framework Agreement has been actively used to negotiate specific investments in renewable energy, digital services, and agricultural technology as a conscious effort to move the nation's economic mix away from dependence on a single source. It is a business deal that presents an important diplomatic opportunity to show Washington that a workable and mutually beneficial relationship is possible without the traditional security elements in the region. Islamabad is working to deepen these geoeconomic ties to protect regional sovereignty and preserve its access to crucial Western capital markets while upholding its long-term strategic cooperative ties with Beijing (Hussain & Khan, 2025).

4.4. Nested Dependency and the Limits of Challenger Infrastructure Regimes

Pakistan's long-term foreign policy stalwartness closely links the move to strengthen economic linkages with China. In September 2025, Pakistan took a major step towards the modernization of the CPEC by introducing a new idea: Sector-Specific Corridors and Investment Regimes, which would have integrated Chinese investment directly into the country's industrial policy rather than building infrastructure debt. The CPEC Action Plan 2025-29 aims to improve production capabilities, focusing on working together in industry, creating special economic zones for exports, upgrading agricultural technology, enhancing digital connections, and moving towards clean energy.

However, domestic security issues are grave challenges to this economic integration. Pakistan is making efforts to bolster its economic cooperation against the threat of militant and hybrid attacks on Chinese personnel and infrastructure projects. Pakistan has concentrated its efforts on coordinating counterterrorism and implementing project security mechanisms to safeguard these assets. However, while these security measures are essential for maintaining the continuity of CPEC, they also require a significant allocation of fiscal resources and increase military costs at the domestic level, which adds to the fragile state budget (Mahmood et al., 2024).

Lastly, CPEC Phase II plays a critical role in enhancing industrial growth for exports, which helps ease Pakistan's large debt service obligations and supports the country's policy resilience (Arsalan, 2025). Liu and Jepson (2026) use the concept of nested dependency in analyzing CPEC, contending that the project has been promoted as a sovereign alternative to Western loans but further deepens a nested dependency relation. Most of the loans and investments under CPEC are in dollars, and Pakistan is stuck in the cycles of the dollar and the financial architecture that is dominated by the western countries (Liu & Jepson, 2026). Only a small part of all investments is in local currency or RMB, and China, as a challenger power, is also constrained by the dollar-backed global financial system and cannot provide an entirely new economic and energy model for the global South (Liu & Jepson, 2026). This financial reality compels Pakistan to seek bailouts from the IMF to obtain hard currency to repay China's

investment loans for infrastructure projects, thereby placing the country in a vicious cycle of structural dependence that undermines its long-term strategic autonomy (Sial et al., 2023).

The uneven geographical and sectoral distribution of Pakistan's CPEC projects further compounds this nested dependence (Arsalan, 2025). The CPEC could not induce a proper process of industrialization in the country, as local manufacturing industries were not involved to a significant extent in the project, and it relied on Chinese capital goods. Instead, the persistent security concerns, including militant attacks on Chinese engineers and facilities of 'Chinese military infrastructure,' have compelled the government to spend heavily on military and financial resources to protect these corridors. Securitization of economic cooperation diverts valuable domestic resources that could have been used for human resource development or domestically generated technological innovations. This fiscal fact establishes the immutable character of Pakistan's foreign policy: the state has to bear the heavy cost of building challenger infrastructure and is at the same time locked into the global dollar-dominated financial systems, the very existence of which saves the state from bankruptcy (Sial et al., 2023).

5.0 Conclusion

The present study discusses foreign and economic policies of Pakistan in terms of resilience, autonomy, and alignment from 2018 up to 2026 in the backdrop of competition between the US and China in the field of economy. The findings indicate that Pakistan's foreign policy has moved from the classic strategic hedging to a very limited strategic hedging paradigm. During the Cold War period, Pakistan adopted a formal stance of neutrality; however, it has since faced significant economic exposure and a substantial external debt to China, while also voting with China in the UN General Assembly since 2020, achieving a tally of 87%. Pakistan has also been moving toward a more advanced relationship with the United States, including significant geoeconomic partnerships (including a major minerals agreement, signed in 2025) and ongoing security cooperation.

The study concludes that Pakistan needs economic stability in the medium to long term to maintain resilience in foreign policy and strategic autonomy. However, the issue of rolling over bilateral debt with China persists, as China is not the only country facing conditionality; Western countries also impose IMF conditionality. Pakistan has to work for an extensive and comprehensive restructuring of its in-house system to retain its sovereign decision-making capacity. It encompasses widening the tax base, renegotiating and restructuring the debt terms of CPEC, accelerating the operation of export-oriented Special Economic Zones, and actively diversifying the international trading partners of CPEC. Only a resilient domestic economy can allow Pakistan to emerge as a balanced and independent actor in the new multi-polar world order and to meet the challenge of great power contestation effectively.

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