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Beijing's Public Diplomacy Reveals the Tactical Approach of Financial Diplomacy in Pakistan

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Key Points:

- Public diplomacy is an important tool for Beijing to ease public concerns and gain public support in nations that receive Chinese help and investment. Since the BRI started in 2013, financial diplomacy has advanced significantly.
- Despite their extensive diplomatic contacts, China's cultural difference from Pakistan may prevent it from adopting the Chinese language and values.
- The closer Pakistan is to China economically, the more open it would be to absorb its language, culture, and traditions.
- This research shows that the footprints of China's financial diplomacy have grown significantly, focusing large-scale expenditures on a small number of strategically crucial communities
- The province of Sindh received the highest financial aid from Beijing, almost 13 billion dollars, or around 10 per cent of Beijing's entire financial diplomacy in South and Central Asia.

Introduction

In terms of financial diplomacy, the public diplomacy of the People's Republic of China (PRC) plays a significant role in assuaging public perceptions and pursuing public opinion in the countries receiving Chinese aid and investment. Since the Belt and Road Initiative's (BRI) inception in 2013, financial diplomacy has significantly advanced. On the other hand, China has ameliorated public opinion in Pakistan by concentrating on the subnational areas (provinces and districts) of importance.¹ It is suggested in this research that financial diplomacy – a subset of state-directed international aid and loan instruments aimed at furthering diplomatic objectives – is the

cornerstone of Beijing's influence strategy because it is the most effective means of achieving their goals.² The lure of economic opportunity is commonly cited as a motivating factor for countries' interaction with the PRC. Leaders of the lower- and middle-income countries (LMIC) like Pakistan, who see infrastructure as critical to their economic growth, consider Beijing the most likely partner in that effort. The citizens of third world countries who consider the PRC as vital to their livelihood – in terms of creating jobs, providing capital, and brokering connections – are all compounding China's assessments to invest overseas. Although these economic relationships are beneficial, they have the potential to compromise domestic governance by imposing explicit or implicit commitments to support Beijing's chosen policies, minimise criticism of its operations, and make compromises in terms of finances, politics, and security. The paper examines how the PRC has utilised financial diplomacy to develop ties with Pakistan and how this has helped Beijing achieve its vision of strategic gain in the Indian Ocean in an era of power politics.

¹ S. Custer, J. Schon, A. Horigoshi, D. Mathew, B. Burgess, V. Choo, A. Hutchinson, A. Baehr and K. Marshall, *Corridors of Power: How Beijing uses economic, social, and network ties to exert influence along the Silk Road* (Williamsburg, VA: AidData at William & Ma, 2021), <https://www.aiddata.org/publications/corridors-of-power>.

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² Ibid., 6.

Financial Diplomacy over Cultural Differences

Despite their long diplomatic relations, the cultural difference between China and South Asian countries like Pakistan may make it difficult for Pakistan to adopt the Chinese language and traditions swiftly in the near future.³ However, economic cooperation might be able to compensate for the slow progress that has been made in cultural cooperation. When it comes to economic integration and connectivity, the more closely Pakistan is tied to the PRC, the more receptive it is to adopting its language, culture, and traditions. Similarly, the stronger Pakistan's public and elites' person-to-person relationships with their Chinese counterparts, the more likely they will turn to social networks for commodities, services, capital, and other forms of economic cooperation with their Chinese counterparts. Chinese officials spent 127 billion dollars between 2000 and 2017 on financial diplomacy in the South and Central Asian (SCA) region, which served as a cornerstone for Beijing's efforts to influence the popular opinion of both leaders and masses. There is a clear hierarchy among the countries that receive the lion's share of Beijing's financial diplomacy in the region. Pakistan and Kazakhstan received 39 billion and 33 billion dollars, respectively, accounting for 56 per cent of Beijing's total financial diplomacy throughout the period under consideration. It is estimated that a significant chunk of this state-directed investment went toward the China-Pakistan Economic Corridor (CPEC).

Analysis of Chinese Strategy

In contrast to other countries, Beijing does not take a one size fits all strategy, suggesting that it has a clear preference for funnelling financial diplomacy spending to some countries at the expense of others. SCA countries with a higher share of Chinese firms and migrants and those with lesser internet penetration have remained more likely than their regional rivals to reap the benefits of Beijing's financial diplomacy. However, to give a dive-in approach, the paper focuses on the local levels within a country instead of the international level. Evidence indicates that China's investment strategy varied greatly among different parts of the same country. In terms of the amount and area of investment, the case of Pakistan perfectly illustrates how this can be seen. The geographic distribution of financial diplomacy dollars reveals that a relatively small proportion of localities receive the lion's

share of Beijing's attention and money. AidData report reveals that there were 137 (out of 2097) PRC financial diplomacy initiatives in 85 provinces and 137 (out of 2097) districts in the surrounding area between 2000 and 2017. United Nations Development Programme (UNDP) estimates that the average assistance package would be worth around 1.5 million dollars per province and 929 million dollars per district if the PRC (PRC) distributes its money equally across these 85 provinces and 137 districts. On the other hand, is this an equitable distribution of the assistance that Beijing provides?

As per the findings of the report, Beijing has established a significant but limited financial diplomacy footprint, concentrating large-scale investments on a small number of strategically vital communities. Actual financial diplomacy spending by the PRC was concentrated in 25 provinces, accounting for 62 per cent (78 billion dollars) of total expenditures. The province of Sindh was the most generous receiver of Beijing's financial support at the provincial level, getting almost 13 billion dollars in assistance, accounting for approximately 10 per cent of Beijing's total financial diplomacy in SCA. Other popular investment locations include Turkmenistan's Mary province (which received 8 billion dollars in investment) and Pakistan's Punjab state (which received 7 billion dollars in investment).⁴ Considering that budgets are supposed to reflect true priorities, it is worth noting that each of these three provinces received more money from Beijing between 2000 and 2017 than seven out of thirteen countries in SCA combined during that period. The support provided by the PRC to a chosen set of 25 district-level recipients represented 41 per cent (52 billion dollars) of the country's total assistance to the entire area, to break it down even further. Chinese financial diplomacy poured into Pakistan's Karachi division, which received 8 billion dollars in total, with Kazakhstan's Atyrau region (which received 5 billion dollars) finishing in second place.⁵ It appears that, even though they are strategically significant communities, Chinese officials place a significantly higher value on them than leaders of other countries in the region, including the United States and other Western countries. It is important to remember that the localities that received assistance from Beijing were most likely also influenced by the priorities of national officials, which should not be underestimated.

Some areas are unquestionably more attractive investment destinations than others or are more enticing than others. A critical question arises as a result: why do some districts receive a disproportionate

³ Tauseef Javed, "Social Ties in Foreign Influence Strategy: Lack of Chinese Spaces in Pakistan," *Centre for Strategic and Contemporary Research*, March 7, 2022, <https://cscr.pk/explore/themes/social-issues/social-ties-in-foreign-influence-strategy-lack-of-chinese-spaces-in-pakistan/>.

⁴ S. Custer, *Corridors of Power*, 7.

⁵ Ibid.

percentage of Beijing's financial diplomacy funds while others do not? In the case of accepting PRC assistance, national or municipal leaders may have varying risk tolerance levels, resulting in an opt-in or opt-out dynamic over which Beijing would have little control. On the other hand, the self-selection bias cannot fully account for the large gap between districts that receive billions of dollars in financial diplomacy from Beijing and districts that receive merely millions, or even tens of thousands, of dollars in similar expenditures.

Based on the following assumptions regarding Pakistan's investment trends, the Chinese government is investing in Pakistan because of (i) geostrategic relevance⁶ and (ii) economic significance, the two most important considerations. As they have access to vast quantities of oil and natural gas, some localities may be of greater geostrategic significance than others because they are located in areas where China's leadership has prioritised the development of oil and natural gas reserves. After passing the United States as the world's largest energy user in 2009, China has become the world's largest energy importer, surpassing the United States in both categories.⁷ Although Pakistan is not the most attractive location for foreign (Chinese) investors in terms of oil and natural gas, it has been observed that Pakistan continues to prefer the path through the Indian Ocean to reach the Gulf States on its way to China. Large population centres may grow increasingly economical because they represent viable markets for Chinese goods, services, and investment money, which is significant to the PRC. Developing markets have the potential to absorb excess Chinese manufacturing and construction capacity that is not being fully used in the country of origin. They also provide an opportunity for Chinese authorities to demonstrate that foreign assistance results in tangible benefits for Chinese citizens (i.e., jobs and revenues).

Subnational Communities in Financial Diplomacy

It has been observed that the Chinese approach has made significant progress. Despite the fact that states use a lot of verbiages to convey their goals, budgets are perhaps a more trustworthy indicator of what they actually value. Pakistan stands out among the SCA countries as it receives an excessive quantity of public diplomacy outreach from Beijing. As mentioned in my recently published web analysis, Pakistan is the largest

⁶ Ghulam Dastagir and Mirwais Kasi, "The Geostrategic Significance of Pakistan and Its Relevance in 21st Century: A Case Study of China Pakistan Economic Corridor," *Balochistan Review XXXIX*, no. 2 (2018), <https://www.tehqueeqat.org/urdu/articleDetails/10187>.

⁷ "China surpassed the United States as the World's Largest Crude Oil Importer in 2017," *US Energy Information Administration*, accessed March 9, 2022, <https://www.eia.gov/todayinenergy/detail.php?id=37821>.

recipient of PRC financing by a significant margin, and it also receives significant amounts of cultural and exchange diplomacy from Beijing.⁸ The footprints of Beijing's financial diplomacy in Pakistan are narrow but deep. China has directed its financial diplomacy funds into 20 districts in Pakistan, out of the country's 37 second-level divisions (districts),⁹ which are spread throughout four provinces, two autonomous provinces, and the capital territory over a roughly two-decade period. While Beijing's volume of financial diplomacy dollars (ranging from thousands to billions) and per capita spending (ranging from 0.02 to 892 dollars per person)¹⁰ vary significantly across these districts; it suggests that the city's priorities should be further tiered, even if some investments have the potential to generate broader spillover benefits. In my opinion, the PRC sees subnational communities more from the prism of attaining public trust by sustaining their footing in areas of economic importance in Pakistan. Beijing's leading interest in Karachi in terms of financial investment clearly supports this assumption. However, strategic significance cannot be overlooked, especially considering the overall dynamics of contested influence in a period of great power struggle in the region.

Great Power Politics and Financial Diplomacy

The PRC's financial diplomacy in Pakistan supports the notion of great power politics in South Asia.¹¹ The amount of financial investment poured into Pakistan by China after 2013 has explicitly helped China achieve its broader objective of being a regional power. It has been evident from the Chinese investment in hard infrastructure development in Pakistan, like railways and roads, that this will enable Pakistan to carry out its economic activities from North to South. It will contribute to the real conception of Pakistan as a corridor to connect China with the Gulf states. China provides a direct line to the Indian Ocean through the CPEC, and its emphasis on physical and digital connectivity has the potential to open new markets for Chinese goods, services, and capital not only in Pakistan but also along the larger maritime silk road.¹² Regional integration is seen as a means of putting its less-

⁸ Tauseef Javed, "Social Ties in Foreign Influence Strategy: Lack of Chinese Spaces in Pakistan," Centre for Strategic and Contemporary Research, March 7, 2022, <https://cscr.pk/explore/themes/social-issues/social-ties-in-foreign-influence-strategy-lack-of-chinese-spaces-in-pakistan/>.

⁹ S. Custer, *Corridors of Power*, 10.

¹⁰ Ibid.

¹¹ Tanvi Madan, "Major Power Rivalry in South Asia," *Council on Foreign Relations, Discussion Paper Series on Managing Global Disorder* no. 6 (2021), <https://www.cfr.org/report/major-power-rivalry-south-asia>.

¹² Isaac Kardon, "China's Geopolitical Gambit in Gwadar," *Wilson Center*, accessed March 9, 2022, <https://www.wilsoncenter.org/blog-post/chinas-geopolitical-gambit-gwadar>.

developed interior regions, such as Xinjiang and Tibet, on a more favourable economic growth trajectory, allowing them to catch up with the dynamism of their coastal cities. With CPEC once completely operational, a barrel of oil from the Middle East to China could be transported in 10 days instead of 35–45 days.¹³

Recommendations

The study opines a few recommendations. To further its cooperation with China in the light of the above discussion, Pakistan should:

- Establish and empower the federal government office to open a channel for chief ministers and governors to inform and help shape subnational needs on key priority areas for Chinese government help.
- Harness the expertise of the Pakistani government to help the subnational levels of government navigate the opportunities and risks in attracting Chinese Financial diplomacy.
- The Chinese subnational approach must be encouraged to expand its scope in Pakistan.
- Chinese financial diplomacy has remained concentrated in Pakistan's economically important or geostrategically beneficial areas. It may create a sense of favouring some areas and neglecting others that eventually dents the core of Chinese public diplomacy in Pakistan. So, it is recommended that Pakistan must engage with China to expand its subnational approach to all-around Pakistan.
- Chinese financial diplomacy must also involve skill development initiatives at town levels in Pakistan.

Conclusion

Based on the evidence and discussion above, it is clear that China is the most important country on which Pakistan may rely in terms of government-to-government and people-to-people contact. As a result of the financial diplomacy being conducted at the subnational level in Pakistan, the Chinese are planting their feet firmly in the country, although the cultures of both countries are different and not symmetrically interlinked. The use of financial diplomacy is advantageous to both countries. It is necessary to look at the situation from a broader perspective rather than simply through the CPEC lens.

¹³ "China-Pakistan Economic Corridor - A Gateway to Regional Economic Integration," *South Asian Voices*, July 13, 2015, <https://southasianvoices.org/china-pakistan-economic-corridor-a-gateway-to-regional-economic-integration/>.