



Ambitious China and Economically Fractured Pakistan: An Analysis of Chinese Economic Expansion in the region under CPEC and its Implications for Pakistan's Foreign Policy

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Abstract

One Belt One Road (OBOR) Initiative” or Belt and Road Initiative (BRI) are termed the most ambitious project of the 21st century. The multi-billion dollar investment plan is supposed to connect China to at least three continents i.e., Asia, Europe, and Africa through roads, seas, and railway lines. The lead project of OBOR is CPEC i.e. China Pakistan Economic Corridor. CPEC is already in its third phase of development and offers not only optimistic promises to Pakistan’s economic and political stability but the entire region. Existing literature on CPEC is more focused on the earlier optimistic promises that the projects offer, and there is a gap that needs to be filled regarding the implications of CPEC projects on Pakistan’s Foreign Policy. While there is a consensus on Foreign Policy decision-making to be one of the fundamental instruments for any state to pursue its national interests abroad, any implication imposed upon it through heavy Foreign Direct Investment will bear the consequences. The main objective of this paper is to analyse that weather China’s multibillion-dollar investment in China Pakistan Economic Corridor has any implications for Pakistan’s foreign policy. Through qualitative data analysis this study suggests that although huge Chinese investment may guarantee economic stability, Pakistan still needs to keep an eye on its foreign policy decision-making power which is at stake because of huge Chinese investment under China Pakistan Economic Corridor.

Keywords OBOR, CPEC, FDI, TNC, IMF, World Bank, Foreign Policy, Implications

Introduction

The 20th century in human history is greatly regarded as the century of multinational enterprises and the rise of multilateralism under mass globalization. Although the historical pieces of evidence of multilateralism and Transnational Corporations (TNCs) are not originated in the 20th century and can be traced back to medieval times, the 20th century can be regarded as a period characterized by an exceptional state for these corporations, commonly referred to as their golden age. The phenomena of globalization and transnational harmonization provided significant momentum for corporations from various regions to expand their economic endeavours beyond their national boundaries. Furthermore, the reduction in national oversight facilitated more convenient entry into foreign markets. (Holton, 1998).

Here, the reason I am including this argument as a prefix to the implications of Chinese Investment for Pakistan’s foreign policy study is to understand the strategic considerations for the state when allowing foreign corporations to engage directly in the domestic market. TNCs if one side can generate substantial growth and development both in terms of economic and human development, on another side it can cause poverty and political instability as well (Bezuidenhout and Kleynhans,

2015). There are two variables in this study and its objective is to correlate both and ascertain whether one affects the other or not. One, CPEC and Chinese ever-growing economic expansion in the region over the period, and Second, Pakistan's foreign policy formation and decision-making power when liable to China under such huge debts. In other words, this study is an attempt to ascertain whether foreign direct investments of China inside Pakistan under CPEC have any implications for Pakistan's Foreign Policy. And if the answer is yes, what's the nature of these implications?

China's "One Belt and One Road" (OBOR) initiative is huge for starters. With an optimistic outlook, the initiative serves as a proactive endeavour to inaugurate a novel era of economic and regional diplomacy across the vast expanse of Asia, Europe, and Africa. The ambitious project known as the One Belt One Road (OBOR) was introduced by Chinese President Xi in 2014 to establish extensive connections between China and its neighbouring nations in Asia, as well as extend beyond. Encompassing a substantial number of over 60 countries worldwide, this ambitious plan encompasses a broad scope of participation. Xi Jinping has made the program a centrepiece of both his foreign policy and domestic economic strategy (Scott and David, 2015). The most important and pioneer project in OBOR is China Pakistan Economic Corridor. CPEC aims to connect Kashgar City in Xinjiang Uygur Autonomous Region in China with Gwadar Port in Pakistan's Balochistan. The total distance between the two destinations is 3124 km. The primary objective of this corridor is to redirect the transportation of oil and liquefied natural gas (LNG) from Iran and Iraq away from maritime routes and towards pipelines or rail systems. Traditionally, sea shipments originating from the western region of China have been transported via trains or intermodal means, incorporating land and river transportation, to reach Shanghai Port. From there, they traversed the Malacca Strait en route to Europe and Africa. However, through the China-Pakistan Economic Corridor (CPEC), cargo will be transported from Kashgar City to Gwadar Port, significantly shortening the original route by over 80%. This reduction in distance not only improves efficiency but also contributes to the reduction of greenhouse gas emissions (Shaikh & Fan, 2016).

But CPEC for Pakistan is more than just a road or railway track connecting both countries, it's a portfolio project comprising trade zones, seaports, and airports in Gwadar, as well as roads, railways, hydropower plants, pipelines, industrial zones, and inland-free trade zones between Gwadar and Kashgar. The estimated total investment for the CPEC stands at more than 60 Billion US Dollars on this day and the volume is expanding rapidly. Is such a huge Chinese investment in Pakistan for granted? Not. This project is termed the most ambitious project and the roadmap to China's "Soft Rise" in International Markets and global trade. And when China is investing such a huge amount of money in Pakistan to pursue its state interest, there certainly will be implications for Pakistan, and China's approach will be more aggressive to achieve the set targets. Sometimes horrifying to think about when one takes Sri Lanka as an example. In recent years since China's takeover of the Sri Lankan seaport in Hambantota, a new discourse developed in literary work i.e. "China's debt-trap Diplomacy". If so, what are the implications and so is the case for Pakistan which already facing problems in its International Financial Institutions i.e. IMF and WB's debt payments, CPEC will eventually bring more miseries to Pakistan in the future in terms of of CPEC's debts payments, and sustaining such an economic balance to rescue herself from situations like the one Sri Lanka is currently facing.

CPEC is a multibillion dollars investment from China into Pakistan and everyone in both Governments is too optimistic about the project to be a "game changer" for not only Pakistan and China but this whole region. The discourses of both positive and negative implications CPEC has for Pakistan's economy, political stability, and security are widely discussed in literary work. But there is a gap that needs to be filled when it comes to scholarly work on the implications of CPEC for Pakistan's foreign policy. This article is an attempt to fill that gap and contribute to the literature related to CPEC and Pakistan's current and future foreign policy. This article significantly gives an assertion about the role of "interest" in both FDI and the Foreign Policy of a state. It cognitively reviews the role of FDI in a country's foreign policy decision-making and finally, correlates CPEC and the implication it has for Pakistan's foreign policy.

Hypothetically Speaking

Hypothetically, the foreign policy of a state is always interest-oriented and pursues one goal which is state interest. In a more liberated outlook, a country's foreign policy will serve the purpose effectively. FDI and IFIs always want a share in a country's overall decision-making. Recently, World

Bank is actively intruding into Pakistan's domestic policymaking which owes very little to what compares with CPEC. In common understanding, the literature reveals a zero-sum relationship between FDI and Foreign Policy Implications for the recipient state i.e. the less debt a state owes in terms of FDI and foreign aid/debt/assistance, the more liberated will be in her foreign policy decision making and vice versa. Hence a primary hypothesis in the study suggests that FDI intrudes into the policies of the recipient state both in terms of domestic and foreign policy, china's investment in Pakistan shall stay no different from the historical patterns.

Alternatively, some authors and policymakers in Pakistan believe that although there may be some implications for Pakistan's foreign policy because of CPEC, Pakistan needs it desperately now. Since Pakistan's inclusion into the US War on Terror, it lost an estimated 120 Billion USD in the war. With an economy deep down in gutters, a persistent IFI repayments burden, and a country devastated by terrorism and political instability, CPEC brought a ray of hope to Pakistan, some termed it a "game-changer", others a roadmap for Pakistan to become an "Asian Tiger" sooner. This injection into the economy provided a sigh of relief to Pakistan in terms of its foreign policymaking. Pakistan finally saw a chance to get out of the US's influence and liberate its foreign policy. Ever since CPEC, Pakistan freely has had good relations with Iran, a country the US wanted to isolate in International Community. Pakistan's policy regarding India and Kashmir getting aggressive each day. But CPEC didn't bring only positives to Pakistan's foreign policy there is always a price to pay. A country's foreign policy can only predominate in the pursuit of greater national interest when there are national unity and political stability in the country. CPEC has brought ethno-nationalism to new heights in Pakistan. There are mass differences and conflicts in inter-province and between federal and provincial governments over the share distribution of projects under CPEC. As division leads to more division with time and uncertainty, weak governance, and non-serious political leadership failed Pakistan in terms of nation-building, CPEC turned out a stigmatizing addition to the existence of tragedies in the division of the Pakistani Nation. An already divided nation in clutches of Shia-Sunni diversity as a liability for Pakistan's foreign policy, CPEC has further instigated the issue. Another aspect is security situation concerns for Pakistan.

Themes in the Study

George Modelski defines foreign policy as "the system of activities evolved by communities for changing the behaviour of other states and for adjusting their activities to the international environment" (Modelski, 2012). According to this definition, Foreign policy must throw light on the ways states attempt to change and succeed in changing the behaviour of other states. It is a concern both with the change and the status quo as far as they serve the national interest. Donald E. argues of state interest is "the interest refers to the perceived needs and desires of one sovereign state concerning other sovereign states that make up the external environment". The basic interests of a state have four major paradigms in literature, Defense, economics, Political World Order, and Ideological Superiority (Doanld, 1976).

FDI has both positive and negative effects on Pakistan's Foreign Policy. It boosts economic growth and paves the way for the strengthening of the foreign policy of a state but it also descends the sovereignty of the recipient state. Nation-building and Public Diplomacy (soft power) are as important factors in foreign policy as economy and diplomacy.

Foreign direct investments are vital for a state to have sufficient resources, markets, and other economic facilities and opportunities to control its economic stability. In addition to political immovability and peace, commerce networks are also necessary. Due to Pakistan's geostrategic importance, China is capitalizing on the CPEC, and these investments are going towards the construction of the energy industry, road infrastructure, and Gawadar port. The initial CPEC program had a budget of 46 billion dollars, but it has since grown. In the initial package, the majority of the funding was allocated for the construction of the energy sector, with the remainder going towards infrastructure (Ishaq et al., 2018).

Outward foreign direct investment (OFDI) has two basic processes that influence host country innovation (technology spillover). First, when the host nation has more advanced technology: Regarding the favourable externalities that come from being close to the host countries' technological leaders, OFDIs of multinational corporations (MNCs) with less advanced technology are frequently driven by the acquisition of advanced technology, which forces host-country enterprises through market competition mechanisms to maintain constant innovation, improving the overall innovation

capability and level of the host countries. Second, when the host nation's technology level is lower: MNCs with higher technological levels frequently benefit from monopolies, cutting-edge management expertise, and economies of scale (Xiao et al., 2018).

Pakistan's Board of Investment reports that US FDI has decreased from \$3.7 billion in 2008–09 to \$0.82 billion in 2011–12. The CPEC has provided access to a supply of FDI is constant. FDI inflows climbed by 5% to US\$2.41 billion for 2016–17 from US\$2.30 billion during 2015–16, according to data from the State Bank of Pakistan. This surge is primarily owing to Chinese investment, which now holds the top rank for FDI inflows to Pakistan (Ahmed, 2018).

All parties involved are confident that the Chinese FDI in Pakistan will have a significant positive impact on all energy-related issues (such as energy use, access to electricity, use of renewable energy, energy efficiency, and energy demand management), as the majority of the Chinese investment is in the clean energy sector. Similar to employment rates, transit convenience is likewise high and is anticipated to have a significant positive influence. The most unfavourable findings concerned air quality. The local air quality, according to stakeholders, will suffer as a result of Chinese investment in Pakistan. All interested parties agree that Chinese investment in Pakistan will have a detrimental effect on the region's air quality (Huang, 2016). Policymakers from both countries view the CPEC as a testament to their evolving friendship, extending beyond economic relations to encompass cooperation in security matters. (Ahmad, 2018).

On the other side, China's huge investment under CPEC in Pakistan gives an edge to Pakistan's foreign policy over that of India in terms of the Kashmir Dispute. Pakistan must proceed cautiously and deftly in light of the United States' growing scepticism about the OBOR and India's concerns about the CPEC (Hali et al., 2014).

The CPEC is not only a sole road project but it is also a multidimensional complex project including free trade zones, maritime routes, airports in Gwadar, also railways, roads, hydropower plants, industrial zones, and jobs for people.

Non-experts dominate the conversation on foreign policy in Pakistan. TV hosts, guests, politicians, ex-servicemen, and self-described experts participate in contentious conversations without the proper preparation or theoretical understanding. These people frequently provide a pro-state, biased, and uncritical assessment of the nation's foreign policy, which causes disinformation for the general public and poorly educated officials (Hussain, 2017).

Pakistan has huge economic expectations for the CPEC. It is yet unknown how far the project can be carried out. The amount of money spent on Chinese projects in Pakistan has never matched official declarations. Nevertheless, in the medium to long term, CPEC is probably going to have a favourable impact on the economic growth of the nation, for instance by helping Pakistan improve its infrastructure and alleviate its on-going energy constraint (Wagner, 2016). It is clear and transparent that CPEC will allow Pakistan to strengthen its economy and strengthen its Foreign policy.

Both China and Pakistan have had serious security concerns, and these concerns have grown as a result of any attack on CPEC installations. Beijing has concerns about Pakistan's security even before the CPEC officially began in 2015, according to reports. China decided to launch the CPEC after receiving assurances that the Pakistan Army would provide security. Engineers, technicians, and laborers from China are protected by Pakistan's government and army (Ahmed, 2018).

A Pakistan with a stronger economy thanks to Chinese assistance would be less inclined to increase its commercial ties with India. The Kashmir conflict might then be more aggressively brought up in Pakistan's foreign policy discussions, as it was in 2014–15. With or without the knowledge of Pakistani security agencies, significant terror acts in India might intensify the Kashmir conflict. The international world would then be prompted to step in as a result, giving Pakistan the upper hand. A crisis between New Delhi and Beijing may result if Chinese residents were assaulted during a rekindled India-Pakistan conflict, for instance in Baluchistan, where separatist organizations operate with some Indian assistance. The negative cycle of relations between India and Pakistan would essentially continue in this scenario as a result of the economic and political effects of CPEC. The positive economic effects that CPEC would have on Pakistan would also encourage a military build-up, which would harm relations with India (Wagner, 2016).

Another misery for Pakistan's Foreign Policy is the fear of a debt trap. China provides loans to Sri Lanka to make the airport. Sri Lanka's incapability to pay back to China resulted in the port being given to Chinese companies for the next 99 years. The China-Pakistan Economic Corridor (CPEC),

like Hambantota, started with loans that may potentially be converted into ownership. This is owing to worries that Pakistan's economic situation may make it difficult for it to pay back these debts, giving China the chance to fully control the CPEC. Additionally, the deal for Gwadar states that China will get 91% of the money for 40 years. Doubters guarantee that Pakistan will battle to reimburse the advances got from China for CPEC due to its significant import/export imbalance. When compared to its export earnings, Pakistan's trade deficit in 2018 was \$37.7 billion, which is a significant amount. The situation becomes even more difficult when it is combined with the \$72 billion in international debt that was obtained from other countries and institutions in 2017, excluding loans from CPEC. Critics believe that the Pakistani government will have trouble repaying these loans because of these issues and a low economic growth rate of 3.1% (Ishaque et al., 2018).

The objective of China's Belt and Road Initiative (BRI) is to extend substantial infrastructure financing, amounting to trillions of dollars, to regions encompassing Asia, Europe, and Africa. However, the implementation of BRI carries the potential risk of debt distress for certain borrowing nations, particularly if it follows the prevailing Chinese infrastructure financing practices, which often involve lending to sovereign borrowers (Hurley et al., 2019).

Analysis of the Data and Findings

After analysis of the taken thematic statements and interpretations in the paradigm of Economic Nationalism, the present study found that FDI has both negative and positive impacts on Pakistan's Foreign policy and it is proved that FDI influences the foreign policy of the state. CPEC can either prove as a game changer for Pakistan or it will bring more agonies to an already unstable state if she did not give attention to decisions correlated with CPEC and its Foreign Policy.

The present study found that Both FDI (from investing state) and Foreign Policy (of the recipient state) serve the same purpose i.e. achieving greater state's interest. It proves beneficial for the recipient state if her foreign policy is strong and entirely sovereign. If a country's foreign policy decision is not well settled and systematized then FDI results in the decedent of state sovereignty. The present study suggests that FDI can intervene and affect policy making, both domestic and foreign policies of the recipient states. The relationship between FDI and "Decision Making Power in Foreign Policy" is a zero-sum game i.e. when one increases, the other decreases.

The present study found that CPEC has a role in the prevailing economic stability in Pakistan and the flow of capital into the Pakistani economy. It will bung up the energy seek of Pakistan. Due to industries and hydro plants and other mega projects in CPEC, the energy crisis will die out. People will get jobs and investment opportunities. The study also suggests that CPEC reduces Pakistan's reliance on International Financial Institutions which are highly influenced by the USA, and hence CPEC liberated Pakistan's foreign policy from the American decade's long influence. Now China has a more prodigious investment in Pakistan than the US. And china can also satisfy the loan need of Pakistan. It suggests that Pakistan's Kashmir policy is more hostile diplomatically after CPEC and huge Chinese investment in Pakistan.

The present study found that National Unity and Political stability are important for a strong foreign policy. And strong foreign policy is crucial for state sovereignty. The study found that CPEC brought more security challenges to Pakistan in the already disturbed region of Baluchistan. China is a regional power in Asia having many antagonists. India stab to knock off balance Pakistan internally. As CPEC will provide power to Pakistan, that's why adverse Pakistan states and groups trying hard to counter and flop the CPEC project. Literature suggests that if Pakistan did not pay attention to and precaution headed for CPEC, it can turn into a miserable condition as take place in Sri Lanka. The inception of the terms "Debt-Trap Diplomacy" and the case study of Sri Lankan Seaport Hambantota are worrisome for Pakistan when it comes to CPEC and Chinese ever-growing economic expansion in the region.

Upon analysis of the taken thematic statements and interpretations, it has been found that FDI has a great capacity and capability to influence the foreign policy of any state. It decreases the recipient state's foreign policy decision-making power and provides an opportunity for the delivering state to intrude and influence the recipient state in pursuance of her offshore national interests.

Recommendations & Conclusion

CPEC is a multibillion dollars investment from China into Pakistan and everyone in both Governments is too optimistic about the project to be a "game changer" for not only Pakistan and China but this whole region. The current study recommends that Pakistan need to develop a foreign

policy free from ideological constraints that will agree to rational performance in bilateral relations. Pakistan needs to play the game very carefully and skilfully as it already is in the clutches of IMF and WB, and facing harsh economic instability and greater risk of default. As Pakistan now trying to shift its economic reliance from the West towards China, Pakistani policymakers must take sagacious decisions and keep a strict eye on FDI in terms of CPEC.

OBOR or BRI and its key project CPEC in Pakistan is no doubt a game changer and a very optimistic initiative towards regional cooperation. But will the desired sustainable human development ever be achieved through this ambitious project for 230 million Pakistanis? That's a question directly linked to the foreign policymakers in Islamabad. To attain sustainable and enduring outcomes from the China-Pakistan Economic Corridor (CPEC), Pakistan must prioritize the development of a foreign policy that is detached from ideological constraints. Such a policy would enable rational conduct in its bilateral relations. Specifically, Pakistan should place greater emphasis on fostering trade and economic cooperation rather than disproportionately focusing on security concerns, as is presently the case. By shifting its focus towards economic collaboration, Pakistan can pave the way for long-term benefits and a more fruitful engagement with CPEC. The most important thing missing in long-lasting and sustainable development through CPEC is regional peace between neighbours. It is evident that Pakistan and India both share the same fate and for moving forward, they need to resolve their bilateral issues, only then stability can come to this region. A fundamental question and the most dangerous implication CPEC have on Pakistan's foreign policy is the unpredictable response from New Delhi which is challenging Beijing and is backed by another superpower i.e. the US. What China wants us in suppressing the only economic and military competitor in this region is a worrying factor in the implications CPEC has on Pakistan's foreign policy.

Pakistan which is already under the heavy debts of the Western financial institutions and facing an issue of repayments, CPEC is both a ray of hope and a worst nightmare. Every FDI has implications. In scholarly debates, some argue that it led to sustainable human development, while others cognitively deny it. The world saw that whenever the recipient states managed FDI well during the Marshal Plan, it led to sustainable human development. Though when it comes to the impacts of FDI on the foreign policy of the recipient state, it too can be witnessed in history after Marshal Plan when the US influenced the foreign policies of Western European Powers and so will be the case of Pakistan under huge Chinese debt.

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