



# THE EFFECT OF THE BRI AND ITS ASSOCIATED SOFT POWER ON THE ECONOMIC OUTSET OF INDEBTED COUNTRIES

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## Abstract

Analysis of the Belt and Road Initiative utilised by China in which aid and project funding is provided to countries across the globe. The different forms of power that China expands through the project are examined with a particular focus on the associated soft power through the cultural influence and connection China has exerted through the initiative.

## Contents

1.	Introduction.....	2
2.	Findings.....	2
2.1.	<i>Section 1 - Background Information</i> .....	2
2.1.1.	Subsection 1 - Soft Power.....	3
2.1.2.	Subsection 2 - Indebted Countries.....	4
2.2.	<i>Section 2 - Pakistan: A Case Study</i> .....	5
3.	Conclusion.....	8
4.	References.....	9

## 1. Introduction

The Belt and Road Initiative (BRI) is now a significant part of China's economy and has been instrumental in their accumulation of global power, bringing a great amount of benefits to the country that have not only helped the economy through the means of hard power, but also improved their international relations. Through the initiative, China has built strong relationships with many countries relatively close to them through loans and other forms of aid and support. These relationships being built up over time have seen China's soft power increase as they continue to develop such financial alliances with many countries around the globe. The closeness between China and these countries, and the maintenance and growth of this is of significant interest to China as ultimately it puts the country in a stronger position worldwide. In terms of world trade, workers and jobs, and other global flows, having close relationships with many countries allows China to spread their influence and power across the world.

## 2. Findings

### *2.1. Section 1 - Background Information*

China is a country that has experienced rapid growth over the past few decades as its gross domestic product (GDP) and other economic measures have shot up in unprecedented ways. This has stemmed from the industrialisation of China during which the economy was uprooted and changed significantly through different economic reforms. These reforms took place from sector to sector going one by one to renovate them and set up the foundation to build and grow toward what is now the second largest economy in the world. China is now considered a global superpower, possibly one of only two alongside the United States (US) and some projections have even estimated China to overtake the economy of the US. These reforms that kick-started the growth of China began in the agricultural sector of the economy before continuing on to the industrial sector, which was the spark that accelerated the growth of China into the global superpower that so many countries are now dependent on.

The Belt and Road Initiative is a significant part of China's industrialisation and emergence as the second largest economy in the world and is also heavily connected to their international trade. China is one of the world's largest exporters of goods and the largest exporter of many important goods such as textiles. The economic reforms that the industrial sector underwent were primarily targeted at increasing exports so to be able to grow the economy. China's exports are a large contributor to the strength and growth of the economy so much so that in the past they have been accused of devaluing their currency, the Yuan, to be able to increase export revenue and in turn profit and growth. Devaluing a currency means to artificially lower its exchange rate against other currencies, for example the US dollar. This would make Chinese goods more appealing as they are cheaper relative to the US and so, more countries will import from China rather than the US thus increasing the quantity of exports China has and consequently growing their GDP.

The Belt and Road Initiative is a topic of controversy regarding the ethical justification of some of the actions. Some believe that it is a modern form of colonialism, as many countries are now totally dependent and indebted to China making this an unsustainable form of growth and development for these countries and potentially putting them at risk in future. Others believe that China is supporting these countries and helping them to diversify their exports and economy to create multiple sources of growth. Regardless, what is true of the BRI is that it has significantly strengthened China's relations with many countries in Southern Asia and Africa as they have developed relationships with trade partners and by supporting these countries. This has led to these countries owing a lot of money and being in debt to China, as well as developing a sense of ally ship that China will be able to use to its advantage in the future. Altogether, the BRI has significantly increased China's social power and this is another way in which it has helped China's economy grow.

### **2.1.1. Subsection 1 - Soft Power**

There are several opposing views regarding the composition of soft power and how it can be measured. Some argue that a specific point of view should be taken and soft power should be seen in a similar way as cultural influence and the way in which a country is able to exert this over others. On the other hand, it is also argued that soft power is simply the opposite of hard power which refers to the strength of a country's military. This would mean that soft power is constituted of the cultural, social, and economic power of a country. Soft power is often misunderstood even among experts in the field due to a lack of substantial research into the topic. Furthermore, measuring soft power proves challenging as in essence you are trying to measure influence which is not a quantifiable variable. For this report, soft power will be simplified to cultural, economic and social power for the purpose of analysing the effect that the BRI has had on China and the other countries involved. Cultural power will include examination of the ways in which the BRI has tied countries to China in the sense of building allegiance through the initiative as well as the recently emphasised dependence of certain countries.

In terms of measuring soft power, different components should be taken into account to gauge and indicate the amount of soft power a country is able to exert. Cultural influence is a key aspect of soft power, referring to the influence that a country is able to project regarding their cultural background and values. This can be in reference to several different fields such as language, media, cuisine, and other forms of expression such as art and literature. This aspect is applicable to China and an example would be the spread of Chinatown's across the world. There are about 50 Chinatowns around the US with one in almost every major city (California Migration Museum, 2024). Globalisation has played a big part in the integration of many cultures and this can be seen with Chinese culture as it has become prominent in all parts of the world. Deconstructing the social aspect of soft power, education and media are also important indicators with the level of education in a country providing a measure of quality of life and economic health. Media and the transmission of media to people is another measure of this power. China has several bans on Western media and methods of communication such as WhatsApp as well as many Western movies being banned from

being shown. The government has demonstrated significant power over the communication of media which is an important aspect of the BRI to ensure it is portrayed in a positive manner. Further linking to the Belt and Road Initiative, international relations are a key aspect of soft power that is heavily prevalent within the initiative as a consequence and target. Through the initiative China is able to build ties and connections with other countries that may prove useful in future, this could be through literally indebtedness of these countries or simply through cultural ties as a result of aid provided.

As China's soft power grew alongside the development of the BRI, the initiative began to spread far beyond its initial reach, expanding to Africa, Oceania, and even as far as Latin America. Initially the initiative was also more focused on infrastructure such as roads and bridges to improve these facilities in countries and allow for development which would in turn boost economic activity. At these later stages, China also began supporting and financing far more projects deviating from their initial target plan with the initiative. They funded energy and electricity projects in many countries to allow for improvement and development and even financed ports for greater access to the international market for trade in some countries. The BRI continued to grow at an exponential rate, as began to reap the benefits of the BRI, many other countries began to take notice and within 10 years, around 150 countries which make up 40% of global GDP had expressed interest in becoming involved in the BRI (Green, 2024).

### **2.1.2. Subsection 2 - Indebted Countries**

Whilst the BRI has sought to provide countries with aid to help them grow and develop, this has also caused significant problems in many of these countries. Some countries have gone so far into debt and need to be bailed out as a result, which has placed a greater burden on China. The initial aid and lending from China led to many countries becoming too dependent on China, this overdependence meant that once China cut back on the loans many countries began to struggle. Since 2016, China began to reduce loans for infrastructural projects that are closely linked to the BRI; this likely had a significant impact on the support and lending to the countries involved in the initiative which led to a build up of debt. As a result, China needed to issue emergency lending in order to bail out these countries which summed to a total greater than \$40 billion in 5 years (Hawkins, 2023). Between 2008 and 2021, China spent a total of \$240 billion to bail out countries, highlighting shortcomings of the initiative and the overdependence it may bring (Hawkins, 2023).

In addition to a reduction in lending rates of China, there are further factors worsening the case of the countries receiving money through the initiative that further brings challenges to them and China itself. Debt servicing costs for the loans of these countries have been rising making it even more expensive for debt to be repaid over longer periods of time (Hawkins, 2023). The longer it would take for a country to pay back the debt, the more expensive it would ultimately be. External factors have also affected the repayment of debt; shocks in supply chains as a result of the Russian invasion of Ukraine have caused rapid rises in the price level. China has been able to bail out these countries which also bode well for them in the

overall outlook of the BRI. In bailing countries out they continue to strengthen the relationship and connection with these countries in a show of further support to reduce the amount of debt they are in. In the long run this will allow China to exercise additional soft power through these stronger ties with countries.

## ***2.2. Section 2 - Pakistan: A Case Study***

Pakistan presents an interesting example for a case study when analysing the economic effects of the BRI and its associated soft power dynamics. The relationship between Pakistan and China predates the BRI. The two nations even signed a free trade agreement in 2006 (Chen et al., 2016) and Pakistan was one of the first countries involved in the BRI, officially joining in 2013 (Afzal, 2020). Furthermore, Pakistan is involved in a long-term simmering conflict with India. India is traditionally supported by the USA, whereas China takes an opposing position and bolsters Pakistan.

The flagship BRI project in Pakistan is the China Pakistan Economic Corridor (CPEC). This \$62 billion infrastructure scheme involves a suite of roads, railways, pipelines and supporting infrastructure that connects China to the Arabian Sea (see Figure 1, Andersen and Jian, 2018). Additionally to granting China access to strategic ports, the program promises up to 700 thousand new jobs, to accelerate economic development, address infrastructure needs, and improve socio-economic and political stability in Pakistan. Moreover, as one of the premier BRI projects, the CPEC is to underscore the long lasting “*all-weather*” friendship between the two nations (Hussain and Mehmood, 2019).

Beyond the CPEC and other initiatives such as special trade zones and joint ventures, there is also a plethora of less tangible initiatives attached to the BRI. China's engagement with Pakistan extends to the aforementioned domain of soft power. This materialises through an increased Chinese influence on Pakistani media, politics, and everyday life as well as cultural cooperation, and the harmonisation of regulatory requirements. Moreover, countries participating in the BRI have been found to align more closely with China in supranational issues (An and Wang, 2023). These soft power exercises are also aimed at improving the public opinion of the CPEC in Pakistan. In this respect, Afzal (2020) and Ittefaq et al. (2023) find a positive bias in Pakistani news towards China. Moreover, 65% of Pakistanis are reported to be in favour of the CPEC and increased Chinese involvement.



Figure 1: Sketch of the CPEC (Andersen and Jian, 2018)

However, one of the most essential channels of soft power is education. The great influx of international students to the US has been regarded as one of the major causes for the great stock of US soft power. But whereas US tuition is highly expensive, China is seen as a more affordable and better value alternative. This is particularly relevant since most economies involved in the BRI are lower to middle income, and the BRI favours economies with weaker institutions (Sutherland et al., 2020). Sending students to China immerses a part of the future elite of an economy to Chinese language, culture and norms, potentially shaping the economic trajectory of the country in question. Furthermore, China grants preferential treatment to foreign students of BRI members in terms of permitted university entries and scholarships. This dynamic is also apparent with respect to Pakistan. Pakistani students pose as the ninth largest foreign-student body in

Chinese universities after a sharp increase in their numbers following BRI accession. The same tendency applies to Confucius institutes, non-profit public educational outfits that offer China's language courses, organise exchange programs and host cultural events. Empirically, there is a strong positive correlation between the presence of Confucius institutes and the number of university students being sent to China, mostly funded through scholarships.

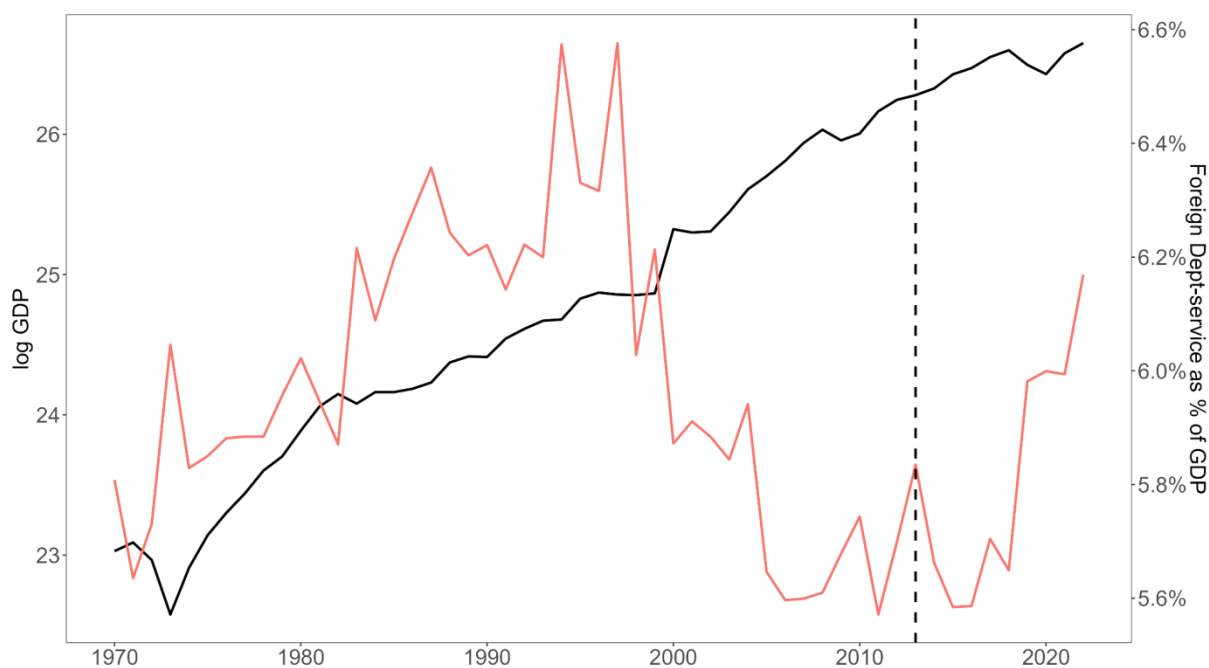
The line between hard and soft power is oftentimes murky. In his seminal contribution, Nye (2005) attributes economic support and foreign direct investment (FDI) to hard power. However, for example as the biggest defence supplier to Pakistan, China also holds considerable sway through these less clear-cut channels. Moreover, next to defence, Pakistan depends on China in many aspects regarding technology and energy.

Assessing the actual compounded effect of the Chinese soft power that is associated with the BRI is not straightforward for multiple reasons. First, as aforementioned, it is not easy to disentangle soft and hard power; both are highly correlated and endogenous to each other. Second, soft power is hard to quantify by definition. This is further amplified by a general lack of transparency in the Chinese involvement. In many cases it is not observable, if for example a certain policy decision is influenced by China or by an effort to appease the Chinese partners. This dynamic even extends to the realm of hard power, as officially reported investment volumes can appear improbable to third-party experts.

Despite these difficulties, some conclusions can be drawn. Namely, increased cultural integration, especially by granting Pakistani students to top Chinese universities, is likely to result in deeper economic ties. As a consequence, the somewhat struggling Pakistan can benefit from China's economic might. Furthermore, as an essential BRI member, Pakistan is part of a Chinese "*diplomatic umbrella*". China is likely to employ its diplomatic weight in favour of Pakistan, in exchange for closer overall alignment. The same concept applies to joint ventures, energy deals and FDI. In addition, there is empirical evidence that BRI involvement has a positive causal effect on economic development. However, it must be noted that many BRI projects concern low-income countries with weak institutions. Therefore, economic progress is akin to plucking low-hanging fruits.

In contrast, Pakistan imports Chinese authoritarian tendencies and a somewhat loose relationship with personal freedoms. Furthermore, it is important to note that many BRI projects involve loan provisions. Those credit lines can trap indebted nations in the long term and tie them even closer to China. This is also part of the reasons why the BRI has been regarded as a novel form of colonialism. Figure 2 sketches the economic development of Pakistan against the fraction of GDP it spends on servicing foreign debt. Even though current debt levels are below previous highs in the late nineties, they shot up during the COVID-19 pandemic and will likely increase further as more and more BRI projects are progressively rolled out.





*Figure 2:* logarithmic GDP (US\$, black, left scale) and service on external debt as a percentage of GDP (orange, right scale). The introduction of the CPEC program in 2013 is indicated with a vertical dashed line. The data is provided by the World Bank and available at [data.worldbank.org](https://data.worldbank.org).

Many other members of the BRI feature a similar economic position. To sum up, the economic advances linked to the BRI come at a price. Namely, allowing for more Chinese influence and being tied to China in a strategic alliance in the long term.

### 3. Conclusion

The Belt and Road Initiative is a project of significant importance to China's economy as well as to all the countries that are involved and their local economies as seen by the evidence provided and the in depth analysis of Pakistan as a case study. Soft power is a key part of the initiative and a clear purpose and goal China had going into it. By building stronger connections with these countries they put themselves in a far stronger position in the future with their social power. This initiative is a new form of integration between countries and with how far it has spread across the world even as far as South America it is clear how China is integrating itself with other economies to solidify a stronger position across the world. Nevertheless, despite the integration and benefits that the initiative brings from this, there are clear downsides as seen through the analysis of indebted countries and the case study of Pakistan. As a result of the aid and funding from China, many countries have become too reliant on this financial aid which has put them into high amounts of debt to China that they are not able to service, demonstrating the two sided nature of the initiative and its clear drawbacks.

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