
Is CPEC Really a Gift? China's Model of Development Cooperation and its Rising Role as a Development Actor in Pakistan



Regional Studies
Vol XXXV, Issue 4
pp.29-51
© Author(s)
<http://irs.org.pk>
P-ISSN: 0254-7988
E-ISSN: 2959-5459

Date of Acceptance: 3 August 2017

Murad Ali*

Abstract

With the rise of China as a leading development actor at the global stage, especially following the launch of President Xi's signature foreign economic plan under the Belt and Road Initiative (BRI), there is an unprecedented focus on China's model of international development financing. This paper aims to unpack China's foreign aid policy and practice. Unlike traditional donors belonging to the Organisation for Economic Cooperation and Development (OECD), where most development assistance is in the form of grants prioritising social sectors, China's model of economic cooperation is a blend of aid, investment, and concessional loans. Similarly, unlike most traditional aid donors, China does not attach specific policy conditionalities while providing aid and concessional loans and also avoids interference in the domestic affairs of its development partners. Focusing specifically on the China-Pakistan Economic Corridor (CPEC) within the framework of the 'gift theory' and the financing model of the initiative, the paper illustrates that besides bringing socio-economic benefits to Pakistan, the corridor is aimed at addressing China's domestic concerns and bringing development to its less developed regions. Mostly, China's aid and development financing are demand-driven, where partner countries' priorities are addressed. At the same time, there is also evidence both in the existing academic literature, as well as in the case of its increasing engagements with Pakistan under CPEC, that China's trade and commercial interests are also promoted along with its political and strategic objectives.

During his visit to Kazakhstan in 2013, Chinese President Xi Jinping outlined his idea of the Belt and Road Initiative (BRI) aimed at reviving the old trade routes connecting China with Asia, Africa, and Europe via land and ocean. Aimed at reaching about 65 countries covering about 60 percent of the global population, the BRI is considered the most ambitious undertaking of the century. The plan was revealed in 2013 and officially launched in 2015 with the release of the BRI blueprint

* Dr Murad Ali is Assistant Professor at the University of Malakand (Pakistan). He is currently the Alexander von Humboldt Postdoctoral Research Fellow at the German Development Institute in Bonn, Germany.

document 'Vision and Action' by the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs and the Ministry of Commerce, with State Council authorisation. No other policy initiative has attracted as much attention at home and abroad as President Xi's ambitious foreign and economic policy plan. There is a broad consensus that the BRI is perhaps the first initiative spearheaded by China that has made a considerable impact both within China as well as abroad. For example, since it was revealed by President Xi in 2013 and officially sprang into action in 2015, there has been an unprecedented number of studies on the subject both within academic circles and in policy think-tanks. In China alone, numerous universities and policy and research institutes have formed special think-tanks or units focusing on various aspects of the BRI at home and beyond China's shores.

In order to showcase its strength and gather greater international cooperation for the initiative, China organised the BRI Forum in May 2017 in Beijing. While 57 countries attended the BRI Forum, including 29 heads of states or governments, some major powers, including Australia, India, Japan, the United States (US), and the European Union (EU) stayed away from the forum citing various reasons from strategic and security to financial soundness, debt, and financial risks to environmental and social concerns. Hence, for multiple reasons, different countries have either welcomed or bluntly rejected participation in the project. A number of countries in Asia, Europe, and Africa have shown willingness to participate in the initiative to get access to China's financial cooperation and technological expertise. For numerous resource-deficient countries, the BRI appears to be a source of much-needed financial injection to upgrade and improve physical infrastructure that could lead to better connectivity and enhanced trade. It is expected that the BRI will have a tremendous impact on trade, foreign direct investment (FDI), and transport systems in numerous countries across various regions. At the same time, a number of "foreign policy analysts view this initiative largely through a geopolitical lens, seeing it as Beijing's attempt to gain political leverage over its neighbors" and beyond its immediate neighbourhood.¹

In order to unpack China's model of international cooperation, this paper examines multiple aspects of China's foreign aid policy. To this end, the next section provides an overview of China's foreign aid

policy and its key principles. The subsequent section explores key characteristics that distinguish China's model of foreign aid and illustrates that unlike OECD Development Assistance Committee (DAC) donors' model of international cooperation, China's development assistance is not aid per se but a mixture of aid, investment, and concessional loans. Key issues and challenges with regard to China's foreign aid policy and practice also form part of the discussion in this section. The following section discusses the 'gift theory' and how CPEC can be explained under this theoretical framework. It argues that although Pakistan's political leadership has been calling CPEC a gift from its long-term strategic partner China, Pakistan must also reciprocate, as there are usually no free gifts in bilateral relationships between sovereign states. The subsequent sections elaborate the financing model of CPEC and its overall geo-economic benefits, as well as intended or unintended costs, for both countries.

An overview of China's foreign aid policy and practice

For the first time in its history, China released a White Paper on its foreign aid policy in 2011. The policy document outlines the guiding principles, as well as various forms of aid modalities, that China has been using to deliver development assistance to numerous countries across the globe. The Government of China claims that its foreign aid policy is based on the principles and values of peaceful coexistence, respect for recipient countries' right to independently select their own model of development, and the belief that every country should explore a development path suitable to its actual conditions.² Similarly, the policy document mentions mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, and equality and mutual benefit as the guiding principles of its foreign aid policy. The 2014 White Paper reiterates the same principles and values as the overarching doctrines of its foreign aid policy.³ The official policy discourse mentions at the outset that the primary principles of Beijing's aid policy are "mutual respect, equality, keeping promise, mutual benefits and win-win."⁴ Thus, in its official policy discourse, considerable emphasis is placed on the continuity of China's

foreign policy and how international development cooperation fits into this framework.

It is argued that the 'five principles of peaceful coexistence' of Premier Zhou Enlai, that he had formulated while reorienting the country's bilateral ties with Burma, India, and Indonesia in 1953 are still central to its official narrative.⁵ The five principles of peaceful coexistence are as follows:

1. Mutual respect for sovereignty and territorial integrity;
2. Mutual non-aggression;
3. Non-interference in each other's internal affairs;
4. Equality and mutual benefit; and
5. Peaceful co-existence.

Both White Papers clearly mention these doctrines.⁶ These five principles were later refined and expanded into the following 'eight principles for Chinese foreign aid' in 1964 and continue to shape its aid policies:

1. Equality and mutual benefit in the provision of aid to other countries;
2. Respect for the sovereignty of recipient countries;
3. Providing aid in the form of interest-free or low-interest loans;
4. Promotion of self-reliance and independent economic development;
5. Priority to projects that require less investment but fast results;
6. Provision of high-quality equipment and materials manufactured by China at international market prices;
7. Transfer of skills and technology to recipient countries; and
8. Provision of technical and practical expertise by visiting Chinese experts

These principles also reflect "the moral and idealistic elements of China's foreign policy thinking."⁷ At the same time, Lengauer asserts that "it is these characteristics that make the Chinese approach to aid attractive for recipient countries."⁸ Based on the above principles, Beijing has stated that the key features of China's foreign aid policy are to help "recipient countries build up their self-development capacity," to help them "to foster local personnel and technical forces, build infrastructure, and develop and use domestic resources," and to try "utmost to tailor its aid to the actual needs of recipient countries."⁹ In addition, faced with the

global challenges of reform and innovation in development cooperation policy and practice, the aid policy acknowledges that “China adapts its foreign aid to the development of both domestic and international situations” and continuously adjusts and reforms its aid allocation and delivery mechanisms to improve the efficacy of its development cooperation.¹⁰ Li et al. assert that unlike OECD/DAC donors, China does not have elaborate ‘country plans’ for its aid recipients. Instead, after consultation with relevant agencies and ministries in partner countries, Chinese embassies convey to Beijing the actual needs of its development partners and how best can China provide support in particular sectors and areas.¹¹ Thus, it can be inferred from the policy document that China’s development cooperation is demand-driven. Moreover, partner countries’ needs and priorities regarding where and how to provide and implement development projects and programmes are addressed.

The two policy documents of 2011 and 2014 also identify various forms of development cooperation that China provides to its numerous development partners in Asia, Africa, and Latin America. According to the 2011 White Paper, “China offers foreign aid in eight forms: complete projects, goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programmes in foreign countries, and debt relief.”¹² In terms of concessionality or amount of grant element in its development cooperation, there are three types of cooperation: grants, interest-free loans, and concessional loans.¹³ The 2014 White Paper states that between “2010 to 2012, China appropriated in total 89.34 billion yuan (\$14.41 billion) for foreign assistance in three types: grant (aid gratis), interest-free loan, and concessional loan.”¹⁴ The same document further adds that out of this amount, 36 percent was in grants, 9 percent was interest-free loans, and 56 percent was concessional loans. Overall, a total of 121 countries received aid from China in various forms, including 30 in Asia, 51 in Africa, 9 in Oceania, 19 in Latin America and the Caribbean, and 12 in Europe.¹⁵ Similarly, agriculture, education, health, industry, and infrastructure are the primary sectors where most Chinese development assistance is targeted.¹⁶

China as a rising development actor and its foreign aid

Contrary to its official narrative, there is also a certain amount of criticism on Chinese aid programme. First of all, according to Brautigam, China provides development aid that meets the definition of Overseas Development Assistance (ODA) but this is relatively small and insignificant.¹⁷ The author asserts that financing instruments such as export credits, non-concessional state loans, or aid used to foster Chinese investment cannot be categorised as aid or ODA. It is further argued that China's financial contribution may be developmental but it is not primarily based on ODA, as its bulk does not conform to ODA standards.¹⁸ In addition, de Haan points out that there is no transparency or availability of clear data on the actual size of China's aid programme.¹⁹ He argues that the reason for lack of concrete numbers or aid data is that China's aid programme is implemented by various agencies.²⁰ Moreover, there is no clear borderline between aid, trade, and investment.²¹

It merits a mention that unlike traditional or Western aid-providers, in the case of China's development financing, "aid, trade, and investment are seen as interconnected in a mutual benefit framework."²² Thus, rather than looking at aid exclusively and separately from other modes of development financing, China's development cooperation is "the aid-business-trade model" as it combines all three into one strand.²³ Hence, it would be naïve to put to test China's aid through the same set of definitions, standards, and parameters as established by OECD/DAC because in this there is no clear differentiation between aid and other developmental financing in the form of trade and investment or even soft loans.

Regarding criticism of the lack of transparency in China's aid policies and practices, Li et al. argue that the publication of "white papers on aid (and annual reports have been promised in the near future) that provide greater details of allocations and priorities" reflects that the government has been making efforts to streamline its aid policies and programmes.²⁴ While it is a step in the right direction to make such documents public for enhanced transparency, the fact remains that there has been no disclosure of official documents pertaining to project agreements or formal evaluation of projects undertaken with Chinese

assistance. For example, in the case of CPEC in Pakistan, there has been a consistent criticism in the media asking for greater transparency and sharing of information about numerous CPEC projects and their long-term financial implications for the recipient country.²⁵ While the Government of Pakistan finally released the *Long Term Plan for China-Pakistan Economic Corridor (2017-2030)*,²⁶ the only official document made public so far, it neither provides new information about the corridor nor allays old concerns about the financial and environmental sustainability of the initiative.

Another issue is that unlike traditional or OECD donors, China has not set up a special and independent aid agency to deal with all aid-related decision-making. According to Tang et al. and Huang and Wei, the Chinese Ministry of Commerce plays a central role in the formulation and planning of foreign aid policy and approval of aid-funded projects along with 20 other ministries including the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Health, and the Ministry of Agriculture.²⁷ Within the Ministry of Commerce, a specific body named the Department of Aid to Foreign Countries (DAFC) deals with the management of foreign aid affairs and liaison with other government ministries involved in international development cooperation. There are three additional government bodies to support China's aid work management, including the Executive Bureau of International Economic Cooperation (EBIEC), China International Center for Economic and Technical Exchanges (CICETE), and the Training Center of the Ministry of Commerce.

Due to the involvement of various ministries, Kitano asserts that Chinese aid is at the 'transitional stage' as the presence of various government ministries and departments often blurs the lines between aid per se and other developmental financing, including investments, trade, and state loans.²⁸ Tang et al. argue that "with the expansion of China's assistance scale, however, the lack of systematic and standardised aid quality monitoring and evaluation will become an increasing and prominent disadvantage."²⁹ Similarly, Huang and Wei assert that "the current management system, and overall management capacity, cannot meet the needs of the rapidly growing volume of China's foreign aid."³⁰ Thus, although the government has come up with reasonable policy and institutional measures to streamline and strengthen its aid portfolio, these

steps are not sufficient to fully address the challenge and effectively deal with its expanding aid programme. To effectively spearhead its ever-increasing overseas aid and development programmes around the world, China does not have a specialised aid and development agency to consolidate roles and responsibilities that have been divided among various ministries resulting in lack of aid coordination and ineffective utilisation of development cooperation.

Besides the above issues, there are also concerns that Beijing's trade and commercial interests and the desire to get access to natural resources and new markets in a number of countries drive its foreign assistance programme.³¹ Naím argues that development cooperation from China is largely aimed at ensuring access to raw materials in developing countries, particularly energy. As such the author calls it 'rogue aid' driven by self-interest.³² Xu and Carey assert that "the financial transactions involved in project financing pass through Chinese channels, and for the most part procurement is tied to Chinese procurement."³³ However, prioritisation of economic, political, security, and diplomatic interests have influenced foreign aid policies of a majority of DAC and non-DAC donors during and after the Cold War period and multifaceted foreign policy objectives continue to play a vital role in bilateral aid allocation decisions.³⁴ Therefore, perhaps China as a donor is not alone to use aid as a foreign policy tool in pursuit of its economic, political, and diplomatic interests along with poverty reduction and developmental objectives.

Furthermore, contrary to the criticism of China's aid being primarily driven by selfish interests, Dreher and Fuchs illustrate that this is actually not the case.³⁵ Analysing Chinese project aid, food aid, medical staff, and total aid allocations to 132 developing countries in various regions during the 1956–2006 period, they empirically test the extent to which China's commercial and political self-interest shape its foreign aid allocations. Based on their empirical assessment, the authors assert that as compared to traditional as well as the so-called emerging donors, it does not appear that China pays significantly more attention to politics in aid allocation. Furthermore, they state that in contrast to widespread perceptions, there is no substantial evidence that China's aid allocation is dominated by natural resource endowments. They argue that "denoting Chinese aid as 'rogue aid' seems unjustified."³⁶ Lengauer

also argues that China's foreign aid has been quite successful in a number of countries and "this does not do full justice to the Chinese approach" to call it 'rogue aid'.³⁷

Leaving aside these criticisms, it is also a fact that China has become an influential aid provider during the last several years. It is estimated that the overall volume of foreign aid from China has increased significantly since 2004.³⁸ Based on data from the websites of 50 departments and other relevant organisations and sources in China, Kitano and Harada show that China's net foreign aid increased consistently from \$5.2 billion in 2012 to \$5.4 billion in 2013 and increased further to \$6.1 billion in 2014.³⁹ They argue that based on its overall aid budget, China's bilateral foreign aid ranks at number 6 since 2012, next to Japan and France. The authors assert that based on its past aid budgets, China's foreign aid is expected to increase and catch up with the top five DAC members in the foreseeable future.⁴⁰ Thus, China is moving "from its traditional largely passive role in international development governance to a new role as a proactive institutional and conceptual innovator based around a large view of geography and development."⁴¹ Hence, irrespective of the fact that there is a lack of clarity and transparency concerning its aid programme, China has gradually emerged as a key development actor at the global development landscape as it has become "much more assertive in international development, trade, environment and foreign aid policies."⁴²

Another key characteristic of China's aid is the willingness of the Chinese government to finance infrastructure projects in energy, transport, and communication. De Haan argues that with the passage of time, China's impact and role is going to be more pronounced and integral in the arena of international development as it has been investing substantially in countries where traditional donors have been less active (fragile states) and in sectors that have remained neglected and underfunded such as infrastructure.⁴³ Large investment in "the productive sectors, including agriculture, along with investment in core infrastructure" is welcomed by numerous developing countries as "many Western donors have prioritised the social sectors, and broader policy interventions around 'human rights' and 'good governance'."⁴⁴ Tang et al. also assert that "there is no doubt that China has put substantial aid resources into the field of infrastructure, which the Western countries are

unwilling to invest in.”⁴⁵ A prime example of this is the unprecedented investment package in Pakistan in the form of CPEC, a flagship project of the BRI in a country that has suffered huge human and financial losses due to the spillover effects of the ongoing conflict in neighbouring Afghanistan after the US-led ‘war on terror’. Being a frontline US ally, terrorist groups started targeting Pakistan and the escalation of the ‘war on terror’ at the domestic front has cost the country over \$123 billion as it has affected the country’s exports, prevented the inflows of foreign investment, led to additional security spending, affected the tourism industry, damaged physical infrastructure, and resulted in displacement of thousands of people from conflict-affected areas.⁴⁶ Hence, unlike other major traditional donors, China has come up with an investment package in infrastructure projects and both countries expect that increased connectivity would result in greater inter-regional trade and would bring peace, stability, and prosperity not only in Pakistan but also to the whole region.

CPEC within the analytical framework of ‘gift theory’

Before going into the discussion of the ‘gift theory’ and how an assessment of CPEC can be grounded in this theoretical debate, it is pertinent to mention that in Pakistan CPEC is often stated to be a gift from China—its longstanding strategic friend. For example, former Prime Minister Nawaz Sharif in an address to a parliamentary meeting revealed that Chinese President Xi Jinping had told him that CPEC was a gift from China to Pakistan. “He said this is a gift to you from China. They were also waiting for the time when our government would be in power so that they could make this investment,” the premier said while referring to the \$46 billion investment made by the Chinese government under CPEC.⁴⁷

Similarly, in his meeting with a Chinese delegation, Chief Minister of the Punjab province Shahbaz Sharif, who is also the brother of the former Prime Minister, stated that CPEC was a great gift of China for the people of Pakistan that would help in bringing progress and prosperity in the country.⁴⁸ Several other political figures from the ruling political party have been terming the project as a gift from its long-time strategic ally to share the benefits of economic progress.

The question arises here that what is the significance of such mega-gifts in the context of the diplomatic relationship between countries and what are the obligations on the part of the recipients of such gifts. In his classic work titled *The Gift: Forms and Functions of Exchange in Archaic Societies*, Mauss argues that gifts are never free of any obligations.⁴⁹ Rather, there are numerous instances where gifts lead to a reciprocal exchange. His seminal question in this regard is: "What power resides in the object given that causes its recipient to pay it back?"⁵⁰ The author explains that the process and act of giving results in the creation of a social bond with an obligation to reciprocate on the part of the recipient. He further elaborates that if somehow the recipient of gifts does not reciprocate or is unable to respond as expected, it means to lose honour and prestige. A number of studies have examined the concept of foreign aid from this perspective of gift theory involving the acts of giving, receiving, and reciprocating in one form or another.⁵¹ It is argued in these studies that one of the salient features of the concept of international development cooperation within the framework of the gift theory is "the fact that it involves real goods and services that fulfil real needs and desires, or precisely what donors have that recipients want."⁵² Thus, it can be implied that the process of giving aid or concessional loans results in a kind of a gift-debt that aid recipient will have to repay in one form or another. Whether it is a gift exchange or aid relationship between aid providers and recipients, the overall act of giving and receiving leads to a reciprocal interdependence between both partners. There are numerous instances of how foreign aid is employed by developed countries to make alliances with developing countries and accomplish their multifaceted foreign policy goals during, as well as after, the Cold War period.⁵³ It means there is no free gift as the policy and practice of using foreign aid to achieve political, security, geo-strategic, and commercial interests still continue.

Aid, soft loans, or investment? CPEC financing model

After assuming power following his victory in general elections 2013, Pakistan's former Prime Minister Nawaz Sharif visited Beijing in July 2013. During his trip, China and Pakistan signed a Memorandum of Understanding (MoU) in the presence of Chinese Premier Li Keqiang.

The main purpose was to encourage China to enhance its investment in energy, trade, and communication infrastructure. It also aimed at building linkages between the western region of China and northern Pakistan by establishing communication links and developing economic and trade corridors. To give further substance to the existing partnership, the most significant development took place during President Xi Jinping's visit to Islamabad in April 2015, where the two countries signed 51 Memorandums of Understanding (MoUs) related to CPEC and various other fields of mutual interests. During his visit, President Xi announced that China had agreed to \$46 billion investments in the form of CPEC.⁵⁴

As explained earlier in the context of China's model of foreign aid policy, this amount is not aid but a mixture of aid/grant, soft loans, and investment. Out of \$46 billion, about \$11 billion will be provided in the form of concessional and commercial loans.⁵⁵ According to Pakistani and Chinese officials based in Islamabad, the \$11 billion amount is in the form of government-to-government loans with a 2 percent interest rate.⁵⁶ It also includes some small grants to finance certain development projects in the education and health sectors in Gwadar. The remaining \$35 billion will be provided as export credit and FDI in the energy sector in the form of Independent Power Producers (IPP) mode.⁵⁷ Various Chinese entities such as the China Development Bank, the Export-Import Bank of China, the Industrial and Commercial Bank of China Ltd., and other financial institutions provide loans to Chinese companies to implement CPEC-related projects in Pakistan. In terms of eligibility for Chinese funding, only China's state-owned companies and enterprises can participate in the bidding, as there is no open international competitive bidding. Pakistani officials stated during interviews that this is also the practice in the case of other bilateral donors, as only organisations and companies from the lender countries participate in the bidding process to execute development projects in partner countries.

CPEC and its implications for Pakistan and China

There is no doubt that CPEC has considerable socioeconomic as well as geostrategic benefits for both countries and is a win-win situation. Pakistan is undoubtedly the first country where a number of projects are currently being implemented under the BRI. At present, 22

projects costing \$29 billion are under various phases of implementation, including 15 projects worth an estimated \$22 billion in the energy sector.⁵⁸ Small has appropriately stated that the corridor is considered the flagship project of the BRI, as several objectives of the initiative converge in Pakistan including “the outsourcing of industrial capacity, the search for growth drivers in the Chinese interior, the push to build up new markets for Chinese exports, efforts to stabilise China’s western periphery”⁵⁹ vital to effectively addressing the threat of Islamic extremism, and the plans to explore alternative and viable transportation routes linking China with the Indian Ocean and beyond.

While the two countries have been enjoying warm bilateral ties for decades, unlike the US-Pakistan relationship, Pakistan and China “have never been treaty allies.”⁶⁰ Both Beijing and Islamabad have enjoyed diplomatic ties for over six-and-a-half decades that are characterised by “peaceful coexistence with zero number of clashes at states’ level.”⁶¹ Both countries have developed an unprecedented level of mutual trust at the government-to-government level. There are even metaphors describing the diplomatic relationship as ‘time-tested’ and ‘all-weather friendship’, and ‘higher than the Himalayas, deeper than the Indian Ocean, and sweeter than honey’.

In the context of viewing CPEC as a gift to Pakistan, there is no doubt about its significant socio-economic prospects, provided various externalities are effectively addressed—including social and environmental costs. In fact, both countries have to exert strenuous effort to thwart implicit and explicit attempts by some national, regional, and international actors to partially or fully impede its implementation. The question is that how can Pakistan return the favour to China, applying gift theory, so that CPEC is a win-win situation for both countries.

For China, there are two main drivers behind the BRI and CPEC. The first is to effectively utilise Pakistan’s privileged geographical position to further its geo-economic and strategic objectives and minimise its ‘Malacca Dilemma’ in case of any blockades by hostile forces. The second relates to China’s domestic imperatives and concerns. Although the former has been widely discussed, the latter has drawn limited attention. The reality is that the primary motivations behind the BRI are “economic and commercial drivers, creating new markets for Chinese companies or addressing challenges facing the Chinese

economy such as industrial overcapacity.”⁶² For example, according to Cai, in the steel industry alone, “China’s annual steel production surged from 512 million tonnes in 2008 to 803 million tonnes in 2015.”⁶³ The same author further states that the capacity to produce an additional 300 million tonnes per year is larger than the production capacity of the United States and the European Union put together. Thus, China is pursuing the policy of shifting its factories with overcapacity to BRI countries in order to minimise its supply glut at home and at the same time to assist less developed countries to accelerate the process of industrialisation. It is an interesting twist of irony that Beijing’s “domestic economic liabilities become foreign economic and diplomatic assets.”⁶⁴

In addition, the development of various mainland regions and cities across China has been a key factor. For example, in the case of Xinjiang Autonomous Region, the concept of bringing economic development to this region received the attention of policymakers as early as the 1980s. It was envisioned to develop “Xinjiang eastwards to integrate it more closely into the national economy, and westwards towards Central Asia, following the reopening of border trade between Xinjiang and Central Asia in 1983.”⁶⁵ Similarly, Huasheng also concurs that “economic development of Xinjiang is a national priority. In 2000, the Chinese government released its strategy for the development of the western regions.”⁶⁶ The case of Xinjiang is conspicuous due to multiple factors, including “narrowing the economic gap between Xinjiang and the more developed eastern provinces...helping alleviate discontent and security problems in Xinjiang.”⁶⁷ The elimination of poverty and improvement of the living standard of local residents, state-led development interventions could significantly help reduce the threat of East Turkestan separatist movement. Hence, the overall objective is to bring economic prosperity to the vulnerable population and “to alleviate the conditions that allow terrorism, separatism and extremism to flourish.”⁶⁸

In the 12th Five-Year Plan introduced by the Chinese central government, which set out major development goals for the period between 2011 and 2015, Xinjiang was envisaged as an essential hub to ‘open to the West’. In the same context, the main policy document on the ‘Vision and Actions’ of the BRI asserts to utilise Xinjiang’s geographic position as a gateway to “deepen communication and cooperation with

Central, South and West Asian countries, [we must] make it a key transportation, trade, logistics, culture, science and education centre, and a core area in the overall BRI.”⁶⁹ Although conspicuously missing in official documents, China’s security concerns—particularly vis-à-vis Xinjiang and the associated issue of Uighur terrorism—also run alongside the development agenda. Hence, there are various domestic dynamics at play to make Xinjiang a successful node in the BRI. The “Belt and Road Initiative should be viewed as an extension, consolidation and political elevation of pre-existing policy ideas and practice at the sub-national level in China.”⁷⁰ In addition to the external or international aspects, the BRI and CPEC have vital domestic drivers that are often found missing in the overall discourse on the subject.

From the perspectives of the ‘gift theory’, how Pakistan is expected to reciprocate Chinese largesse? As Andrew Small has aptly stated, “Pakistan is a central part of China’s transition from a regional power to a global one.”⁷¹ To capitalise on Pakistan’s geographical location to advance its geostrategic and geo-economic ambitions, China also expects Pakistan to reciprocate by ensuring domestic harmony and not letting inimical forces disrupt CPEC. If Pakistan fails to maintain the stability required for the implementation of numerous CPEC-related projects, it would be tantamount to not reciprocating China’s ‘gift’ and losing its ‘prestige and honour’. If China has come up with a huge investment plan under CPEC, there is an obligation on Pakistan to respond in a manner through which it can practically demonstrate its ability to reciprocate the ‘gift’. This can be achieved on two fronts. First, there is a need for internal political stability, domestic harmony, and better law and order situation so that Chinese companies and workers could wholeheartedly focus on completion of CPEC-related projects in due time. Similarly, China expects Pakistan to make sure that Uighur separatists belonging to the East Turkestan Islamic Movement (ETIM) do not find any safe haven in the country’s tribal belt bordering Afghanistan or elsewhere, as the issue of Uighur insurgency has become a serious internal security challenge for China in recent years. In the past, acting on a tip-off from Chinese security forces, Pakistani military forces have detained or killed a number of ETIM members in raids carried out in border areas of Gilgit-Baltistan and Khyber Pakhtunkhwa. Second, there is a need for institutional reforms so that unnecessary red tape,

bureaucratic hurdles, and excessive regulations are avoided. Such issues lead to delays in decision-making and eventually mar the overall process of projects' approval and implementation. Without addressing chronic issues of bad governance and structural reforms, the true potential of CPEC seems hard to be materialised for the mutual benefit of both countries.

Conclusion: is CPEC a gift?

This paper has given a detailed account of the key characteristics and elements of Chinese foreign aid policy. In doing so, the paper has critically analysed China's foreign aid policy and its development cooperation model, which is a combination of aid, investment, and concessional loans. On account of its ever-expanding aid programme, as well as due to its willingness to readily invest in sectors such as energy, agriculture, and communication infrastructure unlike Western donors, China has emerged as a global development actor. While Chinese leadership has used lofty ideals such as respect for sovereignty, non-conditionality, and mutual win-win in its foreign aid policy, there is also considerable evidence suggesting that China has used its development aid to promote its trade and commercial interests, as well as to safeguard its strategic objectives.

In the case of increased Chinese investments in Pakistan under CPEC and the perception nurtured and built by Pakistani leadership that CPEC is actually a gift from China, this paper has critiqued the corridor from the conceptual lens of the 'gift theory'. The study has illustrated that the project would certainly bring socioeconomic benefits to Pakistan. It is the only country participating in the China-led BRI where numerous energy and infrastructure projects are already under different stages of implementation. In view of the unprecedented Chinese investments in various sectors of the economy, there are huge socioeconomic prospects associated with CPEC. Nonetheless, elaborating the financing model of CPEC, Chinese investment is not a gift or aid per se. Chinese investment in CPEC is neither purely motivated by self-interest nor merely by compassion. Via CPEC, China wants to address both its domestic concerns regarding the export of overcapacity and access to new markets and to bring economic development and prosperity in its less developed mainland regions by connecting these with the Indian

Ocean through Gwadar Port of Pakistan. Hence, the corridor has both geo-economic and geostrategic benefits for China. In sum, if China has come up with a massive multiyear investment plan in the form of CPEC to accomplish its own domestic and foreign policy objectives—as well as to help Pakistan resolve its energy crisis, foster industrialisation, and upgrade its communication infrastructure—Pakistan must respond earnestly to allay Chinese concerns vis-à-vis political stability and maintaining law and order to ensure the safety and security of Chinese nationals working in Pakistan. In order for China to effectively utilise Pakistan's geographical location for the mutual win-win situation, many of the domestic challenges are to be addressed by the Pakistani government to make the country a favourite destination for foreign investors and a hub for regional trade and commerce.

Notes and references

- ¹ P. Cai, *Understanding China's Belt and Road Initiative* (Sydney: Lowy Institute for International Policy, 2017), p.6.
- ² People's Republic of China, *China's Foreign Aid* (Beijing: Information Office of the State Council, 2011).
- ³ People's Republic of China, *China's Foreign Aid*, (Beijing: Information Office of the State Council, 2014).
- ⁴ Ibid., p.1.
- ⁵ A. de Haan, "Will China Change International Development as We Know It?," *Journal of International Development* 23, no. 7 (2010); Xiaoyun. Li et al., "Difference or Indifference: China's Development Assistance Unpacked," *IDS Bulletin* 45, No.4 (2014).
- ⁶ "Difference or Indifference: China's Development Assistance Unpacked."
- ⁷ S. Lengauer, "China's Foreign Aid Policy: Motive and Method," *Culture Mandala: Bulletin of the Centre for East-West Cultural & Economic Studies* 9, No.2 (2011), p.44.
- ⁸ Ibid., p.76.
- ⁹ People's Republic of China, *China's Foreign Aid*, p.3.
- ¹⁰ Ibid.
- ¹¹ Li et al., "Difference or Indifference: China's Development Assistance Unpacked."
- ¹² People's Republic of China, *China's Foreign Aid*, p.6.
- ¹³ According to the 2011 White Paper, grants are given to eligible countries for financing public welfare projects, including construction of health and education facilities and medium and small projects of social welfare such as low-cost housing, water supply schemes, etc. Grants also facilitate technical cooperation and emergency humanitarian aid. Interest-free loans are used to help recipient countries construct public facilities and launch projects to improve people's standard of living. They have a tenure of 20 years, including five years of payment, five years of grace, and ten years of repayment. Concessional loans are provided for large- and medium-sized infrastructure projects, as well as for projects generating both economic and social benefits for the recipient country and incurring interest payments. Current annual interest rate of China's concessional loans is stated to be between 2 percent and 3 percent

with a repayment period of 15 to 20 years (including five to seven years of grace).

- 14 People's Republic of China, *China's Foreign Aid*, p.2.
- 15 Ibid.
- 16 L. Tang, Jiewen. Ma, and X. Li, "China's Foreign Aid - History, Current Situation and Challenges," *Journal of China Agricultural University (Social Sciences)* (2015); X. Xu et al., "Science, Technology, and the Politics of Knowledge: The Case of China's Agricultural Technology Demonstration Centers in Africa," *World Development* 81(2016).
- 17 D Brautigam, "Aid 'with Chinese Characteristics': Chinese Foreign Aid and Development Finance Meet the Oecd-Dac Aid Regime," *Journal of International Development*, No.23 (2011).
- 18 Ibid.; Lengauer, "China's Foreign Aid Policy: Motive and Method."
- 19 A. de Haan, "Will China Change International Development as We Know It?".
- 20 Ibid.
- 21 Ibid.
- 22 J. Xu and R. Carey, "China's International Development Finance: Past, Present, and Future," *WIDER Working Paper* 130 (2015): 4.
- 23 Li et al., "Difference or Indifference: China's Development Assistance Unpacked," p.33.
- 24 Ibid., p.28.
- 25 A. Hussain, "An Open Debate," <https://www.thenews.com.pk/print/235858-An-open-debate>; I. Husain, "Financing Burden of Cpec," <https://www.dawn.com/news/1313992>
- 26 Government of Pakistan: Ministry of PDR and People's Republic of China: National Development & Reform Commission, "Long Term Plan for China-Pakistan Economic Corridor (2017-2030)," (Islamabad: Government of Pakistan: Ministry of Planning, Development and Reform & People's Republic of China: National Development & Reform Commission, 2017).
- 27 Tang, Ma, and Li, "China's Foreign Aid - History, Current Situation and Challenge."; M Huang and X Wei, "The Chinese Foreign Aid Management System and Its Reform," in *Institutional Architecture and Development: Responses from Emerging Powers*, ed. E. Sidiropoulos, et al.(Johannesburg: South African Institute of International Affairs (SAIIA). 2015).

- 28 N Kitano, "China's Foreign Aid at a Transitional Stage," *Asian Economic Policy Review* 9, no. 2 (2014): p.301.
- 29 Tang, Ma, and Li, "China's Foreign Aid - History, Current Situation and Challenges," p.25.
- 30 Huang and Wei, "The Chinese Foreign Aid Management System and Its Reform," p.111.
- 31 Chris Alden, "Red Star, Black Gold," *Review of African Political Economy* 32, no. 104/5 (2005); D. Cissé and S. Grimm, "Chinese Investments in Africa: Corporate Responsibility and Sustainability Norms," *International Journal of Business Governance and Ethics* 10, no. 3/4 (2015); Penny Davies, "China and the End of Poverty in Africa – Towards Mutual Benefit?,"(Sundberg, Sweden: Diakonia/Eurodad, 2007); S. Grimm, "China–Africa Cooperation: Promises, Practice and Prospects," *Journal of Contemporary China* 23, no. 90 (2014); Thomas Lum et al., "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia,"(Washington, DC: Congressional Research Service, 2009); I Scoones et al., "A New Politics of Development Cooperation? Chinese and Brazilian Engagements in African Agriculture," *World Development* 81(2016).
- 32 Moisés Naím, "Rogue Aid," *Foreign Policy* 159, no. March/April: 95-96 (2007).
- 33 Xu and Carey, "China's International Development Finance: Past, Present, and Future," p.12.
- 34 A. Alesina and D. Dollar, "Who Gives Foreign Aid to Whom and Why?," *Journal of Economic Growth* 5(2000); M Ali, G Banks, and N. Parsons, "Why Donors Give Aid and to Whom? A Critique of the Historical and Contemporary Aid Allocation Regime," *The Dialogue* X, no. 2 (2015); J-C Berthe'lemy, "Bilateral Donors' Interest Vs. Recipients' Development Motives in Aid Allocation: Do All Donors Behave the Same?," *Review of Development Economics* 10, no. 2 (2006); G. Canavire et al., "Assessing the Allocation of Aid: Developmental Concerns and the Self-Interest of Donors," *Indian Economic Journal* 54, no. 1 (2006); J. I Round and M Odedokun, "Aid Effort and Its Determinants," *International Review of Economics and Finance* 13, no. 2004 (2003); C. Tarnoff and L. Nowels, "Foreign Aid: An Introductory Overview of U.S. Programs and Policy," in *Foreign Aid: Control, Corrupt, Contain?*, ed. A. A Bealinger(New York: Nova Science Publishers, 2006).
- 35 A. Dreher and A. Fuchs, "Rogue Aid? An Empirical Analysis of China's Aid Allocation," *Canadian Journal of Economics* 48, no. 3 (2015).
- 36 Ibid., p.988.

- 37 Lengauer, "China's Foreign Aid Policy: Motive and Method," p.76.
- 38 Kitano, "China's Foreign Aid at a Transitional Stage."
- 39 N. Kitano and Y. Harada, "Estimating China's Foreign Aid 2001–2013," *Journal of International Development* 28(2015).
- 40 Ibid.
- 41 Xu and Carey, "China's International Development Finance: Past, Present, and Future," p.6.
- 42 Li et al., "Difference or Indifference: China's Development Assistance Unpacked," p.23.
- 43 de Haan, "Will China Change International Development as We Know It?"
- 44 Scoones et al., "A New Politics of Development Cooperation? Chinese and Brazilian Engagements in African Agriculture," p.8.
- 45 Tang, Ma, and Li, "China's Foreign Aid - History, Current Situation and Challenges," p.19.
- 46 Government of Pakistan, *Pakistan Economic Survey 2016-17* (Islamabad: Ministry of Finance., 2017).
- 47 The Express Tribune, "CPEC a Gift from China to Pakistan: Pm Nawaz," <https://tribune.com.pk/story/1155748/gwadar-airport-gift-china-pakistan/>.
- 48 The Nation, "CPEC a Great Gift of China for Pakistan: Shahbaz," 17 October 2016.
- 49 M. Mauss, *The Gift: Forms and Functions of Exchange in Archaic Societies*(London: Routledge, 1990).
- 50 Ibid., p.3.
- 51 T. Hattori, "Reconceptualizing Foreign Aid," *Review of International Political Economy* 8, no. 4 (2001); R. Kowalski, "The Gift – Marcel Mauss and International Aid," *Journal of Comparative Social Welfare* 27, no. 3 (2011); E Mawdsley, "The Changing Geographies of Foreign Aid and Development Cooperation: Contributions from Gift Theory," *Transactions of the Institute of British Geographers* 37, No. 2 (2012).
- 52 Hattori, "Reconceptualizing Foreign Aid," p.646.
- 53 A. Maizels and M. K Nissanke, "Motivations for Aid to Developing Countries," *World Development* 12, no. 9 (1984); M. McGillivray, "Descriptive and Prescriptive Analyses of Aid Allocation: Approaches, Issues, and Consequences," *International Review of Economics and Finance* 13, no. 3 (2003); P. J Schraeder, S. W

Hook, and B. Taylor, "Clarifying the Foreign Aid Puzzle: A Comparison of American, Japanese, French, and Swedish Aid Flows," *World Politics* 50, no. 2 (1998); M. Ali, G. Banks, and N. Parsons, "The United States-Pakistan Aid Relationship: A Genuine Alliance or a Marriage of Convenience?," *Regional Studies* XXXIII, no. 2 (2015).

⁵⁴ The initial value of total investment under CPEC was US\$ 46 billion. With the addition of numerous other projects to the CPEC portfolio, the current value is estimated to be about US\$ 62 billion, and is expected to rise further once new projects are added.

⁵⁵ CPEC Secretariat, "CPEC Infrastructure Projects," <http://cpec.gov.pk/infrastructure>.

⁵⁶ Personal communication with officials in CPEC Secretariat and Embassy of China, Islamabad, September 2017.

⁵⁷ Personal communication with officials in CPEC Secretariat, Islamabad, September 2017.

⁵⁸ Personal communication with officials in CPEC Secretariat, Islamabad, September 2017.

⁵⁹ A. Small, "Beyond India-Centricity—China and Pakistan Look West," (Seattle, Washington: The National Bureau of Asian Research, 2016), p.69.

⁶⁰ A. Small, *The China-Pakistan Axis: Asia's New Geopolitics* (New York: Oxford University Press, 2015), p.3.

⁶¹ R. Hameed, "Pakistan and China: Partnership, Prospects and the Course Ahead," *Policy Perspectives* 14, no. 1 (2017), p.3.

⁶² T. Summers, "China's 'New Silk Roads': Sub-National Regions and Networks of Global Political Economy," *Third World Quarterly* 37, no.9 (2016), p.1628.

⁶³ Cai, "Understanding China's Belt and Road Initiative," p.12.

⁶⁴ Ibid., p.13.

⁶⁵ Summers, "China's 'New Silk Roads': Sub-National Regions and Networks of Global Political Economy," 1633.

⁶⁶ Z. Huasheng, "Central Asia in Chinese Strategic Thinking," in *China's Engagement with South and Central Asia: Patterns, Trends and Themes*, ed. T. Fingar (Stanford, California: Stanford University Press, 2016), p.180.

⁶⁷ Ibid.

⁶⁸ Ibid.

- ⁶⁹ State Council, "Vision and Actions on Jointly Building Silk Road Economic Belt and Twenty-First Century Maritime Silk Road," http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.
- ⁷⁰ Summers, "China's 'New Silk Roads': Sub-National Regions and Networks of Global Political Economy," p.1634.
- ⁷¹ Small, *The China-Pakistan Axis: Asia's New Geopolitics*.