



Colonialism to Neo-Colonialism: The Chinese Use of Foreign Direct Investment and the Case of Pakistan



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Abstract *The practice of neo-colonialism was initially introduced by the United States through the establishment of institutions like the Bretton Woods Institutions (IMF and World Bank) and continuing the legacy, China soon took over and had been using FDI to further its neo-colonial agenda in various parts of the world, including Pakistan. This research explores the history of colonization in the Sub-Continent and traces the origins of neo-colonization with a focus of the United States as a pioneer of the practice and China as the contemporary neo-colonizer. The research traces the transition from colonialism to neo-colonialism and examines the case of Pakistan as a victim of neo-colonialism, presenting the case based on evidence. The paper concludes that neo-colonialism is indeed colonialism with a changed outlook and proposes certain recommendations for Pakistan to minimize the impact of Chinese colonialism.*

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Introduction

The Pre-World War II world was characterized by terms like imperialism and colonialism, but the occurrence of the war not only altered the world map it also led to changed ideas and practices, challenging the pre-existing ones and resulting in their obsolescence (Singh, 2011). These ideas have been widely prevalent prior to the Second World War primarily because the idea of power was different from that of the contemporary world. To elaborate further, power was mainly associated with physical control, and so the European powers competed to exert their influence and control over most

of the parts of the world. However, the situation only changed in the Post-World War II period when the aftermath of the war made it rather impossible for these powers to hold the same position and on top of it, the global norms were already in a state of transition, leading to the irrelevance of the older ideas (Fisher, 2014).

It is evident that power was a primary motivation behind rising colonialism, and this statement is backed by Hans Morgenthau, who believed that power derives from all political action (Holsti, 1964). However, it also needs to be

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considered that among other reasons, exploitation of the resources available in the colonies and investing the surplus money outside were two significant factors that promoted expansion and control, but, as a matter of fact, the reality remains that even these factors are entirely power-driven. It is noteworthy that power is not just the political control and influence, it also shares a deep relationship with the economy, and that is why the colonizers aimed at exploiting the resources of the colonies to strengthen their own economies ([Ghosh, 2015](#)). This approach was primarily adopted by the British, who had a rather practical outlook that was free of the Christian fanaticism which was visible in the policies of the other European colonizers. Hence, rather than focusing on cultural integration and assimilation, the English strived for a monopolistic trading position. This approach was even adopted in the Sub-Continent, the former British colony where economic gains were given a preference and whether the British invested in the country or sold any of their banking or shipping services, they had a complete hold over the monopolistic privileges ([Maddison, 2006](#)).

However, what needs to be taken into consideration is that the privileges that the British enjoyed in India were not abruptly achieved; before turning into the colonizers, the English were mainly investors that we're searching for investment opportunities, and they entered the region as traders that introduced the East India Company (EIC) in the region. This approach led the Mughal emperors to put down their guards as they believed that the entry of the British into India would open economic avenues for the country. However, with the passage of time, the investors turned into colonizers as their economic power boosted. This denotes that acquiring economic power assures

political influence, and as a matter of fact, even though the phenomenon of imperialism and colonialism are outdated, the association of economic power with political power has not faded away; it has rather gotten more relevant in the contemporary world.

In the modern world, control and expansion are different from that of the Pre-World War II era as now; they are achieved through economic power. In this era, all the powers that wish to exert their influence over the others engage with other entities economically because it is then that they develop a dynamic ([Madeleine, 2018](#)). This approach is believed to be neo-colonialism, and it is believed that neo-colonialism has been in practice specifically in the Post-World War II scenario first by the United States that formulated the financial institutions in order to ensure the control of the world economy that led to political control ([Salameh, 2017](#)). Another international player that has adopted the same approach is China that has been using Foreign Direct Investment (FDI) as a weapon to further its neo-colonial interests ([Etzioni, 2020](#)). This research explores British colonialism in the Sub-Continent and discusses the transition from colonialism to neo-colonialism. It also examines the modern-day concept of Foreign Direct Investment in the case of Pakistan, with a special focus on the involvement of China in the country. It raises the question of whether the investments that are flowing in Pakistan from China are aimed at financial colonization and provides evidence to support the case.

Literature Review

James P. Welch explores the roots of colonialism and claims that the advent of colonialism can be traced back to the Age of Discovery when new lands were

discovered by Portugal and Spain. As a matter of fact, the powerful European powers built trading posts on these newly discovered lands, and while initially the lands were divided among the Portuguese and the Spanish, soon the British, the French, and the Dutch entered the competition and succeeded in establishing their influence by occupying vast territory ([Welch, 2011](#)). It all began in the late 1500s when the explorers started to move towards the east to carry out trading activities, and even though Spain and Portugal had established their dominance on these routes, the Spanish Armada's destruction provided the opportunity to the English and the Dutch to compete for influence in the East Indies. The British being aware of the cut-throat competition that the Dutch offered, were granted the right to carry out trade in the East Indies; one of the groups were merchants that had acquired trading rights was called the Governor and Company of Merchants of London Trading into the East Indies, and it was this group that later became known as the East India Company. Initially, this small group of tradesmen was seeking new trading opportunities, and the search for new avenues led them to Asia, where they were able to accumulate handsome profits, which resulted in an increased inclination towards the region. Apart from the profits, another factor that served as a strong rationale behind the involvement of the British in Asia and India, in particular, was the fierce competition, specifically in the spice trade in the East Indies ([Johnson, n.d.](#)).

Soon after, the small group of merchants that only aimed at capitalizing on the trading activities expanded to such an extent that it gained domination over the textile trade not in one region but globally, and that called for the protection of its trade which in turn resulted in the formation of an army with its main stations being in Madras, Bombay and

Bengal. Initially, the primary purpose of having an army was indeed the protection of the interests of the company; however, a local uprising that was backed by the French turned into the Battle of Plassey in 1757, and as soon as the East India Company succeeded in defeating the insurgents, patterns began to change. The group of merchants that entered the country for trading purposes now held administrative powers over its territories, and that included imposing taxes on those that were living in those areas. Moreover, the control of the East India Company over India further expanded with annexations that weakened the Mughal rule and ultimately turned the British into colonizers who exercised control over the entire government until the onset of the Second World War that eventually weakened Britain rule in India and led to their departure in the mid-20th century.

Introduction of Neo-Colonialism: The Transition

The colonization of the Sub-Continent is a prime cause for the relevance and significance of economic power and how that power can be utilized to attain political and military advantage in the longer run. This statement is also backed by Klaus Knorr, who stresses the existence of a strong relationship between the economic dimension with the political one ([Gardner, 1976](#)). Relating the ideas of Knorr with the reality, the British fairly understood the notion of political economy as a group of merchants that seemed to be potential investors gained political influence through the economic influence that they possessed.

However, with the passage of time and particularly after the termination of the Second World War, colonization lost its relevance, and as Jonjo Robb puts it, the British had to move towards decolonization out of sheer necessity and

not a choice ([Darwin, 2017](#)). Jason Hickel enters the discussion at this point and provides the reason for withdrawal from the Sub-Continent and reveals that the British exhausted the Indian economy and pulled out approximately \$45 Trillion from the time that they entered the region to 1938. Hickel highlights that the British nearly drained the Indian economy, and that provides the rationale behind their withdrawal from India as it indicates that the administration of India was a liability for them since due to the economic exploitation that they had carried out, the Gross Domestic Product (GDP) was in a state of decline, making the administration difficult ([Hickel, 2018](#)). However, even though the Second World War had changed the world order and colonization had lost its relevance for various reasons, a phenomenon like power and control were still relevant. William Zartman argues on the same lines as he claims that while decolonization brought about a degree of sovereignty, the economic preponderance remained, and so the notions of sovereignty and independence were a mere façade. This argument is also advocated by Harold McMillan, who propagated that World War II weakened the colonial powers and that resulted in a shift from direct control to an indirect form of domination, and while the colonized countries remain under the illusion of independence, they are still being controlled by the colonizers as their economies and politics are heavily influenced ([Zartman, 1976](#)). Hence, it would not be wrong to argue that the transition from colonization was not towards decolonization, but rather neocolonization, which is a common practice in the modern world and has been defined by Nkrumah as *“The essence of neocolonialism is that the state which is subject to it is, in theory, independent and has all the outward trappings of international sovereignty. In reality, its*

economic system and thus its political policy is directed from outside” ([Welch, n.d.](#)). This statement denotes that neocolonization is just a modified form of colonization as while certain states claim to be sovereign, their economies are externally controlled, and hence, indirect political control is exercised over them by the foreign powers.

The practical implementation of this idea began soon after the Second World War when the United States emerged as a global power, overriding the authority of Britain as its predecessor. However, the strategies adopted by both the powers differ as while Great Britain exercised control through imperialism, the United States has been exerting control through economic measures. Hence, soon after the termination of the Second World War, laying down the foundations of the International Monetary Fund (IMF) based on the idea of prevention of yet another war through economic and trade ties led to financial colonization ([Burton, K. D., 2020](#)). This statement is supported by the fact that the functions of the International Monetary Fund include surveillance and lending along with technical assistance. As far as lending is concerned, it needs to be brought to light that the International Monetary Fund has the duty of ensuring the provision of loans to the countries that require financing to enhance their economic stability (IMF, n.d.). It is evident that the loans are conditional and so it is not wrong to assume that a degree of control is exercised on the countries that borrow from this financial institution and Aram Ziai backs this argument by stating that institutions like the International Monetary Fund and the World Bank are mere tools of oppression that are used by the North to suppress the South ([Ziai, 2012](#)). The fact of the matter is that while the strategies changed, the prevailing pattern remained unchanged. Since the definition of change gained a strong

economic dimension, possessing economic power became imperative for the United States over the decades. This explains the rationale behind the establishment of the institutions like the International Monetary Fund (IMF) that has structural adjustment as one of its prominent functions, and it aims to help the developing countries balance their budgets, removing the subsidies of the state, privatizing the state enterprises and help with attracting Foreign Direct Investment (Council on Foreign Relations, n.d.).

While, on the face of it, it appears to be a form of assistance but, it is a subtle manner of exerting control. The point that needs to be taken into consideration is that the transition between colonialism and neo-colonialism rather intensified the struggle for power and like the United States emerged as the hegemon after the decline of Great Britain, another rising power is all set to take over the world through its economic progress. This power happens to be China, and acting upon the evolved definition of power; China has been accumulating economic strength, which is a source of threat for the United States in terms of maintaining its position in the world. This has resulted in an economic war between the two rivals ([Arbel, 2020](#)). One of the ways that the United States has been adopting to maintain its hegemony is by creating barriers for China to prevent its economic progress. Makena Kelly supplements this argument by reporting an incident from 2018 when the Chief Financial Officer of the Chinese company Huawei was arrested on the charges of stealing trade secrets of the United States along with sophisticated technology ([Kelly, 2020](#)). The action taken by the United States clearly indicates that it aims to halt the process of Chinese economic supremacy because that would ultimately ensure China's control over the world. This case is

further backed by more evidence that reveals that Donald Trump, the former U.S. President proposed a ban on the Chinese applications, Tiktok and WeChat, which further highlights the growing U.S. fear of a complete Chinese economic take over the world that would help further its neo-colonial agenda ([Arbel, 2020](#)). However, introducing technology is not the only way that serves the neo-colonial agendas; it also calls for engaging with other economies on an inter-personal level, and that brings in the idea of Foreign Direct Investment (FDI), which is an integral point of discussion in this regard. First, it needs to be noted that it is a widely adopted practice that is in line with the idea of neo-colonialism, and it occurs when the residents of the source country attain ownership of assets in the host country for the purpose of production, distribution, and other activities (Choice Reviews Online, 2002). The fact that Foreign Direct Investment is widely practised is proven by statistics that reveal that in 2019, approximately \$226.65 billion flew out of Japan for investment purposes, and China is another huge investor that invested \$117.12 billion with Germany, Canada, Hong Kong, France, and the United Kingdom also being potential investors ([Statista, 2020](#)). The fact of the matter is that foreign investments have benefits to offer not just for the source countries but also for the host countries as because of the capital flowing in these countries and the introduction of new products, new technology is brought into the country and not only that but also new jobs are created which results in raised living standards ([Amadeo, 2021](#)). In addition, the recipients of foreign investment eventually experience growth in their Gross Domestic Product (GDP) (EDUCBA, 2021). However, while the idea of getting investment seems appealing, the fact remains that there is also a downside to it

as in cases where the host country happens to be a developing or an underdeveloped economy, it is easier for the source country to exploit the resources of the host country whether it be natural or human and this mainly happens because a key feature of the Foreign Direct Investment is 'control' as the investors from the source country have the authority to monitor the functioning in the host country (Choice Reviews Online, 2002). This means that even though external investments have several opportunities to offer to the host country and there are certain benefits that they can avail, the fact remains that the ultimate control remains with the country which brings in the capital, and that proves that Foreign Direct Investment is serving as the tool that propagates neo-colonialism. Keeping the Chinese case in consideration, there is no doubt that China is adopting all possible measures to colonize the world as per the new ideas. However, a significant question that the study raises is whether Pakistan, too, is a victim of neo-colonialism at the hands of its "all seasons" friend, China, and hence it is pertinent to explore the case of Pakistan with regards to the investment that has been abundantly flowing in from China.

Foreign Direct Investment in Pakistan: Is China the "Neo"-Colonizer?

It is already established that Foreign Direct Investment works both ways as while it has benefits to offer for the host country, it is also detrimental in some ways, and hence, it wouldn't be wrong to claim that it is rather a double-edged sword that has been creating opportunities while economically colonizing the vulnerable and this argument is further strengthened by the Former Secretary of State, John Foster

Dulles as he mentions in his book called, "War and Peace", that while apparently there is an anti-colonial trend in the post-Second World War scenario, that is, in fact, a shift from colonialism to neo-colonialism (Victoria University of Wellington, n.d.).

Delving deeper and exploring the case of Pakistan, it should be taken into consideration that according to the United Nations Conference on Trade and Development (UNCTAD), during the year 2020, the Foreign Direct Investment that flew in Pakistan was a flat \$2 billion. The factor behind the inclination of the foreign investors to invest in Pakistan is firstly the fact that Pakistan happens to be a huge domestic market with an approximate population of 207 million. Moreover, in recent years, the government has implemented investment-friendly policies that provide incentives to the source countries, including tax holidays and equal treatment between the local and the foreign investors (Standard Trade, n.d.). In addition, the geographical position of Pakistan also plays a significant role as it serves as a gateway to the energy-rich Central Asia, the Gulf States that offer numerous financial prospects, as well as the Eastern Tigers that are economically strong ([Zafar and Associates, n.d.](#)). Hence, Pakistan is not just a focus of attention in terms of foreign investment for the perks that it has to offer internally but also because of the access that it can provide due to its significant geographical position.

As a matter of fact, the biggest investor in Pakistan is China; however, recently, due to the benefits that Pakistan has to offer to its investors, South Korea, the United Kingdom, and Japan have also shown an increased inclination towards investing in the country (Satandar Trade, n.d.). As far as China is concerned, it is evidently a huge investor, especially after the introduction of the Belt and Road

Initiative (BRI), a trillion-dollar project which primarily aims to build maritime as well as land trade routes by bringing together approximately 70 countries of Asia, Africa, and Europe, with Pakistan being one of them. Under the Belt and Road Initiative, another project called the China Pakistan Economic Corridor (CPEC) has also been launched, and China announced an investment of \$60 billion for the purpose of the development under this project ([Toppa, 2018](#)). While the project offers promising future developmental prospects for Pakistan because of the establishment of transport networks, energy projects and special economic zones, many view it sceptically, and one of the critics is a Pakistani Political Economist, S. Akbar Zaidi, who claimed that "*It will enslave Pakistan and undermine its sovereignty*" ([Jamei, W. 2017](#)). Francesca Marino argues on the same lines and expresses the opinion that the China Pakistan Economic Corridor is rather the reincarnation of the East India Company as there is a striking similarity between the strategies between the two. He claims that in the case of the East India Company, it all began with the arrival of the merchants, followed by the soldiers, which eventually led to the colonization. Drawing a comparison between the two scenarios, Manzoor Ali Asran notes that the Chinese investment in Pakistan in terms of the China Pakistan Economic Corridor is not only viewed as an economic project but also as a military project as about 15,000 soldiers have been deployed in Balochistan for the purpose of the protection of the Chinese works as well as the investment ([Marino, 2020](#)). Basing the argument on this fact, it is clear that history is indeed repeating itself as the British maintained armed forces in India under the façade of the protection of their trade and soon, as Peter Marshall claims, they began annexing the lands that were under the Mughal

Empire, eventually colonizing the entire Sub-Continent ([Marshall, 2011](#)). In case of annexations, if the two powers are compared, it can be argued that keeping in view the new world order, China would not follow the footprints of the British through a show of hard power, but the reality remains that China holds similar expansionist designs with a different approach.

Another aspect of similarity between the East India Company and the Chinese investment is the cultural colonization as the takeover of the Subcontinent by the British led to an increased demand for the English Language, recently it has been observed that young Pakistanis are attracted towards Mandarin to get hold of jobs as well as higher degrees ([Toppa, 2018](#)). China is clearly making use of soft power as the Chinese culture is now developing in Pakistan in terms of the popularity of its language being a mere show of the soft power. To supplement the argument, it should be considered that even one of the objectives of the China Pakistan Economic Corridor states that, "*The future cooperation between Chinese and Pakistani media will be beneficial to disseminating Chinese culture in Pakistan, further enhancing mutual understanding between the two peoples and the traditional friendship between the two countries*" ([Kumar, 2017](#)). If closely analyzed, this is blatant cultural invasion and assimilation under the veil of mutual understanding and cooperation. This statement is backed by the figures of the Chinese settlers in Pakistan that were provided by diplomatic officials. These figures reveal that approximately 10,000 Chinese are settled in Islamabad, and another 35,000 are reported to be living in the rest of the country ([Khan, 2019](#)). While the economy is already controlled and the Chinese nationals are increasingly present in the country, the notion that neo-colonialism is being practised under

the veil of “friendship” does not seem too absurd. It, in fact, indicates the validity of the phenomenon of neo-colonialism and its adoption by China.

Francesca Marino enters the argument once again and puts forwards the idea that Pakistan is colonizing its own provinces under the façade of progress and development. To prove her point, she quotes the former Minister for Development, who said that “*The economic corridor between China and Pakistan (CPEC) is as important as the nuclear weapons development programme and must not be politicized*” (Khan, 2019). While this statement is valid to an extent as investment leads to development, however, it is also fair to assume that it also exaggerates the importance of the project because despite receiving loans from the International Monetary Fund (IMF) and Foreign Direct Investment (FDI) from China, Pakistan is still facing a severe financial crisis (Isran, 2019). It is, in fact, the exaggerated importance of this project that provides room for China to maneuver and gain leverages. This argument is strengthened by the statement of Abdul Razak Dawood, who has been serving as a Cabinet Advisor to Prime Minister Imran Khan. Dawood stated that “*The previous government did a bad job negotiating with China on CPEC... Chinese companies received tax breaks, many breaks and have an undue advantage in Pakistan*” (Paulay & Shad, 2018). Abdul Razak’s statement is a clear reflection of the fact that the Pakistani government has been under a strong influence on China because of the heavy foreign investment that is being provided by the neighbor. Thus, Pakistan has been giving undue favors to China and bending the laws that are detrimental for itself in the longer run.

As a matter of fact, Pakistan is not the only victim of financial colonization as Srilanka is one of the countries that has

been suffering the grave consequences of falling into the debt trap (n.d, 2018). Since the government failed to repay the \$6 billion loan that was used to build an extravagant Chinese port along with an airport, the government was forced to relinquish control of not only the port but also lease approximately 15,000 acres of land that surrounded the port to China for a period of 99 years. This clearly indicates how China has been using foreign investment as a tool to buy submission from the weaker states. Keeping in view the tactics of China, an Indian commentator, Brahma Chellaney, claimed that “*States caught in debt bondage to China risk losing both their most valuable natural assets and their very sovereignty*” (Chellaney, 2017). Chellaney reinforces the entire argument by claiming that the practices of China are a sheer replication of the European colonial era; however, the point of difference remains that while gunboat diplomacy was adopted by the European colonists to have access to new markets, China has been making use of sovereign debts to acquire submission of sovereign states and these easy loans work in the same way as the opium that the British exported to China (Chellaney, 2017). Hence, it is evident that while the game remains the same, it is only the approach that has changed, and colonization remains a part of the international arena, although the outlook is different.

Keeping in view the case of Srilanka, Christine Fair, who is a South Asian expert, examines the case of Pakistan and suggests that the China Pakistan Economic Corridor should rather be titled “Colonizing Pakistan to Enrich China”. If closely observed, China has been working on the same pattern in both the countries and thus, the case of Srilanka rather serves as a lesson for Pakistan that is deeply involved with Pakistan in terms of investment. Even in the case of Pakistan,

while China is believed to be a close ally, it cannot be ignored that states are derived by their national interests, as proposed by Hans Morgenthau, who acknowledges the existence of realizations and believes that self-interests are the primary drivers behind the actions of a state (Tharoor, 1951). Thus, even in this case, China's own self-interest holds a greater priority than the interests of Pakistan, which supports the notion that neo-colonization is in process.

Conclusion and a Way Forward

While the world was under the impression that the Second World War had succeeded in eliminating the traces of colonialism from the world, the relevance of the idea of power was overlooked. Thus, even though direct control disappeared and the states that were colonized declared independence, a new form of economic control still managed to overshadow the sovereignty of these states. Between the transition from colonialism to neo-colonialism, while the entire game has changed, if one thing that has remained relevant is the struggle for power, it is just the tools to exercise that power that has gone under a major transformation. While British adopted a more direct and obvious control through colonization, the United States turned it into financial colonization after the end of World War II, and with the involvement of China in this game of control, it has gotten more complicated yet sophisticated as smart power is now the new mode of exercising power. There is no doubt that China has mastered the implementation of neo-colonialism through engagement with other economies and investing in them, which appears as assistance, but in reality, it's a creation of obligation that binds the recipients to the provider. The case of Srilanka is a prime example in this case and the consequence of Chinese "assistance" that turned into an "obligation" where, as a result, Srilanka

has lost its land to China for over a century. It is not surprising that developing countries like Srilanka have failed to comprehend the new tactics of control that are being used in the name of "assistance" and "development".

A similar and very important case in this regard is the case of Pakistan and being a developing country, Pakistan too, requires the assistance that China has to offer and projects like the One Belt One Road (OBOR) and the China Pakistan Economic Corridor (CPEC) are a beacon of hope. These projects are expected to be a pillar that would support the economy in the long run and change the entire outlook of the country. However, on the basis of the case of Srilanka and the scholarly views that the paper has discussed, it is hard to believe that the intentions of China are any different in the case of Pakistan. The neo-colonizer has also gradually bought control over Pakistan through the investment that it has to offer, and while the friendship between Pakistan and China continues to be romanticized, the reality remains that the former continues to be exploited by the latter and exercise an unprecedented influence in terms of politics, economy and the culture of the society.

As a matter of fact, being controlled by another entity is a clear indication of the absence of sovereignty, and in the case of Pakistan, the degree of control that China exercises over Pakistan hints towards the minimal sovereignty that Pakistan exercises over its own affairs, which are unfavorable for Pakistan in the longer term. Thus, to exercise its independence in a real sense, some safety valves are required that would eventually limit the role of China in the country.

Firstly, the Chinese ownership of lands in Pakistan needs to be reconsidered because it is this ownership that is providing the Chinese with a strong base

to operate in Pakistan. The ownership needs to be limited and should come under certain conditions that must protect the sovereignty of Pakistan, giving away the least amount of control to an outsider.

Moreover, the government must ensure that foreign nationals require local partners to establish a business in Pakistan so that the control that the foreign nationals exercise is not unlimited. This will not only cater to the issue of sovereignty but will also bring in opportunities for the citizens, ultimately contributing to the economy in a better manner.

In addition, it is also significant to ensure that the capital that is invested in Pakistan does not entirely flow out of Pakistan once the profits are generated, and so certain laws need to be formulated to ensure that at least 40% of the profits are being reinvested in Pakistan which

would ultimately lead to continuous development.

Lastly, the environmental factors need to be taken into consideration when a new project is being launched so that these projects do not prove to be detrimental for Pakistan in the long run as climate issues are rapidly emerging so while the feasibility of a project is being calculated, environmental feasibility must be given serious consideration.

In the end, the crux of the entire argument is that investment does boost the economy, and it is, in fact, beneficial for the development, but the benefits get limited if exploitation comes with that assistance. Hence, if the safety valves are formulated and implemented correctly, it can be a favourable situation for the recipients of the investment, and it is likely that the investment can actually serve the purpose of development and progress in the longer run.

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