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Cultural Diplomacy and the Development of Iran's Economic Presence in Pakistan: An Exploratory Mixed-Methods Model

1. Ali Alidousti: Ph.D. Student in Sociology, Garmsar Branch, Islamic Azad University, Garmsar, Iran
2. Mansour Sharifi*: Associate Professor, Sociology Department, Garmsar Branch, Islamic Azad University, Garmsar, Iran
3. Habibollah Karimian: Assistant Professor, Sociology Department, Garmsar Branch, Islamic Azad University, Garmsar, Iran

*corresponding author's email: Sharifim@ut.ac.ir

ABSTRACT

Cultural diplomacy, as one of the principal mechanisms of soft power, can reduce the perceptual and trust-related costs of transnational economic interactions; however, empirical evidence regarding the mechanisms through which cultural capital is transformed into economic presence, particularly in sanction-affected contexts, remains limited. The present study aimed to explain a model of the effects of the cultural diplomacy of the Islamic Republic of Iran on the development of its economic presence in Pakistan. The study employed a sequential exploratory mixed-methods design. In the qualitative phase, semi-structured interviews were conducted with sixteen experts, including diplomats and cultural officials, economic actors, and university professors. The data were analyzed through open, axial, and selective coding and thematic network mapping. Based on the qualitative findings, a 58-item questionnaire comprising eight constructs was developed and administered to a sample of 214 economic actors, experts, and members of the Joint Chamber of Commerce. The data were analyzed using partial least squares structural equation modeling and 5,000-resample bootstrapping. The study constructs demonstrated satisfactory reliability and convergent validity, and the model explained a substantial proportion of the variance in economic presence. The direct effect of the culture-oriented dimension on economic presence was not significant, whereas its indirect effect through image, trust and institutional facilitation, and transaction-cost reduction was significant. The ritual-oriented dimension played the strongest role in trust building, and structural barriers negatively moderated the effects of the mediators on economic presence. Cultural diplomacy is a necessary but insufficient condition for economic presence, and its effectiveness depends on institutional synergy and the removal of structural barriers. A three-layer cultural–mediating–economic model is proposed for policymaking.

Keywords: *cultural diplomacy, soft power, economic presence, institutional trust, transaction cost, Iran and Pakistan*

Introduction

The increasing complexity of international relations has expanded the range of instruments through which states pursue their political, social, and economic interests beyond conventional diplomatic and coercive mechanisms. In this evolving environment, culture has acquired a strategic position as a resource capable of shaping perceptions, preferences, identities, and patterns of interaction among societies. Cultural diplomacy has consequently emerged as an important component of contemporary foreign policy, encompassing the purposeful use of cultural resources, exchanges, knowledge, values, symbols, heritage, language, education, and interpersonal communication to

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establish relationships with foreign publics and create favorable conditions for long-term international engagement. Rather than functioning merely as an instrument for presenting national culture abroad, cultural diplomacy can provide an infrastructure for mutual recognition and relational continuity across political boundaries. This broader conception distinguishes cultural diplomacy from narrowly promotional approaches and emphasizes its capacity to generate sustained relationships that may serve diplomatic, social, and economic purposes (1-3).

The growing importance of cultural diplomacy is closely associated with the transformation of power in international relations. Traditional accounts of international power concentrated predominantly on military and economic capabilities, whereas the concept of soft power directs attention to a state's ability to influence the preferences and behavior of others through attraction rather than coercion or material inducement. Culture, political values, and the perceived legitimacy of foreign policy constitute major sources of such attraction, provided that they are regarded as credible and appealing by target societies (4). Public diplomacy and cultural diplomacy can therefore function as mechanisms through which soft-power resources are communicated, interpreted, and converted into relationships with foreign audiences. The effectiveness of this process, however, does not arise automatically from possessing cultural resources; it depends on communication, credibility, mutual engagement, and the extent to which cultural attraction becomes embedded in durable social relationships (3, 5). Accordingly, a distinction must be drawn between the existence of cultural affinity and the institutional capacity to transform that affinity into identifiable international outcomes.

From a constructivist perspective, this transformation is particularly important because international interactions are not determined exclusively by material structures. Interests, identities, expectations, and interpretations are socially constituted, and the meanings actors attribute to one another influence the range of actions they regard as legitimate, desirable, or feasible. International relationships are therefore shaped not only by objective economic incentives but also by socially constructed images and understandings of partners (6). Cultural diplomacy can intervene in this interpretive environment by influencing how a country, its institutions, and its people are perceived. Positive cultural familiarity may reduce psychological distance and improve receptiveness, whereas negative political, security, or institutional images may offset cultural attraction. Consequently, the economic significance of cultural diplomacy may depend less on exposure to cultural content in isolation than on whether such exposure produces favorable images, expectations, and relational dispositions capable of affecting subsequent economic behavior.

The potential economic implications of cultural relations have received increasing attention in international economics. International exchange entails substantial informational and relational uncertainty, especially when market participants operate across different languages, institutional systems, social norms, and cultural environments. Cultural proximity can reduce some of these frictions by facilitating communication, improving mutual understanding, and increasing familiarity with the preferences and practices of foreign partners. Empirical research has demonstrated a meaningful association between cultural proximity and international trade, suggesting that shared or compatible cultural characteristics can lower barriers to cross-border exchange (7). Language represents an especially important dimension of this process because linguistic commonality and translation capacity affect the transmission of information and therefore influence international trade flows (8). These findings suggest that cultural variables should not be regarded as peripheral to economic exchange; they can constitute part of the informational and relational infrastructure on which cross-border transactions depend.

Trust provides one of the principal mechanisms linking cultural familiarity with economic interaction. Cross-border transactions frequently involve incomplete information regarding the reliability, intentions, and future behavior of economic partners. Cultural beliefs and historically formed perceptions can influence levels of bilateral trust, which in turn affect willingness to engage in exchange. Evidence indicates that cultural biases can significantly influence trust and economic relationships between countries, demonstrating that economic exchange is partly conditioned by socially embedded perceptions rather than by prices and formal institutions alone (9). This perspective is particularly relevant to cultural diplomacy because repeated cultural contact may contribute to the creation or reinforcement of interpersonal trust; however, interpersonal confidence does not necessarily translate into confidence in organizations, financial systems, regulatory arrangements, or public institutions. Understanding the distinction between interpersonal and institutional trust is therefore essential when examining whether favorable cultural relations can facilitate sustainable economic engagement.

The concept of social capital provides a further theoretical foundation for explaining this mechanism. Bourdieu conceptualized social capital in terms of actual or potential resources associated with durable networks of relationships and mutual recognition (10). Coleman similarly emphasized the productive function of social structures and relational ties in facilitating actions that would otherwise be difficult or costly (11). Applied to international economic relations, cultural diplomacy may contribute to the formation of social capital by generating networks among business actors, intellectuals, educational institutions, cultural organizations, diaspora communities, and public officials. Such networks may provide access to information, contacts, reputational signals, and opportunities that facilitate cross-border cooperation. The presence of social capital, however, is insufficient if existing networks remain fragmented or are not connected to formal mechanisms of economic facilitation. Cultural connections must therefore become institutionally activated before their economic potential can be fully realized.

Network-based explanations of international trade reinforce this argument. Social and ethnic networks can reduce informational barriers, improve matching between buyers and sellers, and facilitate contract enforcement through reputational mechanisms. Evidence concerning ethnic Chinese networks in international trade demonstrates that relational networks can have substantial trade-creating effects by addressing information and enforcement problems in international markets (12). From this perspective, cultural diplomacy may possess economic value insofar as it expands, strengthens, or activates cross-border networks and connects them with opportunities for trade, investment, technical cooperation, and market entry. Cultural activities that remain ceremonial or disconnected from economic institutions may generate visibility without producing comparable commercial consequences. The crucial analytical issue is thus not whether cultural relations exist, but through what mechanisms cultural ties are translated into economically consequential networks.

Transaction-cost economics provides an additional framework for clarifying this conversion process. International economic activities involve costs associated with searching for information, identifying reliable partners, negotiating agreements, monitoring performance, managing uncertainty, and enforcing commitments. Williamson's transaction-cost framework emphasizes that governance structures emerge partly in response to such costs and to problems arising from bounded rationality, uncertainty, and opportunistic behavior (13). Cultural familiarity and trust may reduce some transaction costs by improving information quality, lowering perceived uncertainty, and facilitating communication between actors. Nevertheless, cultural diplomacy cannot independently eliminate costs imposed by banking restrictions, regulatory complexity, political risk, security conditions, logistical constraints, or weak

institutional coordination. Its economic effect should therefore be conceptualized as conditional rather than deterministic.

Institutional theory further explains why favorable cultural relations may fail to generate proportionate economic outcomes. Institutions establish the formal and informal rules that structure incentives, constrain behavior, and influence the costs of economic transactions. Stable institutions reduce uncertainty by providing predictable frameworks for exchange, whereas institutional weakness, inconsistency, and fragmentation can inhibit economic cooperation even where demand and social affinity are present (14). This distinction is fundamental to the study of cultural diplomacy and economic presence. A country may enjoy favorable cultural recognition, historical familiarity, or interpersonal goodwill in another society but remain economically underrepresented if businesses encounter restrictive financial mechanisms, poor policy coordination, weak institutional support, or uncertainty regarding market access. Consequently, cultural diplomacy is more plausibly understood as one element within a broader institutional ecosystem rather than as an autonomous determinant of economic expansion.

The empirical literature provides increasing support for the proposition that nonmaterial forms of international attraction can have measurable economic consequences. Rose found that soft power is positively associated with exports, suggesting that favorable international perceptions can contribute to commercial outcomes (15). Research on cultural institutes has similarly demonstrated that institutionalized cultural presence can affect both trade and foreign direct investment, although the magnitude and direction of such effects may be asymmetric across economic outcomes (16). These findings are important because they move the study of cultural diplomacy beyond normative claims regarding mutual understanding and demonstrate its potential relevance to international economic performance. At the same time, the observed asymmetry indicates that cultural activities do not affect all forms of economic engagement uniformly and that the mechanisms linking cultural presence to trade, investment, and sustained market participation require more explicit investigation.

The relationship between cultural diplomacy and economic outcomes is therefore unlikely to consist of a single direct pathway. Cultural initiatives may initially shape the image of the sending country, which can then influence trust, networking, institutional access, information availability, and perceptions of transaction risk. These intermediate processes may subsequently affect willingness to trade, invest, establish partnerships, provide technical services, or maintain a long-term commercial presence. Such a mechanism-based interpretation is consistent with contemporary approaches to mediation analysis, which emphasize that a meaningful theoretical relationship may operate indirectly even when the direct relationship between an antecedent and an outcome is weak or statistically nonsignificant (17). Accordingly, evaluating cultural diplomacy only through its direct association with economic outcomes may conceal the channels through which cultural resources are actually converted into economic behavior.

The possibility of conditional effects is equally important. Structural obstacles may alter the magnitude of the relationship between trust, transaction-cost reduction, and economic presence. In environments characterized by considerable financial, institutional, or security constraints, improvements in trust may have weaker commercial consequences because actors remain unable to execute transactions efficiently. Such contextual contingencies require analytical models capable of assessing moderating effects rather than assuming uniform relationships across different structural conditions. Procedures developed for testing moderation in partial least squares path models provide an appropriate framework for evaluating whether the strength of structural relationships varies according to the level of barriers present in the environment (18). A theoretically comprehensive model of cultural

diplomacy and economic presence should therefore account simultaneously for direct relationships, indirect mechanisms, and contextual constraints.

These theoretical issues are especially salient in the relationship between Iran and Pakistan. The two neighboring countries possess substantial opportunities for cultural interaction, including geographical proximity and multiple channels of historical, linguistic, religious, educational, and societal contact. Such forms of proximity can provide resources for mutual familiarity and social interaction, yet economic presence cannot be inferred automatically from cultural proximity. In contexts where cross-border economic exchange is exposed to sanctions, banking limitations, border-related concerns, institutional fragmentation, and differences between informal and formal market mechanisms, the conversion of cultural capital into sustainable economic presence becomes a distinct analytical problem. The relevant question is therefore not simply whether cultural diplomacy improves attitudes toward Iran, but whether and through which mechanisms culture-oriented, knowledge-oriented, and ritual-oriented engagement can influence image, trust, institutional facilitation, transaction costs, and ultimately the development of a more durable economic presence in Pakistan.

A multidimensional conceptualization of cultural diplomacy is necessary for this purpose. Culture-oriented activities may promote language, arts, heritage, literature, and shared cultural narratives; knowledge-oriented initiatives may operate through universities, scientific exchanges, educational cooperation, research communities, and professional networks; and ritual-oriented activities may mobilize shared symbolic and ceremonial practices capable of strengthening interpersonal bonds. These dimensions may not have equivalent effects. Some may primarily influence national image, whereas others may be more effective in constructing interpersonal trust or activating networks. The assumption that all cultural instruments operate through a homogeneous process may consequently obscure meaningful differences in their economic implications. An empirically grounded model should identify these dimensions within the relevant bilateral context rather than imposing an exclusively predefined classification.

This need also has methodological implications. Much of the conceptual literature on cultural diplomacy is concerned with definition, foreign-policy practice, national projection, and the normative objectives of international cultural engagement (1, 2). Conversely, the economic literature has generally examined broad indicators such as cultural proximity, linguistic ties, trust, soft power, trade, or foreign direct investment (7-9, 15, 16). A gap therefore remains between macro-level evidence that cultural factors matter for economic exchange and context-specific explanations of how particular forms of cultural diplomacy are transformed into economic outcomes through identifiable mediating processes. This gap is especially consequential when the constructs and mechanisms relevant to a specific bilateral environment have not been sufficiently established in advance.

An exploratory mixed-methods strategy offers a suitable means of addressing this problem because it permits locally grounded mechanisms to emerge before their relationships are subjected to quantitative testing. Grounded qualitative procedures can identify concepts and relationships from participants' experiences through systematic processes of open, axial, and selective coding, thereby enabling the development of a context-sensitive theoretical structure (19). The resulting constructs can subsequently be operationalized and examined within a structural model. Such an approach is particularly appropriate when established measurement instruments do not adequately represent the cultural, institutional, and economic characteristics of the setting under investigation.

In the quantitative stage, a predictive structural modeling perspective can complement explanatory hypothesis testing. Economic presence is a complex outcome produced through interconnected cultural, cognitive, institutional,

and transactional mechanisms; consequently, evaluating a model solely according to statistical significance may provide an incomplete assessment of its practical usefulness. Contemporary developments in partial least squares structural equation modeling emphasize the importance of out-of-sample predictive assessment and distinguish explanatory fit from predictive performance (20). This orientation is particularly valuable for policy-oriented research because a model intended to guide cultural and economic strategy should not merely describe associations but should also demonstrate meaningful predictive relevance for endogenous outcomes.

Taken together, the literature suggests a coherent but insufficiently tested causal sequence: cultural diplomacy can create attraction and shape international perceptions; favorable perceptions may strengthen interpersonal and institutional trust; trust and networks may reduce informational and relational transaction costs; and lower transaction costs can facilitate sustained economic engagement. At the same time, institutional and structural constraints may weaken or interrupt this sequence. Soft-power theory explains the attraction mechanism (4, 5); constructivism explains the importance of identity and socially constructed images (6); social-capital theory explains the value of networks and relational resources (10, 11); network theory demonstrates how social ties can facilitate international exchange (12); transaction-cost economics explains the economic significance of reduced uncertainty and information costs (13); and institutional theory clarifies why favorable relational conditions may remain economically ineffective when institutional constraints persist (14). What remains underdeveloped is an integrated empirical model that connects these perspectives and identifies the pathways through which cultural diplomacy translates into economic presence under restrictive structural conditions.

Accordingly, the present study aimed to develop and empirically test an exploratory mixed-methods model explaining how the cultural diplomacy of the Islamic Republic of Iran influences the development of its economic presence in Pakistan through image, trust and institutional facilitation, and transaction-cost reduction, while accounting for the moderating role of structural barriers.

Methodology

Research Design

The present study is applied in terms of purpose and employs a mixed-methods approach with a sequential exploratory design. This design is appropriate when the constructs under investigation lack standardized measurement instruments within the study context and must first be identified through qualitative data and subsequently tested in a larger sample (Creswell & Plano Clark, 2018). The underlying research paradigm is pragmatism. Table 1 presents the stages and outputs of each phase.

Table 1. **Sequential Exploratory Design and Output of Each Stage**

Stage	Objective	Data Collection Method	Analytical Method	Output
Qualitative phase	Identification of indigenous dimensions, themes, and mechanisms	Semi-structured interviews	Open, axial, and selective coding; thematic network	Five-layer model and set of categories
Integration	Transformation of themes into questionnaire items	Expert consultation and pilot testing	Content validity and preliminary reliability	58-item questionnaire with eight constructs
Quantitative phase	Testing structural relationships and hypotheses	Survey using a five-point scale	Partial least squares structural equation modeling	Path coefficients, mediation, and moderation

As shown in Table 1, the output of the qualitative phase directly constituted the basis for developing the instrument used in the quantitative phase, thereby completing the cycle of exploration, instrument development, and testing.

Participants and Sampling

In the qualitative phase, criterion-based purposive sampling and snowball sampling were employed. The inclusion criteria consisted of holding at least a master's degree and having a minimum of five years of executive or commercial experience related to Pakistan, or having published valid scholarly works in this field. Data collection continued until theoretical saturation was reached, defined as the point at which new interviews no longer generated additional themes or codes. In the quantitative phase, the population comprised economic actors registered with the Joint Chamber of Commerce, exporters, Pakistan desk experts, and economic advisers. The sample size was determined using Cochran's formula with a 5% margin of error, and participants were selected through random sampling. This sample size also exceeded the minimum requirement for partial least squares modeling (Hair et al., 2019).

Table 2. **Population, Sample, and Sampling Method in the Two Phases**

Characteristic	Qualitative Phase	Quantitative Phase
Population	Diplomats and cultural officials, economic actors and members of the Joint Chamber, professors, and researchers	Economic actors, exporters, experts, and members of the Joint Chamber
Population size	Unlimited (experts)	480 individuals
Sample size	16 interviewees: 6 diplomatic-cultural, 6 economic-border, and 4 academic participants	214 participants from 240 distributed questionnaires
Sampling method	Criterion-based purposive and snowball sampling	Simple random sampling
Termination criterion	Theoretical saturation	Sample size calculated using Cochran's formula
Software/analytical environment	Qualitative analysis of textual data	Partial least squares software

Table 2 shows that the diversity of expert groups in the qualitative phase and the random coverage of market actors in the quantitative phase provided two complementary perspectives.

Instruments and Quality Criteria

The qualitative instrument consisted of a 12-question interview guide organized into three sections: background information, dimensions of cultural diplomacy, and barriers and mechanisms involved in transforming cultural capital into economic behavior. The quantitative instrument was a researcher-developed 58-item questionnaire comprising eight constructs and using a five-point Likert scale. The trustworthiness of the qualitative findings was evaluated based on the criteria proposed by Guba and Lincoln (Lincoln & Guba, 1985), while the quality of the measurement model was assessed using reliability and validity indices commonly applied in this methodological approach.

Table 3. **Quality Criteria and Strategies for Ensuring Them**

Phase	Criterion	Strategy or Index	Acceptance Threshold
Qualitative	Credibility	Member checking and peer review	Feedback from four experts
Qualitative	Transferability	Rich description of the context and sample characteristics	—
Qualitative	Dependability	Step-by-step documentation of the coding process	—
Qualitative	Confirmability	Reflexivity and documentation of direct quotations	—

Quantitative	Content validity	Content Validity Ratio and Content Validity Index, eight judges	Greater than 0.75 and 0.79
Quantitative	Reliability	Cronbach's alpha and composite reliability; pilot test with 30 respondents	Greater than 0.70
Quantitative	Convergent validity	Average Variance Extracted	Greater than 0.50
Quantitative	Discriminant validity	Fornell–Larcker matrix; Heterotrait–Monotrait ratio	Less than 0.85–0.90
Quantitative	Collinearity and predictive relevance	Variance Inflation Factor; Stone–Geisser index	Less than 5; greater than zero

After the model was developed, the paths were tested using 5,000-resample bootstrapping. Discriminant validity was also assessed using the Fornell–Larcker matrix (Fornell & Larcker, 1981) and the Heterotrait–Monotrait ratio (Henseler et al., 2015). The moderating effect was evaluated using the product-indicator approach, while mediation was assessed through the Variance Accounted For index (Henseler & Fassott, 2010; Zhao et al., 2010).

Qualitative Analysis

Open Coding

The complete transcripts of the sixteen interviews were divided into meaning units (Strauss & Corbin, 1998). Of the 187 initial codes, 62 final open codes remained after overlapping codes had been removed. The criterion for retaining a code was its recurrence in at least two interviews or its marked theoretical significance. Table 4 presents examples of the most frequently recurring codes.

Table 4. Examples of Frequently Recurring Open Codes and Interview Evidence

Open Code	Frequency	Example Evidence
Sanctions and banking restrictions	14	"First, sanctions and banking" (I1)
Event-based and calendar-driven nature of cultural activities	14	"It is mostly occasion-based, and there is no long-term program behind it" (I1)
Three-layer cultural–mediating–economic model	14	"The model should have three layers" (I1)
Weak institutional trust	13	"Institutional trust is weak" (I1)
Institutional lack of coordination	13	"Each one follows its own course" (I1)
Negative political and security image	13	"The political and security image is negative" (I1)
Strong interpersonal trust	12	"Interpersonal trust is good" (I1)
Underutilized Iran-educated elites	11	"They are our ambassadors, but we do not use them" (I3)

The highest frequencies were associated with structural barriers and the gap between culture and economics; therefore, experts across the three groups expressed relatively convergent perspectives.

Axial Coding

The open codes were classified into subcategories and major categories based on semantic similarity and their relationships with the study constructs. At the qualitative level, five mediators were identified: trust, transaction-cost reduction, image, social capital, and soft power. To obtain a parsimonious and testable model, social capital was integrated into the construct of trust and institutional facilitation, while soft power was incorporated into the culture-oriented and ritual-oriented dimensions. This integration is consistent with Nye's view that soft power results from cultural attractiveness. Image was retained as an independent antecedent mediator so that the finding concerning the dual image could remain empirically testable.

Table 5. Axial Categories and Their Roles in the Model

Main Category	Subcategories	Role in the Model
Cultural diplomacy	Culture-oriented, knowledge-oriented, ritual-oriented	Independent variable

Image	Positive cultural image, negative political image	Antecedent mediator
Trust and institutional facilitation	Interpersonal trust, institutional trust, institutional and elite networks	First mediator
Transaction-cost reduction	Information costs, banking costs, security costs	Second mediator
Development of economic presence	Trade and exports, technical services, joint investment, continuity and branding	Dependent variable
Barriers	Structural, institutional, cognitive	Moderator
Coordination and branding	Institutional coordination, networking, border-related measures	Policy recommendations

Selective Coding and Thematic Network

The core category with the strongest connection to the other categories was formulated as follows: cultural diplomacy as a soft driver of economic presence, conditional upon the removal of structural barriers and the achievement of institutional coordination. The thematic network showed that the principal pathway of influence extends from image to institutional trust and then to transaction-cost reduction, while two strong weakening factors—structural barriers and institutional lack of coordination—constrain this pathway. Table 6 links the final themes to the qualitative support for the hypotheses.

Table 6. Main Themes and Their Mapping onto the Hypotheses

Main Theme	Dimensions	Related Hypothesis and Qualitative Status
Three-dimensional cultural diplomacy dominated by the culture-oriented dimension	Strong culture-oriented, moderate ritual-oriented, weak knowledge-oriented	Hypotheses 1 and 3: conditionally supported; Hypothesis 2: weak support
Fragile and informal economic presence	Informal trade, lack of branding, limited continuity	Hypothesis 7: weak direct path and stronger indirect path
Dual trust	Strong interpersonal trust, weak institutional trust	Hypotheses 5 and 8: conditional support and strong support
Incomplete transaction-cost reduction	Reduction in information costs, no effect on banking and security costs	Hypotheses 4 and 9: partial support; Hypothesis 6: strong support
Dual image	Positive cultural image, negative political image	Antecedent pathway in the model
Rich but inactive social capital	Fragmented institutional networks, underutilized elites	Integrated into trust and institutional facilitation
Structural and institutional barriers	Sanctions, border insecurity, lack of coordination, absence of a national strategy	Hypothesis 10: moderating role

In summary, the qualitative analysis yielded six findings: imbalance among the three dimensions, fragility of economic presence, dual trust, incomplete transaction-cost reduction, the greater strength of the indirect effect compared with the direct effect, and the inhibitory role of barriers. These findings constituted the basis for the five-layer model and the questionnaire.

Quantitative Analysis

Sample Characteristics and Descriptive Statistics

Of the 214 respondents, approximately three-quarters were men, more than half held master's degrees, and approximately two-thirds had more than ten years of experience in relations with Pakistan. The occupational composition of the sample included traders and members of chambers of commerce, professors and researchers, diplomats, and media and cultural experts. Table 7 presents the descriptive indicators of the study constructs.

Table 7. Descriptive Indicators of the Study Constructs (Scale: 1–5)

Construct	Mean	Standard Deviation	Skewness	Kurtosis

Culture-oriented	4.085	1.042	-1.298	0.564
Knowledge-oriented	3.972	1.125	-1.152	0.812
Ritual-oriented	4.126	1.018	-1.346	0.948
Image	3.864	1.148	-0.987	0.625
Trust and institutional facilitation	3.945	1.092	-1.045	0.738
Transaction-cost reduction	3.872	1.136	-0.968	0.692
Economic presence	3.654	1.205	-0.784	0.418
Barriers	4.052	1.078	-1.126	0.805

The mean scores of all constructs exceeded the midpoint of the scale. The ritual-oriented and culture-oriented dimensions had the highest mean scores, whereas economic presence had the lowest mean score. In other words, respondents evaluated cultural activities more positively than their economic outcomes. Negative skewness and modest kurtosis indicate that responses tended toward agreement and that no severe departure from normality was present; therefore, the partial least squares method, which is not highly sensitive to distributional normality, was appropriate.

Measurement Model

Reliability and convergent validity are reported in Table 8. Cronbach's alpha and composite reliability for all constructs exceeded the 0.70 threshold, and Average Variance Extracted exceeded 0.50 (Hair et al., 2019, 2022). Discriminant validity was also reported as acceptable based on the Fornell–Larcker matrix and the Heterotrait–Monotrait ratio.

Table 8. Reliability and Convergent Validity of the Constructs

Construct	Number of Items	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Culture-oriented	6	0.832	0.878	0.548
Knowledge-oriented	4	0.815	0.873	0.632
Ritual-oriented	5	0.836	0.881	0.596
Image	3	0.765	0.826	0.612
Trust and institutional facilitation	11	0.902	0.918	0.578
Transaction-cost reduction	9	0.898	0.914	0.561
Economic presence	12	0.913	0.924	0.542
Barriers	8	0.876	0.902	0.581

Structural Model and Hypothesis Testing

The coefficient of determination was 0.448 for image, 0.645 for trust and institutional facilitation, 0.602 for transaction-cost reduction, and 0.628 for economic presence. The maximum Variance Inflation Factor was below the threshold of 5, and the Stone–Geisser predictive relevance index was positive for all endogenous constructs. Therefore, no problematic collinearity was present, and the model demonstrated satisfactory predictive relevance (Cohen, 1988; Shmueli et al., 2019). Table 9 presents the path coefficients and moderating effects based on 5,000-resample bootstrapping.

Table 9. Direct Path Coefficients and Moderating Effects

Path	Beta Coefficient	*t* Statistic	*p* Value	Result
Culture-oriented → Image	0.468	7.245	< .001	Significant
Knowledge-oriented → Image	0.352	5.612	< .001	Significant
Ritual-oriented → Image	0.312	4.895	< .001	Significant
Culture-oriented → Trust and institutional facilitation	0.298	4.532	< .001	Significant

Knowledge-oriented → Trust and institutional facilitation	0.325	5.108	< .001	Significant
Ritual-oriented → Trust and institutional facilitation	0.562	9.347	< .001	Significant
Image → Trust and institutional facilitation	0.285	4.218	< .001	Significant
Culture-oriented → Transaction-cost reduction	0.385	6.024	< .001	Significant
Knowledge-oriented → Transaction-cost reduction	0.242	3.756	< .001	Significant
Ritual-oriented → Transaction-cost reduction	0.452	7.089	< .001	Significant
Image → Transaction-cost reduction	0.398	6.245	< .001	Significant
Trust and institutional facilitation → Economic presence	0.462	7.856	< .001	Significant
Transaction-cost reduction → Economic presence	0.385	6.412	< .001	Significant
Culture-oriented → Economic presence (direct)	-0.042	0.685	.493	Not significant
Knowledge-oriented → Economic presence (direct)	0.165	2.547	.011	Significant
Ritual-oriented → Economic presence (direct)	0.212	3.298	.001	Significant
Trust × Barriers → Economic presence	-0.248	3.810	< .001	Significant, weakening effect
Transaction-cost reduction × Barriers → Economic presence	-0.268	4.020	< .001	Significant, weakening effect

sFourteen of the fifteen direct paths in the model were significant, and only the direct effect of the culture-oriented dimension on economic presence was not significant. The Variance Accounted For index was 0.58 for the trust mediator and 0.42 for the transaction-cost reduction mediator, with both values falling within the range of partial mediation (Hair et al., 2022). Both interaction effects were negative and significant. Among the hypotheses, Hypotheses 1–3, 5, 6, and 8–10 were supported, whereas the main hypothesis and Hypothesis 7 were partially supported.

Discussion and Conclusion

The present study examined how cultural diplomacy contributes to the development of Iran's economic presence in Pakistan and, more specifically, whether this relationship operates directly or through intervening mechanisms involving image, trust and institutional facilitation, and transaction-cost reduction. The findings provide strong support for a mechanism-based interpretation of cultural diplomacy. The structural model explained 44.8% of the variance in image, 64.5% of the variance in trust and institutional facilitation, 60.2% of the variance in transaction-cost reduction, and 62.8% of the variance in economic presence. These coefficients indicate that the proposed model possesses substantial explanatory power for understanding how cultural resources are translated into economic outcomes. At the same time, the results demonstrate that cultural diplomacy should not be understood as an autonomous economic instrument. Rather, its effects are transmitted primarily through cognitive, relational, and institutional mechanisms and are conditioned by structural constraints.

The first important finding concerns the differentiated effects of the three dimensions of cultural diplomacy. The culture-oriented, knowledge-oriented, and ritual-oriented dimensions all had positive and statistically significant effects on image, with the culture-oriented dimension exerting the strongest effect. This result indicates that activities associated with cultural heritage, language, arts, historical narratives, and shared cultural symbols are especially influential in shaping favorable perceptions of Iran among relevant Pakistani actors. This finding is consistent with the soft-power perspective, according to which cultural attractiveness constitutes one of the central resources through which states can shape foreign preferences without coercion (4, 5). It is also compatible with the broader conception of cultural diplomacy as a process that creates familiarity and relational engagement rather than merely projecting national culture abroad (1-3). The strong effect of the culture-oriented dimension on image

suggests that cultural diplomacy can alter the cognitive environment within which economic decisions are made by reducing psychological distance and strengthening cultural familiarity.

The knowledge-oriented and ritual-oriented dimensions also positively influenced image, although their effects were weaker than that of the culture-oriented dimension. This finding suggests that scientific, educational, academic, and ceremonial forms of engagement contribute to favorable perceptions but may function through somewhat different mechanisms. Knowledge-oriented exchanges can increase informational familiarity and create professional connections, while ritual-oriented activities may strengthen symbolic affinity and emotional identification. From a constructivist standpoint, such findings are theoretically meaningful because actors respond not only to material incentives but also to socially constructed meanings, identities, and perceptions (6). The observed relationships therefore reinforce the argument that national image is an endogenous outcome of sustained cultural interaction and that economic behavior may be influenced by interpretive structures formed outside purely commercial transactions.

A second major result concerns trust and institutional facilitation. All three dimensions of cultural diplomacy significantly enhanced this construct, but the ritual-oriented dimension had the strongest effect, with a standardized coefficient of 0.562. This is one of the most important findings of the study because it shows that ceremonial, religious, symbolic, and socially embedded forms of cultural interaction may be particularly effective in generating relational confidence. Such a pattern is consistent with theories of social capital, which emphasize that repeated interaction, shared norms, recognition, and durable relational networks create resources that facilitate coordinated action (10, 11). In the Iran–Pakistan context, ritual and symbolic affinities may create stronger interpersonal bonds than conventional cultural promotion alone, thereby facilitating communication, access, and cooperation among economic and institutional actors.

The significance of trust is further supported by the strong direct effect of trust and institutional facilitation on economic presence. Among the mediators, this construct exerted the largest direct effect on economic presence, with a standardized coefficient of 0.462. The finding indicates that greater trust, stronger institutional connections, and more effective networking substantially increase the likelihood of sustained commercial engagement. This result aligns closely with evidence showing that cultural beliefs and bilateral trust influence economic exchange (9). It also corresponds with the network-based explanation of international trade, according to which social and relational networks mitigate information asymmetry, reduce uncertainty, facilitate partner identification, and support informal mechanisms of contract enforcement (12). The present findings extend this literature by suggesting that cultural diplomacy may contribute to economic presence not simply because it improves attitudes, but because it develops or activates the relational infrastructure through which commercial opportunities become actionable.

The finding that image significantly affected trust and institutional facilitation further clarifies this mechanism. A favorable image of Iran was associated with stronger trust and greater institutional facilitation, suggesting that perceptions formed through cultural engagement can influence willingness to interact with Iranian actors and institutions. This result is consistent with the proposition that socially constructed images affect expectations about the reliability and legitimacy of international partners (6). It also corresponds with the findings of Guiso and colleagues, who demonstrated that culturally influenced perceptions are related to trust and economic exchange (9). Accordingly, image should not be treated as merely a reputational outcome of diplomacy; it functions as an antecedent condition that can shape relational confidence and subsequent economic behavior.

Another central finding was the significant influence of all three cultural diplomacy dimensions on transaction-cost reduction. The culture-oriented, knowledge-oriented, and ritual-oriented dimensions each contributed to lowering transaction-related frictions, while the ritual-oriented dimension again showed a comparatively strong effect. Image and trust also contributed significantly to transaction-cost reduction. These findings can be interpreted through transaction-cost economics, which emphasizes the importance of uncertainty, information asymmetry, monitoring, negotiation, and enforcement costs in economic exchange (13). Cultural familiarity and trusted relationships may reduce information-search costs, improve the credibility of partners, facilitate communication, and decrease uncertainty regarding expected behavior. The finding is also consistent with evidence that cultural proximity facilitates trade by reducing nonmaterial barriers to exchange (7) and that linguistic familiarity and translation capacity can reduce communication frictions in international markets (8).

The positive effect of transaction-cost reduction on economic presence provides further support for this interpretation. The standardized coefficient of 0.385 indicates that reductions in informational, relational, and coordination costs contribute substantially to the expansion of economic engagement. This result supports the institutional economics perspective that exchange depends not only on market opportunities but also on the institutional and informational costs associated with realizing those opportunities (13, 14). Cultural diplomacy can therefore have economic relevance when it improves the conditions under which actors obtain information, identify credible partners, communicate expectations, and establish relationships. Its influence is thus complementary to formal economic policy rather than a substitute for it.

The direct effects of the cultural diplomacy dimensions on economic presence reveal an especially important pattern. While the knowledge-oriented and ritual-oriented dimensions had significant positive direct effects on economic presence, the direct effect of the culture-oriented dimension was nonsignificant. This finding suggests that conventional cultural activities may improve national image without automatically producing measurable economic outcomes. Cultural festivals, artistic events, historical narratives, or heritage promotion may create attraction and familiarity, but these benefits must be translated through trust, institutional networks, and lower transaction costs before they affect trade, investment, technical services, branding, or long-term market presence. This finding is highly consistent with the distinction between soft-power resources and actual behavioral outcomes. Nye emphasizes that possessing attractive cultural resources does not automatically guarantee desired policy outcomes because attraction must first shape preferences and behavior (4, 5). The present findings provide empirical support for this distinction in an economic context.

This result also helps reconcile the present study with previous empirical research demonstrating positive associations between soft power and economic exchange. Rose found that greater soft power is associated with higher exports (15), while Lien and colleagues showed that cultural institutes can influence both trade and foreign direct investment, although their effects are not necessarily symmetrical (16). The current study suggests that these macro-level relationships may conceal important intermediate mechanisms. Cultural influence may contribute to economic outcomes, but the effect may occur indirectly through image formation, trust building, networking, and reduced transaction costs. This interpretation is consistent with contemporary mediation theory, which rejects the assumption that a significant direct effect is necessary for meaningful mediation and recognizes the possibility that an antecedent can influence an outcome predominantly through indirect pathways (17). Thus, the nonsignificant direct effect of the culture-oriented dimension should not be interpreted as evidence of ineffectiveness; rather, it indicates that its economic influence is primarily mediated.

The mediation analysis strengthens this conclusion. The Variance Accounted For values indicated partial mediation through trust and institutional facilitation and through transaction-cost reduction. Trust accounted for a larger share of the mediated relationship than transaction-cost reduction, suggesting that relational mechanisms may be especially important in converting cultural diplomacy into economic engagement. This finding is consistent with both social-capital theory and network approaches to economic exchange, which emphasize that relational structures generate economically useful resources by providing access, information, and credible expectations (10-12). It further suggests that the effectiveness of cultural diplomacy should be evaluated not only by audience reach or cultural visibility but also by whether it creates durable networks linking cultural, governmental, and economic actors.

The negative moderating effects of structural barriers represent another major contribution of the study. Barriers significantly weakened both the relationship between trust and economic presence and the relationship between transaction-cost reduction and economic presence. In other words, even when cultural diplomacy creates trust or lowers certain forms of transaction cost, structural impediments can prevent these relational advantages from being converted into actual economic activity. This finding strongly supports institutional theory, which holds that formal and informal institutions condition economic incentives and determine the predictability and costs of exchange (14). It also corresponds with transaction-cost economics, because persistent banking restrictions, regulatory barriers, sanctions, security concerns, and institutional fragmentation can impose costs that interpersonal trust alone cannot offset (13). Therefore, cultural diplomacy appears to be most effective when embedded in an enabling institutional environment.

The qualitative findings provide additional depth to this conclusion. Participants consistently emphasized sanctions, banking limitations, border insecurity, institutional fragmentation, lack of strategic coordination, and the underutilization of Iran-educated elites. These themes indicate that substantial cultural and social capital may exist without being fully activated economically. Bourdieu's conception of social capital as resources embedded in durable relationships is particularly relevant here because the existence of networks does not guarantee their mobilization (10). Likewise, Coleman's formulation suggests that social structures become valuable when they facilitate purposive action (11). The present findings suggest that Iran possesses potentially valuable cultural and relational assets in Pakistan, but the economic utility of these assets is constrained when institutional channels are fragmented or disconnected from commercial mechanisms.

The coexistence of positive cultural image and negative political or security perceptions identified in the qualitative phase further demonstrates the multidimensional nature of national image. Cultural attraction may coexist with institutional skepticism or geopolitical concern. This duality is important because it helps explain why high evaluations of cultural diplomacy do not necessarily correspond with equally high evaluations of economic presence. Cultural familiarity can reduce psychological distance, yet political or institutional uncertainty can simultaneously increase perceived economic risk. This finding reinforces the constructivist proposition that international actors operate through multiple, sometimes contradictory, interpretive frames (6). It also explains why cultural diplomacy alone may be insufficient to overcome unfavorable institutional signals.

The predictive performance of the model further supports the practical relevance of the proposed framework. The substantial coefficients of determination and positive predictive indicators suggest that the integrated cultural–mediating–economic model provides meaningful explanatory and predictive capacity. This is important because contemporary PLS-SEM research emphasizes that models should be evaluated not only according to explanatory

fit but also according to their ability to predict endogenous constructs (20). The inclusion of mediation and moderation effects likewise reflects the complexity of the causal structure and is methodologically consistent with approaches that recognize conditional and indirect relationships in structural models (17, 18). Overall, the findings support a three-layer interpretation in which cultural diplomacy influences cognitive and relational mediators, those mediators affect economic behavior, and structural barriers determine the extent to which these effects can be realized.

This study has several limitations. First, the quantitative phase relied on cross-sectional data, which limits the ability to establish temporal causality among cultural diplomacy, image, trust, transaction costs, and economic presence. Second, the measures were based primarily on self-reported perceptions of economic actors, experts, and institutional participants and may therefore be affected by common-method variance, recall bias, or socially desirable responses. Third, although the qualitative sample achieved theoretical saturation and included participants from diplomatic, economic, border, and academic backgrounds, the number of interviewees was relatively limited. Fourth, the study focused specifically on Iran–Pakistan relations, and the identified cultural mechanisms may not be directly generalizable to relationships involving countries with different historical, religious, geopolitical, or institutional characteristics. Fifth, structural barriers were modeled as a composite moderator, whereas sanctions, banking limitations, border insecurity, regulatory constraints, and institutional fragmentation may exert distinct moderating effects. Finally, economic presence was assessed as a multidimensional perceptual construct rather than through longitudinal objective indicators such as trade volume, export diversification, investment flows, business survival, or market share.

Future research should examine the proposed model using longitudinal and panel designs capable of establishing the temporal sequence between cultural initiatives, changes in image, trust formation, transaction-cost perceptions, and measurable economic outcomes. Comparative studies involving Iran's relations with other neighboring or culturally proximate countries could determine which mechanisms are context-specific and which are generalizable. Future studies could also disaggregate structural barriers and estimate the separate moderating effects of financial sanctions, banking constraints, security conditions, institutional coordination, logistics, and regulatory uncertainty. Multi-group analysis could compare exporters, investors, cultural actors, academic elites, border traders, and governmental officials or examine differences across Pakistani provinces and market sectors. Incorporating objective economic indicators alongside perceptual data would strengthen external validity, while network analysis could map how alumni, cultural institutions, business associations, religious networks, and chambers of commerce connect cultural relations to commercial opportunities. Experimental or quasi-experimental research could additionally assess whether specific cultural diplomacy interventions produce measurable changes in country image, trust, willingness to cooperate, or purchase and investment intentions.

From a practical perspective, cultural diplomacy toward Pakistan should be designed as an integrated economic-enabling strategy rather than as a collection of isolated cultural events. Cultural programs should be systematically connected to chambers of commerce, exporters, universities, professional associations, border institutions, and investment-promotion agencies so that cultural familiarity can be converted into durable institutional and commercial relationships. Greater emphasis should be placed on activating Iran-educated Pakistani elites, academic alumni, bilingual professionals, religious and cultural networks, and trusted local intermediaries as bridges between cultural and economic institutions. Knowledge-oriented cooperation should be linked to technology, professional services, joint research, entrepreneurship, and commercial matchmaking, while ritual-oriented engagement should be used

to deepen trust and sustained interpersonal networks. Cultural activities should also be accompanied by coordinated branding, reliable market information, institutional follow-up, and mechanisms for identifying credible business partners. Most importantly, policymakers should recognize that cultural attraction cannot compensate for persistent banking, regulatory, security, and coordination barriers; therefore, the economic return on cultural diplomacy will depend on simultaneous institutional reforms and stronger coordination among diplomatic, cultural, trade, financial, and border-management bodies.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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