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PAKISTAN'S CPEC OBSESSION: BOON OR BANE?

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Since its inception, the China-Pakistan Economic Corridor (CPEC) has evoked a lot of interest among the policymakers, analysts, and strategists around the world. While the ruling elite in Pakistan considers it a boon that would transform Pakistan's future, many analysts have viewed it as a Chinese game-plan to turn Pakistan into a permanent colony, a rentier-cum-client state. Others in Pakistan have called it a debt trap and a neocolonial ploy. Senator Tahir Mashhadi, chairman of the Senate Standing Committee on Planning and Development of Pakistan, has termed CPEC as "another East India Company in the offing".1 Some have also argued that despite the obsession with CPEC, the economic relations between Beijing and Islamabad would remain "low-profile" even though "closed, secretive" cooperation on sensitive security matters will continue".2

The secrecy that shrouds the terms of reference, specifically involving the rate of interest and other conditionalities of the Chinese loans to fund CPEC, makes this project even more controversial. Other than Punjab the optimism of the federal government is not shared by the rest of the provinces. It almost bypasses the Khyber Pakhtunkhwa Province and seeks to exploit the resources of Balochistan without passing on the benefits to its people. Little wonder, the Baloch people consider CPEC as a Pakistan (Punjab)-China joint colonial project to benefit only the Punjabis of Pakistan and therefore, the Baloch insurgents, fighting for their rights, have episodically targeted both Chinese and Punjabis in their territory. At the popular level, the arrogant behaviour displayed by Chinese workers employed in various projects has led to local reprisals even in Punjab.

Started in 2013, the CPEC, the flagship project under China's Belt and Road Initiative (BRI), received a major boost in April 2015 when China initially pledged US$ 46 billion towards project implementation over a period of 15 years. This was later increased to US$ 62 billion. A major share of it (US$ 35 billion) was marked for energy production (of about 17 GW in all and 10 GW by 2020) to help Pakistan tide over its existing energy shortfall of about 4.5 GW and usher in an era of industrialisation and development.3

Five years later, Pakistan has an additional aggregate of 5.918 GW of power harnessed majorly from its coal-fired plants, and also partly from hydro, solar and wind power. As per the estimates given by the Pakistan Planning Commission, the total expenditure has been about US$ 9.309 billion, out of which, as per the State Bank of Pakistan (SBP) figures, China has invested upward of US$ 6 billion during 2015-2020. In other infrastructure projects, mainly involving roads, investment to the tune of about US$ 4.3 billion has been made.4

Though the country is now energy surplus, the unit cost of power production is too high for the local people to afford. There have been reports of large-scale corruption. While setting up coal-fired plants in Sahiwal and Port Qasim, the Chinese company had manipulated the cost figures for setting up their plants.5 The main motive of Chinese companies has been to squeeze as much profit as possible out of Pakistan, rather than helping out an all-weather friend.6 The power companies are selling power at a high price, especially in Karachi where it is Pakistani Rupee or PKR 17.69 per unit.7

Observers in Pakistan hold the view that CPEC has come as a gift to the Chinese state-owned enterprises. They profit from tax relaxation and have been assured of good returns from the

CPEC projects through sovereign guarantees. They also have easy access to financial capital through banking facilities and other incentives. Therefore, local industries have found it hard to compete with their Chinese counterparts.

For China, apart from such investments with assured returns, the extension of the Karakoram Corridor till the seaport of Gwadar in Balochistan Province is of significant strategic relevance. It connects the energy-deficient region of Xinjiang in western China with the energy-rich regions in western Asia through this port. Thus, Gwadar is being termed as a “gateway” to the CPEC and a state-owned Chinese company, Overseas Port Holding Company, has taken this port on lease for 40 years. It will retain over 91 per cent of the revenue from its marine operations and 85 per cent of the revenue from the management of an adjacent free-zone.8 Access to a deep-sea port is also of tremendous strategic significance for a country seeking to enhance its influence in the Indian Ocean and secure uninterrupted supply of oil from the Gulf.

Moreover, the Chinese are also reportedly working towards settling hundreds of thousands of their citizens in the Gwadar Port. The China-Pakistan Investment Corporation (CPIC) Global, a construction company tasked with developing real-estate in the port area, has already bought the 3.6 million square foot International Port City and will build a $150 million gated community for the Chinese professionals in the proposed new financial district in Gwadar.9 The prospects of settling Chinese citizens who would work in these projects has made the local population angry. This has resulted in anti-China protests and also attacks against Chinese engineers and projects.10 There are also periodic protests against CPEC both inside Balochistan and also by Baloch diaspora in the West.11

Pakistan’s repayment obligations under the CPEC agreement include payment of debts and guaranteed rates of return on equity for investors (17 per cent interest for power projects), which have already added to the current account deficit. Speaking in Karachi, the Consul General of China bared it all when he said: “…where this money will come from if Pakistan does not have it….it will be borrowed, and from a business point of view, the investor invests to make money.”12 As of now, Pakistan does not have the capacity to repay loans taken from China due to rapid depletion of foreign exchange reserves which has already contracted for the fiscal year 2019-20. According to the International Monetary Fund (IMF) estimates, the annual debt repayment for CPEC-related investment and government-to-government loans would reach $3.5 billion by 2024-25. Once the Chinese investors begin repatriating profits, it “could add up to a significant level given the magnitude of the FDI”.13 It is being estimated that both repayments and profit repatriation, “could reach about 0.4 per cent of GDP per year over the longer run”.14

According to one estimate, Pakistan will end up paying US$ 90 billion to China over a span of 30 years and average annual repayment of CPEC could range between US$ 2.0–5.3 billion with an average payment of US$ 3.7 billion.15

In the initial years, the CPEC projects did contribute to Pakistan’s growth due to a rise in domestic consumption. For example, the demand for cement, smaller machinery and other products increased because of the work on energy and road infrastructure projects. But this also led to an increase in the import bill since big machinery and other goods were imported, resulting in a deficit in the balance of payment. The import-driven economy, artificially, kept the value of rupee strong. Once this phase was over, the economy came under huge stress.

Pakistan’s growth witnessed a decline of around 1.9 per cent during 2018-19. The World Bank has projected a negative -1 per cent GDP growth for Pakistan in the upcoming fiscal year 2020-21.16 The government has been forced to devalue the currency and reach out to the IMF for a bailout. Considering Pakistan’s economic situation, the IMF has asked Pakistan to clarify the debts it owes to China as it did not want the bailout package to be used for repaying the Chinese

loan.17.

The COVID-19 pandemic has further exacerbated Pakistan's economic woes. According to the Economist Intelligence Unit (EIU), Pakistan's GDP will grow only at about 2.9 per cent in the next financial year 2020-21.18 Due to such downturn, it would not be possible for Pakistan to pay the debt it has incurred due to the CPEC projects and it may look for deferment, which is likely to increase its external dependency and turn it into China's client state, for all practical purposes.

Interestingly, despite being 'iron brothers', China rejected the Imran Khan Government's request to renegotiate some of the Chinese projects as per his campaign promises. Rather, it, possibly, reached out to the Pakistan military to tell Imran not to do so. Even as Imran Khan did not push China to renegotiate some of the deals, China refused to reschedule its debt and renegotiate power purchase agreements (PPAs), "which form the heart of CPEC today".19

Pakistan has raised a Special Security Division (SSD) comprising 9,000 Pakistan Army soldiers and 6,000 para-military personnel for the security of the CPEC projects and individuals working on it.20 These security measures come with a price tag. Pakistan has to foot the bill and "the cost is going to be exorbitant".21 The federal government in 2017-18 financial year allocated PKR 1.8 billion, in 2018-19 it was PKR 4.5 billion,22 and in 2019-2020 it was PKR 5.8 billion as security expenditure for the CPEC projects.23

Already local people are angry that CPEC has not generated employment opportunities for them. Chinese companies have employed Chinese workers in their projects. Media has reported some clashes between the local police and the Chinese engineers. In one such case in Khanewal in 2018, the Chinese engineers and other officials clashed with the local police when they were denied permission to leave the camp without being accompanied by a security squad. The Chinese workers responded by snapping power supply to the police camp within the project premises.24 There have also been reports of Chinese traffickers luring Pakistani women to China with sham marriages for prostitution and are charging fees ranging from $12,000 to $25,000 per woman.25

The CPEC project has further empowered the Pakistan military. In April this year, Lt. Gen. (Retd.) Asim Saleem Bajwa, a former military spokesperson, was appointed as Special Assistant to Prime Minister Imran Khan to deal with the negative narratives surrounding the CPEC project.

Undeterred by criticism and concerns expressed by the analysts worldwide, Pakistan and Chinese officials are now finalising new infrastructure projects worth billions which include the railway project ML-1 with an estimated cost of $7.2 billion.26 Even an agreement has been signed for investment in the Diamer-Bhasha Dam (DBD) project. Given Pakistan's economic situation, repaying these loans would be difficult. The external debt of the central government has increased from PKR 11 trillion in June 2019 to PKR 11.23 trillion in February this year.27 According to the World Bank, the rupee depreciated by 7.3 per cent in March this year and real GDP growth is projected to contract by 1.3 per cent.28 The total public debt to GDP ratio stood at 72.1 per cent.29 All these will have implications for Pakistan's debt situation in future. As it stands today, Pakistanis are likely to find their enthusiasm about CPEC turn into an economic nightmare.

Views expressed are of the author and do not necessarily reflect the views of the Manohar Parrrikar IDSA or of the Government of India.

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