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Analysing Pakistan's Current Economic Strategy in Light of CPEC

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Pakistan's newly elected Prime Minister, Shahbaz Sharif, made his first official visit to China from June 4-8, 2024. As Pakistan is struggling with a dire economic crisis and is in urgent need of a new IMF package, the visit was not just ceremonial. The Pakistani PM hopes to leverage his country's "higher-than-Himalayas and deeper-than-the-ocean" friendship with China for an even stronger relationship. His delegation included key cabinet ministers like finance and foreign affairs. More than 100 Pakistani business leaders joined PM Sharif on the trip, which featured a convention with Chinese enterprises. Army Chief General Asim Munir was also part of the delegation, which was justified by his position on the Special Investment Facilitation Council (SIFC), a group tasked with luring international investments to Pakistan.¹

The Pakistani establishment is expecting to include three projects worth 12 billion USD in the CPEC. These include two railways and one hydroelectric power plant. Pakistan has also approved the activation of an escrow account to pay its dues to Chinese power suppliers.² It has also agreed to increase security measures for Chinese nationals in the country. China's investment in Pakistan, represented by the China-Pakistan Economic Corridor (CPEC), is motivated by strategic goals. The joint statement issued during the visit reveals a substantial discrepancy that favours China. However, the timing of the visit was curious as it happened in the middle of Pakistan's budget preparation.

Pakistan's Escalating Economic Woes

Pakistan's economy is staggering on the brink of collapse. Inflation has hiked the cost of living unprecedentedly. The situation has become even worse with the failure of bailout talks in February 2023 with the IMF. IMF wants to ensure that the infusion of new funds into Pakistan's economy is not just utilised to settle China's debts. This necessitates a Chinese commitment to carry over existing loan payments. The IMF wants this done not just until the end of the year but also until the conclusion of the three-year loan facility that Pakistan is seeking. China has emerged as Pakistan's largest lender, with a US \$30 billion credit to the country. However, there is no transparency in China's financing scheme. Therefore, the IMF's scepticism is appropriate.

Pakistan's current year's budget is based on a 3.5 per cent growth assumption. The country's budget cycle runs from July to June. The GDP growth rate in the first quarter (July-October 2023)

was 2 per cent. This reduced to 1 per cent in the second quarter (November-February 2023). A falling growth rate indicates that it will be hard to fulfil the target, resulting in a revenue shortfall and a rising fiscal imbalance. Borrowing is required not only to close the balance-of-payments shortfall but also to fund the budget.³

China-Pakistan Economic Corridor

Shehbaz Sharif's media briefing before his visit to China held out the likelihood of starting the second phase of the CPEC. The bulk of this financing was extended on commercial terms in exchange for sovereign guarantees. This has worsened Pakistan's repayment issues. Pakistan would like China to fund the second phase. The joint statement is quiet on China's response to Pakistan's request.⁴ For the Pakistanis, the CPEC is a desire to change their lives, and for the Chinese, it's just another project of the Belt and Road initiative, the big investment scheme China has set up to extensively amplify its trade sphere. According to the Chinese account, CPEC is just a corridor that links Gwadar with Xinjiang. The Pakistani establishment considers the CPEC groundbreaking, but to what degree it can change Pakistan's ground reality, can only be answered when the project is finalised. The CPEC project might leave Pakistan heavily indebted, and domestic enterprises might be hit hard. This cognisance of the project in the Pakistani society might lead to the anti-China movement in the future. Also, there are significant points of caution for China as well, as Pakistan faces high political risks, and the country ranks notably below the world average in terms of corruption and governance.⁵ Even the long-term planning document of the CPEC drawn up a decade ago by the governments of China and Pakistan said nothing about a China-Pakistan Economic Corridor. Instead, the document always referred to a Xinjiang-Pakistan Economic Corridor, emphasising its role in linking Pakistan's economy with one of China's provincial economies. The document talks about agriculture as a field for cooperation, and that's only because Xinjiang needs agricultural imports, being a high-altitude area. However, there is no mention of information technology or the energy sector, which are the two priorities mentioned by Prime Minister Shehbaz Sharif. This shows that the Chinese interest is somewhat different from that of the Pakistanis.

From 2015 to 2018, CPEC inflow contributed to a rise in Pakistan's economic growth, which culminated in a growth rate of approximately 5.8 per cent in the 2018-19 fiscal year. However, it brought some structural variances in the economy. For instance, there was a sharp rise in imports, which led to a balance of payment crisis. Between 2021-22, 80 per cent of Pakistan's bilateral debt service went to Beijing.⁶ This has been aggravated by the Chinese way of doing business. For instance, Chinese companies, in particular, do not like partnering with local companies, which limits the emergence of new employment opportunities from CPEC projects. Moreover, being duty-free,

these companies prefer to import everything from China, including labour, leading to minimal integration with Pakistani business.⁷

If Pakistan wants money from the IMF, it needs to persuade China to defer the colossal Chinese debt that Pakistan is holding. Even if China does that, it has other problems to think about. Countries across Africa and other parts of the world are facing similar problems. China fears that granting Pakistan a substantial debt reduction could set a precedent for other countries to demand write-offs on loans for economically unviable projects.⁸ China will likely give Shahbaz Shareef some relief but will probably not invest significantly more money into the existing bad investments that are not generating any returns. As nation-states seek to use investments and trade as instruments of their national power, they need to be aware that cold commercial calculations will eventually catch up with fantasy.

Notes:

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³ D P Srivastava, "Shehbaz Sharif's Visit to China Amid a Worsening Pak Economy Is Not Just About Convention", *The Wire*, June 20, 2024, <https://thewire.in/south-asia/shehbaz-sharifs-visit-to-china-amid-a-worsening-pak-economy-is-not-just-about-convention>. Accessed on July 02, 2024.

⁴ Abid H., "Sharif's Beijing Trip: Can China-Pakistan Economic Corridor Be Revived?" *Aljazeera*, June 03, 2024, <https://www.aljazeera.com/news/2024/6/3/sharifs-beijing-trip-can-china-pakistan-economic-corridor-be-revived>. Accessed on July 02, 2024.

⁵ Osama Ahmad, "China's Belt and Road Initiative in Pakistan Has Met Roadblocks in Development and Has Heightened Longstanding Tensions in the Region", Stimson Center, August 18, 2023, <https://www.stimson.org/2023/ten-years-of-cpec-a-decade-of-disappointments/>.

⁶ Abdul Khaliq, "Pakistan's Debt from China Becomes Burden as CPEC Does Not Generate Enough Growth", Committee for the Abolition of Illegitimate Debt, May 16, 2023, <https://www.cadtm.org/Pakistan-s-debt-from-China-becomes-burden-as-CPEC-does-not-generate-enough>.

⁷ Bhaswar K., "No CPEC 2.0? China Gives Pakistan Cold Shoulder on New Major Investments", *BusinessStandard*, May 16, 2023, https://www.business-standard.com/external-affairs-defence-security/news/no-cpec-2-0-china-gives-pakistan-cold-shoulder-on-new-major-investments-124061100975_1.html. Accessed on July 02, 2024.

⁸ SOUMYA B., "Forgotten Promises: The China-Pakistan Economic Corridor", Observer Research Foundation, June 15, 2024, <https://www.orfonline.org/expert-speak/forgotten-promises-the-china-pakistan-economic-corridor>.