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Financing of CPEC Projects: Implications for Pakistan

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Abstract

The China-Pakistan Economic Corridor (CPEC), termed the game changer, has galvanized the strong fraternal bonds between Pakistan and China into a shared economic future. It would link China's western region of Xinjiang to Pakistan through Karakoram crossings, traversing Gilgit Baltistan (GB) through Khyber Pakhtunkhwa, Punjab, Sindh, and all the way to Gwadar in Balochistan at Pakistan's South Western coastline. The projects envisaged under CPEC are estimated to be worth US$ 62 billion including energy projects, railway lines, and road networks with the Gwadar port as the culmination point. Several other projects, such as Special Economic Zones (SEZs), knowledge exchanges, and optic fibre network are also part of CPEC. Financing all the CPEC projects, planned between 2015-2030, would be a huge undertaking for Pakistan's feeble and traumatized economy. Despite offering great opportunities for Pakistan, CPEC also faces criticism on account of its financial sustainability and lack of transparency, with fears that it may lead Pakistan into a Chinese "debt trap". The current research examined whether the issues related to financing of CPEC could outweigh its socio-economic benefits to Pakistan's economy. While there may be no "debt trap" for Pakistan from CPEC, however, Pakistan needs concrete policy measures to ensure the best use of this opportunity in order to build its infrastructure and human capital and ensure repayment of direct loan of US$ 5.8 billion to be paid off by 2035. This paper offers several policy recommendations pertaining to regular follow-up of progress at leadership level, pursuing regional integration to expand CPEC to Afghanistan and Central Asia, macroeconomic reforms to stabilize the economy, use of innovative methods to manage CPEC debt, and liabilities, capacity building and technology transfer, capitalization on industrial development through SEZs, early implementation of ML-1, and inclusion of Diamer Bhasha dam in CPEC.

Keywords: China-Pakistan Economic Corridor (CPEC), financial sustainability, industrial development, Special Economic Zones (SEZs)

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Introduction

Pakistan and China have been enjoying excellent diplomatic relations since the last seven decades. While bilateral trade between the two countries has grown steadily over the years, however, both sides have a Free Trade Agreement (FTA) since 2006[1]. -In May 2013, the two countries launched a historic economic cooperation initiative, that is, the China-Pakistan Economic Corridor (CPEC) during Chinese Premier Li Keqiang's visit to Pakistan. The Chinese President Xi Jinping's visit to Pakistan in April 2015 provided the occasion to sign 51 agreements, Memoranda of Understandings (MOUs), and financing contracts that collectively constitute the CPEC (Lakhani, 2017).

Moreover, CPEC is one of the strategically significant component of China's Belt and Road Initiative (BRI). The BRI has planned to envisage US$ 3 trillion investments in the next 30 years, spanning more than 60 countries, covering 62% of the world's population, and nearly 30% of global GDP. China has termed CPEC as a "flagship" project among the six corridors that are part of BRI. CPEC links the Xinjiang region of China with Pakistan's coastal area of Gwadar, reducing China's dependence on the long sea routes along the Strait of Malacca, around the Indian Ocean, a shipping route from the Middle East to China about 12,000 km long (South China Morning Post, n.d.).

CPEC provides much needed foreign investment in infrastructure and energy sectors for Pakistan with technical expertise, funding, and construction support from Chinese companies, thereby unleashing the potential socio-economic dividends throughout the CPEC sites and routes. It also provides a strategic underpinning with China for shared economic prosperity. An undertaking of this grand scale is unprecedented in Pakistan's history and it is critical for the country's growing population which requires sustainable economic growth in near future for providing employment to its people in order to ensure national development.

The timing of CPEC could not have been better as far as Pakistan is concerned, because at that point (in 2013-14), US assistance to Pakistan was receding, with the fading away of Kerry Lugar Bill assistance. Moreover, differences emerged between Pakistani and US interests in Afghanistan,

[1] FTA between Pakistan and China, November 24, 2006, http://wits.worldbank.org/gptad/pdf/archivelchina-pakistan.pdf (accessed July 22, 2021).

South Asia, and the region. During this period, Pakistan's economic woes also necessitated a major overhaul of the country's energy sector which was marred by high circular debt and serious power shortages. At the same time, the country's transport and communication infrastructure network also needed to be upgraded.

Statement of the Problem

CPEC is the manifestation of the strategic economic partnership between Pakistan and China, with investments of over US$ 62 billion in road, rail, energy, and other infrastructure projects that are going to be developed between 2015 to 2030. While CPEC has been termed as a "game changer" for Pakistan's economic future, it has also faced criticism due to financial sustainability and lack of transparency, with fear that it may lead Pakistan into a Chinese "debt trap". The dilemma for Pakistan's policy makers is to determine the affordability of the Chinese financing option, given Pakistan's current economic situation.

The current research would examine whether the financial obligations arising out of CPEC projects could undermine its potential socio-economic benefits to Pakistan's economy?

Significance and Scope of the Study

The current research is significant, as it sheds light on a subject in the media spotlight, that is, the financing of CPEC projects. CPEC critics believe that there are serious issues of transparency, disclosure and, more significantly, debt sustainability. On the other hand, the Governments of Pakistan and China have consistently claimed that the financial liabilities are limited and that these may be easily paid off by Pakistan since they do not constitute more than 5 percent of Pakistan's total external debt. Through this research, both these positions would be examined and the notion of Pakistan falling into a Chinese "debt trap" would be put to test in order to determine if sufficient fiscal space could be created for Pakistan to be able to pay off these liabilities.

The scope of this study would be limited to CPEC related economic activity which is expected to constitute the bulk of Pakistan's economic growth component in the coming years. Barring exogenous shocks, such as war, pandemics or natural calamities would determine the fate of Pakistan's economy largely by the outcome of CPEC projects. For instance, industrial development, agriculture, transit trade, and regional trade would form pillars of the country's economic future.

Review of Literature

A wide range of literature was consulted in order to review this research. A key relationship to be examined in the current research is the economic impact of megaprojects, (defined as those costing US$ 1 billion or more) such as, those which are part of CPEC. A McKinsey study of 2015 concluded that large infrastructure projects could be "economically transformative", for instance, the Panama Canal and Dubai's international airport which are contributing to the GDP of their countries (Garemo et al., 2015). Similarly, another study by Alpert (2020) concluded that there is empirical evidence of infrastructure spending, having a "stimulatory effect" on GDP, that is greater than other forms of spending. China's own experience in this regard has been to use debt in order to finance its large infrastructure projects. China's non-financial debt is a concern for IMF, expected to rise to nearly 300% of its GDP by 2022 (Ansar et al., 2016).

Although, it means that Pakistan must not be bothered about the cost of CPEC, however, there are voices that claim financing of CPEC projects could have dire consequences for a vulnerable economy, such as Pakistan. Such doubts have been casted since the time CPEC began in 2015. Pakistan was among eight focused countries that Hurley et al., 2019, termed "most vulnerable" to Chinese loans due to debt distress. The report criticized the relatively high interest rates charged by China, which in some cases, exceed the "2-2.5% concessional rate of China Exim Bank," and could be as high as 5%. While quoting Pakistan's high public debt to GDP ratio, which stood at 70% in 2018, the report feared that Pakistan may end up going to IMF again.

Similarly, Andrew Small (2020) argued that "Pakistan's deteriorating economic picture forced China to re-evaluate the feasibility in order to move ahead with it in its most expansive form. He contended that the negative growth rates for 2020 "severely affected" Pakistan's "capacity to make repayments on project loans" and the Pakistani government was trying to renegotiate the energy deals of CPEC. These views match the statements given by senior US government officials against CPEC, calling it a "Chinese debt trap" for Pakistan. On the other hand, Ishrat Husain (2018) wrote that the "detractors of CPEC are also blatantly wrong when they assert that Pakistan would not be able to service the loans and repatriate the profits to Chinese investors." He is of the view that the additional burden of CPEC debt or investment profits would not create any unmanageable stress on Pakistan's economy and that peak payments would range between US$ 2.5 to 3 billion per annum.

This topic, however, requires to be examined in detail in order to discover the truth behind these speculations. Hence, the focus of this IRP is on financing of CPEC and its possible socio-economic implications.

Methodology

The current research used a mixed method approach along with the application of primary and secondary research methods due to the complexity of the subject. Primary sources included interviews that were conducted with serving and retired government officials from the relevant departments dealing with CPEC projects and lectures delivered by eminent guest speakers during the ongoing 29th SMC. Secondary sources comprised official statements by the Government of China, Government of Pakistan, officials of US Government, World Bank, IMF, and others along with research articles, think tank reports, news items, publications, and reviews on the subject.

Organization of the Paper

The current research comprises three sections. Section-1 of the paper would present an overview of CPEC including the vision, major projects, timelines, and financing aspects (modalities, types of financing instruments). Section-2 would look at Pakistan's economic outlook from the CPEC perspective including the current economic situation, the debt sustainability, and possible GDP growth trajectories. Whereas, **section-3** would comprehensively examine implications for Pakistan followed by conclusion and recommendations.

CPEC Projects: An Overview

CPEC is the culmination of decades of excellent and exemplary diplomatic ties between Pakistan and China which have finally entered the economic domain. The aim of CPEC is to connect the Chinese city of Kashgar in Xinjiang province and Pakistan's Gwadar port while stimulating economic growth within Pakistan and China's landlocked western region. This connectivity would reduce China's dependence on the 12,000 km long sea routes along the Strait of Malacca, substituting it with a land route of merely 2,700 km between Xinjiang region and Gwadar.

CPEC lays out a network of regional connectivity that would benefit Pakistan and China. Additionally, it has the potential for regional integration with Iran, Afghanistan, India, and Central Asian Republics. CPEC linkages would help building road and rail transportation system, allowing greater accessibility and free movement of people along with goods and exchanges of academic, cultural, and regional knowledge. This fits in with the Chinese mantra of a "win-win" model for collective growth, development, and a "shared destiny and prosperity".

Areas of Cooperation

The list of CPEC cooperation areas is vast and constantly evolving. According to the CPEC website of the Authority Ministry of Planning, Development & Special Initiatives (n.d.), the potential areas of cooperation/development include:

- Regional Connectivity
- Transport Infrastructure
- Energy Hub/flows
- Logistic Hub/flows
- Trade and Commerce
- Peace and development of region
- Connectivity/Harmonization/ Integration of civilizations
- Diverse Investment opportunities
- Industrial Cooperation
- Financial Cooperation
- Agricultural Cooperation
- Socio-Economic Development
- Poverty Alleviation
- Education

- Medical Treatment
- Water Supply
- Vocational Training
- Tourism including coastal Tourism
- Educational linkage
- Human resource development
- People to people contact
- Increase in livelihood opportunities
- Enhance Security and stability of the region

CPEC projects were originally envisioned to be worth US$ 46 billion when the initiative was launched during President Xi Jinping's visit to Islamabad in April 2015. Later on, the outlay of the projects was enhanced by the Chinese side, initially to US$ 55 billion and eventually to US$ 62 billion (Siddiqui, 2017).

Major CPEC Projects

CPEC includes an impressive list of megaprojects, mostly in the energy sector; however, also in roads, rails, and other infrastructure. Details of the CPEC projects are as follows:

Energy

Till date, US$ 33.8 billion have been pumped into energy projects under CPEC, with the addition of 12,230 MW of electricity. Transmission lines are also being revamped. The Government of Pakistan's official website for CPEC project lists 17 priority projects including coal-fired power plants at Sahiwal, Port Qasim, Hub, and Thar. Major hydroelectric projects include Karot Hydel project and Suki Kinari Hydel project. Among renewable energy sources, there is the Quaid-e-Azam Solar Park Bahawalpur, UEP, Sachal Wind Farms at Jhimpir, and HydroChina Dawood Wind Farm at Gharo. Other actively promoted hydel projects include Kohala and Azad Pattan in AJK and other smaller wind and hydel projects (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Infrastructure

CPEC lays special emphasis on roads and railway infrastructure. Major projects include the Karakoram Highway (KKH) phase II project, Multan-Sukkur section of the Peshawar-Karachi Motorway, Khuzdar-Basima Road, Upgrade of D.I.Khan-Zhob N-50 road, and KKH Thakot-Raikot section. The railways megaproject is the expansion and reconstruction of ML-1 line which is estimated at around US$ 6.8 billion for which negotiations are still ongoing with the Chinese authorities (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Gwadar

Gwadar carries exceptional importance for CPEC. Gwadar Port operations are with China Overseas Ports Holding Company (COPHC) since 2013 for a 40 years lease. The various projects at Gwadar include the East Bay Expressway, New Gwadar International Airport, Gwadar Free Zone, Construction of Breakwaters, Dredging and Berthing areas & channels. Moreover, these projects also include Pak-China Friendship Hospital, Pak-China Technical and Vocational Training Institute, along with Gwadar Smart Port City Master Plan (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Rail-based Mass Transit Projects

Mass transit projects in all four provincial capitals are envisaged under CPEC. These are the Karachi Circular Railway, Greater Peshawar Region Mass Transit, Lahore Orange Line, and Quetta Mass Transit.

New Provincial Projects

Efforts are underway to add new projects from the provinces to the existing CPEC list. These projects are still in PC-1 preparation and approval phase and would then be considered by the respective Joint Working Group (JWG) for inclusion under CPEC. These include the Keti Bunder Sea Port Development Project, Naukundi-Mashkel-Panjgur road project, Chitral CPEC link road from Gilgit-Shandur-Chitral to Chakdara, and Mirpur-Muzaffarabad-Mansehra road for CPEC connectivity.

Special Economic Zones (SEZs)

Nine SEZs are planned under CPEC in Phase 2 (2021-2025). These SEZs would provide impetus for industrial development across Pakistan.

The Government of Pakistan is developing SEZs to promote industrial and socio-economic growth, job creation, technology transfer, and boost FDI along with conversion to an export-led economy. The four SEZs at Rashakai, Allama Iqbal Industrial City Faisalabad, Dhabeji Thatta, and Bostan Balochistan are expected to add at least 475,000 direct and 1million indirect jobs all over Pakistan (Rafi Group, n.d.). The rest of other planned SEZs are ICT Model Industrial Zone Islamabad, Pakistan Steel Mills Industrial Park at Port Qasim, Mirpur Industrial Zone AJK, Mohmand Marble City, and Moqpandass SEZ in Gilgit Baltistan.

Social Sector Development Projects

These include a number of initiatives including people to people exchanges (media, culture, and films), Transfer of Knowledge in different sectors (capacity building trainings and workshops), Establishment of Pakistan Academy of Social Sciences (with Higher Education Commission (HEC) as it partner), and Transfer of Knowledge in Education Sector through Consortium of Business Schools (from both China and Pakistan with HEC in the lead).

Others

These include the cross border optic fibre cable project and pilot project of Digital Terrestrial Media Broadcast (DTMB), etc.

Governance Mechanism

The CPEC projects are regularly monitored through the convening of the Joint Cooperation Committee (JCC), the highest decision making body for CPEC related matters. JCC is headed by the Minister for Planning, Development and Special Initiatives from Pakistan side, whereas from Chinese side, it is co-chaired by the Vice Chairman of National Development and Reforms Committee (NDRC). Till date, 9 JCC meetings have been held. The 10th meeting was scheduled in July 2021; however, it had to be postponed at the last minute (S. Sharif, personal communication, July 29, 2021). Under JCC, there are 9 Joint Working Groups (JWGs) which examine subject-wise issues at technical level, including feasibilities and progress on ongoing projects. These include planning, transport infrastructure, industrial parks/special economic zones, international cooperation and coordination, agriculture cooperation, energy, Gwadar, security, and social and economic development. A tenth JWG on Science and Technology is already approved to be added for which the necessary

MOU has already been signed in 2020. On July 1st 2021, Federal Minister for Planning, Development and Special Initiatives, Mr. Asad Umar announced that both sides have agreed to add another JWG on Information Technology (Daily Times, 2021).

In October 2019, Pakistan established a CPEC authority through an ordinance (Baabar, 2019). This authority is headed by a Chairperson who would ensure accelerated pace of implementation of CPEC projects. Lt. Gen. (Retd) Asim Saleem Bajwa was the first Chairperson. The current Chairperson is Mr. Khalid Mansoor, Special Assistant to the Prime Minister (SAPM) on CPEC (Dawn News, 2021). This authority is responsible for "planning, facilitating, coordinating, monitoring, and evaluating" to ensure the implementation of all CPEC activities including inter-provincial and inter-ministerial coordination, organizing and coordinating JCC and JWG meetings along with conducting sectoral research and narrative building for CPEC.

Progress on CPEC Projects

In the first five years of CPEC, 32 "Early Harvest Projects" were completed by 2020. The first phase of CPEC (2015–2020) focused on infrastructure, particularly energy and transportation. The second phase (2021–2025) is directed towards industrial cooperation with investment, especially from Chinese firms, in SEZs (Safdar, 2021). On June 3, 2021, Pakistan's Foreign Office Spokesperson said that 19 projects had been completed, 28 were under construction, while 41 remained in the pipeline. He said that "CPEC projects created more than 26,000 jobs and boosted local power industry. Additionally, CPEC motorway projects created over 50,000 jobs." (Ministry of Foreign Affairs , 2021)

Financing Arrangements under CPEC

There are four types of financing arrangements that are used in the CPEC projects. These include:

Investment

Most of the energy projects in CPEC are in the Independent Power Producers (IPPs) mode. Moreover, Chinese companies are borrowing funds from Chinese banks (mainly from China Development Bank and China Exim Bank) on commercial basis at interest rates of 4% - 5% with no direct debt liability for Pakistan. Special Purpose Companies (SPCs) have been created for these loans. SPCs are owned by Chinese companies, for instance, the International and Commercial Bank of China (ICBC) is providing $1.44 billion to Huaneng Shandong Ruyi (Pakistan) Ltd., an SPC of Huaneng Shandong Power and Shandong Ruyi Group, for development and operation of Sahiwal coal power plant. Another example is China's Export-Import (EXIM) bank funding of US$ 1.55 billion for Port Qasim Electric Power Company Limited, an SPC of Power China and Qatar's Al Mirqab Group that is working on Port Qasim coal power plant.

Table 1

Debt Financing Arrangements for Select CPEC Energy Projects

Project	Debt: equity	Lender	Borrower	Borrower's owner	Amount ($ million)
Port Qasim coal power plant	75:25	China Eximbank	Port Qasim Electric Power Co.	PowerChina, Al Mirqab Group	1,550
Suki Kinari Hydropower Station	75:25	China Eximbank, ICBC	SK Hydro	China Gezhouba Group, Haseeb Khan	1,416
Sahiwal coal power plant	80:20	ICBC-led syndicate	Huaneng Shandong Ruyi (Pakistan)	Huaneng Shandong Power, Shandong Ruyi Group	1,440
Engro Thar Block II coal power plant	75:25	Bank of China, Bank of Communications, CCB, CDB, China Eximbank, ICBC, Pakistani Banks	Engro Powergen Thar Limited	Engro Powergen, China Machinery & Engineering Corp., Habib Bank, Liberty Mills	831
TEL Thar Block II coal power plant	75:25	CDB, Habib Bank	Thar Energy Limited (TEL)	Hub Power Company, Fauji Fertilizer Limited, China Machinery & Engineering Corp.	262 (from CDB)
Hydro China Dawood wind farm	70:30	ICBC	Hydro China Dawood Power	Hydro China, Dawood Power	78.8
Quaid-e-Azam solar park	80:20	CDB, China Eximbank	Zonergy	ZTE Corp.	62.2 (and RMB 400 million)
UEP wind farm	75:25	CDB	United Energy Pakistan	United Energy Group, Orient Group Investment Holdings	252
Sachal wind farm	85:15	ICBC	Sachal Energy Development	Arif Habib	100 (export buyer's credit)
Karot Hydropower Station	80:20	CDB, China Eximbank, SRF, IFC	Karot Power Co.	CSAIL (owned by China Three Gorges Corporation, SRF, IFC)	1,392
Three Gorges second and third wind power projects	70:30	CDB	Three Gorges Second Wind Farm Pakistan, Three Gorges Third Wind Farm Pakistan	CSAIL (owned by China Three Gorges Corporation, SRF, IFC)	NA
Hub coal power plant	75:25	Bank of China, Bank of Communications, CCB, CDB, China Eximbank, ICBC	China Power Hub Generation Co.	China Power International Holding, Hub Power Co.	1,500

Note. **Source:** Columbia University (Down, 2019)

Concessional Loans

Concessional loans are given to the Government of Pakistan at rebated interest rates with generous lending terms, that is, a rate of around 1 to 2% with tenure of 20 years or more. The first payment due on these loans is usually within 5 years of the start of the lending period. This is rather similar to the World Bank's IDA loans which usually have a 1-2% interest rate and are extended over 15-20 years' period. In contrast, commercial loans are usually at 4-5% interest and have to be returned within 5-10 years of borrowing and servicing options are also limited. With concessional loans, there is always the option of more liberal servicing and the tenor may be extended even beyond the 20 years' limit, if needed. Examples of projects being financed through concessional loans include KKH Phase II, Multan-Sukkur section of Karachi-Peshawar Motorway, and Khuzdar-Basima Road.

Interest Free Loans

These constitute only a small percentage of overall CPEC financing. These loans are without any interest and with long term payback period. An example of this interest free or zero interest model includes East Bay Expressway and Gwadar.

Grants

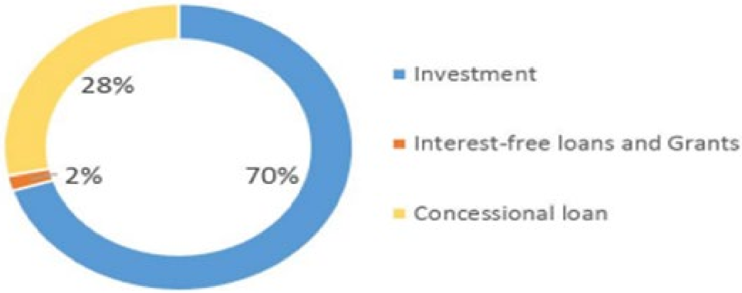
Some CPEC projects are also purely on Chinese grants, that is, donations with no expectation of repayment. The grant-financed type of projects include Gwadar International Airport and Pak-China Friendship Hospital.

Contribution of each Sector in CPEC Mix

Out of the estimated US$62 billion budget outlay of the entire CPEC, by 2019, projects amounting to US$19 billion are complete or under construction. A recent study provides the following break up of sector-wise financing:

Figure 1

Source of CPEC Money for Completed and Ongoing Projects



Source: *Journal of Infrastructure,Policy and Development* (Downs, 2019a)

Investment, Financing Mechanism, and Supporting Measures

There is a complete section in the Long Term Plan for CPEC (2017-2030), dedicated to the Investment and Financing Mechanism and Supporting Measures, agreed by both Governments. The following arrangements are listed and elaborated in the document:

Government Funds

Both governments would bear the primary responsibility for financing and investing in public welfare projects. They would coordinate the use of Chinese grant, interest-free loans, concessional loans, and preferential export buyer's credit to support strategic priority projects of CPEC. Additionally, they would enhance preferential margins where possible and those funds are used exclusively in CPEC projects. Pakistan's federal and provincial governments would also allocate funds for CPEC. Provincial governments may be allowed to issue financial bonds in domestic and foreign capital markets. Both governments would also strive to support credit enhancement for major projects, reduce financing costs, and protect the creditors' rights and interests.

Indirect Financing of Financial Institutions

The two countries would also approach development finance institutions and commercial banks and "study and solve financial issues with the CPEC building, explore various ways to support the Silk Road Fund, China- Eurasia Economic Cooperation Fund to participate in the investment and financing for the CPEC" (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Direct Investment of Enterprises

The two sides are also expected to "encourage Chinese enterprises, private sectors, and funds of other entities to invest in CPEC including Pakistan's private sector," (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.) and to establish private financial institutions' and infrastructure funds, if needed.

Loans from International Financial Institutions

Both China and Pakistan would also welcome international financial institutions, such as the World Bank, Asian Development Bank (ADB), Asia Infrastructure Investment Bank (AIIB), and others to provide long-term concessional loans to CPEC projects.

Other Innovative Investment and Financing Methods

Pakistan's government (at both federal and provincial level) and private sector would also explore how to conduct RMB financing in China, Hong Kong, and other offshore centers dealing in RMB. Chinese and Pakistani market players would also be asked to mobilize resources from international market.

Pakistan's Financial Obligations in CPEC Projects

There are several ways in which the Government of Pakistan is contributing its share towards the CPEC projects. For instance, through providing incentives, sharing equity in various projects in partnership with Chinese government, providing sovereign guarantees on commercial projects particularly in the energy sector, and funding certain CPEC related projects through its development budget or Public Sector Development Program (PSDP).

Incentives

In order to attract Chinese investments, the Government of Pakistan is offering attractive and lucrative benefits, particularly at the SEZs and to attract Chinese investors to the coal and power plants too. NEPRA offered concessional terms to Chinese investors in coal projects through attractive upfront tariffs. Similarly, one-time exemption on custom duties and tariffs on all capital goods imported to Pakistan for SEZ development, installation, and income tax relief for 10 years are being offered.

Equity

There is a wide range of equity sharing between the Government of China and Government of Pakistan along with private firms from both countries. In some cases, such as, ML-1 railway project, Pakistan and China are still negotiating the equity ratio. Pakistan has sought 90:10 ratio; however, China is keen to have it at 85:15. Final decision is yet to be taken. On power projects, debt-equity ratios vary, ranging from 70:30 to 85:15, with loans coming in from Chinese banks.

Sovereign Guarantees

The Government of Pakistan has to provide sovereign guarantees for many of the CPEC projects, for instance, Rs. 1.2 trillion for ML-1 railway project. Since the Government is already granting sovereign guarantees for circular debt, it has to work with IMF in order to maintain its guarantee limits, which are currently set at Rs. 1.9 trillion. Pakistan, even committed at one stage to set up a revolving fund to cater for unpaid claims of Chinese energy companies, however, the fund has yet to be established.

PSDP-funded Projects

According to CPEC official website of the Ministry of Planning, Development & Special Initiatives, Pakistan allocated a total of Rs. 167.166 billion (around US$ 1.02 billion) in FY2018-19 for CPEC related projects (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.). This represents Pakistan's component of the budget for completion of various CPEC projects. All PSDP funds have to be approved through the planning and finance channels, that is, CDWP, ECNEC etc.

Pakistan's Economic Outlook and CPEC

Current Economic Situation

Pakistan's economy faced a number of challenges during the last decade. It witnessed a "volatile growth pattern" with regular "boom and bust cycles" impeding "long-term and inclusive growth." It also witnessed structural problems, such as unsustainable debt including circular debt in the energy sector, loss making public sector entities, chronically low FDI levels, low and restricted exports due to regular energy shortfalls, and consistently poor tax revenue generation.

GDP Growth Rate

The economic growth rate at the time of signing CPEC, that is, in 2014 was 4.67%. By 2018, it increased to 5.83%, primarily due to CPEC related investments and other macroeconomic stability measures. However, it dropped drastically to 0.98% in 2019 and further to 0.5% in 2020 (World Bank, n.d.) due to COVID-19 pandemic. In 2020-21, Pakistan's GDP growth rate increased to 3.94%.

Pakistan and IMF

Balance of payment crisis led Pakistan to enter into an Extended Fund Facility (EFF) program with IMF in 2018, for a US$ 6 billion bailout. While Pakistan received the first two tranches, COVID-19 and other factors led to a delay in clearance and receipt of the third tranche. In April 2020, Pakistan borrowed an additional US$ 1.3 billion from IMF under the Rapid Financing Instrument (RFI) for urgent support to COVID-19 affected economies. Pakistan-IMF negotiations are stalled due to constraints on revenue generation, stricter tax reforms, energy sector reforms, and independence of State Bank of Pakistan. Recently, IMF authorized additional US$ 2.8 billion for Pakistan as revised global SDR allocation (Pakistan Observer, 2021).

Macroeconomic Reforms

The current Government embarked upon an ambitious economic reform agenda that included tax reforms, addressing economic imbalances with improved performance in fiscal and external account balance, led by market based exchange rate. However, the economic shock of COVID-19 pandemic created serious issues in FY2019-20. The Government's timely corrective measures, that is, a US$ 8 billion stimulus package, construction sector stimulus, expanding social safety net to vulnerable population, and adjusting monetary policy helped restore economic stability while maintaining foreign exchange reserves balance. High remittance levels also contributed to early economic recovery. Pakistan's GDP growth rate recovered to 3.94% in FY 2020-21 and the economy is now on a V-shaped recovery path (Finance Division Government of Pakistan, 2022).

Pakistan's Public Debt

In June 2020, Pakistan's total public debt (domestic and external) amounted to Rs. 36.399 trillion which is about 87.6% of the GDP, representing a very high debt-to-GDP ratio (Finance Division Government of Pakistan, 2022). This represented an increase of 1.7% from pre-COVID levels – one of the smallest recorded increases as compared to global average of 13%.

Debt Sources

Out of Rs. 36.399 trillion total debts, domestic debt constitutes Rs. 23,283 trillion, whereas external debt amounts to Rs. 13.116 trillion. Domestic debt mainly comprises borrowings by the Government from within the country through prize bonds, treasury bills, savings schemes, and bank borrowings. In past, the Government used to borrow heavily from State Bank of Pakistan, however, it can no longer do so now. External debt is primarily accumulated through the amounts borrowed from bilateral and multilateral international lenders and commercial credit through Eurobonds and Sukuk floated by the Government in international markets from time to time.

Debt Sustainability

Although, the FY2020 debt-to-GDP level of 87.6% is alarmingly high, the IMF remains confident that Pakistan's economic reforms are going in the right direction. It also believes that debt levels remain "sustainable", provided Pakistan continues to undertake the agreed reforms agenda of the EFF program (International Monetary Fund, 2020). In fact, IMF projections indicate that the debt-to-GDP ratio for Pakistan is likely to come down to 73% by 2025.

China: Pakistan's Largest Bilateral Creditor and Investor

A recent study conducted by the US Institute of Peace (USIP) stated that China is now Pakistan's largest bilateral creditor (Younus, 2021). The Ministry of Finance reported that in June 2013, Pakistan's total external debt was US$ 44.35 billion. Chinese loans accounted for only 9.3%. In April 2021, Pakistan's external debt increased exponentially to US$ 90.12 billion, with China's share rising to 27.4%, i.e. US$24.7 billion.

Currency Swap Agreement (CSA)

Contrary to the narrative of "debt trap", China has in fact, been helping Pakistan to repay its foreign debt for many years now. In December 2020, China expanded the bilateral Currency Swap Agreement (CSA) from its original amount of US$ 1.5 billion (10 billion Chinese Yuan) at the time of signing in 2011, to a revised amount of US$ 4.5 billion (20 billion Chinese Yuan) in 2020. This was done to repay the US$ 2 billion debt to Saudi Arabia in two tranches of US$ 1 billion each in December 2020 and January 2021. CSA is a Chinese trade finance facility used by Pakistan since 2011 to repay foreign debt and keep its gross forex levels steady while avoiding the issue to reflect it as a loan or added external debt (Rana, 2020).

Chinese Loans under CPEC

The Chinese embassy in Pakistan made a public statement in January 2020 where it conveyed that the total loan liability for Pakistan out of CPEC is around US$ 5.8 billion. It makes 5.3% of Pakistan's total foreign debt of around US$ 110 billion with repayment tenor of 20 to 25 years and around 2% interest rate. Repayments would commence in 2021 with annual repayments of about US$ 300 million. According to Pakistan's Ministry of Planning, CPEC does not impose an immediate burden of loans repayment and energy sector outflows. The CPEC outflows would commence from 2021 and would spread over 20 to 25 years with maximum in 2024 and 2025 (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Chinese Investments in Pakistan other than CPEC

Chinese investments are not limited only to Chinese government in fact, in 2016, Pakistan Stock Exchange's 40% shares were bought by a Chinese consortium. Afterwards, in 2018, Ant Financial, which is affiliated with China's Alibaba Group, purchased 45% shares in Telenor Microfinance Bank through an investment of US$ 184.5 million. Recently, in November 2020, two Chinese companies concluded a contract to establish a mobile phone manufacturing facility in Faisalabad. Another Chinese textile manufacturer, namely Challenge,is going to invest US$ 150 million in a sportswear export manufacturing facility in Lahore keeping in view a target audience in the Western countries. There are even news of Hui Coastal Brewery and Distillery Limited considering to set up operations for beer production in Balochistan (CPEC Authority Ministry of Planning, Development & Special Initiatives, n.d.).

Potential Economic Growth and Employment Opportunities

Various estimates are available about the potential economic growth from CPEC projects. These estimates range from exaggerated ones, presented by political leadership in Pakistan to swing public opinion or to claim credit for CPEC's success to the independent assessment of multilateral institutions, such as the World Bank.

Pakistan's Estimates

According to the Government of Pakistan's official website, a decade high growth rate of 5.3% was achieved in 2017 and subsequently, the growth rate was expected to rise to 7% by 2020. While COVID-19 pandemic and some delays in CPEC activities prevented Pakistan from achieving the target growth rate, however in FY2020-21, Pakistan's economy rebounded. Nevertheless, Pakistan remains confident that CPEC would yield big economic dividends in the long run that would compensate for loan repayments. US$ 13 billion GDP growth is expected by 2025 and 800,000 direct jobs are expected to be generated as a result of CPEC activities in the next 15 years.

Chinese Estimates

A statement issued by the Chinese embassy in Islamabad in January 2020 stated that, CPEC projects were on track and there were no delays. It said that 32 projects "achieved early harvests" in the last 5 years which led to significant improvements in local transportation infrastructure and power supply, "creating 75,000 jobs directly and contributing between 1 to 2 % of GDP growth in Pakistan." (Associated Press of Pakistan, 2020)

World Bank Estimates

A World Bank report that examines the socio-economic impact of BRI concluded that Pakistan has the highest welfare gain among all BRI countries, that is, 10.5% by 2030 (relative to the baseline). These gains are due to reduced cost of trade as a result of the improvement of Gwadar Port's connectivity through road and rail network under CPEC (Maliszewska & van der Mensbrugghe, 2019). In terms of infrastructure investment, Pakistan's GDP could potentially increase by 6.43% till 2030. CPEC could help 1.1 million people out of extreme poverty while boosting employment opportunities. Moreover, Pakistan may witness the announcement of 4 million new jobs. Trade may also increase by 9.8%, provided Pakistan is able to fully implement and operationalize the CPEC projects along with carrying out the necessary reforms alongside.

GDP Growth Projections

An extrapolation of the GDP growth rates under various scenarios reveals the likely fiscal space that may be generated by CPEC if it is able to spur the economic growth over a consistent period for Pakistan's economy. There are five different GDP growth scenarios tabulated below, that is, annual GDP Growth at 2%, 3%, 4%, 5%, and 6%. In each scenario, an incremental GDP growth indicates that for every 1% increase in GDP growth, at least US$ 59 billion and as much as US$ 89 billion could be created by harnessing the economic dividend of CPEC projects, that is, from US$ 374 billion (in 2% growth) to US$ 666 billion (in 6% growth).

Table 2
Projected GDP Growth for Pakistan (2021-2035)

Year	Projected GDP Growth for Pakistan (in US$ billion)				
	@ 2% p.a.	@ 3% p.a.	@ 4% p.a.	@ 5% p.a.	@ 6% p.a.
2020	278.00	278.00	278.00	278.00	278.00
2021	283.56	286.34	289.12	291.90	294.68
2022	289.23	294.93	300.68	306.50	312.36
2023	295.02	303.78	312.71	321.82	331.10
2024	300.92	312.89	325.22	337.91	350.97
2025	306.93	322.28	338.23	354.81	372.03
2026	313.07	331.95	351.76	372.55	394.35
2027	319.33	341.90	365.83	391.17	418.01
2028	325.72	352.16	380.46	410.73	443.09
2029	332.24	362.73	395.68	431.27	469.68
2030	338.88	373.61	411.51	452.83	497.86
2031	345.66	384.82	427.97	475.47	527.73
2032	352.57	396.36	445.09	499.25	559.39
2033	359.62	408.25	462.89	524.21	592.95
2034	366.82	420.50	481.41	550.42	628.53
2035	374.15	433.11	500.66	577.94	666.24

Source: *Author's estimate based on current year (FY 2020-21) GDP level.*

Effect on Pakistan-China Trade

In 2020, Pakistan's exports to China were $ 2.33 billion. The China-Pakistan Free Trade Agreement (CPFTA-II), effective since January 1, 2020, provides Pakistani exporters and manufacturers zero duties on over

1000 products. Leather, agriculture, confectionary items, biscuits, along with textile, surgical, and sea-food items would constitute major exports, which could increase to US$ 9.73 billion by 2035 (Associated Press of Pakistan, 2021).

Table 3

Projected Growth of Exports to China (2021-2035).

Year	Projected Growth of Exports to China (in US$ billion)		
	@ 2.5% p.a.	@ 5% p.a.	@ 10% p.a.
2020	2.33	2.33	2.33
2021	2.39	2.45	2.56
2022	2.45	2.57	2.82
2023	2.51	2.70	3.10
2024	2.57	2.83	3.41
2025	2.64	2.97	3.75
2026	2.70	3.12	4.13
2027	2.77	3.28	4.54
2028	2.84	3.44	4.99
2029	2.91	3.61	5.49
2030	2.98	3.80	6.04
2031	3.06	3.99	6.65
2032	3.13	4.18	7.31
2033	3.21	4.39	8.04
2034	3.29	4.61	8.85
2035	3.37	4.84	9.73

Source: *Author's estimate based on current year (FY 2020-21) export level.*

Implications for Pakistan

The previous section examined the state of Pakistan's economy, particularly its debt situation and possible financial benefits from CPEC. There is no doubt that Pakistan's economy received a huge boost from CPEC investments. A positive economic activity has been observed within the country for the last 5-7 years with major energy projects received online. Moreover, the power generation capacity also increased significantly with the addition of new projects completed in the Early Harvest phase of CPEC from 2014-2017. The road infrastructure network is also progressing at fast pace and is continuing to improve the connectivity of various routes across the country. This would lead to better accessibility, faster travel, and commute times along with more reliable journeys for movement of goods and people from north to south of the country and vice versa. The ML-1 railway project has the potential to inject new life in the debilitating railway system of the country through high speed modern trains that may be able to ply passengers and freight. At the same time, while CPEC has emerged to be considerably positive, there are some challenges too which must remain in the minds of Pakistan's policy makers while executing such projects. Some of these challenges carry serious implications for Pakistan in the long run, both on the financial and strategic level. Others could manifest themselves in the form of financial challenges; however, they are actually driven by global considerations. This section would examine the implications of CPEC financing for Pakistan from various angles with a view to identify the issues and deduce relevant conclusion to enable sound policy recommendations to emerge from this discourse.

CPEC and US-China Rivalry

US has been one of the harshest critics of CPEC's financial viability. Its main objection to China's BRI is that it is based on commercial investments as opposed to the traditional US model of economic assistance and aid to developing countries including Pakistan. A study conducted by Center for Strategic & International Studies (CSIS) commented that, "unlike the Marshall Plan, which mainly dispersed aid in the form of grants that did not have to be repaid, China uses loans that often come at commercial interest rates. While the BRI provides vital infrastructure funding to developing countries, it also leaves many with unsustainable debt"(Gerstel, 2018).

US concerns in the context of Pakistan and CPEC were conveyed at a public event by Amb. Alice Wells, Acting US Assistant Secretary of State for South Asia, in her remarks at Woodrow Wilson Center, a Washington think-tank, in November 2019. She criticized CPEC and conveyed US concerns regarding high costs, long-term impact of CPEC debt on Pakistan, lack of transparency, and openness in the bidding processes along with low employment creation for Pakistani workers (Markey, 2020).

Cost of US Assistance V/S Cost of CPEC. US government used economic assistance to put political pressure on Pakistan, all the time asking the country to "do more" in the context of the war in Afghanistan. The economic losses, as a result of Pakistan's involvement in the Global War on

Terror, are estimated at over US$ 120 billion during the last two decades, with the loss of 80,000 lives. In contrast, CPEC projects would add productivity to the economy by bringing energy, infrastructure, jobs, and investment. Therefore, any cost accrued in terms of loans or guarantees may be paid off through the economic dividends generated by the project.

US Leverage on International Financial Institutions (IMF/WB etc.). While US has been unsuccessful in creating any rift between China and Pakistan vis-à-vis CPEC, it still enjoys considerable leverage at the Bretton woods institutions where it already used IMF and World Bank to question the transparency of CPEC projects. Pakistan is currently in an IMF programme where it has certain financial obligations and constraints to meet. US could use this leverage to push Pakistan and thereby exert pressure on China through CPEC. Therefore, while CPEC costs may not increase directly, there could be indirect costs to Pakistan's economy, such as more stringent negotiations on debt servicing or difficulty in securing future loans etc.

Is CPEC a Debt Trap?

This issue carries arguments on both sides. On one hand, US, India, and other detractors of CPEC claim that China is using BRI as a debt trap for other countries, for instance, the case of Hambantota Port in Sri Lanka (Moramudali, 2020). On the other hand, recent studies from Columbia University, US Institute of Peace (USIP), and others are available that negate this impression and have convincing arguments to do so.

Pakistan's Overall CPEC Liabilities. One estimate is that the total worth of CPEC energy and infrastructure projects is around US$ 26.5 billion and that Pakistan would have to pay back US$ 28.4 billion on this account too as an additional US$ 11.4 billion and dividends to investors, thus incurring an overall liability of US$ 39.8 billion (Rana, 2018). The claims of the US authorities and even concerns raised by IMF point out that debt trap may become a serious issue if Pakistan is unable to capitalize on the installed projects. In fact, the liabilities would peak at about US$ 3-4 billion by 2024-25 and then taper off with total repayments due in the next 25 years, that is, till 2037-38.

China's Position on Loan Issue. In February 2021, in reply to a question if Pakistan approached China to restructure a loan of US$ 22 billion for CPEC energy projects, China's Foreign Ministry Spokesman

Zhao Lijian, who previously served in Pakistan too, was quoted as categorically saying that these energy projects were "commercial investment where Chinese companies invested in Pakistan" and that they did not incur any debt burden on Pakistan because "they are investment projects."(Global Village Space, 2021)

Pakistan's Position. Pakistan's position has been very clear that there is no debt trap. In response to the statement by US side, Pakistan's Planning Ministry issued a statement in January 2020, which downplayed the US concerns. It stated that, "necessary due diligence with all financial implications is being undertaken before finalization of any projects. Pakistan's debt sustainability strategy has an endorsement of International financial institutions." (Global Village Space, 2021)

Experts' View. Notable experts including Dr. Ishrat Husain have also dismissed the claims that Pakistan would face any debt distress from CPEC, given that the loan segment is quite less as compared to the overall project outlay. A study conducted by Columbia University revealed that there are many reasons why China cannot trap Pakistan under heavy debt. These reasons include undermining the excellent bilateral ties, China's desire to see Pakistan as a stable and stronger partner, and China's support to IMF program for Pakistan. Above all, any controversy with CPEC would tarnish the overall image of BRI's success (Downs, 2019b).

Weaknesses in the Debt Trap Theory. The biggest weakness in the debt trap theory is that throughout more than 70 years of "all-weather" diplomatic relations, Pakistan and China always stood by each other. To expect China in order to betray Pakistan on this occasion would be presumptuous and incorrect. Moreover, there are other considerations, such as revenue from toll use of the road and rail, the economic activity to be generated in the manufacturing and industrial sectors as a result of abundant energy supply, employment generation, and export enhancement through development of SEZs. Expansion of CPEC to include regional countries, such as Afghanistan and Central Asia may also release economic dividends for Pakistan which could easily be used to repay these Chinese loans and any profit dividends that accrue.

Financial Risks for Pakistan

Having examined the reasons why Pakistan and China remain confident that CPEC would not prove to be a debt trap, the current study also examined some of the genuine financial risks for Pakistan, associated with CPEC financing in the coming years. These include the following:

Exchange Rate Fluctuation. One of the biggest risks associated with CPEC financing and debt repayments is the exchange rate. Pakistan is now following an open market exchange rate which makes it more vulnerable to regular and frequent fluctuations. While currency swap arrangement exists between Pakistan and China, a large number of loans are underwritten in US$. Hence, a further depreciation of the Pakistani Rupee vis-à-vis US Dollar could make Pakistan's exports less competitive and loan repayment much more expensive.

Maintaining Debt Sustainability. While Pakistan is confident that it would be able to continue meeting its debt obligations, the high debt-to-GDP ratio continues to remain a worry for policy makers. Pakistan has to ensure that debts remain within manageable limits and the risk of default is avoided at all costs which could seriously damage the country's credit rating and put the economy under extraordinary stress.

FATF Grey List. Pakistan has been on the FATF Grey list since 2018, despite meeting 26 out of 27 points in the FATF action plan when its progress report was presented to the FATF Board on June 25, 2021. Pakistan received China's support in FATF to remain in the Grey List; however, it would need to get more countries on board to graduate from the list and ensure that it does not fall in the Black List – something that could jeopardize the entire CPEC project.

Current Account Deficit. During the first phase of CPEC, Pakistan's imports registered a sharp rise, mainly due to import of Chinese machinery and equipment for infrastructure along with energy projects' construction and operation. In FY2020-21, Pakistan's current account deficit remained positive for 11 months, however, it ended with a deficit of US$ 1.85 billion, mainly due to rise in global oil prices and vaccine arrivals. Pakistan needs to boost its exports while cutting down imports so that current account deficit remains in check.

Indirect Liabilities through Sovereign Guarantees. While the energy projects designed under CPEC are direct loans to Chinese firms from China Exim bank, however, Pakistan has provided sovereign guarantees to the Chinese firms operating these power plants. Their project's energy output would be purchased so they could repay their commercial loans. Pakistan's poor transmission and distribution culture as along with non-payment of bills by consumers would mean that a lot of these sovereign guarantees may be invoked.

Financing of CPEC: SWOT Analysis

SWOT Analysis of the financing aspect of CPEC projects was carried out and revealed the following:

Table 4
SWOT Analysis

Strengths	Weaknesses
• Strong diplomatic ties • Geostrategic advantage • Strong government commitment • Availability of cheap labor	• Political instability • Weak economy • No accountability for delays • Control of key assets • Unskilled human capital • Population growth
Opportunities	**Threats**
• Regional trade and energy hub • Industrialization and investment • Youth dividend • Capacity building	• US-China 125ivalry • Regional security • External shocks – war, pandemic, natural disasters, etc.

Strengths. Pakistan's biggest strengths to utilize and afford CPEC projects are its strong and deep rooted brotherly ties with China, its geographical geostrategic advantage which places it at the cusp of blue waters, supportive government policies, and commitment to CPEC, and above all, availability of cheap labor.

Weaknesses. A weak economy with low revenue generation, low saving rates, high debt to GDP ratio, and balance of payments problems followed by political instability, that is, frequent change of policies after every election, no accountability if there are any cost over runs or delays in the project, control of key assets handed over to Chinese firms on lease, and lack of skilled human capital in Pakistan. Above all, the current population growth rate is very high, that is, 2.4% which must be brought down.

Opportunities. CPEC offers tremendous opportunities including industrial development through the SEZs. Pakistan's youth dividend, less than 30 years of age and vaccinated, could be a source of cheap and readily available workforce for CPEC projects and beyond. Youth dividend along with capacity building of staff is important. However, most importantly CPEC offers the opportunity to expand it simultaneously through linkages in Afghanistan, Central Asia, and the rest of South Asia.

Threats. These threats include US-China rivalry and the ensuing political game at the global level, regional security threats from India and instability caused by a turbulent Afghanistan and above all, external shocks from war, pandemic, and natural calamities.

Other Possible Implications

Other possible implications for Pakistan related to CPEC financing include:

Cost Over Runs/Delays. If there are delays due to any reason, for instance, political indecision or instability, change of policy, or simply cost over runs due to exchange rate fluctuation or rising fuel prices worldwide, then Pakistan would have to pay additional costs.

Security Costs. Providing security to Chinese engineers and personnel working on the CPEC projects also requires additional funding. Pakistan Army has already raised one division (34th Light Infantry or Special Security) for CPEC security. Another division is under consideration (Daily Pakistan, 2019). This would also add to the cost of CPEC projects.

Opportunity Costs. Since Chinese investments would run the energy projects on commercial basis and Chinese companies are also investing in other sectors, Pakistan's indigenous manufacturing capacity and expertise may not be able to get priority investments. They need to work out ways to enter into joint ventures with Chinese companies, so that Pakistani private sector does not go out of business due to Chinese presence in the market.

Conclusion

Pakistan's direct loan repayments from CPEC projects amount to US$ 5.8 billion, which forms 5.3% of Pakistan's total external debt. However, the cumulative financial impact of CPEC could, in fact, be as high as US$ 39.8 billion, if we take into account sovereign guarantees, subsidies, and other concessions offered to Chinese firms investing in various CPEC projects. Given the economic growth projections based on successful implementation of CPEC,and trade benefits accruing from enhanced regional trade, Pakistan's economy may be expected to generate an additional US$ 59 to 89 billion between 2021-2035, depending on how high it maintains GDP growth rate. *This research concluded that the cost of CPEC financing does not outweigh its socio-economic benefits, which would manifest in the form of higher growth rate, job creation, and higher trade volume.* While there is no CPEC "debt trap" for Pakistan, it is essentially a commercial undertaking. Failure or delays in CPEC infrastructure, energy, and industrial projects could lead to additional financial burden. The Government of Pakistan, therefore, needs to adopt and implement concrete policy measures to ensure the best use of this opportunity in order to build its infrastructure and human capital. The successful and timely implementation of various phases of CPEC may truly ensure that the socio-economic dividends of this historic initiative reach the ordinary Pakistanis and bring an era of economic development and prosperity in the country.

Recommendations

Keeping in view the discourse of the current research including the various aspects of CPEC financing, Pakistan's economic outlook, and the wide range of possible implications, the following policy recommendations are submitted for consideration of CPEC authority. These recommendations would be helpful to work with identified focal points in order to ensure CPEC project financing and the resultant socio-economic benefits to be on track:

i. Regular Follow-up of CPEC Progress at Leadership Level:

JCC is an important forum; however, CPEC would require constant and regular monitoring of progress at the level of top political leadership, that is, President and Prime Minister level. This would ensure timely discussion at highest level in case and any financing issue to be discussed.

Focal Point: Ministry of Foreign Affairs.

ii. Actively Pursue Regional Integration by Expansion of CPEC to Afghanistan and Central Asia

Regional integration is critical for CPEC's future, particularly from a commercial point of view. Inclusion of Afghanistan, Central Asia, and even Middle East may bring regional connectivity and prosperity by connecting China and Pakistan with other regions through Gwadar. It would also earn Pakistan valuable royalties and tolls.

Focal Point: Ministry of Foreign Affairs, Ministry of Commerce, Board of Investment.

iii. Continuation of Macroeconomic Reforms to Stabilize Economy

Pakistan must continue to undertake structural reforms of the economy in order to remove chronic issues, such as circular debt, loss making PSEs, tax reforms, documentation of economy, exchange rate stability, debt management, and minimizing current account deficit. A healthier economy would better repay CPEC related loans and liabilites.

Focal Point: Ministry of Finance, Ministry of Planning etc.

iv. Usage of Innovative Methods to Manage CPEC Debt and Liabilities

Pakistan may opt to create a revolving fund in order to handle the circular debt repayment that accrues periodically. It may also consider floating CPEC bonds in the international money markets or targeted at diaspora, to mobilize resources, and ensure timely repayment of CPEC liabilites.

Focal Point: Debt Policy Coordination Office, Ministry of Finance.

v. Counter the Negative Narrative against CPEC in the International Arena

Countering the negative perceptions about CPEC in the international media is vital to strengthen Pakistan's credit worthiness and to spur FDI in Pakistan by other countries, for instance, US and European countries.

Focal Point: Ministry of Foreign Affairs, Ministry of Information, Board of Investment.

vi. Ensure Capacity Building of Local Workforce and Technology Transfer

The biggest advantage of CPEC in the long run after the intial infrastructure and energy phase could be knowledge and capacity building. Pakistan's youth, with 60% population under the age of 30 years, must be fully involved through employment creation, vocational and technical skills training along with scholarships.

Focal Point: Ministry of Planning, Provincial governments.

vii. Capitalize on Industrial Development through SEZs

Through SEZs, Chinese companies must be asked to ensure technology transfer so that industrialization of indigenous manufacturing sector could be carried out. Involving Pakistan's private sector companies in this regard for joint ventures could be a useful mechanism.

Focal Point: Ministry of Planning, Board of Investment, Provincial Governments.

viii. Early Implementation of ML-1 and Inclusion of Diamer Bhasha Dam in CPEC

The early approval and implementation of ML-1 must be ensured, that is, within the repayment period of CPEC so that the necessary advantage could be taken from its operationalization through services to Chinese companies. Other megaprojects, such as Diamer Bhasha Dam could also be attempted to be added within CPEC as a "strategic project". In case, Chinese investors are not fully forthcoming, then the involvement of multilateral financial institutions, such as, AIIB or World Bank for financing CPEC megaprojects must also be ensured.

Focal Point: Ministry of Foreign Affairs, Ministry of Planning, Ministry of Economic Affairs, Provincial Governments.

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