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CPEC: A blessing or a bane

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Chinese massive and expanding "Belt and Road" project, once hailed as a great initiative for the benefit of countries concerned, is running into speed bumps as some countries have started grumbling about being buried under Chinese debt. The project was first announced in 2013 by President Xi Jinping but five years on, he has found himself defending his treasured idea as concerns grow that China is setting up debt traps in countries which may lack the measures to pay back the loans. Responding to these concerns, Xi said on 3rd September, 2018 that "Belt and Road" was not a China club but an "open and inclusive" project and China's trade with Belt and Road countries had exceeded dollar 5 trillion, with outward direct investment surpassing dollar 60 billion. Some of the countries have, however, started wondering whether the project is worth the cost for their countries. For instance, Malaysia's Prime Minister has said that his country would shelve three China-backed projects, including a dollar 20 billion railway. Meanwhile, the opposition leader in Maldives has said that China's actions in the Indian Ocean archipelago amounted to a "land grab" and "colonialism", with 80 percent of its debt held by Beijing. Sri Lanka has already paid a heavy price for their debt owed to China. It had to grant a 99-year lease on a strategic port to Beijing over its inability to repay loans for the dollar 1.4 billion project. A study by the Centre for Global Development, a US think tank has found "serious concerns" about the sustainability of sovereign debt in eight countries receiving Silk Road funds. These include Pakistan, Djibouti, Maldives, Magnolia, Laos, Montenegro, Tajikistan and Kyrgyzstan. In Djibouti, the IMF has warned that the country faces a high risk of debt distress as its public debt had jumped from 50% of GDP in 2014 to 85 percent in 2016. The Managing Director of the Fund has also raised concerns about potential debt problems and advocated greater transparency. "It is not a free lunch, it is something where everybody chips in," she said.

However, China does not accept such criticism on its favoured project. Its foreign ministry spokeswoman denied that Beijing was saddling its partners with onerous debt, saying its loans to Sri Lanka and Pakistan were only a small part of those countries' foreign debt. Moreover, "it is unreasonable that money coming out of Western countries is praised as good and sweat, while coming out of China it is sinister and a trap," she wondered. President Xi has also told African leaders that China's investment in the continent has "no political strings attached and China's cooperation with Africa is clearly targeted at the major bottlenecks to development. Resources for our cooperation are not to be spent on any vanity projects, but in places where they count the most."

While this is an ongoing controversy. Pakistan must think about its own situation vis-a-vis CPEC. So far, it has obtained a total of dollar 6 billion concessional loans from China with a seven-year grace period and a 25-year repayment period for infrastructure projects under the CPEC. Total portfolio of CPEC projects was dollar 47.967 billion including dollar 34.18 billion of energy projects, dollar 4.18 billion concessionary loans for transport and infrastructure projects and dollar 8.212 billion loan for rail network. However, the funds used so far do not appear to be utilized transparently and in an optimal fashion but largely on political grounds and vanity projects. Moreover, Pakistan would find itself buried under debt after the conclusion of CPEC as lack of fiscal discipline and imbalance in the external sector has already resulted in a massive increase in public debt to Rs 24 trillion in 2018 from Rs 4.18 trillion in 2007. Pakistan's total debt and liabilities rose to Rs 29.8 trillion by the end of June, 2018 which was 86.8 percent of GDP, well above the sustainability limit indicated in the FDRL Act. Importantly, external debt and liabilities have risen by 137 percent to dollar 95.7 billion or 33.6 percent of GDP over the last 10 years. The estimated interest and loan repayments on both foreign and domestic debt would consume about 39 percent of the total revenues in 2018-19. Obviously, if a country spends so much on debt servicing alone, there will be little room left to increase expenditures on essential services like health, education, environment and housing which are the pet subjects of the present government. Loans obtained under the CPEC would obviously make the matters worse if they do not raise productivity and exportable surpluses to the maximum extent. If their optimal use is not possible, CPEC projects may be pruned so that debt trap is avoided. We are happy to note that the present Prime Minister, sensing both the pros and cons, has vowed more transparency amid fears about the country's ability to repay Chinese loans related to the multi-billion-dollar CPEC. Hopefully, the relevant exercise will be carried out in a very serious fashion keeping in view the present position and future prospects of the economy.