P-ISSN: 2709-6254	Journal of Development and Social Sciences	Jan-March 2025, Vol. 6, No. 1
O-ISSN:2709-6262	https://doi.org/10.47205/jdss.2025(6-I)22	[242-257]

Journal of Development and Social Sciences
www.jdss.org.pk

RESEARCH PAPER

CPEC and Pakistan's Debt Dynamics: Myth or Reality of a Debt Trap

Arsalan

MS Scholar, Department of Strategic Studies, Air University, Islamabad, Pakistan

***Corresponding Author:** arsalance2018@gmail.com

ABSTRACT

This research evaluates the extent to which the China-Pakistan Economic Corridor (CPEC) contributes to Pakistan's debt Burden. It also assesses the extent to which the debt burden might be related to CPEC and aims to assess the validity of claims that CPEC is a major cause of Pakistan's rising debt. The study has a secondary aim to explore the underlying causes of Pakistan's longstanding debt problem. CPEC, an important part of China's Belt and Road Initiative, is seen by some as a potential debt trap for Pakistan. However, the debt problems plaguing Pakistan predate CPEC and stem instead from a number of long-standing systemic issues—like stagnant economic growth, low revenue generation, and poor fiscal management. Despite the critique, CPEC has the potential to greatly improve Pakistan's infrastructure, energy, and overall economic development. This qualitative research undertakes a longitudinal analysis of Pakistan's economic performance (2013-2023) and the debt profiling of CPEC projects. The study is primarily informed by data from international agencies and authorities that oversee CPEC. This is supplemented by a variety of secondary, scholarly, and otherwise-publicly-available resources. Results indicate that 80% of CPEC initiatives are equity-based, with a minimal burden of debt on the government. The financing modalities of grants, concessional loans, and private investments contradict the debt-trap narrative. The real problem is that Pakistan has a pre-existing economic structural problems like fiscal deficit, which has led it to debt trap. Pakistan needs to carry out fiscal reforms, improve governance, broaden the export base, and optimize the potential of the China-Pakistan Economic Corridor (CPEC) to achieve sustainable development and solve its debt problems.

KEYWORDS Belt And Road Initiative (BRI), CPEC, Pakistan, Debt Trap, Sustainable Development

Introduction

In the 21st century, trade remains a crucial force in international relations, facilitated by technological advancements. Countries are exploring ways to enhance trade and maintain sustainable development. China, for example, is aiming to revamp its ancient silk route through the Belt and Road Initiative (BRI), which includes a land-based Silk Road Economic Belt and a maritime component called the 21st Century Maritime Silk Route. The China-Pakistan Economic Corridor (CPEC) is one of its flagship projects, valued at USD 62 billion. ("China's Big Gamble in Pakistan: A 10-year Scorecard for CPEC," n.d.) Calling it a flagship project means that a lot regarding the success of the grand design will depend on the success of CPEC.

CPEC, a Chinese economic investment in Pakistan, is seen as a game-changer due to its potential to improve transportation, communication, and energy infrastructure. Critics argue that the project could strengthen the China-Pakistan bilateral relationship, but also highlight the potential challenges and limitations. The dominant narrative of China's Belt and Road Initiative (BRI) and debt-trap diplomacy has led to extensive discussions on CPEC's potential impact on Pakistan.

A debt trap means a trap that occurs when a borrower is compelled to take out more loans in order to pay off previous ones. (Daseking & Kozack 2003)

Sacks argue that Pakistan will pay a significant cost for China's investment in CPEC, which could potentially lead to China's debt trap and CPEC may not fulfill its 2015 vision and China could use its economic leverage to encourage Pakistan to take a more aggressive stance against India. (Sacks, 2018)

Haque has called it the vehicle of Chinese neo-imperialism. (Haque, 2021). One specialist has referred to the entire BRI as China's debt-trap for strategically located countries that would be more vulnerable to China after getting ensnared under terrific debt burdens. (Chellaney 2017) Yet others have referred to CPEC as China's East India Company in Pakistan that will extract economic and industrial benefits while making Pakistan more and more dependent externally as it aims to bring no betterment in Pakistan's industrial capacity in the longer run. (Shah, 2016)

Pakistani scholars and authorities should study the basis for claims about CPEC, including long-term adverse impacts on Pakistan's industry, corruption, ground utility, return vs. investment ratio in Chinese loans, and weaker foreign policy. To hold claims as a game changer, problems identified by critics need to be addressed in practice and narrative, and remedies should be sought promptly.

Despite China's peaceful rise, the Belt and Road Initiative is highlighted as smoke screen of its debt trap diplomacy. In the same vein, many question the long term implications of China-Pakistan Economic Corridor (CPEC) amid distressed economic and political situation of Pakistan. The debt-trap diplomacy narrative has been becoming mainstream to the extent that it may jeopardize the belief in CPEC's significance for Pakistan. It is therefore, vital to evaluate if the claims regarding CPEC as a debt-trap - otherwise known to be a game-changer for Pakistan - stand any valid ground or not.

Literature Review

A preliminary review of literature conducted with reference to the above-mentioned questions is detailed in this section. At the end of the section the gaps in existing literature have also been identified.

Sacks, in his article, lays out a picture that is not at all rosy. He claims that the China-Pakistan Economic Corridor (CPEC) was supposed to do some very important things—make Pakistan's infrastructure better; reduce the duration and frequency of power outages; create a great number of jobs; and supercharge the economic growth that has, so far, been largely illusionary. Yet, instead of fulfilling these promises, CPEC has suffered many setbacks: stalled projects, money going into far too few pockets, and reported terrorist attacks on Chinese personnel working on these projects. (Sacks, 2018)

Moreover, Haque states that CPEC has been labeled as a mechanism of Chinese neo-imperialism, yet benefits accrue to all member nations. Not only CPEC is vital for the implementation of the Belt and Road Initiative in general, but it is also, a commercial deal that does not stretch Pakistan's balance of payments. Yet by this standard, one would think the CPEC is a good thing by virtue of bringing abundant commerce and economic activity to Pakistan and, by extension, helping balance the basic financial equation. The CPEC is a "hard-nosed economics" kind of deal—no transit fees, no business in the "inland command zones" of the CPEC. (Haque, 2021)

According to Dr. Kamal, the China-Pakistan Economic Corridor (CPEC) is comparable to neo-colonialism in that it is designed to benefit China far more than Pakistan. Critics say that the CPEC will reduce Pakistan's GDP growth rates, shrink its wealth, and next to nothing will happen next to the river. Critics say that the CPEC will dismantle the textile industry. By 2025, nearly 35% of Pakistan's textile factories will have closed. Meanwhile, the development plan for textiles in the Xinjiang Region is, no liberal capitalist would contest, no plan at all for a crucial part of Pakistan's industrial base. (Kamal, 2017)

The China-Pakistan Economic Corridor (CPEC) is a massive investment in infrastructure in Pakistan, but Dr. Ishrat Hussain warns that it may not provide the kind of large-scale job creation that the country needs. The director of the Institute of Business Administration in Karachi says that reliable projections of the Corridor's potential employment impact "are either inadequate or overly optimistic." At the same time, he says, "the dreams being sold about CPEC's potential to transform Pakistan's economy are closer to fantasy than reality." Hussain claims that if CPEC does not create jobs, "the Corridor's real impact may be largely beneficial for the construction industry while being marginally detrimental to the country's labor force. (Hussain, 2018)

A critical analysis of CPEC is rendered by Hussain who argues that the project holds the potential to bring about beneficial economic changes in Pakistan. However, this same author sheds light on some potentially dark aspects of CPEC, such as debt sustainability and the risk of Pakistan falling into a debt trap. Currently, Pakistan has an unsustainable level of debt—so much so that it is struggling to make payments to several domestic creditors. Pakistan's most prominent foreign creditor is China. If the loans taken from China to finance CPEC cannot be repaid, strategic influence, if not control, over key parts of Pakistan's large-scale governance, infrastructure, and economy could be a result. (Hussain, 2018).

In the context of CPEC, Ahmed and Masood argue that it offer not just a run-of-the-mill, favorable "boost-to-BTI" (Boost to Balance of Payments, Trade, and Investment) analysis, but rather a critical take on the project's potential—as well as its perils—for Pakistan's economy, particularly its BTI "debt directionalities." The authors argue that borrowing heavily from China to finance CPEC raises "serious concerns that" Pakistan may be falling into a "China debt trap." They suggest that Pakistan must make sure that it has a BTI balance. (Ahmed, Ahmed & Masood, 2020)

The opportunities and challenges of the China-Pakistan Economic Corridor (CPEC), along with the debt trap risk, are analyzed by Saleem and Jabeen. They say that CPEC has the potential to transform the Pakistani economy in a positive direction. However, they raise concerns about the project's overall debt sustainability and the possible risk of being caught in a so-called Chinese debt trap. They conclude that CPEC is a "game-changing" project, but Pakistan should ensure that it is a "sustainable" and "equitable" one. (Saleem & Jabeen 2020)

Pakistan's repayments to China for loans tied to the China-Pakistan Economic Corridor (CPEC) are dissected by Burki, who cites the country's economic decline, dwindling foreign exchange reserves, and poor export performance as problems that threaten to escalate into a "debt trap." CPEC, he argues, lacks not only transparency but also accountability, and that situation is leading to corruption. Barring a significant economic turnaround—one that not even the country's most optimistic planners seem to expect—Burki sees the repayment problem as a crisis just waiting to be triggered. (Burki, 2020).

No researcher has discussed the causes of debt trap other than foreign loans and investments like fiscal policies and other economic factors. Bringing in this dimension is important in the given case, as CPEC is one of the biggest foreign investment Pakistan has secured since its inception and unveiling characteristics of debt trap will help understanding future impact of CPEC on Pakistan.

Hypothesis

The prospective hypothesis guiding this study is as follows:

CPEC is not causing a debt-trap for Pakistan rather Pakistan's own economic structural problems have led to Debt Trap.

Variables of Research

The variables can be identified as under:

- Independent variable: China's investment for CPEC
- Dependent variable: Debt-traps
- Intervening variable: Pakistan's major economic indicators

Material and Methods

This research has tried to gauge the validity of the claims that mark CPEC as a debt trap for Pakistan. The first part of research is explanatory where it tries to explain the Pre-CPEC state of Pakistan's economy through visualization on the basis of data of Pakistan's several economic indicators in order to assess that impact of CPEC on debt burden of Pakistan and second part focuses on CPEC projects and their debt profiling.

Research Design

This study follows a qualitatative research design where qualitative methods and techniques for data collection and analysis have been employed. This methodology allowed researcher to comprehensively assess State of economy of Pakistan, CPEC projects, their financing frameworks and modalities to determine the implication for Pakistan. The rationale for choosing qualititative method design was provided by the nature of question raised.

A longitudinal analysis across a decade, i.e. between 2013 and 2023 was done for Pakistan's major economic indicators to guage whether Pakistan's was already in debt trap before CPEC and how does economy of Pakistan perfomed after commencment of CPEC and identify reasons behind Pakistan's being in debt trap.

In order to analyze if CPEC is actually leading Pakistan into a debt-trap, economic and debt record was recorded and evaluated over a period of one decade, starting from 2013 (when CPEC had no impact over the country's performance) for each year until 2023, to see what marked differences did Chinese investment bring to country's debt profile. Additionally, profiling of completed CPEC projects was also incorporated to see the debt burdens these have added for Pakistan.

The scope further includes an analysis of the root causes that have been responsible for Pakistan's perennial debt problem, even before CPEC and the associated investment came in.

Data Collection and Sources

Both primary and secondary data sources have been employed in this research. The primary data includes numerical data on economic indicators of Pakistan – accessed from official databases of international organizations like the World Bank, the International Monetary Fund, and UNDP, Transparency International, and State Bank of Pakistan. Primary data on CPEC projects has been extracted from the documents and press-releases from official websites of Planning Commission and CPEC authority.

The secondary data relied upon includes books, journal articles, research papers, reports, and working papers, national and international dailies and opinion articles by renowned scholars and practitioners

Longitudinal Analysis: Using the above model to measure Pakistan's vulnerability and to analyze Pakistan debt trap position, a longitudinal analysis of its economic and debt performance was done across a decade, comparing and contrasting the standing between 2013 (when CPEC had no impact) and 2023 (when CPEC was a decade old).

Limitations

The availability of financial data for some CPEC projects is limited, which affects how thoroughly one can examine their finances.

The current research is significant as it deals with an issue of national importance. This study contributes to the discourse that whether Pakistan's being in debt trap is due to its own economic structural flaws or CPEC has led to debt trap. This research dispels the apprehensions about CPEC as leading Pakistan into a debt-trap.

The reliability of the research is grounded in the primary data and sources that have been employed to reach the findings. Overall, this work does not come without its contribution to the literature, by covering a previously unattended dimension.

Results and Discussion

Understanding Debt Trap

A *debt trap* refers to a circumstance in which one is compelled to acquire further loans in order to settle their current debt commitments. Prior to comprehending the concept of a debt trap, one finds oneself in a predicament where the magnitude of their owed debt worsens and escalates beyond their control. This scenario commonly occurs when one's debt liabilities surpass one's ability to repay them. For example, the income one earns is inadequate to pay off one's debt; the accruing interest on one's remaining loan balance will accumulate rapidly. This will ultimately result in one obtaining more loans to pay off the accumulated interest, thus becoming trapped in debt. (S. Ibi Ajayi, 2000)

Table 1
Major economic indicaotors of Pakistan

Year	GDP Growth	Inflation Rate	Unemployment Rate	Debt-to-GDP Ratio
2013	4.37	7.69	2.90	63.80
2015	4.22	2.53	3.57	63.30
2018	6.15	5.08	4.08	72.50
2019	2.50	10.58	4.83	86.10
2022	4.77	19.87	5.55	73.90
2023	0.00	30.77	5.50	74.80

Data Source: (Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad et al., 2024)

Table 1 shows that in 2013 Pakistan's GDP growth rate was 4.37% which went down to 2.5% in 2019 and then fell to 0% in 2023, whereas in 2013 inflation rate was 7.69% which increased to 30.77% per annum in 2023. Moreover, unemployment rate also increased to 5.50% in 2023 from 2.90% in 2013. Moreover, Debt to GDP ratio was 63.80% in 2013 which shows that before commencement of CPEC, Pakistan was already facing debt burden and debt to GDP ratio increase to 74.80% in 2023, however, as per latest data by State Bank of Pakistan, it has reduced to 67% of GDP.

Table 2
Major ecnonomic Indicators of Pakistan

Year	Currency Devaluation	Cuurent account balance	Expenditure to GDP	Revenue to GDP
2013	-3.20	-1.71	19.51	12.03
2015	2.99	-0.93	17.83	13.09

2018	15.82	-5.30	19.11	13.43
2019	30.09	-2.67	19.05	11.26
2022	29.75	-3.26	19.95	12.12
2023	34.46	-0.10	19.32	11.52

Data Source: (Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad et al., 2024)

Similarly, Table 2 shows that Pakistani Rupee was at better position in 2013 where as it got depreciated around 100% in one decade, moreover, current account balance in terms % to GDP was in negative and stood -1.71% in 2013, which improved to -0.10% in 2023. Moreover, despite moderate increase in GDP, Pakistan's revenue to GDP declined slightly and same was witnessed in expenditure to GDP ratio. Thus showing that Pakistan had almost accrued budget deficit of 5 to 7 % on yearly basis, which has been major cause of debt accumulation and has burdened the economy of Pakistan.

Energy Sector – Coal-Powered Plants

The Sahiwal Coal Power Plant

The 2017 Sahiwal Coal Power Plant was built in Pakistan to alleviate the country's serious energy shortages. It was a collaborative undertaking by two Chinese companies—Huaneng Shandong Power Generation Company and Shandong Ruyi Group. Pumped with Chinese funding, the project generated around 3,700 jobs during construction and more than 1,000 permanent jobs. Despite these figures, however, the plant's output of about 1,320 MW highlights just how limited large-scale energy solutions are when it comes to using fossil fuels in an environmentally responsible way. (CPEC Secretariat, 2024)

The Port Qasim Coal Power Plant

Located in Karachi, Sindh, the Port Qasim Coal Power Plant is a coal-fired power station with a capacity of 1,320 MW. It was constructed by Power Construction Corporation of China and Qatar's Al-Mirqab Group. This 30-year-old operational project is expected to provide investors with substantial profits because its low operating costs and advanced "supercritical" technology allow it to produce electricity very cheaply. The plant testifies to the partnership that Pakistan and China have developed in recent years as both countries have sought to diversify their international partnerships. (CPEC Secretariat, 2024)

The Hub Coal Power Plant

The Hub Coal Power Plant in Balochistan, built by Hub Power Company and China Power Hub Generation Company, is an essential energy project that feeds into the grid in Pakistan. The plant—part of a full-throttle push into coal power in recent years, largely driven by private investors—serves as a partial antidote to the widespread power outages that plague Pakistan. The Hub Power Plant runs on lignite coal from the Thar Desert, and it was funded to the tune of around $2 billion. (CPEC Secretrait, 2024)

Energy Sector – Hydropower, Solar, and Electricity Projects

The Karot Hydropower Project

The Karot Hydropower Project is located on the Jhelum River in Pakistan, about 60 kilometers southeast of Islamabad. The project, part of the China-Pakistan Economic Corridor, aims to produce 720 MW of power—enough, project proponents say, to supply electricity to 4 million homes. Karot Hydropower is a company formed by the China Three Gorges Corporation, which along with the Silk Road Fund, is providing most of the $1.7 billion project cost. (CPEC Secretrait, 2024)

Kohala Hydropower Project (1124 MW)

Kohala Hydropower Project, a 1,124 MW renewable energy facility in Pakistan, is being built under the China-Pakistan Economic Corridor. The project is being developed by China Three Gorges South Asia Investment Limited, and when completed, is expected to generate 5 billion kWh of electricity annually. This project, like the other energy-related projects along the CPEC, has the potential to significantly improve Pakistan's energy security and greatly enhance power generation capacities in the country. (CPEC Secretrait, 2024)

Quaid-e-Azam Solar Park

The solar power station at the Quaid-e-Azam Solar Park in Punjab, Pakistan, is the biggest and most detailed solar energy project in the country. Its eventual 1,000 MW capacity should place it among the world's largest solar power stations. Actualization to this point has yielded anywhere between 30 and 60 MW of real power, depending on which source you believe. Funding for the park has come from international and local investors, primarily Chinese enterprises, with the Chinese government reportedly backing the project to the tune of $70 million. (CPEC Secretrait, 2024)

Matiari-Lahore HVDC Transmission Line

Pakistan's urban and industrial growth is increasingly dependent on the Matiari-Lahore High Voltage Direct Current Transmission Line. Funded to the tune of $1.5 billion, the 878-kilometer HVDCT line serves as a vital link between the power generation sufficiency of southern Pakistan and the power demand of the north. It's almost certain that the increased capacity and reliability of the electric power system in the north will allow industrial and urban growth to occur at an increased pace and with fewer electrical interruptions. (CPEC Secretrait, 2024)

Transport Connectivity and Infrastructure Projects

Havelian Dry Port Project

The Havelian Dry Port Project, part of the China-Pakistan Economic Corridor, seeks to establish a modern logistics hub where cargo for world trade can be efficiently handled. It also hopes to handle some cargo that is not for world trade but needs to get to Pakistan’s interior. The project is financed through public-private partnerships, and it seeks to do something that is both good for business and good for the environment: It intends to reduce transportation costs and, at the same time, do that while increasing trade in Pakistan. (CPEC Secretrait, 2024)

Gwadar Port Expansion

The Gawadar Port Expansion project is intended to metamorphose Gawadar into a significant center of international marine trade, with a greatly enhanced capacity to accommodate very large oceangoing vessels and to attract foreign capital and investment. The $1.6 billion project, chiefly financed by Chinese money, will have an impact on Pakistan's foreign debt profile, although exactly what kind of impact it will have is a matter of dispute. On the plus side, many observers expect that it will lead to a series of significant economic gains, including increased government revenues and job creation. (CPEC Secretrait, 2024)

Gwadar Eastbay Expressway

The estimated cost of the Eastbay Motorway is $130 million. The motorway will link Gawadar Port to the Makran Coastal Highway. It is expected to improve accessibility and logistics for companies operating in and near Gawadar. And it could boost the local economy and the economy of neighboring regions. (CPEC Secretrait, 2024)

Karakoram Highway (Phase II) Thakot-Havelian Section

The upgrading of the Thakot-Havelian section of the Karakoram Highway is intended to accomplish three things:

1. Facilitate trade
2. Enhance access to remote areas
3. Streamline infrastructure

The project has a budget of $1.4 billion and is set to make the northern half of Pakistan more accessible to the kinds of people who might want to pay a visit, as well as to those living in the half of the country that has limited access to the kinds of services and infrastructure associated with places that invite a lot of foot traffic. (CPEC Secretrait, 2024)

ML-1 (Main Line 1) Railway Upgrade Project (Peshawar to Karachi)

The aim of the ML-1 Railway Upgrade Project is to take Pakistan's railway system from Peshawar to Karachi into the 21st century—in other words, to make it modern, up-to-date, and as well-functioning as possible. The efficiency and capacity of the railway are at stake in this project. The cost estimate is around $6.85 billion, and promises from the Pakistan Railways assure that the end result will be rapid movement of passenger and freight traffic, at possibly lower ticket prices than in the past. The promises also guarantee that the upgraded railway will reduce the amount of traffic on the roads, especially of trucks. Yet the devil's bargain of the promises stems from the project's financing. (CPEC Secretrait, 2024)

Gwadar Smart Port City Master Plan

The Gawadar Smart Port City Master Plan seeks to make Gawadar an advanced modern city, concentrating on urban planning, sustainable living, and the attraction of businesses and tourists. High-tech components will be a part of this transformation; Gawadar will not only be smart in terms of its built environment but also intelligent in how it will serve its citizens and welcome all who come to do business or enjoy the stunning natural vistas. (CPEC Secretrait, 2024)

New Gwadar International Airport

The Gwadar International Airport, part of the Belt and Road Initiative, is a $230 million infrastructure project under the China-Pakistan Economic Corridor (CPEC). It is financed entirely by a grant from China and aims to enhance trade and connectivity between China and Pakistan. (CPEC Secretrait, 2024)

Special Economic Zones and Skill-Development

Dhabeji Special Economic Zone

The Special Economic Zone (SEZ) in Dhabeji, Sindh, aspires to propel industrialization and economic development in Pakistan through special incentives, tax breaks, infrastructure development, and a diversification formula that shifts the economy from an overreliance on agriculture and mineral resources to an industrial base. (CPEC Secretrait, 2024)

Gwadar Vocational and Technical Institute

The local human capital is being developed through vocational training at the Vocational and Technical Institute in Gawadar, which has as its mission improved employability, fulfillment of local industry needs, and, importantly, training state-international partner personnel underwent before they too could serve locals in vocational capacities. (CPEC Secretrait, 2024)

Rashakai Special Economic Zone

The Khyber Pakhtunkhwa Special Economic Zone (SEZ) is designed to develop and attract investment in the industrial sector. To do so, the SEZ offers a variety of incentives, including tax rebates and tariff reductions, to entice domestic and foreign investors. (CPEC Secretrait, 2024)

Allama Iqbal Industrial City in Faisalabad

Allama Iqbal Industrial City is part of the China Pakistan Economic Corridor, which is promoting the advanced industrial park in Faisalabad, Pakistan. The aim is to push economic growth in Faisalabad, create jobs, and establish this city as an industrial center. (CPEC Secretrait, 2024)

Agricultural Projects

Cooperation in Cotton, Wheat, and Rice Production

The CPEC (China-Pakistan Economic Corridor) has plans to implement technology transfer, capacity development, and farming practice enhancements to boost the productivity of staple crops in Pakistan, namely cotton, wheat, and rice, to improve the nation's food security. (CPEC Secretrait, 2024)

Food Processing Plants

Under the China-Pakistan Economic Corridor (CPEC), food processing plants are being built in Pakistan. The purpose of these facilities is threefold: to improve the local agricultural economy, to contribute toward food security, and to generate employment. The plants will process local agricultural products, help ensure that crops have access to markets, and create a variety of jobs in rural areas. These are not necessarily high-tech jobs, but they seem to offer the promise of meaningful employment. (CPEC Secretrait, 2024)

Communication Projects

Cross-Border Fiber Optic Cable from (Khunjrab to Rawalpindi)

The plan for the development of international fibre optic cables is part of an overarching scheme to vastly improve the digital connectivity and communication infrastructure between the two nations. The installed base of international fibre optic cables has the potential to drastically change the Internet landscape in Pakistan—offering not just an opportunity to bridge the Internet access divide, but also to shift the installed base of the Internet from an internet access divide to an internet use divide. (CPEC Secretrait, 2024)

Debt profiling of CPEC Projects

Table 3
Debt Profiling of CPEC Projects

50 Major CPEC Projects Evaluated	Total cost	Loan	Equity	Debt	Grant
Total	$ 40 Bn	$ 24.468 Bn	$ 7.763 Bn	$ 7.320 Bn	$ 0.460 Bn

(Data Source: Attahced at Annexure A)

Table 3 shows that Total cost of 50 Major CPEC project is $ 40 Billion, out of which only $ 7.3 Billion are debt burden on government of Pakistan. $ 460 Million projects are grant from China. Rest of these projects are equity based projects on which private firms are undertaking loans from Chinese lenders, which are not the debt on Government of Pakistan.

This research looked into the claims about CPEC being a debt trap of Pakistan. The research employed a mixed-methods approach. This included a quantitative analysis of economic indicators and qualitative insight from expert interviews. The research aimed to test the hypothesis that CPEC is not causing a debt-trap for Pakistan rather Pakistan's own economic structural problems have led to Debt trap.

Analysis of Pakistan's economic indicators data for over a decade reveals that Pakistan had already been in debt trap before the start of CPEC as its debt to GDP ratio stood 64% of GDP. Moreover, continous budget deficit has remained the major reason behind in accumulation of debt. In addititionto it, failure of Pakistan to increase its fiscal revenue generation and reduce expenditure has also manifolded its soverign debt. Moreover, CPEC projects in this research has revealed that majority of CPEC projects and loan and equity based which do not construe any burden on debt profile of country. Similarly, provision of concession based debt in projects like ML1 and other road projects highlights flexibility and relaxation Pakistan has been given by China in CPEC projects. Moreover, grants in projects like Gawadar Airport and other Gawader development projects also negates the narrative of CPEC being a debt trap for Pakistan. Thus, in depth evaluation of CPEC projects validates hypothesis that CPEC is not causing a debt-trap for Pakistan rather Pakistan's own economic structural problems and govenrment's inability to answer fault lines in economy have led to Debt trap.

Conclusion

This research extensively evaluated the reality of claims regarding CPEC being debt trap for Pakistan. Analysis of indicators of ecnomy of Pakistan revealed that Pakistan had already been in debt trap even before launch of CPEC and its own economic structural problem are major cause of its being in debt trap. Moreover, the research highlights that a significant proportion of CPEC projects—approximately 80%—are funded through equity-based mechanisms rather than debts. This means that the financial risk associated with these projects does not fall on the Pakistani government. Moreover, projects such as the Gwadar Port and the Gwadar International Airport are financed through grants, which directly contradict the notion of creating dependency through loans. These examples illustrate that China's investments under CPEC aim to foster infrastructure development and economic collaboration rather than impose unsustainable debt burdens. Inflow of foreign investments through CPEC kept current account balance safe from falling much badly and just it went down -27% cumulatively from 2013 to 2023 reflecting dependence of economy on remittances and weak exports, secondly, severe energy crisis was averted which made industries to breath. Concessional loans and grants along with BOOT and BOT model based projects, in energy, infrastructure, IT, agriculture and food processing eliminated the risk of depleting infrastructure that could have reduced economic activities and has enhanced the overall eco-system necessary for economic activities to go on in any country. Last not the least, numerous times, China has restructured bilateral loans repayments to Pakistan, showing its intent of being supportive and pulling out from crisis. An appraisal of CPEC projects financially has also revealed that other than ML-1 and Roads projects, majority of CPEC projects are private investments and loans have been granted on those firms owning the projects by Chinese State owned and private banks and said projects are not debt burden on government of Pakistan directly.

Recommendations

Pakistan's debt problems and the need to make the CPEC most fruitful demand an approach with multiple facets. One facet is fiscal discipline, which in turn calls for a much-expanded tax base (the World Bank in 2016 found 47 times more potential taxpayers hidden in Pakistan than on its rolls), reduced tax exemptions, and zero-based budgeting to align expenditures with revenue. Another facet is a comprehensive debt management strategy. A strategy to be accomplished via sustainable borrowing at reasonable interest rates and using loans mainly for decent return projects.

Moreover, boosting export competitiveness is vital. Using CPEC infrastructure, Pakistan can sort out supply chain problems, export more varieties of goods—from value-added agricultural products to IT services—and strike favorable trade agreements with BRI countries. Special Economic Zones must be up and running, and going well, on this side of the border. Pakistan needs to offer some pretty good incentives to both domestic and foreign investors and get locals involved in the business of the SEZs and do a better job of involving these local partners in the kind of technologies that turn into products to be exported.

Similarly, attainment of energy efficiency should be another priority of Pakistan. Moving forward with developing renewable energy projects, modernizing transmission infrastructure, and implementing targeted subsidies will move us towards improved sustainability. Governance is equally important. Strengthening governance frameworks, including independent oversight and anti-corruption measures, will ensure that projects not only get executed but also do what they're supposed to do—ensure energy and climate security.

CPEC provides an opportunity for regional integration. Using it as a hub, Pakistan can push for transit trade arrangements that connect Pakistan to Central Asia. That's important for federalism since trade is a federal subject. Unilateral trade diversification through regions beyond Pakistan's immediate neighbors will help reduce its vulnerability. Reducing external vulnerabilities through diversified investments, remittance increases, and import reduction will stabilize the economy. Finally, investing in human capital through education, skill development, and youth engagement will drive long-term growth for Pakistan.

References

China's big gamble in Pakistan: A 10-year scorecard for CPEC. (n.d.). *Lowy Institute*.

Daseking, C., & Kozack, J. (2003). Avoiding another debt trap. In *Finance & Development*.

Sacks, D. (2021, March 30). The China-Pakistan Economic Corridor—Hard Reality greets BRI's signature initiative. *Council on Foreign Relations*.

Haque, I. U. (2021, June 12). CPEC fallacies and realities. *The Express Tribune*.

Chellaney, B. (2017, August 30). *China's Debt-Trap diplomacy*. Project Syndicate.

Shah, A. R. (2016, November 13). Is the China-Pakistan Economic Corridor a 21st Century East India Company? *The Diplomat*.

Sacks, "The China-Pakistan Economic Corridor—Hard Reality Greets BRI's Signature Initiative," March 30, 2021.

Monnoo, K. (2017, September 27). CPEC – Myths from Realities. *The Nation*.

Husain, I. (n.d.). *CPEC & Pakistani economy: an appraisal*. iRepository.

Hussain, M. (2018). China-Pakistan Economic Corridor (CPEC): A critical analysis. *Asian Journal of Political Science*, 26(3), 297-315.

Ahmed, S., Ahmed, K., & Masood, O. (2020). CPEC and debt-trap diplomacy: A critical analysis of Pakistan's debt sustainability. *Journal of Public Affairs*, 20(1), e2007.

Saleem, S., & Jabeen, S. (2020). CPEC: Opportunities, challenges, and the risk of debt trap. *South Asian Studies*, 35(1), 1-19.

Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad, Pakistan

Economic Survey Team, Aurangzeb, M., Bosal, I. U., & Ahmad, I. (2024). *Pakistan Economic Survey 2023-24*.

Burki, S. J. (2020). Pakistan's Chinese debt trap. *Journal of South Asian Studies*, 8(1), 33- 51:

What is Debt Trap and How To Get Rid Of It? (n.d.). *Nirmal Bang*.

CPEC Secretariat. (2024). 1320MW Coal-fired Power Plant at Port Qasim Karachi. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/1

CPEC Secretariat. (2024). 1320MW Sahiwal Coal-fired Power Plant. Islamabad, Pakistan: MInistry of Planning and Initiatives. Retrieved 2024, from https://cpec.gov.pk/project-details/2

CPEC Secretrait. (2024). 1000MW Quaid-e-Azam Solar Park (Bahawalpur). Islamabad, Pakistan: MInistry of Planning and Initiatives. Retrieved from https://cpec.gov.pk/project-details/10

CPEC Secretariat. (2024). 720MW Karot Hydropower Project, AJK/Punjab. Islamabad, Pakistan:
Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/16

CPEC Secretariat. (2024). 1320MW China Hub Coal Power Project, Hub Balochistan. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/6

CPEC Secretariat. (2024). 1124MW Kohala Hydropower Project, AJKi. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/23

CPEC Secretariat. (2024). Matiari to Lahore ±660 KV HVDC Transmission Line Project. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/17

CPEC Secretariat. (2024). Havelian Dry port (450 M. Twenty-Foot Equivalent Units). Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/31

CPEC Secretariat. (2024). Development of Port and Free Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/36

CPEC Secretariat. (2024). Gwadar Eastbay Expressway. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/32

CPEC Secretariat. (2024). KKH Phase II (Havelian - Thakot Section). Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/28

CPEC Secretariat. (2024). Up-gradation and Dualization of ML-1 and establishment of Dry Port near Havelian. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/30

CPEC Secretariat. (2024). Gwadar Smart Port City Master Plan. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/63

CPEC Secretariat. (2024). New Gwadar International Airport. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/33

CPEC Secretariat. (2024). Dhabeji Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/54

CPEC Secretariat. (2024). Pak-China Technical and Vocational Institute at Gwadar. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/39

CPEC Secretariat. (2024). Rashakai Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/53

CPEC Secretariat. (2024). Allama Iqbal Industrial City. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/56

CPEC Secretariat. (2024). Agriculture Cooperation under CPEC. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/agriculture

CPEC Secretariat. (2024). Bostan Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/55

CPEC Secretariat. (2024). Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi). Islamabad, Pakistan: Ministry of Planning And Initiatives. Retrieved from https://cpec.gov.pk/project-details/40

"Chapter 5: Domestic and External Debt," in *State Bank of Pakistan Annual Report 2019-2020*, n.d., 73–74.

Fazl-e-Haider, S. (2023, August 1). China's big gamble in Pakistan: A 10-year scorecard for CPEC. Retrieved from https://www.lowyinstitute.org/the-interpreter/china-s-big-gamble-pakistan-10-year-scorecard-cpec

OICCI Team. (2022). *Recommendations for Digital Transformation in Pakistan .* Overseas Investers Chamber of Commerce and Industry. Retrieved from chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.oicci.org/app/media/2023/10/OICCI-Digital-Report-Recommendations-for-Digital-Transformation-in-Pakistan.pdf

S. Ibi Ajayi, M. S. (2000). *EXTERNAL DEBT AND CAPITAL FLIGHT IN SUB_SAHARAN AFRICA.* Washington D.C.: International Monetary Fund Team. Retrieved from https://www.elibrary.imf.org/downloadpdf/display/book/9781557757913/9781557757913.pdf

References

China's big gamble in Pakistan: A 10-year scorecard for CPEC. (n.d.). *Lowy Institute*.

Daseking, C., & Kozack, J. (2003). Avoiding another debt trap. In *Finance & Development*.

Sacks, D. (2021, March 30). The China-Pakistan Economic Corridor—Hard Reality greets BRI's signature initiative. *Council on Foreign Relations*.

Haque, I. U. (2021, June 12). CPEC fallacies and realities. *The Express Tribune*.

Chellaney, B. (2017, August 30). *China's Debt-Trap diplomacy*. Project Syndicate.

Shah, A. R. (2016, November 13). Is the China-Pakistan Economic Corridor a 21st Century East India Company? *The Diplomat*.

Sacks, "The China-Pakistan Economic Corridor—Hard Reality Greets BRI's Signature Initiative," March 30, 2021.

Monnoo, K. (2017, September 27). CPEC – Myths from Realities. *The Nation*.

Husain, I. (n.d.). *CPEC & Pakistani economy: an appraisal*. iRepository.

Hussain, M. (2018). China-Pakistan Economic Corridor (CPEC): A critical analysis. *Asian Journal of Political Science*, 26(3), 297-315.

Ahmed, S., Ahmed, K., & Masood, O. (2020). CPEC and debt-trap diplomacy: A critical analysis of Pakistan's debt sustainability. *Journal of Public Affairs*, 20(1), e2007.

Saleem, S., & Jabeen, S. (2020). CPEC: Opportunities, challenges, and the risk of debt trap. *South Asian Studies*, 35(1), 1-19.

Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad, Pakistan Economic Survey Team, Aurangzeb, M., Bosal, I. U., & Ahmad, I. (2024). *Pakistan Economic Survey 2023-24*.

Burki, S. J. (2020). Pakistan's Chinese debt trap. *Journal of South Asian Studies*, 8(1), 33- 51:

What is Debt Trap and How To Get Rid Of It? (n.d.). *Nirmal Bang*.

CPEC Secretariat. (2024). 1320MW Coal-fired Power Plant at Port Qasim Karachi. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). 1320MW Sahiwal Coal-fired Power Plant. Islamabad, Pakistan: MInistry of Planning and Initiatives.

CPEC Secretrait. (2024). 1000MW Quaid-e-Azam Solar Park (Bahawalpur). Islamabad, Pakistan: MInistry of Planning and Initiatives.

CPEC Secretariat. (2024). 720MW Karot Hydropower Project, AJK/Punjab. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). 1320MW China Hub Coal Power Project, Hub Balochistan. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). 1124MW Kohala Hydropower Project, AJKi. Islamabad, Pakistan:

Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Matiari to Lahore ±660 KV HVDC Transmission Line Project. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Havelian Dry port (450 M. Twenty-Foot Equivalent Units). Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Development of Port and Free Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Gwadar Eastbay Expressway. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). KKH Phase II (Havelian - Thakot Section). Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Up-gradation and Dualization of ML-1 and establishment of Dry Port near Havelian. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Gwadar Smart Port City Master Plan. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). New Gwadar International Airport. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Dhabeji Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Pak-China Technical and Vocational Institute at Gwadar. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Rashakai Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Allama Iqbal Industrial City. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Agriculture Cooperation under CPEC. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Bostan Special Economic Zone. Islamabad, Pakistan: Ministry of Planning And Initiatives.

CPEC Secretariat. (2024). Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi). Islamabad, Pakistan: Ministry of Planning And Initiatives.

"Chapter 5: Domestic and External Debt," in *State Bank of Pakistan Annual Report 2019-2020*, n.d., 73–74.

Fazl-e-Haider, S. (2023, August 1). China's big gamble in Pakistan: A 10-year scorecard for CPEC.

OICCI Team. (2022). *Recommendations for Digital Transformation in Pakistan .* Overseas Investers Chamber of Commerce and Industry.

S. Ibi Ajayi, M. S. (2000). *EXTERNAL DEBT AND CAPITAL FLIGHT IN SUB_SAHARAN AFRICA.* Washington D.C.: International Monetary Fund Team.