**CPEC debt trap or debt relief**

[Shakeel Ahmad Ramay](https://dailytimes.com.pk/writer/shakeel-ahmad-ramaya/)

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Before, delving into, either CPEC is a debt trap or not, let’s try to understand the debt trap concept and how it works. In lay man language or simplest way to explain is, a debt which borrower cannot pay without taking new loans. It initiates a vicious cycle of borrowing, which goes on. Subsequently, the nation become hostage to lender which leads to desired goal of policy trap by lender. It is common practices of many financial institutions. The argument can be proven by analyzing the data of global debt, which has gone beyond the paying capacity. Institute of International Finance revealed that world debt in 2018 was US$ 234 trillion, which is 317 percent of global GDP. It is expected that the situation must have bene deteriorated due to COVID-19. However, the important thing to note here that the majority of loans are from IMF, World Bank, ADB, commercial banks of West and many other Western institutions. It is impacting the countries across the world and we can find examples from everywhere including developed (Greece), developing (Argentina) and least developed (African countries) countries.

The deep dive and analysis of historical data also reveals that debt trap mostly originates from the non-productive or consumptive loans. A debt, which does not enhance the production capacity or increase the size of economy, directly, is considered a non-productive debt.

Unfortunately, Pakistan falls in this category of countries which borrowed heavily for non-productive or consumptive use. Pakistan tries to control the fiscal deficit by borrowing. It also subsidize non-performing sectors of economy or subsidize services which do not add to economy directly etc. by borrowing. In addition to that Pakistan also falls in categories of countries which relies on consumption led growth, without having good base of production. By artificially maintaining currency exchange rate by Pakistan, the imports were subsidized, and trade gap was filled with borrowing.

The cumulative impact was that Pakistan became home to multifaceted problems on economic front in addition to debt repayment crisis. The investor lost the confidence and FDI went down sharply. Although, Pakistan needed the investment in infrastructure, energy and industry but Pakistan was unable to convince the investors. It resulted in energy crisis (loss to economy, US$ 4-5 billion dollars, annually), poverty (MPI, 40 percent, 2014), food insecurity (58.8 percent) and many others. Pakistan was unable to create employment opportunities for youth bulge. Pakistan had to launch Benazir Income Support Program to combat the disparate situation. Pakistan was looking for investment and no one was ready to help Pakistan. In this dire situation our time-tested friend came forward and launched CPEC.

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Regrettably, CPEC became victim of propaganda at different names but the most consistent element of propaganda is to portray CPEC as debt trap. The campaign of debt trap against CPEC is part of global campaign against the rise of China, which has been launched by Wester countries and assisted by developing countries like India. They are trying to make Chinese investment synonymous with the debt trap. An Indian also coined the terminology of debt diplomacy to undermine Chinese investment and relation with world. The interesting fact to note here that the opponents are opposing Chinese investment but themselves are launching different investment programs like BUILD by USA, AAGC, by Japan and India and AIFFP by Australia etc.

First, the campaign was launched in Africa. China was criticized for its investment and opponents of China tried their best to prove Chinese investment as a debt trap. The campaign was run without considering the needs of African countries. African countries were in need of huge investment in infrastructure, to build industrial base and modernize agriculture etc. China tried to fill this gap. The next target was investment in Sri Lanka. A wide-ranging campaign was run to malign Chinese investment and damage the image of China. The port of Hambantota became poster boy for running the propaganda drive.

In reality, the debt crisis of Sri Lanka was due to two prominent reasons, 1) borrowing from western institution, especially from private institutes and 2) sudden change in the interest rate of USA due to easing program, created problems for Sri Lanka and cost of borrowing increased. Sri Lanka was in dire need of financial resources. In these circumstances, Sri Lanka had to convince the Chinese firm to accept the lease of Hambantota against the amount of US$ 1.1 billion. Sri Lanka used this money to repay the other loans. The most important thing to note here that, it was not debt to assets swap, rather it was done to manage the urgent needs of Sri Lanka on the request of Sri Lanka.

Now CPEC is hot target and we can find everyday a new story or allegation by Western outlets. The campaign is being run at multiple fronts and different countries are being engaged in this. In reality, CPEC program defy the theory of debt trap. All investment programs and loans under the CPEC are productive in nature. They are enhancing the production capacity or facilitating connectivity for domestic and international trade. For example, energy sector investment is helping Pakistan to revive the economy by providing electricity to industry. Gwadar port will turn Pakistan into transit trade hub, and it has started to generate economic activities and Afghanistan is already using it. Road infrastructure has improved connectivity, which is generating economic activities through domestic and international trade.

The projects of CPEC have also created 83000 jobs for Pakistanis. It means 83000 families have benefited from the projects. Most of the employed people were in dire need of jobs to support their families to secure food security and fight poverty. Besides, many countries are also looking to join the CPEC and benefit from it. Second phase of CPEC will enhance production capacity and economic size of Pakistan. As, it is all about the industrial development, modernization of agriculture and scientific and technological cooperation to facilitate Pakistan to enter in Fourth Industrial Revolution.

The other element which negate the notion of debt trap is that the CPEC related investments constitute only 5.6 percent of Pakistan’s total debt. The majority of the debt is from Paris Club (US$ 10.924 billion), IMF (US$ 7.68), bilateral donors (US$ 24.352 billion), Multilateral donors (US$ 39.392 billion), International Bonds (US$ 5.3 billion) etc.

Hence, we can deduce two important results by analyzing the facts provided above. First, CPEC investment is helping Pakistan to revive economy, build production capacity and generate resources. The resources can be used to repay the debt from other sources. In this context, CPEC is a relief not debt trap. Second, the campaign has no rational or fact, it is only built on the self-assumed perceptions with the goal to sabotage the CPEC and Pakistan-China relationship. The hard data does not support the debt trap assumption. Thus, the people of Pakistan should not give any heed to the campaign and concentrate on successful implementation of CPEC.

*The writer is Director, Asia Study Center SDPI*