



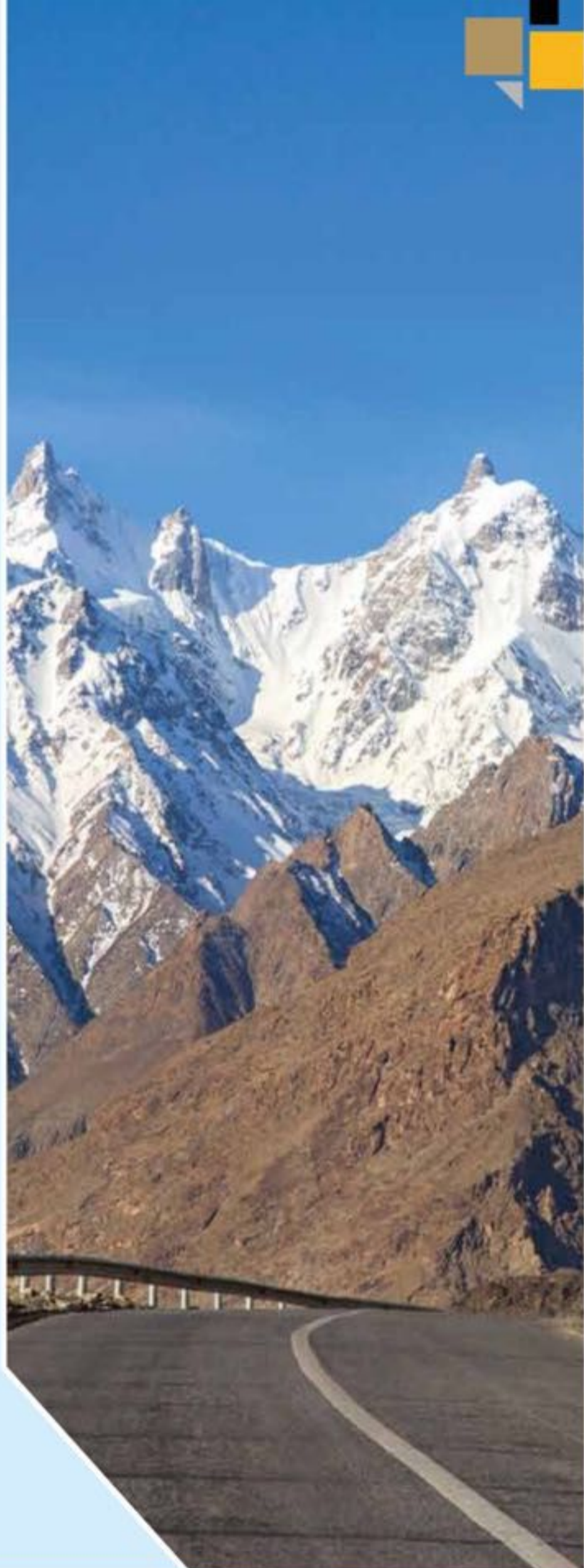
CPEC: DEFEATING THE DEBUNKERS

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China-Pakistan Economic Corridor (CPEC) has received an undue criticism since the idea was first conceived in 2013. Such far-fetched slip-ups about CPEC unfortunately injected by our very own critics and these adverse views are twisted into toxic narratives by the hostile neighbour to disrupt Pakistan's economic leapfrog. Labelling CPEC as a 'debt trap' by the debunkers drive more trepidations into the minds of masses. Therefore, I intend in this article by elucidating the broader contours of CPEC's cost-benefit analysis without using economic and financial jargon to make it understandable to masses which will help in casting off misgivings encircling CPEC.

To begin with, the critics must admit, the internationally well-established economic truism, that an underdeveloped and middle-income country must attract Foreign Direct Investment (FDI) to strengthen its ability of producing both exportable merchandise and import substitution products. This serves as the most significant economic tool for any developing economy including Pakistan to overcome the economic shortfalls and address the adverse situation of mounting deficit in its balance of payment schedule. Pakistan is on the deciding juncture to encourage and promote small and medium size entrepreneurship to flourish under the banner of CPEC. This economic boom will bolster work opportunities to all segments of human resource of Pakistan, currently running from pillar to post, for earning of their livelihoods.





To counter the nefarious narratives of the critics against CPEC, let's first understand that the inflow of the funds from China, now estimated to be \$62 billion: (a) US\$36 billion as Chinese investor's investment in power projects to add up 7,000-11,000 MW in national grid by 2018. This sum will have no direct financial implications on Pakistan's external payment obligations and; (b) US\$26 billion Chinese government loan, dedicated to building infrastructure. Since inflow of funds as loans and FDI has dissimilar financial implications; therefore, a separate evaluation is direly needed to compute some of the major benefits as under.

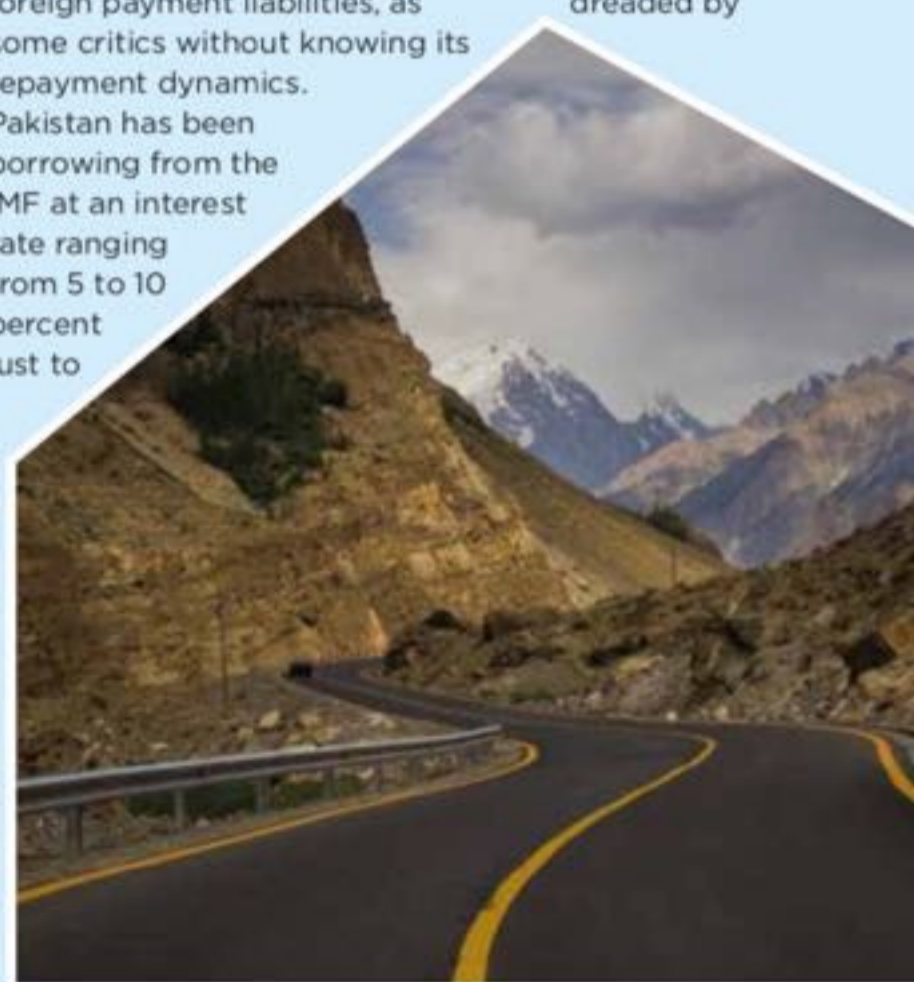
Pakistan's economy has severely suffered because of energy crisis, since the last decade. Much needed uptick in power generation under CPEC will help revitalize the worst affected industrial sectors. And particularly the Cotton textile production and apparel manufacturing, which are Pakistan's largest industries, accounting for about 66 percent of the merchandise exports and almost 40 percent of the employed labour force. It will also help rejuvenate the remotely located cottage industry, small size manufacturing, agriculture and mining industry businesses to become commercially viable and contribute its due share of the GDP, on one hand, and proliferate job opportunities in the far-flung areas on the other.

It is a misgiving that the Chinese power companies would be availing higher tariff rates. National Electric Power Regulatory Authority (NEPRA) has not mentioned any such concessions or exemptions and has to act according to its jurisdiction to maintain uniformity. Similarly, other regularity bodies will also

look after the environmental hazards, avert abuse of dominant positions, ensure recovery of other levies, implementation of labour laws, and above all, the vibrant and robust courts can swiftly act to protect the constitutional rights of the general public as per law of the land.

The second part, which will be an interest-bearing loan that constitutes about 40 percent of the total US\$62 billion chunk under CPEC framework, will not overburden Pakistan's ballooning current and future foreign payment liabilities, as dreaded by some critics without knowing its repayment dynamics.

Pakistan has been borrowing from the IMF at an interest rate ranging from 5 to 10 percent just to



avert the default on external payments in time. Whereas, CPEC loan will be carrying an aggregate interest rate of not more than 1.9 percent per annum and even below, repayable in a period stretched over 25-30 years and even more.

Reimbursement of the loan with markup, which is estimated to be around US\$1.5 billion per annum, will start in 2019 and after gradual increase would remain within the range of US\$4.5 to 5 billion even in the peak years. This additional burden on account of CPEC's loan would be quite nominal when compared with its eventual upshots — briefly calculated below.

Pakistan's existing transportation network is quite dilapidated and causing a huge loss of around 3.5 percent of the country's annual GDP as estimated by the Government. According to the IMF, Pakistan's total GDP in 2016 was around US\$285.153 billion of which 3.5 percent amounts to US\$9.98 billion. Improvement in the transportation network under CPEC will considerably cut down such losses, thereby reducing Pakistan's oil import bill and related transport equipment. Similarly, as forecasted Pakistan's national exchequer will be earning around US\$6 to \$8 billion a year under toll tax revenue etc.

Put together, the above two explained sources of income and savings alone will be substantially higher, when matched with the disbursement of loan and debt service liability to China and that too in significantly spread over a period of 25-30 years and even more.

Furthermore, under CPEC portfolio, around 190 kilometers long tourism corridor would be constructed in Azad Kashmir — a valley, blessed with mesmerising scenic beauties. The CPEC long route, passing through the most magnificent landscape in the south and the world's most scintillating peaks in the north including the second tallest mountain, the K-2 will be a great source of tourism. Travel tourism of Pakistan was estimated to the tune of US\$18.471 billion in 2015, which is likely to grow-up to US\$32.702 billion (7.0 percent of the GDP) and even much more in few years.

China and Pakistan on the Belt and Road Forum on May 13 signed a MoU to fund and develop Pakistan's Indus River Cascade which has a potential of producing 40,000MW of power. For the CPEC's objectors, this is yet another breakthrough refuting their fallacious arguments.

Pakistan is on the cusp of winning its fortunes under the blessing of CPEC. Opposing such a colossal economic turn-around based on political, planned or

self-denial will only roll over the hatred hyperboles and nothing else.

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