China's Debt Trap in Pakistan? A Case Study of the CPEC Project

Article *in* South Asia Research · August 2021

DOI: 10.1177/02627280211040650

2 authors:

Rizwan Shaikh
Yonsei University Mirae Campus South Korea

Chien-Kai Chen
Rhodes College

SOUTH ASIA RESEARCH
Vol. 41(3): 1–16
Reprints and permissions:
in.sagepub.com/journals-permissions-india
DOI: 10.1177/02627280211040650
journals.sagepub.com/home/sar

CHINA'S DEBT TRAP IN PAKISTAN? A CASE STUDY OF THE CPEC PROJECT

Rizwan Shaikh and Chien-Kai Chen
Yonsei University, Mirae Campus, South Korea and
Rhodes College, Memphis, Tennessee, Usa

Abstract Existing literature on China–Pakistan trade relations mainly deals with potential opportunities for Chinese investment, while no study has so far specifically analysed Chinese investment in light of the China–Pakistan Economic Corridor (CPEC) project by taking into account how Pakistan's domestic factors shape foreign trade relations. This article argues that the weak economic indicators of Pakistan reveal a possibility of defaulting on debt repayments, as Chinese loans have relatively high-interest rates. Through a two-level analytical framework, this article demonstrates that, despite concerns about Chinese debt traps at the international level, the CPEC project is still largely intact due to strong domestic support of the Pakistani establishment. Further, the geostrategic importance of Pakistan for China is higher than merely trade relations. It is thus also not in the interest of China to see its investments in Pakistan become a debt trap, though the institutional arrangements in Pakistan are prone to mounting debts.

Keywords: *China, CPEC, debt trap, geopolitics, military, Pakistan*

Introduction

Debt-trap diplomacy has recently been associated with China as a new terminology, started as a meme by an Indian think tank in 2017, furthered through a paper in 2018 by two Harvard University students terming it 'debtbook diplomacy' (Brautigam, 2020). A meme as a trendy concept representing collective behaviour of a generation, culture, community or group followed by an impulse (Brautigam, 2020) has evidently multiple connotations. This meme about China highlights claims that China, by giving risky loans to poor countries, deliberately entraps them into a cycle of debt in an attempt to acquire strategic leverage or an asset of significant value.

In this context, the present article analyses the implications of Chinese investments in the China–Pakistan Economic Corridor (CPEC) project, a flagship project of the greater Belt and Road Initiative (BRI) of China. Although much has been written on China–Pakistan relations, this recent expansion of Chinese investment warrants closer attention, especially in the context of China's alleged debt-trap diplomacy. The CPEC project is the highest-ever Chinese investment in Pakistan with an estimated cost of $62 billion, according to CPEC authorities. This project, viewed in Pakistan as a game changer for the country's economy, connects the Chinese region of Kashgar with Pakistan's southern seaport of Gwadar, the world's deepest seaport. From Gwadar port to Kashgar, a distance of 3,000 kilometres will be covered through a network of roads, railway tracks and bridges, along with other investments in the power and energy sectors. The project, started in 2015, is expected to be completed by 2030. CPEC is clearly an alternative trading route for China, through South Asia, deemed to be more reliable than the existing sea routes through the Southeast Asian Straits of Malacca and Lombok/Makassar. These are not only longer, expensive and prone to risks associated with bad weather and piracy, but also exposed to hostilities of other countries' naval forces due to the ongoing tensions in the South China Sea. Many strategic and economic analysts in Pakistan agree that if there were to be a war between India and Pakistan, the prime reason for this war is going to be the CPEC project, which India perceives as a threat to its national security (Ishaq et al., 2017).

This article explores the implications of the CPEC project at both the international and domestic levels. Basically, we argue that, while there are concerns about the debt trap brought by the CPEC, strong support for this project from powerful domestic actors in Pakistan has kept it largely intact. This, however, does not necessarily mean that Pakistan will be doomed by the looming debt trap. Apart from mere economic gains, Pakistan holds crucial geostrategic importance for China. It is not in China's interest to see its investments become a debt trap for Pakistan, though the institutional arrangements in Pakistan are prone to leading the country into a burden of debt.

We suggest a strong likelihood for Pakistan to be granted concessions from China for loan repayments, because the nature of China–Pakistan relations is not purely economic but, more importantly, geostrategic. To make our case, we first examine the debate about the effects of foreign direct investment (FDI) on economic development and introduce our two-level analytical framework. Then, we explore the CPEC project from a Pakistani perspective at both the international and domestic levels. Finally, we summarise our findings and discuss their implications.

FDI and the Two-level Analytical Framework

For developing countries, FDI, which usually comes in the form of loans or other means of investment, is crucial for economic survival. However, there is still no consensus among scholars on the role played by foreign capital in the promotion of economic growth of developing and/or underdeveloped countries (Ahmad & Hamdani, 2003; Akbas et al., 2013; Dinh et al., 2019; Erum et al., 2016; Jeffrey, 1998; Mosley et al., 1987; Zhang, 2007). The debt cycle theory posits three main stages of a debt cycle. At the first stage, a country receives aid and becomes stable. At the second stage, it borrows again, while at the third stage, that country becomes self-sufficient enough to repay the loans (Siebert, 1989). This process is considered to support sustained and accelerating economic growth. International aid is thus viewed as the saviour, helping in the process of development to achieve fast growth and pay back existing loans. Earlier, Cochrane (1972) had argued through her two-gap model of economic development that foreign capital, which usually calls for structural adjustment, positively affects economic growth.

However, despite the visible charm of foreign investment, only few countries have become ideal examples where economic conditions were drastically improved through FDI. Scholars critical of aid dependency models have argued that policies introduced through structural adjustment programmes impede the development path. Shabbir et al. (1992) conducted an analysis of global scale in relation to the worldwide International Monetary Fund (IMF) programmes and found that structural adjustment conditionalities imposed by the IMF negatively affect a country's economic growth. In fact, higher levels of bilateral and commercial debts hinder the economic expansion of poorer countries, though physical aspects of life might remain unaffected for a short period of time.

This more pessimistic view about FDI seems to reflect the situation in South Asia. Pakistan and other South Asian countries have been recipients of large foreign loans. However, despite the heavy influx of such loans, South Asia remains one of the poorest regions in the world, lacking basic standards of living. This region is home to almost 25% of the world population, yet has only 1.3% of the global income, and also remains the most indebted in the world (Hali, 2016). The flow of foreign aid and loans could not translate into an economic miracle, but involved debt burdens for countries in the region, including Pakistan.

Regarding FDI and other international interactions, countries engage with each other for various socio-economic, political and geostrategic reasons to bargain and settle national interests for their prosperity and benefits. But it is worth pointing out that, everywhere, authorities of those countries engaging with each other have to negotiate simultaneously with their foreign counterparts at the international level and their own people, or other actors, at the domestic level, however limited that process may appear. In view of this 'two-level game', as Putnam (1988) called it, some kind of domestic approval is necessary for ratifying international negotiations and agreements. If such agreements are not perceived to be in the public interest of a country's people, there may be serious governance repercussions.

This leads us to the following set of core questions about the CPEC project in Pakistan: At the international level, could the CPEC become a Chinese debt trap for Pakistan? Who actually are the relevant domestic actors at the domestic level in Pakistan, what represents their interests, and to what extent do they shape Pakistan's decision about the CPEC project?

CPEC at the International Level

Pakistan's strategic importance in the South Asian region involves that both Pakistan and China share common interests (Khan, 2011). Trade ties between the two countries were established in the 1960s, with the signing of the first trade agreement in 1963 (Faisal, 2018). Meanwhile, China has become the biggest trading partner for Pakistan and, due to the CPEC project, trade volumes are expected to increase further. Diplomatic relations between the two countries started during the 1950s. Pakistan was the first Muslim country to recognise the communist Chinese republic. Pakistani recognition turned out to be advantageous for China, as it paved the way for access to other non-communist countries. Since China faced international isolation until the 1970s, Pakistan served as a bridge between the USA and China through its diplomatic mediation (Ghengli, 1996). Pakistan actively channelised all diplomatic efforts to lobby for the transfer of the UN Security Council seat for the People's Republic of China from the Republic of China in 1971 (Azeemi, 2007). This historical context of brotherly support means that China views Pakistan as a loyal friend, standing with China during difficult times and serving as a bridge to end international isolation. Similarly, Pakistan benefits from China in terms of both regional security and economy due to trustworthy relations (Mahdi, 1986), initially cemented after the 1962 war between China and India and the 1965 war between Pakistan and India.

China and Pakistan went on to sign various agreements for intelligence sharing, border security, surveillance and nuclear technology (Garver, 1996). China–Pakistan relations since the 1950s have been refined through multiple formal exchanges of visits by governmental officials, military officers and business leaders, and this practice remains unchanged (Azeemi, 2007). Direct contacts amongst the Chinese and Pakistani public, however, have been limited mainly due to language barriers (Shanglin, 2001). To further strengthen the bonds of friendship, the two countries are now facilitating cultural exchanges, for example, through introducing Chinese language programmes in Pakistan. The two countries have distinctive differences in culture, belief systems and forms of governance, but despite these differences, their relations have endured.

The Ministry of Foreign Affairs of the Government of Pakistan maintains a special website dedicated to 'Pakistan and China Diplomatic Relations' (http://mofa.gov.pk/pakistan-and-china-diplomatic-relations/). In April 2005, the China–Pakistan Treaty of Friendship, Cooperation and Good Neighbourly Relations ushered in a new era of friendly bilateral relations (Awan, 2020). It was basically agreed that neither party will join any alliance or bloc which infringes upon the sovereignty, security and territorial integrity of either nation. Later, the bilateral treaty of July 2013, 'Common Vision for Deepening China–Pakistan Strategic Cooperative Partnership in the New Era', added the dimension of economics into the strong strategic relations. Today, the geostrategic interests pursued by both China and Pakistan are largely shaped within a framework of geo-economics. With the rise of China's economy in the world, its influence is also increasing in shaping a favourable security order conducive to the safety of Chinese investments (Faisal, 2018). This is especially true in the context of Pakistan's neighbouring countries, such as Afghanistan, mired by instability and conflicts.

Rakisits (2012) argues that the Pakistan–China relationship has been pretty much like a marriage of convenience. Similar to every other bilateral association, one has more needs than the other. Regarding Pakistan–China relations, Pakistan needs China, and Beijing will continue this friendship based on its usual *realpolitik* methods employed for the past decades. This view appears to suggest that China would not bother about losing Pakistan and will always take it for granted. Nevertheless, given the importance of China's rise and its ambitions, Pakistan is arguably the most important country for China, particularly if all of its doors to world trade access are closed, and Western powers encourage India's rise as a containment policy against China in the region of South Asia.

It is no wonder, thus, that Pakistan is the centrepiece of China's BRI. Under its commitments, China will fund 80% of CPEC worth $62 billion. However, despite such generosity and ambitions, there have been cancelled projects due to political and tough contractual reasons behind the nature of these projects (Crossley, 2020; Hurley et al., 2018: 19; Kiani, 2019). Three major road network projects were cancelled in 2017 due to higher interest rates charged by China according to reports of the Pakistani government (Jorgic, 2018; Raza, 2017). Instead of the usual 2 or 2.5% interest rates, the Chinese were charging 5% or more (Mangi, 2019). Some electricity generation projects were cancelled due to oversupply, which Pakistani officials termed as 'capacity trap' (Kiani, 2019). This reveals that, although the relationship with China serves the national interests of Pakistan, given the economic and security challenges faced from neighbouring rivals, especially India, Chinese projects that do not make sense financially can still be revisited. That being said, the current economic crisis in Pakistan has compelled the country to keep borrowing from China.

By the end of the fiscal year 2020, Pakistan's total external debt and liabilities reached $112.8 billion (Government of Pakistan [GoP], 2021). As a result of the U.S.-led War on Terror, launched in 2001, inflow of foreign aid especially from the USA increased and did not start to fall until 2012 (Nasira et al., 2012). However, due to Pakistan's leading role in the war on terrorism, it still suffered massive socio-economic losses. According to Hafiz Pasha (2018: 48), one of Pakistan's leading economists, 'the estimated total cost of terrorism to the economy of Pakistan up to 2017–8 is $251.8 billion'. This is a vivid contrast to the total assistance of $33 billion that Pakistan received from the USA after joining this war (Pasha, 2018: 49). Zakaria et al. (2019) estimated direct and indirect losses to Pakistan's economy due to terrorism from 2002–14 at $126.79 billion, with almost 30,000 deaths of civilians and security forces. More recently (*Dawn*, 2021; Gul, 2021; *The Economic Times*, 2021), Pakistan's Prime Minister reiterated earlier statements regarding Pakistan's human losses and an economic loss well beyond $150 billion, which far exceeds the $20 billion aid that Pakistan received after joining the U.S. War on Terror (*Washington Post*, 2021). This suggests that during the past twenty years, Pakistan has suffered massive economic destruction which has crippled its economy.

Debt servicing is now the strongest factor hurting the economy of Pakistan. It is also responsible for the decline in the country's foreign reserves, as Pakistan has to acquire more loans to pay instalments of previous loans. During 2019–20, Pakistan paid $11.895 billion for debt servicing, out of which $2.352 billion were spent on interest (GoP, 2021). Because of debt servicing, other crucial economic sectors of the country have been totally sidelined. Also, after the 18th Constitutional Amendment in Pakistan passed in 2010, devolution of powers from federal to provincial governments occurred along with greater provincial autonomy (Adeney, 2012; Musarrat et al., 2012; Rana, 2020). With major portions of budget now being allocated to provinces, the Pakistani central government has been left with a budget shortfall, in turn forcing it to take further loans.

According to Irshad et al. (2018) and Javaid & Javaid (2016), China is one of the major donors of Pakistan. As soon as the USA pulls away from Pakistan, China would replace the USA as Pakistan's largest bilateral donor. In Pakistan, foreign loan dependency is visible through an analysis of the various economic indicators that ascribe to the levels of overall debt and debt servicing from the GDP, along with net exports in comparison to foreign debt (Chaudhary et al., 2000). Higher exports do not necessarily mean the country is stable enough to pay off foreign debt because the need for financing imports is also determined by the GDP of a country (Andersson & Lööf, 2009). Chinese assistance is in general preferred by developing countries, as despite several complaints against Chinese projects, one cannot ignore the absence of credible or viable alternatives, driving them back to embrace China (Krishnan, 2020: 152). At least through its officially stated policy, China does not interfere in the internal affairs of its counterparts.

However, there is another side of the argument. China is criticised for its BRI project because it allegedly induces its counterparts in debt-trap diplomacy through risky investments of a predatory nature to acquire a footing in a country first, and then seek influence in the indebted state. Concerning Pakistan, there have been accusations of no transparency, as well as involvement of Chinese firms through unfair advantage (Siddiqui, 2020). For example, when Pakistan tried to approach non-Chinese investors such as the Asian Development Bank, for funding on soft loans for a railway track project called ML1, fearing the Chinese debt trap, this attempt was significantly discouraged by China (Jorgic, 2018; Kiani, 2019).

Many analysts and scholars frequently cite the example of Sri Lanka which gave away Port Hambantota to China on a 99-year lease due to its inability to pay a debt of $1 billion (Mourdoukoutas, 2019). The case of Djibouti is similar to Sri Lanka, where instead of leasing out, it gave away access to shipping lines to China, based on an annual royalty payment of $20 million (Blanchard & Collins, 2019). Similar criticisms are raised against China holding a 51% stake in the Greek port of Piraeus and leasing the Australian port of Darwin for 99 years. Regarding Pakistan, various international and Pakistani analysts have been writing in newspapers and blogs that the Pakistani seaport of Gwadar will meet the same fate as the ports of Sri Lanka and Djibouti, in a new mode of colonisation. Indeed, Raza (2016) reported that Pakistan's senators raised the fear that the CPEC could become another East India Company.

In general, Chinese financial dealings in the BRI have raised questions regarding the sustainability of debt in view of the obvious financial inability of many developing and/or underdeveloped countries involved to repay large loans. Furthermore, critics also argue that Chinese loans and contracts are shrouded in secrecy and lack official transparency. Therefore an objective neutral analysis of the crisis in the making becomes difficult to ascertain. So, given this possible debt trap, why has Pakistan not deserted the CPEC project? To answer this question, we have to go to the domestic level. As Easterly (2003) mentioned, the role of domestic politics in acquiring international loans has been widely ignored. This clearly calls for more scrutiny in the form of governance and political-institutional structures of a country like Pakistan that is vulnerable to debt.

CPEC at the Domestic Level

The Islamic Republic of Pakistan has a parliamentary form of government where the prime minister through his or her cabinet leads the executive, with the parliament comprising elected members from across the country. But looking at Pakistani history, governance in the country has always been dominated by the military, executed by the bureaucracy, and ratified by parliament and the judiciary (Adeney, 2012; Ahmad, 2013; Falki, 2017; Shah, 2014). Whenever Pakistani politicians, journalists and analysts speaking through any media source coin the word 'establishment', it is commonly understood that they are referring to the all-powerful Pakistani military, the only organised institution of Pakistan (Siddiqa, 2007). Since independence in 1947, Pakistan has been under direct military rule for several decades: 1958–71, 1977–88 and 1999–2008. In the remaining years, there is no doubt that the military still meddled in political/civilian affairs (Falki, 2017).

Acquiring political legitimacy, military rulers thrived upon the support of politicians notorious for being turncoats. Pakistan's core establishment led by the military is the ultimate authority: foreign, defence, strategic and other policies of significance require either military approval or backing. In such circumstances, there is no doubt that the Pakistani military has played the key role of guarantor in cementing the CPEC project with China. This is also evident from various news reports published in leading newspapers, where statements made by the chief of Pakistan's army are unequivocally supportive of the CPEC project (*Dawn*, 2015, 2019; *The Economic Times*, 2018). In Pakistan, the Chief of Army Staff is a much more important post at the subtle powerful level as compared to the prime minister or the ceremonial president. The decision to fully support the CPEC project is made by Pakistan's core establishment (i.e., the military) in light of the geostrategic and economic challenges that it perceives for the country. As the military sees it, the Pakistani economy has arrived at its weakest position due to various issues, and the army in any country, no matter how powerful, cannot fight on an empty stomach.

There are also other power players, however. All interest groups in Pakistan are represented by political parties, and feudal, tribal, religious, sectarian, ethnic and nationalist leaders. Well-connected with their respective constituencies, they enjoy a stake in shares of power and resources through their respective public support. At the local level, feudal, tribal, ethnic, religious and sectarian leaders also enjoy strong political power because their support is very crucial in winning elections, both for national and provincial assemblies. This is why it is certainly not inaccurate to term them as power players.

Pakistan is a multi-ethnic country, with four major ethnic groups after which the four provinces of Pakistan are named: Punjab (Punjabi group), Sindh (Sindhi group), Khyber Pakhtunkhwa (Pathan/Pashtun group) and Balochistan (Baloch). Apart from these four dominant ethnic groups, other ethnic groups hold strong political power, particularly the Urdu-speaking community who migrated from India at Pakistan's independence in 1947, and specific local groups such as the Seraikis and Kashmiris. The four provinces and various groups within the political structure of Pakistan have always been at odds with each other due to hyper-ethnic nationalism and rivalries. As a result, Pakistan has been unsuccessful in translating its diversity into tranquillity, political order and state legitimacy (Kukreja, 2020). Amongst the major issues causing ethnic conflicts in Pakistan, Ahmed (1996) points out four as bones of contention: sovereignty (rights, autonomy and self-determination of provinces), allocation of resources (national budget, share of water, government jobs, land and education), inter-provincial migration (complains about deliberate migration as a means to turn natives into minorities), and identity crisis (domination of the national Urdu language at the expense of regional languages and cultures).

Among all of the ethnic groups, the majority of Punjabis are the most powerful in terms of population and influence in Pakistan (Mushtaq, 2016; Waseem, 1996). National resources which include but are not limited to natural resources, government jobs, public sector development projects and budget are all distributed amongst provinces based on their population size (GoP, 2020; Sultan, 1994), as a result of the controversial national population censuses conducted in 1998 and 2017, which have been widely challenged (Karim, 2017). It is pertinent here that revenue distribution is supposed to be conducted on the basis of a presumably fair system, the National Finance Commission (NFC) Award, originally created in 1951, and operated through a series of economic programmes aimed at correcting the financial imbalances amongst the provinces (Ghaus-Pasha et al., 2010). Nevertheless, throughout the years, the NFC Award has received criticisms and complaints from smaller provinces, especially Balochistan and Sindh (Ahmed et al., 2007; Karamat & Jalbani, 2011; Kardar, 2013).

Balochistan is Pakistan's largest province in terms of geographical size, constituting around 44% of Pakistan's total land area. It is rich in mineral resources (Ahmad, 2005), but does not have a large population. Similarly, according to the Sindh Board of Revenue (http://www.srb.gos.pk/AboutUs/bg-SSToS.jsp), Pakistan's Sindh province contributes the largest portion of income tax collection revenues for the whole country and is also a region rich in natural resources (Azfar-ul-Ashfaque, 2020). However, because of their smaller population size, both Balochistan and Sindh receive far smaller shares of the NFC Award than the Punjab province (Arshad et al., 2019).

Augmenting such regional imbalances, the huge population of the Punjab province has brought Punjabis, compared to other groups, not only more national resources but also more political influence at the cost of the under-represented smaller provinces (Fair & Nawaz, 2011). For example, out of a total of 342 National Assembly seats in Pakistan, 183 are allocated to the Punjab province. Given that a two-thirds majority is required to pass any major law in Pakistan, it is generally believed that any political party that wins the general elections in Punjab could naturally form the federal government (Wu & Ali, 2020). To a large extent, the elite class of Pakistanis in politics, bureaucracy and the military has predominantly consisted of Punjabis, in turn largely shifting the policies of Pakistan to the advantage of their province (Murtaza, 2017), posing another serious threat to the future of Pakistan (Yusuf, 2014).

Regarding the CPEC, each province of Pakistan is eager to acquire a bigger share from it, and the powerful Punjab has been criticised by the other provinces for taking a major stake in the infrastructure projects under the CPEC. Major political parties from smaller Pakistani provinces have been highly critical of the CPEC project, alleging that it neglects their provinces. They have even called this project an agreement between China and Punjab, Balochistan being a particularly staunch opponent. The political leaders of Balochistan have vigorously criticised the CPEC project, but there is resistance to the project also by the general local populace (Walsh, 2020). While the Gwadar seaport, the world's deepest seaport and the gateway to Pakistan via the Arabian Ocean, belongs to Balochistan, Baloch people have been largely ignored for jobs in various CPEC-related projects and infrastructure developments. One of the major critics is a tribal chieftain and former Chief Minister of the Balochistan province, Sardar Akhtar Mengal, who leads the Balochistan National Party (BNP-Mengal Group). He has frequently opposed Pakistan government policies, which he terms anti-Balochistan, challenged Chinese settlements in the port city of Gwadar, and voiced concerns for Baloch people becoming a minority within their own land (*Dawn*, 2016; *The News*, 2016). He once said that this 'multibillion CPEC project is not meant for the progress of Balochistan; instead, it will transform the Baloch nation into a minority on their own soil' (*The Nation*, 2017). He also said that the 'China–Pakistan Economic Corridor was offering nothing to Balochistan but just aimed at building a modern Punjab'. In addition, Mengal has demanded that all project dealings and records be made public, criticising the lack of transparency in the CPEC project dealings. In 2015, an all-parties conference was called by the then prime minister of Pakistan, wherein provincial grievances were discussed and a national consensus was reached. All of the stakeholders present at the conference agreed to take political ownership of the project (Haider, 2015).

Thus, in addition to the ultimate power residing within the core establishment, the military, various power players in Pakistan at the local and regional level are significant in influencing the policy trajectories within the country. With strong support from the most powerful domestic actors in the central and local spheres, especially the Pakistani military and the Punjab province, respectively, the CPEC project is still largely intact, despite concerns about the perceived risks of a debt trap and loud protests from smaller provinces (Hameed, 2018). After all, Pakistanis of any kind are aware that they need economic development to ensure a decent future.

Conclusions

There are clearly huge concerns about China's debt trap brought by the CPEC project. However, with strong support from the most powerful Pakistani domestic actors, the project is still largely intact. This, of course, does not mean that there will be no further challenges to the CPEC. Several objections that China would face in the countries where it invests include climate change impacts, land and labour rights, justifiable distribution of economic benefits of projects, and the transparency of dealings and contracts. Failure to address these genuine concerns in time would surely hinder the execution of projects, cause unnecessary delays, increase costs, and may even trigger anti-China campaigns and protests. These would hurt the bilateral relations and also invite criticism from international rivals. This has already happened in Pakistan in terms of the unjustified distribution of benefits under the CPEC project, though many of the criticisms against China are censored both in the media and political spheres by the all-powerful military establishment that is fully supporting the CPEC project.

That being said, it is still too early to conclude that Pakistan will be eventually doomed through China's debt trap brought by the CPEC project. At the international level, Pakistan remains a pivotal state ally for China because of its geostrategic position linking Central Asia, South Asia and the Middle East (Gholizadeh et al., 2020). In addition, Pakistan has strong links with Muslim countries around the world and is the only Muslim state with nuclear weapons and a strong army. Most importantly, it has been one of very few partners of China with close U.S. relations. Apart from its regional importance, Pakistan also possesses an untapped wealth of mineral resources and offers the precious access to the warm waters of the Arabian Sea which China requires (Khan, 2017; Khan et al., 2019). Therefore, given the importance of Pakistan and the trade routes it provides, China will not be impatient with Pakistan to repay its money or concede its assets because Pakistan, as a long-time trustworthy economic and political partner to China, has already given to China more than it asked for. On top of that, Pakistan could even bargain with China for better deals for its own national prosperity and development, such as those regarding transfer of technology.

Going down to the domestic level, if regional ethnic grievances can be remedied and the transparency and timely completion of the CPEC can be ensured, the

Pakistani nation will still reap the rewards of this project and may be able to pay back Chinese loans eventually. To achieve this, bad governance, corruption, inefficiency and bureaucratic red tapes, which have long weakened the state's capacity to properly absorb and utilise foreign investment, will have to be removed or at least significantly reduced. This is, however, easier said than done. The Global Competitiveness Report 2019 ranks Pakistan at 110 out of 141 countries (World Economic Forum, 2019), and the Corruption Perception Index ranks it at 124 out of 180 (Transparency International Pakistan, 2020). Also, in the World Bank's 'ease of doing business' ranking, Pakistan is ranked at 108 out of 190 countries (World Bank, 2020). In view of these internationally recognised rankings, governance structures of Pakistan that implement, execute and monitor development initiatives remain weak and mired with incompetence and corruption. Overall, as this article has demonstrated, there are still many challenges, along with opportunities, facing Pakistan when it comes to the CPEC project and avoiding the debt trap.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

This research work is supported by the Brain Korea (BK21 FOUR) Program of the Korean Government at the Department of Global Public Administration, Yonsei University Mirae Campus [Grant Number: 2002-62-0073].

References

Adeney, K. (2012) 'A Step Towards Inclusive Federalism in Pakistan? The Politics of the 18th Amendment', *Publius*, 42(4): 539–65.

Ahmad, E. & Hamdani, A. (2003) 'The Role of Foreign Direct Investment in Economic Growth', *Pakistan Economic and Social Review*, 41(1&2): 29–43.

Ahmad, I. (2013) *Pakistan: The Garrison State. Origins, Evolution, Consequences, 1947–2011*. Karachi: Oxford University Press.

Ahmad, Q. (2005) 'Balochistan: Overview of Internal and International Dimensions', *Pakistan Horizon*, 58(2): 27–39.

Ahmed, F. (1996) 'Pakistan: Ethnic Fragmentation or National Integration?', *The Pakistan Development Review*, 35(4): 631–45.

Ahmed, I., Mustafa, U. & Khalid, M. (2007) 'National Finance Commission Awards in Pakistan: A Historical Perspective', *Munich Personal RePEc Archive Paper 5249*. Munich: University Library of Munich.

Akbas, Y.E., Senturk, M. & Sancar, C. (2013) 'Testing for Causality between the Foreign Direct Investment, Current Account Deficit, GDP and Total Credit: Evidence from G7', *PANOECONOMICUS*, 60(6): 791–812.

Andersson, M. & Lööf, H. (2009) 'Learning-by-Exporting Revisited: The Role of Intensity and Persistence', *The Scandinavian Journal of Economics*, 111(4): 893–916.

Arshad, F., Ali, F.H. & Muneer, S. (2019) 'The National Finance Commission Award and Centre-Province Relationship: A Study of Pakistani Federal Structure', *Journal of the Research Society of Pakistan*, 56(1): 227–36.

Awan, Z.A. (2020, May 21) 'China–Pakistan: A Journey of Friendship (1950–2020)'. *Global Times*. URL (consulted 12 April 2021), from https://www.globaltimes.cn/content/1189007.shtml

Azeemi, H. (2007) '55 Years of Pakistan-China Relationship', *Pakistan Horizon*, 60(2): 109–24.

Azfar-ul-Ashfaque. (2020, September 20) 'Rs425bn Income Tax Collected from Karachi'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1580546

Blanchard, L.P. & Collins, R.S. (2019, September 4) 'China's Engagement in Djibouti'. *Congressional Research Service*, IF11304, Version 3. URL (consulted 12 April 2021), from https://crsreports.congress.gov/product/pdf/IF/IF11304/3

Brautigam, D. (2020) 'A Critical Look at Chinese 'Debt-Trap Diplomacy': The Rise of a Meme', *Area Development and Policy*, 5(1): 1–14.

Chaudhary, M., Anwar, S. & Tahir, P. (2000) 'Foreign Debt, Dependency, and Economic Growth in South Asia', *The Pakistan Development Review*, 39(4): 551–70.

Cochrane, S. (1972) 'Structural Inflation and the Two-Gap Model of Economic Development', *Oxford Economic Papers*, 24(3): 385–98.

Crossley, G. (2020, June 19) 'China Says One-Fifth of Belt and Road Projects 'Seriously Affected' by Pandemic'. *Reuters*. URL (consulted 27 July 2021), from https://www.reuters.com/article/us-health-coronavirus-china-silkroad-idUSKBN23Q0I1

Dawn (2015, October 2) 'All Efforts Will Be Made for CPEC's Success, Says Army Chief'. URL (consulted 12 April 2021), from https://www.dawn.com/news/1210333

——— (2016, October 15) 'Mengal Wants All CPEC Accords Made Public'. URL (consulted 12 April 2021), from https://www.dawn.com/news/1290143

——— (2019, June 18) 'Army Chief Reaffirms Commitment to Ensure CPEC Security'. URL (consulted 12 April 2021), from https://www.dawn.com/news/1488839/army-chief-reaffirms-commitment-to-ensure-cpec-security

——— (2021, June 22) 'US Couldn't Win the War from Inside Afghanistan after 20 years: How Would It Do It from Bases in Pakistan?'. URL (consulted 25 July 2021), from https://www.dawn.com/news/1630842

Dinh, T.T., Vo, D.H., Vo, A.T. & Nguyen, T.C. (2019) 'Foreign Direct Investment and Economic Growth in the Short Run and Long Run: Empirical Evidence from Developing Countries', *Journal of Risk and Financial Management*, 12(176): 1–11.

Easterly, W. (2003) 'Can Foreign Aid Buy Growth?', *The Journal of Economic Perspectives*, 17(3): 23–48.

Erum, N., Hussain, S. & Yousaf, A. (2016) 'Foreign Direct Investment and Economic Growth in SAARC Countries', *Journal of Asian Finance, Economics and Business*, 3(4): 57–66.

Fair, C.C. & Nawaz, S. (2011) 'The Changing Pakistan Army Officer Corps', *The Journal of Strategic Studies*, 34(1): 63–94.

Faisal, M. (2018) 'Impact of Geo-economics on Pak-China Strategic Relations', *Strategic Studies*, 38(1): 66–84.

Falki, S.M. (2017) 'Role of Military in Politics and Federal Dilemma in Pakistan: 1999–2008', *Journal of Political Studies*, 24(2): 471–88.

Garver, J.W. (1996) 'Sino-Indian Rapproachement and the Sino-Pakistan Entente', *Political Science Quarterly*, 111(2): 323–47.

Ghaus-Pasha, A., Pasha, H. & Zubair, A. (2010) 'Fiscal Equalisation Among Provinces in the NFC Awards', *The Pakistan Development Review*, 49(4II): 563–76.

Ghengli, Z. (1996) 'China–Pakistan Relations and Situation in South Asia', *Pakistan Horizon*, 49(3): 11–5.

Gholizadeh, A., Madani, S.A. & Saneinia, A. (2020) 'Analyzing Pakistan's Geoeconomic and Geopolitical Importance to BRI', *The Journal of Social Sciences Research*, 6(2): 147–53.

Government of Pakistan [GoP] (2020, June 12) 'Budget in Brief'. Islamabad: Finance Division. URL (consulted 5 February 2021), from http://www.finance.gov.pk/budget/Budget_in_Brief_2020_21_English.pdf

——— (2021) 'Debt Policy Statement. January 2020–2021'. Islamabad: Ministry of Finance. URL (consulted 12 April 2021), from http://www.finance.gov.pk/publications/DPS_2020_2021.pdf

Gul, A. (2021, June 30) 'Khan: Pakistan Can Never Again Be US Partner in War'. *Voice of America*. URL (consulted 25 July 2021), from https://www.voanews.com/south-central-asia/khan-pakistan-can-never-again-be-us-partner-war

Haider, I. (2015, May 28) 'Parties Pledge to Take Full Political Ownership of CPEC'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1184733

Hali, S.M. (2016) 'Regional and Global Scenarios of the China Pakistan Economic Corridor', *Strategic Studies*, 39(2): 67–82.

Hameed, M. (2018, June 5) 'The Politics of the China–Pakistan Economic Corridor. *Palgrave Communications*, 4(64). URL (consulted 21 July 2021), from https://doi.org/10.1057/s41599-018-0115-7

Hurley, J., Morris, S. & Portelance, G. (2018, March) 'Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective'. *Center for Global Development, CGD Policy Paper 121*. URL (consulted 27 July 2021), from https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf

Irshad, M.S., Xin, Q., Hui, Z. & Arshad, H. (2018) 'An Empirical Analysis of Pakistan's Bilateral Trade and Trade Potential with China: A Gravity Model Approach', *Cogent Economics & Finance*, 6(1): 1504409. URL (consulted 24 July 2021), from https://doi.org/10.1080/23322039.2018.1504409

Ishaq, M., Ruan, R.J. & Ahmed, B. (2017) 'Pakistan-China Economic Corridor (CPEC): Opportunities, Threats and Challenges', *International Affairs and Global Strategy*, 52: 9–16.

Javaid, U. & Javaid, R. (2016) 'Strengthening Geo-Strategic Bond of Pakistan and China through Geo-Economic Configuration', *Pakistan Economic and Social Review*, 54(1): 123–42.

Jeffrey, K. (1998) 'The Long-Term Effects of Foreign Investment Dependence on Economic Growth, 1940–1990', *American Journal of Sociology*, 103(4): 1024–46.

Jorgic, D. (2018, September 30) 'Fearing Debt Trap, Pakistan Rethinks Chinese "Silk Road" Projects'. *Reuters*. URL (consulted 12 April 2021), from https://www.reuters.com/article/us-pakistan-silkroad-railway-insight-idUSKCN1MA028

Karamat, M. & Jalbani, A.A. (2011) 'Pakistan NFC Award 2009 and People's Perceptions: A Case Study of Balochistan', *Journal of Independent Studies and Research MSSE*, 9(1): 65–81.

Kardar, S. (2013, August 6) 'Economic Injustice'. *Dawn*. URL (consulted 27 July 2021), from https://www.dawn.com/news/1034413

Karim, S.M. (2017, July 17) 'Missing People in Census'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1364371

Khan, N.U., Ullah, F. & Mahsud, M.I. (2019) 'Pakistan's Geo-Political and Strategic Compulsions', *The Dialogue*, 14(4): 74–83.

Khan, R. (2011) 'Pakistan-China Relations: An Overview', *Pakistan Horizon*, 64(4): 11–28.

Khan, Z. (2017) 'Geostrategic Transformation: Pakistan's Options for Deterrence and Strategic Posturing', *IPRI Journal*, 17(1): 72–94.

Kiani, K. (2019, January 14) 'Govt Puts Major CPEC Power Project on Hold'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1457449

Krishnan, A. (2020) *India's China Challenge: A Journey through China's Rise and What It Means for India*. Noida: HarperCollins.

Kukreja, V. (2020) 'Ethnic Diversity, Political Aspirations and State Response: A Case Study of Pakistan', *Indian Journal of Public Administration*, 66(1): 28–42.

Mahdi, N. (1986) 'Sino-Pakistan Relations: Historical Background', *Pakistan Horizon*, 39(4): 60–8.

Mangi, F. (2019, October 13) 'Pakistan Owes China More Money Than It Owes the IMF'. *Bloomberg*. URL (consulted 12 April 2021), from https://www.bloomberg.com/news/articles/2019-10-03/pakistan-owes-china-more-money-than-it-does-imf-as-loans-mature

Mosley, P., Hudson, J. & Horrell, S. (1987) 'Aid, the Public Sector and the Market in Less Developed Countries', *The Economic Journal*, 97(387): 616–41.

Mourdoukoutas, P. (2019, July 9) 'IMF Won't Stop China from Turning Pakistan into the Next Sri Lanka'. *Forbes*. URL (consulted 12 April 2021), from https://www.forbes.com/sites/panosmourdoukoutas/2019/07/04/imf-wont-stop-china-from-turning-pakistan-into-the-next-sri-lanka/?sh=47ab5ebe4cc7.

Murtaza, D.N. (2017, September 12) 'Punjab Dominance'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1357045

Musarrat, R., Ali, G. & Azhar, M.S. (2012) '18th Amendment and Its Impacts on Pakistan's Politics', *Journal of Sociological Research*, 3(1): 1–7. https://doi.org/10.5296/jsr.v3i1.1613

Mushtaq, M. (2016) 'Regional Identities in Quest of Separate Provinces: A New Challenge for the Pakistani Federation', *Journal of Political Studies*, 23(1): 289–307.

Nasira, M., Rehman, F.U. & Orakzai, M. (2012) 'Exploring the Nexus: Foreign Aid, War on Terror, and Conflict in Pakistan', *Economic Modelling*, 29(4): 1137–45.

Pasha, H.A. (2018) *Growth and Inequality in Pakistan. Agenda for Reforms*. Bonn: Friedrich Ebert Stiftung. URL (consulted 12 April 2021), from http://library.fes.de/pdf-files/bueros/pakistan/15252-20190411.pdf

Putnam, R. (1988) 'Diplomacy and Domestic Politics: The Logic of Two-Level Games', *International Organization*, 42(3): 427–60.

Rakisits, C. (2012) 'Pakistan-China Bilateral Relations 2001–2011: A Deepening but Cautious Partnership', *Security Challenges*, 8(3): 83–102.

Rana, M.A. (2020) 'Decentralization Experience in Pakistan: The 18th Constitutional Amendment', *Asian Journal of Management Cases*, 17(1): 61–84.

Raza, S.I. (2016, October 18) 'CPEC Could Become Another East India Company'. *Dawn*, URL (consulted 12 April 2021), from https://www.dawn.com/news/1290677/cpec-could-become-another-east-india-company

——— (2017, December 12) 'Work on Three CPEC Projects Halted till China's Approval, Says Planning Minister'. *Dawn*. URL (consulted 27 July 2021), from https://www.dawn.com/news/1376071

Shabbir, T., Mahmood, A. & Niazi, S. (1992) 'The Effects of Foreign Private Investment on Economic Growth in Pakistan', *The Pakistan Development Review*, 31(4): 831–41. eShah, A. (2014) *The Army and Democracy: Military Politics in Pakistan*. Cambridge, MA: Harvard University Press.

Shanglin, L. (2001) 'Pakistan-China Relations', *Pakistan Horizon*, 54(3): 13–15.

Siddiqa, A. (2007) *Military Inc: Inside Pakistan's Military Economy*. London: Pluto Press.

Siddiqui, N. (2020, May 21) 'Alice Wells' Remarks Another Doomed Attempt to Defame Sino-Pak Relations: Chinese Embassy'. *Dawn*. URL (consulted 12 April 2021), from https://www.dawn.com/news/1558763/alice-wells-remarks-another-doomed-attempt-to-defame%20sino-pak-relations-chinese-embassy

Siebert, H. (1989) 'The Half and the Full Debt Cycle', *Weltwirtschaftliches Archiv*, 125(2): 217–29.

Sultan, A. (1994) 'An Analysis of Budget Deficit with Special Reference to Pakistan', *Pakistan Economic and Social Review*, 32(2): 159–75.

The Economic Times (2018, July 12) 'Pakistan Army Chief Assures China of Full Security to CPEC. URL (consulted 12 April 2021), from https://economictimes.indiatimes.com/news/defence/pakistan-army-chief-assures-china-of-full-security-to-cpec/articleshow/52309009.cms?from=mdr.

——— (2021, June 27) 'Pakistan Seeks "Civilised" and "Even-Handed" Relationship with US like the One that Exists between America and India: Imran Khan'. URL (consulted 25 July 2021), from https://economictimes.indiatimes.com/news/defence/pakistan-seeks-civilised-and-even-handed-relationship-with-us-like-the-one-that-exists-between-america-and-india-imran-khan/articleshow/83888578.cms?from=mdr

The Nation (2017, February 26) 'CPEC not for Balochistan Development: Mengal'. URL (consulted 12 April 2021), from https://nation.com.pk/26-Feb-2017/cpec-not-for-balochistan-development-mengal

The News (2016, October 10) 'Cannot Accept Any Project that Renders Baloch a Minority in Their Own Province'. URL (consulted 21 April 2021), from https://www.thenews.com.pk/print/156113-Cannot-accept-any-project-that-renders-Baloch-a-minority-in-their-own-province

Transparency International Pakistan (2020) 'Corruption Perception Index'. URL (consulted 12 April 2021), from https://www.transparency.org/en/countries/pakistan

Walsh, D. (2020) *The Nine Lives of Pakistan: Dispatches from a Divided Nation*. London: Bloomsbury Publishing.

Waseem, M. (1996) 'Ethnic Conflict in Pakistan: The Case of MQM', *The Pakistan Development Review*, 35(4): 617–29.

Washington Post (2021, June 21) 'Imran Khan: Pakistan is Ready to Be a Partner for Peace in Afghanistan, but We Will not Host U.S. Bases'. URL (consulted 25 July 2021), from https://www.washingtonpost.com/opinions/2021/06/21/afghanistan-pakistan-imran-khan-peace-security-cooperation-us/

World Bank (2020) 'Doing Busines 2020: Comparing Business Regulation in 190 Economies'. Washington, DC: World Bank. URL (consulted 12 April 2021), from http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

World Economic Forum (2019) 'The Global Competitiveness Report 2019'. URL (consulted 12 April 2021), from http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Wu, X. & Ali, S. (2020) 'The Novel Changes in Pakistan's Party Politics: Analysis of Causes and Impacts', *China Political Science Review*, 5: 513–33.

Yusuf, H. (2014, April 2) 'The Other Threat to Pakistan'. *The New York Times*. URL (consulted 12 April 2021), from https://www.nytimes.com/2014/04/03/opinion/the-other-threat-to-pakistan.html

Zakaria, M., Jun, W. & Ahmed, H. (2019) 'Effect of Terrorism on Economic Growth in Pakistan: An Empirical Analysis', *Economic Research-Ekonomska Istraživanja*, 32(1): 1794–812.

Zhang, K.H. (2007) 'Does Foreign Direct Investment Promote Economic Growth? Evidence from East Asia and Latin America', *Contemporary Economic Policy*, 19(2): 175–85.

Rizwan Shaikh is a PhD Candidate in the Department of Global Public Administration at Yonsei University, Mirae Campus in South Korea as a recipient of the Brain Korea (BK21 FOUR) Scholarship Program of the Korean government. Earlier, he took an MA in Inter Asia NGO Studies in South Korea and holds a master's degree in Economics from Pakistan. He has worked in various NGOs, United Nations Agencies and the Federal Government of Pakistan.
[e-mail: rizwan.shaikh07@gmail.com].

Chien-Kai Chen holds a PhD degree in Political Science from Boston University and is an Associate Professor in the Department of International Studies at Rhodes College in Memphis, Tennessee, USA. He has been teaching and conducting research on Chinese government and politics, China's foreign policy, comparative political economy of East Asia, and China–Taiwan–U.S. relations.
[e-mail: chenc@rhodes.edu].