

Pakistan Fraternal controversy

Uwe Hoering, February 14, 2021

"China and Pakistan fall out over Belt and Road frameworks," trumpeted *Nikkei Asia* on January 19.¹ The Japanese business publication interprets the postponement of the annual bilateral summit as the "most serious disagreement" between Beijing and Islamabad. This news probably raised some hopeful expectations in New Delhi. Indian Schadenfreude would be understandable. After all, there is no secret about the exasperation, even alarm, regarding what President Xi Jinping once called "brotherly" Sino-Pakistani cooperation in general and the China Pakistan Economic Corridor project in particular. CPEC, which was announced in 2013, is one of the most important pillars of China's expansive economic diversification and geopolitical ambitions in South Asia.

Support from the Cavalry "at all costs"

In summer of last year, it seemed as though things were still going well between Islamabad and Beijing, and that CPEC 2.0 was "full speed ahead"². Agreements worth \$11 billion were signed, including the 4,800 MW Daimer-Bhasha dam in the Himalayas, where construction had been stalled for a long time, and the nearly 2,000 kilometer Main Line-1 railway line. Prime Minister Imran Khan's announcement after taking office in 2018 that the Belt & Road programs would be reviewed due to corruption by the previous government and fear of the "debt trap" seemed to have been forgotten and forgiven. The role model for Khan's revolt was Malaysia's Prime Minister Mahathir Mohamad, who had accused Beijing of "neocolonialism" and successfully negotiated new terms for joint projects.

For CPEC itself is highly controversial in Pakistan. Internal political wrangling over the distribution of funds and the secrecy surrounding the agreements gained momentum in 2017, when Pakistan's leading English daily *Dawn* published a copy of the CPEC Master Plan detailing widespread Chinese influence on the economy and the society at large.³

Apart from some infrastructure projects, especially in the transport and energy sectors, implementation so far has apparently been slow. For example, the implementation of the Special Economic Zones, to which Chinese companies are supposed to move to, is stalling. Because of the slow progress and the numerous attacks by militant groups on Chinese projects, the military, which owns numerous industrial enterprises and large tracts of land, is increasingly involved in CPEC. A retired general became chairman of the CPEC implementation authority. In May 2020, the government awarded the multibillion-dollar contract to build the Diamer-Bhasha Dam to a joint venture of a Chinese state-owned company and a Pakistani army enterprise.⁴ According to the business news service *Brookings*, the army leadership announced, "BRI with CPEC as its flagship is destined to succeed despite all odds and Pak Army shall ensure security of CPEC at all costs"⁵, a statement that sounds like a warning to the government.

Debt Trap

The *International Monetary Fund* is also breathing down the Khan government's neck: In the summer of 2019, the IMF had approved a "bailout package" of \$6 billion to support the "return to sustainable economic growth".⁶ Conditionality included tax increases, a rapid, significant scaling back of the well over \$100 billion debt stockpile, and disclosure of CPEC financing. IMF confidants in the State Bank and as financial advisor to the prime minister should ensure implementation.

In light of these tough requirements, *The Diplomat* magazine spoke of an "IMF takeover." Price increases for gasoline and electricity, devaluation and inflation followed - as well as large demonstrations. This increased domestic political pressure on the Khan government even further.

In addition, the IMF tightened the thumbscrews following the new financing agreements with Beijing in summer last year⁷: In late fall 2020, talks on further disbursement of bailout funds were postponed without a new deadline because requirements such as raising tariffs and taxes had not been sufficiently implemented. Moreover, instead of reducing its excessive debt, Pakistan would take out new commercial loans. U.S. ally Saudi Arabia plunged Pakistan deeper into economic and financial trouble by demanding repayment of a one billion dollar loan and freezing a line of credit for oil purchases.

Speculations suggest that behind this may be U.S. geostrategic interests to enlist the Pakistan government's support in Afghanistan - and to screw China. In the summer of 2018, then-U.S. Secretary of State Mike Pompeo had warned that an IMF bailout "should not provide funds to pay off Chinese lenders"⁸.

In any case, Pakistan is once again stuck deep in the debt trap. But it has also fallen into the trap through its own fault of corruption, mismanagement and high arms spending.

Caught between a rock and a hard place

So the Khan government sought help from the "lender of last resort" - Beijing. The circumstances seemed favourable: China is already the largest institutional creditor, with at least \$14 billion, and is regularly confronted with accusations of "debt diplomacy". Additionally, the economic slump caused by the Corona crisis justifies debt service relief. And in view of the trade war with the U.S. and the intensified military confrontation with India, Beijing could not afford to leave such an important and hitherto reliable partner in the region and among Islamic states out in the IMF rain - that may have been the calculation. Pakistan therefore sought, among other things, to have Beijing provide the \$6 billion loan for Main Line 1 on concessionary terms. And thus satisfy the IMF.

But for the time being, the deal did not work out, and the negotiations are deadlocked. Moreover, Beijing's willingness to finance expensive infrastructure projects has declined altogether because of the problems and uncertain economic viability that often accompany them. This is even more true for non-commercial loans at a friendship price.

Do debts eat up coal?

It is possible, however, that the difficulties Pakistan is having with its creditors in East and West also have a positive aspect: Until now, the country, which urgently needs an upgrade of its energy supply, has been a negative example for the way China presents itself as a climate champion at home, but at the same time massively promotes the construction of coal-fired power plants in other countries. Two years ago, it was estimated that China's banks were providing \$36 billion for coal projects with a capacity of 102 GW in 23 countries⁹, including Bangladesh with 7 GW and Pakistan with over 8 GW. Environmentalists and economists warn that this will cause countries to incur high CO₂ emissions and economic losses in the long term, while renewable energy became competitive because of falling costs.

The announcement of a moratorium on the expansion of coal-fired power plants by Prime Minister Imran Khan last December therefore raised hopes among climate activists worldwide. According to *The Third Pole*¹⁰, some projects have indeed been put on hold, including three coal-fired power plants with a combined capacity of 4 GW. However, there are still no signs of an energy turnaround: So far, only a few smaller wind power plants have been completed or are planned, and the Zenergy solar energy plant, which was supposed to be the world's largest solar park with 1,000 MW, barely made it to 300 MW. The ecological smokescreen are several hydroelectric plants with a combined capacity of 7 GW, including the large Diamer-Bhasha dam in the Kashmir region, which is disputed between Pakistan and India.

Wishful thinking?

Given the 'black hole' in which most information about Belt&Road disappears, much remains speculative in this case as well: Is Pakistan just trying to negotiate better terms, like other BRI countries have been able to do, or is there a fundamental conflict about the continuation of CPEC, for example between the military and the civilian government? Is Beijing possibly betting more on Iran as a Plan B, where it reportedly plans to invest triple-digit Billions? Or are the pundits cited by *Nikkei Asia* correct, who are convinced that despite all the problems and obstacles, Beijing "wants to make CPEC work at all costs" for reasons of both prestige and geopolitical ambition.¹¹ And where does the wishful thinking start on the part of the Indian government in New Delhi and the Western media that Pakistan could fall out with its fraternal partner, that CPEC would fail and Beijing's ambitions would be trimmed, that the hegemonic conflicts would be resolved that way and it would become evident that BRI is just a bogus giant that looks mighty and huge only from a distance?

Translated with www.DeepL.com/Translator (free version)

¹ <https://asia.nikkei.com/Spotlight/Belt-and-Road/China-and-Pakistan-fall-out-over-Belt-and-Road-frameworks>

² <https://thediplomat.com/2020/09/cpec-2-0-full-speed-ahead/>

³ <https://www.dawn.com/news/1333101>

⁴ <https://www.thehindu.com/news/international/pakistan-awards-442bn-diamer-bhasha-dam-contract-to-joint-venture-between-power-china-and-fwo/article31583253.ece>

⁵ https://www.brookings.edu/wp-content/uploads/2020/06/FP_20200615_china_pakistan_afzal_v2.pdf

⁶ <https://thediplomat.com/2019/07/the-imf-takeover-of-pakistan/>

⁷ <https://www.brettonwoodsproject.org/2020/12/pakistan-resists-imf-measures-that-could-push-more-people-into-poverty/>

⁸ <https://www.reuters.com/article/us-imf-pakistan-idUSKBN1KK2G5>

⁹ <https://ieefa.org/ieefa-china-lender-of-last-resort-for-coal-plants/>

¹⁰ <https://www.thethirdpole.net/en/energy/opinion-is-pakistan-really-phasing-out-coal/>

¹¹ <https://asia.nikkei.com/Spotlight/Belt-and-Road/China-moves-for-more-control-over-Belt-and-Road-in-Pakistan>