

# Pakistan at the CPEC-IMF Crossroads: Strings of Development or Chains of debt?

## Outline:

### 1) Introduction

Thesis Statement: Despite loans from IMF and investments under CPEC, Pakistan has been trapped in a chain of debt. Pakistan is at a difficult juncture to benefit itself from IMF and CPEC. This soaring debt is a grave threat to Pakistan's sovereignty.

### 2) An overview: how Pakistan is at the CPEC-IMF crossroads

### 3) CPEC and IMF are the chains of debt for Pakistan (Thesis)

a) Strict conditions of IMF have trapped Pakistan in a vicious cycle of debt

b) Despite CPEC and IMF, Pakistan's external debt is soaring

c) Pakistan has a depleting foreign exchange

reserves despite CPEC investments and IMF loans.

d) Pakistan is forced to take loans from other organizations which are piling Pakistan's <sup>total</sup> debt

e) To return IMF loans and for CPEC projects Pakistan is taking loans from friendly countries which is increasing Pakistan's debt

4) Pakistan's engagements with IMF and CPEC are the strings of development (Anti Thesis)

a) loans from IMF and CPEC investments are supporting Pakistan financially

b) IMF also provides Pakistan the policy advices to overcome economic issues

c) CPEC has brought infrastructural development in Pakistan

d) IMF loans and CPEC are boosting the confidence of investors to invest in Pakistan

e) CPEC has brought new horizons of regional connectivity for Pakistan

5) IMF and CPEC are trapping Pakistan in the chains of debt (Synthesis).

- a) Pakistan takes loan from IMF to avoid bankruptcy.
- b) Pakistan has to borrow money to finance CPEC projects so it increases Pakistan's external debt
- c) IMF loan packages have high interest rates and this coerce Pakistan to take more loans to cover up depleting foreign reserves
- d) Pakistan has emerged as the top borrower of International Development Association.
- e) Pakistan has highest trade deficit with China so Pakistan takes loans to cover up this deficit

## 6) Conclusion

Although it's been ten years to Pakistan's Game Changer investment project CPEC and several decades of knocking<sup>at</sup> the doors of IMF, Pakistan has not seen significant development. Pakistan narrowly escaped a sovereign default. As Pakistan is at IMF-CPEC crossroads so it is really difficult for Pakistan to maintain a balance and to get the fruits of

IMF deals and CPEC investments. Therefore, due to standing at a difficult juncture, Pakistan has been trapped in a debt chain <sup>instead of</sup> ~~despite~~ embarking on the paths of development. There are number of reasons which are responsible for this debt chain of Pakistan. As IMF imposes conditions when it lends money and these conditions are hard to follow for a struggling economy like Pakistan and this traps Pakistan in a vicious cycle of debt. Despite having loans from IMF and receiving investments from China Pakistan has witnessed a surge in external debt and depleting foreign exchange reserves. Not only this, Pakistan is coerced to lend money from other multilateral organizations which is piling up Pakistan's total debt. Therefore, Pakistan's inability to harvest the benefits of IMF deals and CPEC, it <sup>has</sup> ~~has~~ been trapped in a debt chain which

is posing serious threats to the stability and sovereignty of the country.

As Pakistan is grappling with many grave issues, due to which it is standing at the IMF-CPEC crossroads. Due to political instability, security situation, and weak policies of government, Pakistan has not been able to harvest the benefits of IMF and CPEC. That is why IMF deals and CPEC projects have fired back at Pakistan and instead of development they are trapping Pakistan in new chains of debt.

When IMF lends money to a country it also imposes strict conditions. These conditions are hard for fragile economies to comply with. For example, IMF imposes conditions to reduce the subsidies. Pakistan also faced such situation. Therefore, due to

the inability of Pakistan's non compliance to IMF conditions, Pakistan is coerced to take loans from other lenders and which<sup>it</sup> acts like a vicious cycle of debt for Pakistan.

IMF loans and CPEC had been unable to stop Pakistan's external debt to soar. Pakistan has seen a significant surge in external debt. As according to Economic Survey of Pakistan 2022-2023, total external debt of Pakistan is \$128.7 bn. Therefore, despite having IMF deals and CPEC, Pakistan's chain of debt is increasing.

Not only Pakistan's external debt is surging; but at the same time Pakistan's foreign exchange reserves are also depleting at a rapid pace. This scenario makes Pakistan to borrow money from international lenders. Therefore, CPEC and IMF could not

Stabilize Pakistan's depleting foreign reserves but are becoming the source of more debt on Pakistan.

As Pakistan has received investments under CPEC and many IMF deals but they have not been able to support and stabilize moribund economy of Pakistan. Due to which Pakistan knocked the doors of other countries for more loan. Therefore even in the presence of CPEC and IMF, Pakistan's debt is surging.

Although CPEC and IMF have fired back and could not help stabilize Pakistan's economy but ~~there~~ is a brighter side of them also exists. Both CPEC and IMF deals have supported various sectors of Pakistan and proved themselves to be the strings of development.

IMF loans and CPEC provided Pakistan with the financial

assistance. CPEC is determined to bring investments in Pakistan of worth \$62 bn. So far in a decade, it has invested \$16 bn in Pakistan which really helped Pakistan financially.

As far as, the loans of IMF are concerned it not only provides the money to the lender but also provides policies to the countries to tackle their economic problems. For example, during recent economic meltdown of Pakistan IMF Chief advised Pakistan that "Pakistan should collect taxes from wealthy. I do believe that this is what people in Pakistan would like to see for the country." (Kristalina Georgieva).

Therefore, for so many times, Pakistan gets developments on the basis of advices of economists of IMF.

In addition to financial assistance and policy advices IMF loans and CPEC have contributed



a lot to build infrastructure of Pakistan. For example, under CPEC Pakistan has witnessed infrastructure development like construction of Tassu Dam, Quaid-e-Azam Solar Park, Lahore Karachi Motorway and many Special Economic Zones. Therefore, CPEC has contributed towards development of Pakistan.

As it is evident when IMF approves the loan it boosts the confidence of other investors to invest in that country. Pakistan also experienced increase in foreign direct investment after recent approval of Structural Adjustment Program with IMF. For example, after this approval many Gulf countries showed interest to invest in Pakistan. Also CPEC has attracted more foreign investors like Saudi Arabia wants to officially join CPEC. This is how IMF deals and CPEC are bringing development in Pakistan.

Pakistan's development is also painting a bright image of the country as CPEC has brought new avenues of regional connectivity. Under CPEC, Pakistan is connecting with one of the big regional powers i.e. China. This ~~too~~ is also opening new horizons of development for Pakistan.

Apart from all these developments in Pakistan under CPEC and IMF packages, Pakistan has seen a surge in its debt. They are acting like catalysts for Pakistan's soaring debt. Here is how Pakistan is in the chains of debt due to IMF and CPEC.

In July 2023, Pakistan was at the verge of a sovereign default despite having an IMF deal in 2019 and CPEC. But to avoid the default, Pakistan again took a \$3 bn tranche from IMF

which further escalated Pakistan's debt. Therefore it is evident that CPEC and IMF have ~~only~~ piled up Pakistan's debt.

Not only this but to finance the CPEC projects Pakistan had no money. As a result again Pakistan took loans from China and from different banks. Therefore, CPEC and IMF instead of opening new horizons of development in the country increased the debt of Pakistan.

IMF loan deals and different packages are provided by the lender at high interest rates. This results ~~to~~ in the increase of interest rates in Pakistan as well. For example, the tranche of \$3 bn dollars which Pakistan got from IMF in October 2023 resulted in the hike of interest rate to 22%. This situation worsen

the economic conditions of Pakistan.

Therefore IMF deals are further trapping Pakistan in debt chains.

Because of such worse economic conditions, Pakistan is ~~forced~~ taking loans from other multilateral organizations. For example, According to a World Bank Report, Pakistan has emerged as the top borrower of International Development Association IDA. This is a clear manifestation of how Pakistan is taking loans from other organization despite having IMF and CPEC and this is increasing the sum of debt on Pakistan.

In addition to this at due to CPEC and other investments of China in Pakistan, Pakistan's largest trader partner China is trading

with Pakistan with a Trading deficit. According to reports, since 2010, cumulative trade deficit between Pakistan and China is \$90 bn. This means \$90 bn worth capital is flowing from Pakistan to China as compared to the goods and services coming to Pakistan in return. This situation of trade deficit with China and even having CPEC has worsened Pakistan's economy and Pakistan is taking loans from Asian Development Bank and World Bank. Therefore IMF deals and CPEC presence have piled up the debt on Pakistan.

In the conclusion, it is fair enough to say that because of various national and international issues, Pakistan could not benefit itself from IMF deals

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and CPEC. But still Pakistan can get opportunities from these hardships, by overcoming challenges. By applying structural reforms and overcoming the concerns attached with ~~IMF~~<sup>CPEC</sup>, Pakistan can step out of the chains of the debt. This is the only way forward for Pakistan to embark on the path of development by utilizing the potential of IMF and CPEC.