The Pakistan economic situation and the China-Pakistan Economic Corridor: “CPEC is not a game-changer, it’s game over”

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Kaiser Bengali is a senior economist who has served as advisor to the chief minister Balochistan as well as consultant/national coordinator for Benazir Income Support Programme (BISP), Government of Pakistan. Besides, he has headed research institutions including Social Policy and Development Centre (SPDC), Karachi, and Sustainable Development Policy Institute (SDPI), Islamabad. He has done his Masters in Economics from Boston University, USA, and has a PhD from Karachi University. He has vast experience in the fields of teaching, research, publications and finance.

Here he talks to *The News on Sunday (TNS)* about the country’s economic policies, the priorities of those managing the economy, the economic challenges faced at local and international levels, the China-Pakistan Economic Corridor (CPEC) and its relationship with Gwadar, development of the social sector, our falling exports and foreign reserves and other related topics. Excerpts of the interview follow:

***The News on Sunday (TNS):* The sitting government regularly boasts of robust growth figures. Are these real?**

Kaiser Bengali (KB): I would simply say Ishaq Dar, who had been heading the team, follows a revenue-based approach to show growth and his focus is on increasing taxes. The result of this is that those already in the tax net get further burdened. The World Bank is also pressuring the government to increase revenue collection. We can call it a neo-liberal economy. The policies are nothing but patchwork and are quite similar to those pursued by Shaukat Aziz.

Shaukat Aziz would probably claim Pakistan was becoming a services-oriented economy. But my point is that for a country of 200 million, it is not a good choice to have two-thirds of it unskilled. This country needs jobs for which the manufacturing sector will have to be strengthened. Even Donald Trump is talking about reviving manufacturing and creating jobs this way.

The growth figures shared with us do not have any credibility as there is no reliable data to back them. In fact, the calculations are based mainly on the revenue collected and not on other important indicators that should have been considered.

As I said earlier, the World Bank is a party to all this so it does not question the credibility of these figures. Here I would quote the example of the livestock survey presented by the government which is completely flawed and based on estimates. Much after the results were revealed, we found that no proper ground work was conducted to reach the conclusions they were claiming.

The government just paints a flowery picture: so while sharing the attractive growth figures, they do not share that the manufacturing and agricultural sectors are nosediving. The growth of manufacturing should be around eight per cent but in Pakistan it is just four-and-a-half per cent per annum. Similarly, the growth of agriculture sector has hovered around one per cent per annum on average and there have been times when it has experienced negative growth as well. The government must explain why this is happening; especially why a purely agriculturally country cannot even feed its agro-based industry properly. It is common knowledge that the cotton crop has suffered in the past couple of years. The growth of the manufacturing sector is vital as it helps reduce unemployment but unfortunately it is not a priority here.

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TNS: In the current scenario, what do you think are the driving forces of our economy?

KB: I think our economy can best be described as a casino economy. This means that we are investing in real estate, stocks etc. in anticipation of high returns within a small span of time; there are no long-term goals in sight. Manufacturing is constantly on the decline so the domestic demand is fulfilled by importing products from abroad. Even in this process, easy and quick money is made by importers by under-invoicing and evading duties in collusion with the Federal Board of Revenue (FBR) officials.

There is hardly any realisation about how dangerous this practice can be for the country's economy and its manufacturing sector. It's pitiful that while importers are being facilitated, manufacturers are getting crushed. The cost of doing business is too high and it's a fact that they have to pay different taxes whose value adds up to around 51 per cent.

Even worse is the government's habit of seeking expensive loans and raising funds through floating financial products such as Euro Bonds and Sukuk Bonds in the international market. The promised rate of return is too high when compared to similar products launched by other countries. After launching such products, the government claims success, stating these have been oversubscribed in the international market. It's a matter of common sense to understand that buyers rush for products that offer an exorbitant rate of return. The real test of the government will be when these mature and it has to pay dividends to the buyers.

TNS: The PML-N government promised an end to the power crisis. How successful have they been?

KB: Yes, it's true that they capitalised on this promise and got political mileage out of it. They are pursuing several projects but my point is that the basic issues persist and are yet to be resolved. For example, the circular debt is once again out of control and close to Rs800 billion.

When the incumbent government came into power, it printed currency notes to pay off the circular debt. This solved nothing. You see the problem is still there and it will remain there till the structural issues of the power sector are resolved. It is not possible to produce expensive electricity and sell it for less than its cost, and at the same time offer preferential tariffs to certain sectors. Power theft and line losses further add to the burden.

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TNS: A lot of hopes are pinned on CPEC. Do you think it can really be the game-changer?

KB: I do not think Pakistan will gain a lot from the CPEC initiative which is still shrouded in mystery.

There are no details available and the government is not ready to answer any questions. Instead of a game-changer; CPEC may signify a game over. I see the Corridor creating threats for local businesses and fear that it won't be a win-win situation for both countries.

For example, since Chinese companies are tax-exempt they will bring everything from China and hence they will have no reliance on Pakistani businesses to fulfil their demands. This has shattered the dreams of many local companies that planned to expand their production facilities in anticipation of receiving orders from these Chinese companies. The association of cable operators in Pakistan is one such entity that was expecting a big boost in its sale volumes, but now they are struggling to sustain their existing sale figures.

The Chinese companies play smart and get excellent returns on their investments. It has proven difficult to extract much from them. China has a 10-year control of the Saindak Copper and Gold Project and gets gold as a by-product of the mining. Also, China does not share how much ore it is taking from Pakistan or how much copper it is extracting or what is the quality of gold obtained as a by-product. And nobody can ask them these questions.

They will definitely watch their interest this time also, so it becomes the duty of the government to secure the country's interests. I raised this issue and presented 12 questions on CPEC to the government but it has not provided any answer except one "yes" to the question about whether any feasibility has been conducted on CPEC. However, they have no documents or figures to support this claim. Furthermore, there is no document on how the toll money, if at all, will be shared between the provinces through which the CPEC routes passes.

And one more thing; people believe all the money is coming from China. This is not so. Pakistan is spending a lot from of its own resources without calculating what it stands to gain or lose. All the CPEC roads are being built by Pakistan. Besides, the cost of providing security to the CPEC-related Chinese workforce and infrastructure falls on us. There are reports that NEPRA has allowed transferring this security cost to the citizens of Pakistan. This will be done by adding it to our electricity bills just like the PTV license fee that they have to pay.

Those celebrating it must know that the above USD 50 billion loans and Foreign Direct Investments (FDI) will ultimately impact the country when there will be an outflow of loan payments and profit remittances to Chinese companies. This will put immense pressure on foreign reserves which are already dwindling. Unfortunately, Pakistan has done no planning on how funds and revenues will be generated for these payments.

Another fear is that the trade imbalance with China will further widen. The Free Trade Agreement (FTA) between Pakistan and China has already resulted in trade imbalances with Pakistani exports being far less than its imports from China. This is about formal trade; the flooding of Pakistani markets with Chinese products is in addition to it. You will be surprised to know that many Pakistani manufacturers have stopped production at their units. Instead, they import products from China and supply them to the market in Pakistani packaging. Buyers think the product is manufactured in Pakistan which is not the case.

The environmental cost of CPEC will also be big. One reason is that no EIAs have been done to offset this. Several coal-powered projects based on imported raw material have been launched. This dependence on imported fuel will increase pressure on rupee. The effective rate of US dollar is already Rs120 but it has been kept between Rs104 and Rs106 artificially. Just imagine what will be the situation when Pakistan will have to honour the payback commitments.

TNS: How much does Pakistan stand to gain from the development of Gwadar?

KB: I have said it earlier and will say it again that Gwadar cannot become Dubai. It is a seaport built for the purpose of re-exporting Chinese products brought into Pakistan via a land route. I think it is not possible to establish industrial zones and a mega city in Gwadar because there is no water available to support this development.

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If we recall, Gwadar came into the spotlight after the Kargil war because a need was felt to have a port for naval purposes. India tried to blockade the port at Karachi and sent ships but this plan failed. As the sea is rough in the summer, the crew got sea-sick and returned. The Karachi-Gwadar Road (Coastal Highway) was also constructed during that time, mainly for defence reasons. Till then it had been completely neglected and its economic potential had not come under discussion. I am not against building infrastructure for security reasons; my point is that we must acknowledge it was for defence reasons and not to exploit its economic potential.

Can one believe it is for the first time that Gwadar and Quetta have been connected via a direct road?

The issue is that one tanker of drinking water brought from as far as Mirani Dam (150 kilometres away from Gwadar) costs around Rs25,000. You will be amazed to hear that water theft from houses in Gwadar is quite common. What happens is that thieves enter houses and walk away with household containers carrying drinking water. They won't steal motorcycles or other belongings, it's water that they want.

The government does talk about the option of setting up a desalination plant but I do not think it is workable because of its huge fixed and operational costs. It is estimated that it will cost Rs750 million a year to run such a plant. China is apparently not ready to give funds, so Pakistan will have to cover the cost. I do not think Pakistan will be able to take this responsibility because its share of revenues from Gwadar Port is only 9 per cent while China has 91 per cent of the share.

TNS: The government talks of increasing the tax net but this has not happened. Why?
KB: I think this is because the moral legitimacy to demand taxes has been lost and the reason for this is that people do not recieve anything in return. In developed countries with a high tax-to-GDP ratio, people are motivated to pay taxes because they get services and privileges in return. They believe they are paying taxes that are ultimately being spent on their welfare and well-being, but in Pakistan there is a strong mistrust among citizens and the state. In Canada, the tax rates are high but people pay happily because facilities like education and health are free and of high quality.

In Pakistan this is not the case. Take the example of Sindh Industrial and Trading Estate (SITE) and the Korangi industrial area in Karachi. The owners of industrial units set up here pay billions of rupees in tax but the government cannot even provide proper roads to them. They have to pay bribes to have their petty issues resolved and are harassed by the state machinery.

The government is only interested in having a good budget to show and for this it plays with figures and deviates and digresses from original plans. It is quite common to find block budgetary allocations made for certain sectors without going into specific details. Besides, as I mentioned earlier, it takes further loans to pay off earlier loans and build up foreign reserves —- although this helps paint a pretty picture, it has severe repercussions in the long run. Similarly, the government of Pakistan received USD1.5 billion to maintain its reserves. This is just like borrowing money from someone to show a healthy bank statement at the time of applying for a visa and later on returning it to the lender.

Without a doubt, well-planned, comprehensive and sustainable policies with long-term objectives are the need of the time. We will have to do away with patch-work and short-lived quick fixes.

Shahzada Irfan Ahmed – Interview: Kaiser Bengali

P.S.

* The News on Sunday (TNS). September 2, 2017:
http://tns.thenews.com.pk/cpec-game-changer-game/#.Wa2I8K3pNBx

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