

Adding transparency to CPEC deals

The Chinese Embassy has taken the unprecedented step to announce the exact terms and conditions of loans/investments under the China Pakistan Economic Corridor (CPEC). This was no doubt partly to offset concerns from the Trump administration echoed by the Managing Director of the International Monetary Fund (IMF) that consideration of a bailout package would require details of Pakistan's debt profile. On 13 December, Director Communications IMF reiterated the Fund's position: "Clearly debt transparency is essential to conduct proper analysis of the sustainability of a country's debt. That is what the IMF does when we are going into a programme with our member countries. So that will be the case in Pakistan."

China, through its embassy in Islamabad revealed that Pakistan will repay 6.017 billion dollar loans plus interest to it; and maintained that 18.9 billion dollar worth of 22 early harvest projects under the CPEC are under construction/completed focused on removing infrastructural impediments to Pakistan's economic developments and these include: (i) 5.874 billion dollars loan with a composite interest of 2 percent with repayment scheduled in 20 to 25 years (with sovereign guarantee provided by the Pakistan government); (ii) 12.8 billion dollars in energy projects with 3 billion dollar equity provided by the Chinese companies, and the remaining 9.8 billion dollars raised from commercial banks at 5 percent with a repayment schedule ranging from 12 to 18 years. The Pakistan government would not be responsible for repayment and it is the Chinese companies that would be responsible; (iii) interest-free loan is being provided for expressway east bay in Gwadar; (iv) grant for livelihood projects though the amount was not mentioned; and (v) Pakistan provided funding for feasibility study of ML-1 upgradation.

Economic Affairs Division provided data of CPEC projects the same day (it however differs, albeit marginally, from the data provided by the Chinese Embassy) with total to be repaid estimated at 7.457 billion dollars (including principal of 6.035 billion dollars and interest of 1.422 billion dollars) with an annual repayment of 350 million dollars. EAD further stated that out of the 6 billion dollar concessional loans, 4 billion dollars has been received so far. These discrepancies, however small, need to be ironed out.

The question is whether this information would satisfy the IMF as well as prospective local investors. First off, Chinese companies, unlike their Western counterparts, are not independent of the Chinese government hence the claim of their independence could be raised by the IMF.

Secondly, the Fund/local investors would require details of associated agreements, including the tariff to be imposed once these projects are completed, the taxes to be levied on the Chinese companies as well as whether Chinese or Pakistani labour is being employed during the construction of these projects.

Thirdly, according to a Business Recorder exclusive, Pakistan borrowed short-term loans of around 13 billion dollars from China during the five-year tenure of the PML-N, at a very high rate of interest and a very short amortization period. Reports indicate that China has not agreed to extend any budget support/balance of payment support to Pakistan, in spite of requests by the present government, and given the ongoing foreign exchange reserve crisis, it is a foregone conclusion that the government would also incur short-term loans from China. The Fund would no doubt request the government for details of such loans.

To conclude, while China is perhaps the only country able and willing to undertake large infrastructure projects in Pakistan, which makes Chinese inflows at present highly desirable, yet the nature of this partnership needs to be further strengthened or else Pakistan's massive external financing requirements at present would compel it to procure lending elsewhere, including the IMF and the West, who may employ their enhanced leverage to undermine the CPEC.