CPEC: The way forward

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Do we have the financial discipline to carry out this project?

With $46 billion under China-Pakistan Economic Corridor (CPEC) promised to trickle into Pakistan from China in the coming 15 years, the excitement here is quite understandable. For right or wrong reasons, comparison is being drawn with the colonial (European and primarily British) infrastructure and corporate investments in the country post partition (1947) and with similar neo-colonial (USA) investments post 1958, which for a long time went on to serve as incubators in our manufacturing sector's growth and as the mainstay of our infrastructure development. Now China, the latest economic success story of the world, wants to assume the mantle of Pakistan's economic patron – a strategy that also fits well with its larger vision of One Belt, One Road aimed at reviving the oriental glory days of the Silk Route trade.

Since Pakistan, on the other hand, has literally been starved of any real big-ticket underlying financial investment for almost over three decades now – partly owing to evolving regional geopolitical developments and partly due to sheer incompetence cum mismanagement of our economic managers – it almost seems over-eager to make CPEC happen at any cost; even if that cost in some areas threatens to be unsustainable for the country's economic health in the long-run. Everyone from politicians to bureaucrats to military hierarchy and to the self-styled business experts are busy singing endless praises for China's generosity as if some divine windfall seems headed Pakistan's way, in the process making CPEC a sacrosanct initiative where even slight or rational criticism is being regarded as sinful. While not denying, even for a minute, China's long-standing friendship, its support to us in difficult times and its favour to put investment per se back on the centre of our economic plate at a time when most western investors are treating Pakistan as a pariah, the reality remains that at the end of the day CPEC is a business proposition and needs to be looked as such. The reason, 'business', because the project does not involve outright grants or aid, but instead relies on business principles of interest based lending and borrowing underwritten by payback collaterals, which in this case happen to be sovereign guarantees of the state of Pakistan.

So, naturally if things were to go wrong, the implications could be grave. A failure would not only deprive Pakistan of a rare opportunity to post significant growth and development, but also leave us in a financial quagmire, proving right those 'nay-sayers' who doubt our very ability to micromanage national projects. Term it any which way you like, a sovereign guarantee is tantamount to external debt and at the end of the day a fiscal burden. And remember these loans — from the little information that has been released — carry a rather healthy ROI (return on investment) and tend to be front loaded, meaning before we know we can be confronted with huge obligations on external foreign exchange outflows. China is Pakistan's well meaning time-tested friend, but at the same time it is also the new global economic force that has rewritten management books with its peculiar successful business model of combining its state's might and resources with corporate professionalism.

Not doubting its sincerity towards Pakistan but in this new Chinese corporate culture the fiduciary duty of safeguarding China's interest before anyone else's is taken quite seriously by its modern day economic managers. Likewise, we need to do the same. Basically, we need to learn from them how to corporatise economic propositions in order to overcome concerns on lack of transparency, political bickering, general public mistrust, and operational hazards. Regrettably, misplaced perceptions, innuendos and politicisation of CPEC seem to be taking root and unless (like in China) CPEC in Pakistan is also quickly put under professional control these emerging controversies carry the danger of undermining the entire programme. Ahsan Iqbal, arguably PML-N cabinet's most committed and competent minister, seems headed on the wrong track. The fact is that he has a political leaning (even if it is by default) and given that his party's record on transparency, merit and conflict-of-interest is far from stellar, no amount of press conferences, television shows or public explanations will end the brewing controversies. The only solution is to give CPEC's decision making and its implementation control under an autonomous, non-political and professional Board.

And God knows the selection of an effective board of directors for an initiative of this magnitude is going to be a challenge in itself. Assuming responsibility of $46 billion is no mean task, because in the process lie the critical choices of balancing development and investments needs with the new evolving climate-change responsibilities; creating space for Pakistani private sector to partner in resultant economic activity from CPEC spending, so that maximum benefits accrue at home; evaluating project costs, returns and equipment sourcing from an arms length to ensure not only value for money but minimum project costs; undertaking decisions purely on economic grounds to put an end to provincial disharmony; and last but not least, prioritise and control the pace of spending in a way that safeguards sustainability of each investment project separately. History tells us that it does not take long for unmonitored inflow/loans to turn from joy to pain; Greece, Portugal, and Spain, all being recent examples.

The real challenge will be to select a board of directors which can achieve all the above. As it is imperative that we do not repeat past mistakes of appointing merely 'trophy' boards, an error that over years has played havoc with our public sector enterprises and in turn reduced them to naught. The government this time will, therefore, be well advised to avoid politicians, bureaucrats, friends, relatives, bankers and ex-multinational executives (often devoid of true spirit of nationalism) and instead opt for clean and competent private sector entrepreneurs from home who not only understand the role of board in a modern enterprise, but are also able to distinguish between different codes of governance and possess the skills to only select that very form of programme governance that adds value to the overall CPEC vision. As we know that no major investment can yield its due dividends unless its management (board) has the ability to identify the fundamentals for an effective performance, learn through global networking to add exceptional value, and to always put itself up for performance measurement to instill continuous excellence.

Lastly, like it or not, economic decisions and their outcomes cannot be frozen in a time warp. Fifteen years is a long time and local, bilateral, regional and global economic events will keep on evolving during this period. It will be up to us to act proactively and chalk out policy and agreements that serve us well even with altered global realities. For example, it will be worth a ponder to determine that with fuel and energy prices crashing internationally, how prudent is our choice of coal as the main fuel in a potentially $34 billion investment proposal and what possible financial repercussions could we face say if the power tariff drops to a point that can no longer justify the returns being promised to our investors? After all, we have a recent example where the Chinese companies have threatened to walk away in the wake of reduction in the pre-fixed tariff for wind power.

The thing is that Chinese generosity may not last endlessly. Already their patience is running out and they are asking Pakistani government to act professionally and avoid making CPEC controversial. Also, lately the Chinese internal economic situation looks fairly grim and the worry in this for Pakistan could be that the Middle Kingdom's troubles may one way or other have the effect of depressing its investment spending in countries that fail to live up to the operational and financial discipline it seeks in return. And for this reason alone we must act quickly to not only convince our Chinese friends that we have a sound structure in place to judiciously use its allocated funds, but to also satisfy ourselves that a professional team is indeed in place to manage these investments prudently regardless of changing political dispensations over time.

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