

# Lutong Makaw: Chinese Loans and the Infrastructure Program of the Duterte Administration

By:

Jose P. Tabbada  
Arturo G. Pacho



News Item, June 9, 2019: Chinese Fishing Vessel Rams Filipino Fishing Boat with 22 Fishermen on Board.

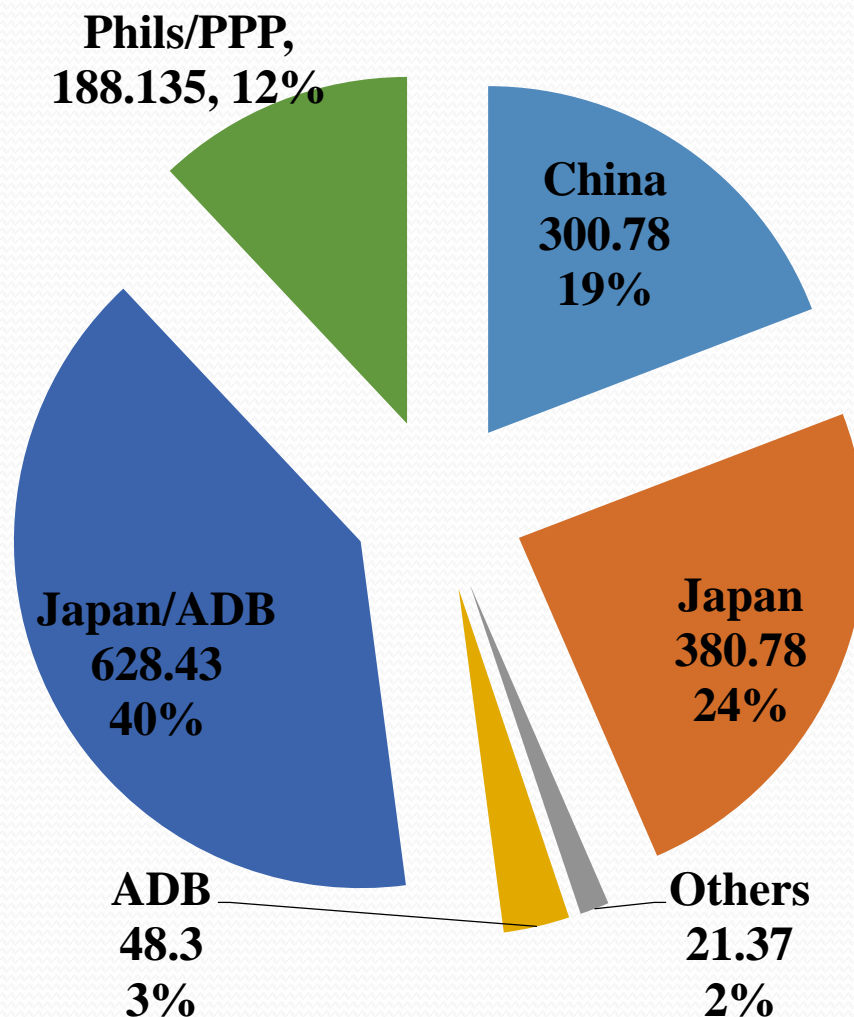
The Chinese abandon the badly damaged Filipino boat, including its 22 crewmen, in the cold waters of the South China Sea (West Philippine Sea to Filipinos). After six hours at sea, the Filipino fishermen are rescued by the crew of a passing Vietnamese boat.

News item, August 28, 2019: President Rodrigo Duterte makes his 5<sup>th</sup> official visit to China in 3 years

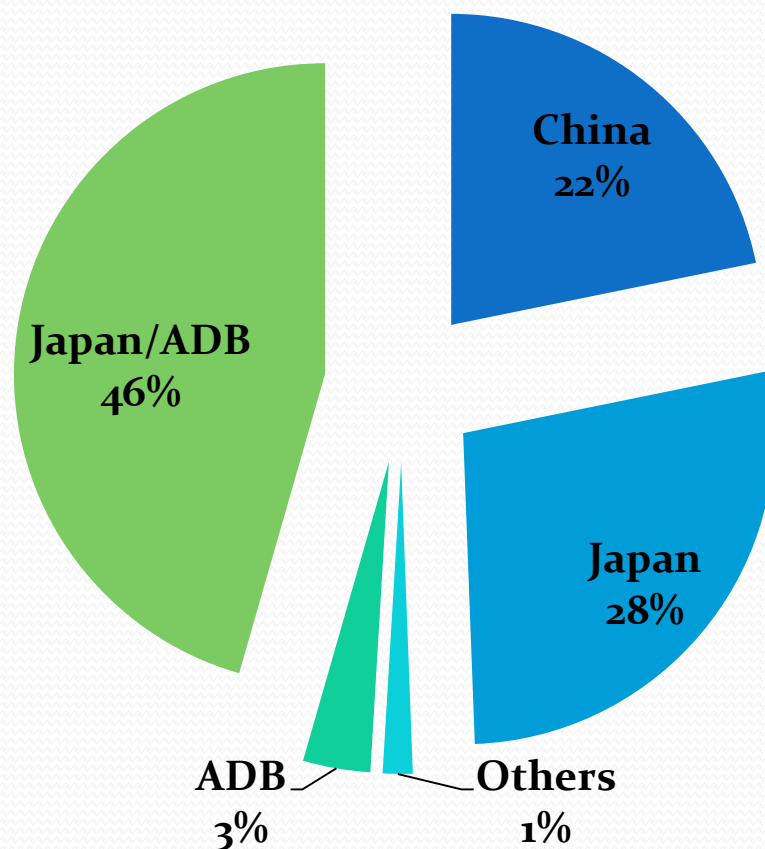
# China's presence in the Philippines

- Chinese tourists – from 600,000 in 2016 to over 1.2 million in 2018
- Chinese workers – from 15,000 in 2016 to 200,000 in 2018
- Chinese loans/ODA – from 1 project worth \$1.56 million (PhP 75 million) in 2016, to PhP10.9 billion in 2017, to 21 projects worth PhP616 billion (more than US\$12 billion) as of mid 2019

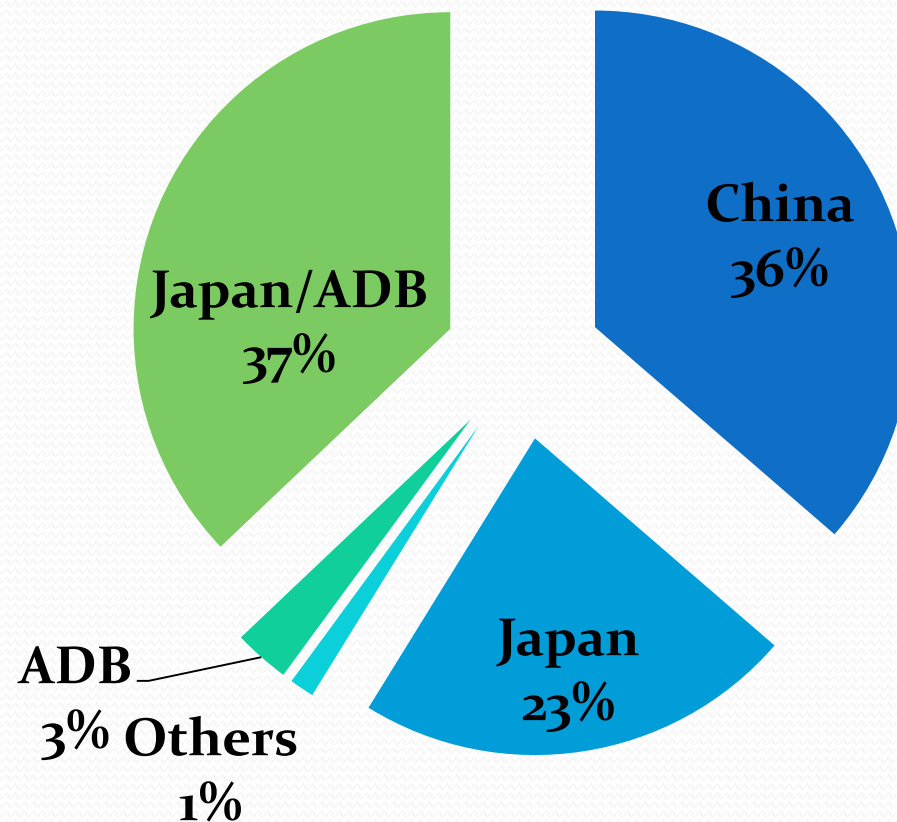
# Loan/Grant Distribution by Source of Approved Infrastructure Projects as of July 2019 (in Billion Pesos/Percent)



## Distribution of Foreign Loans, By Source (based on Rappler's list as of July 2019)



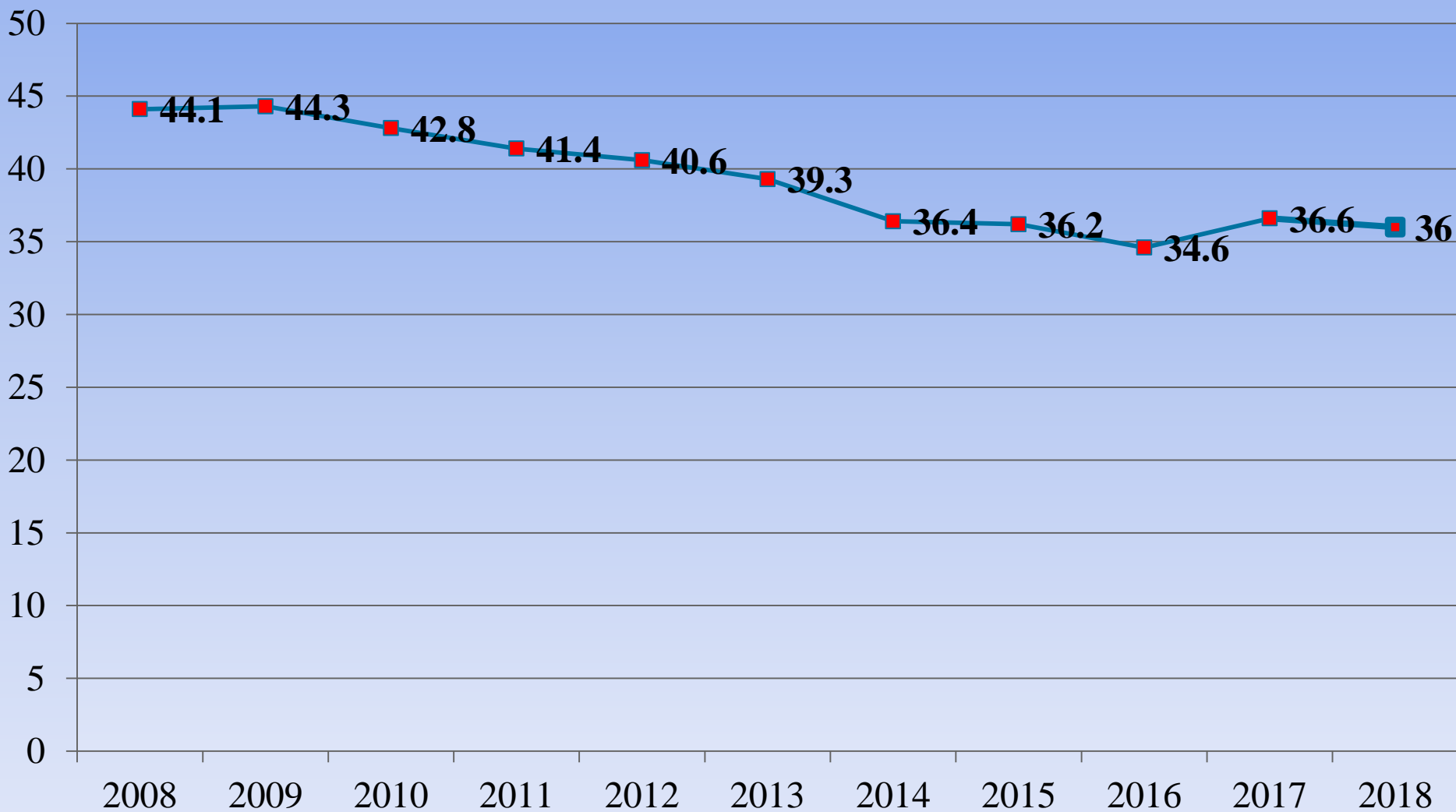
## Distribution of Foreign Loans, by Source (includes recent Chinese loans)



# Research questions

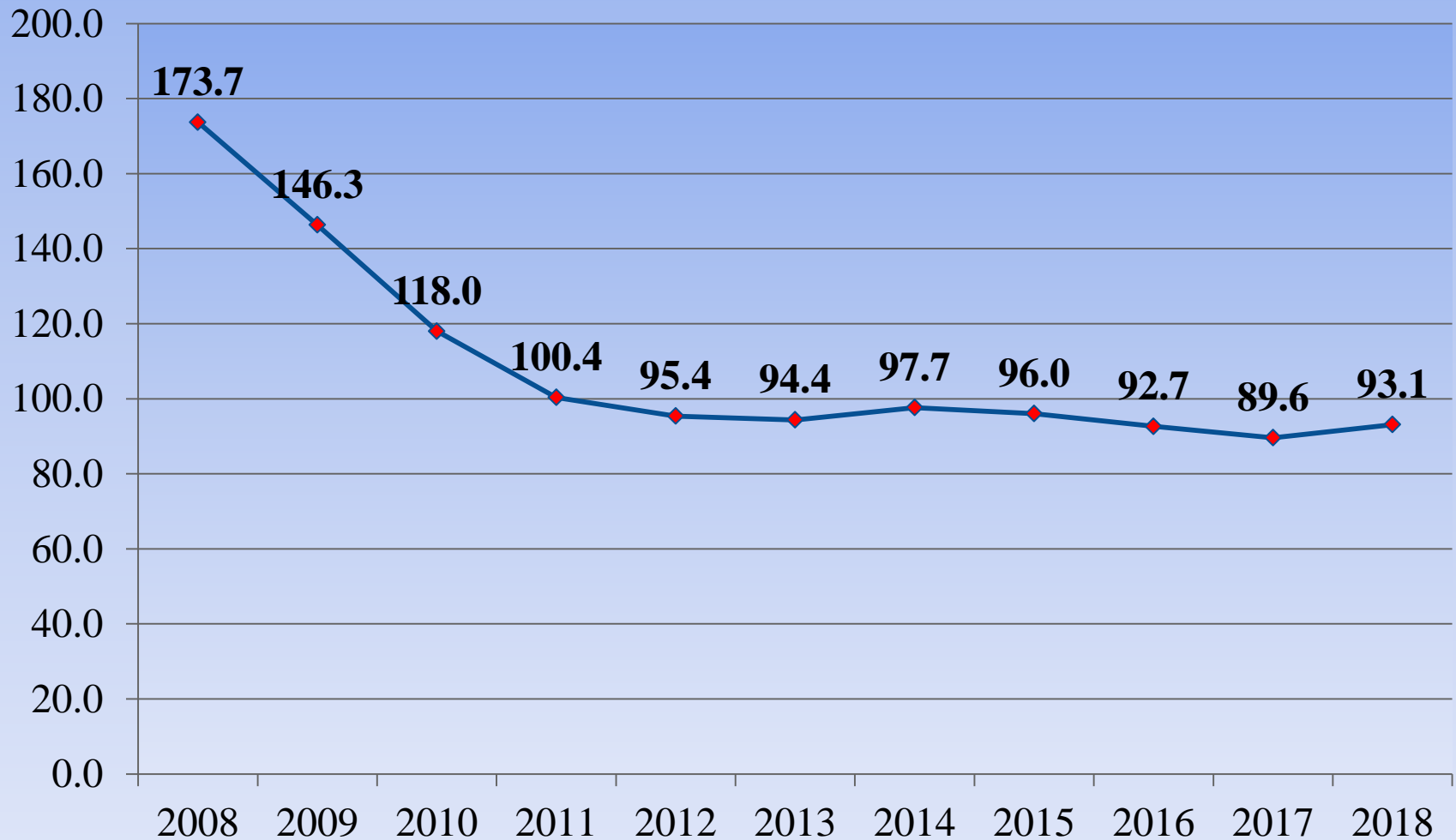
- What is debt sustainability?
- Is the Philippines' debt to China sustainable?
- What is the implication of relying on Chinese loans to the pursuit of Filipinos for the “good life”?

# Figure 1: Ratio of Total Consolidated Debt to GDP (%), (2008-2018)

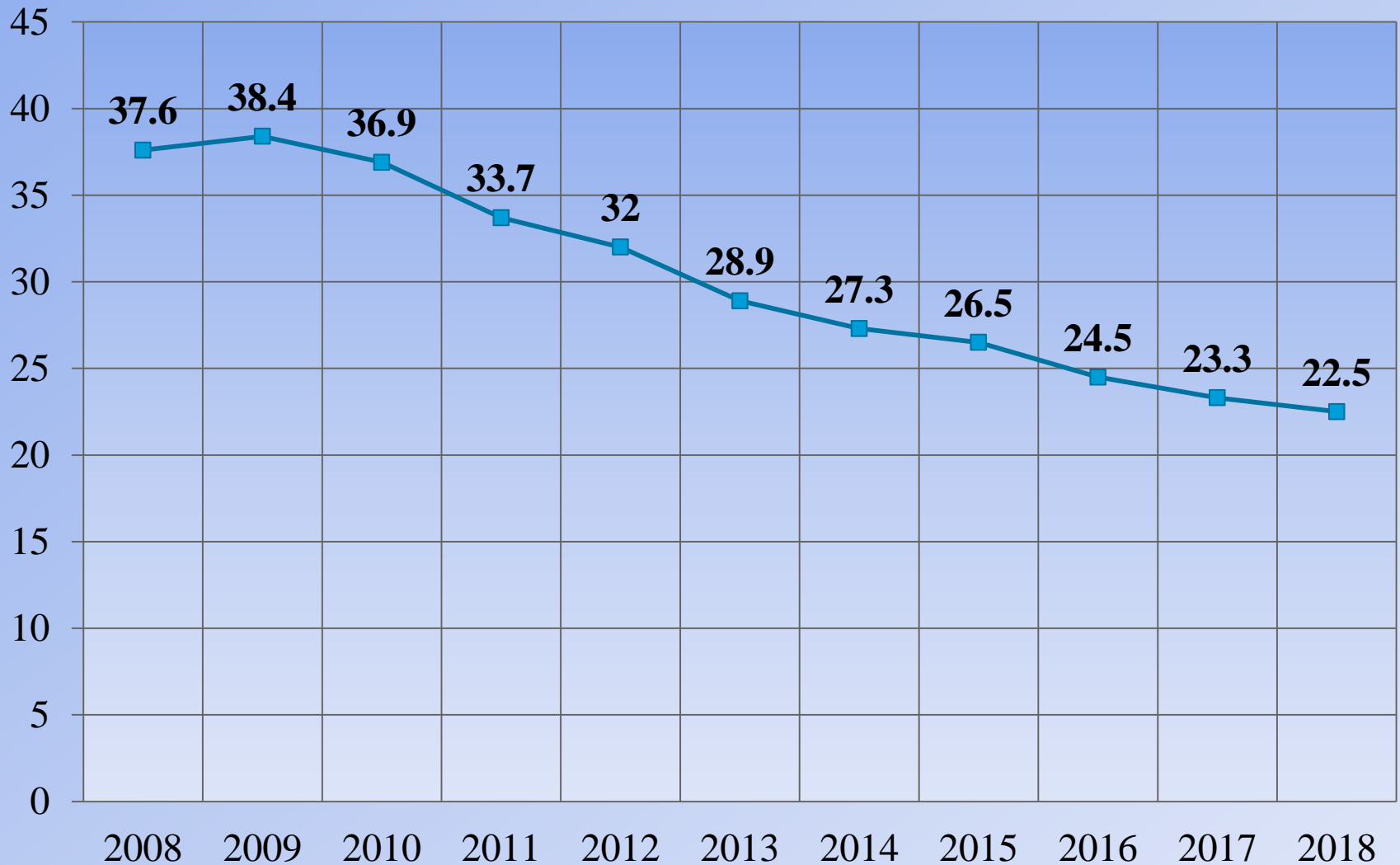




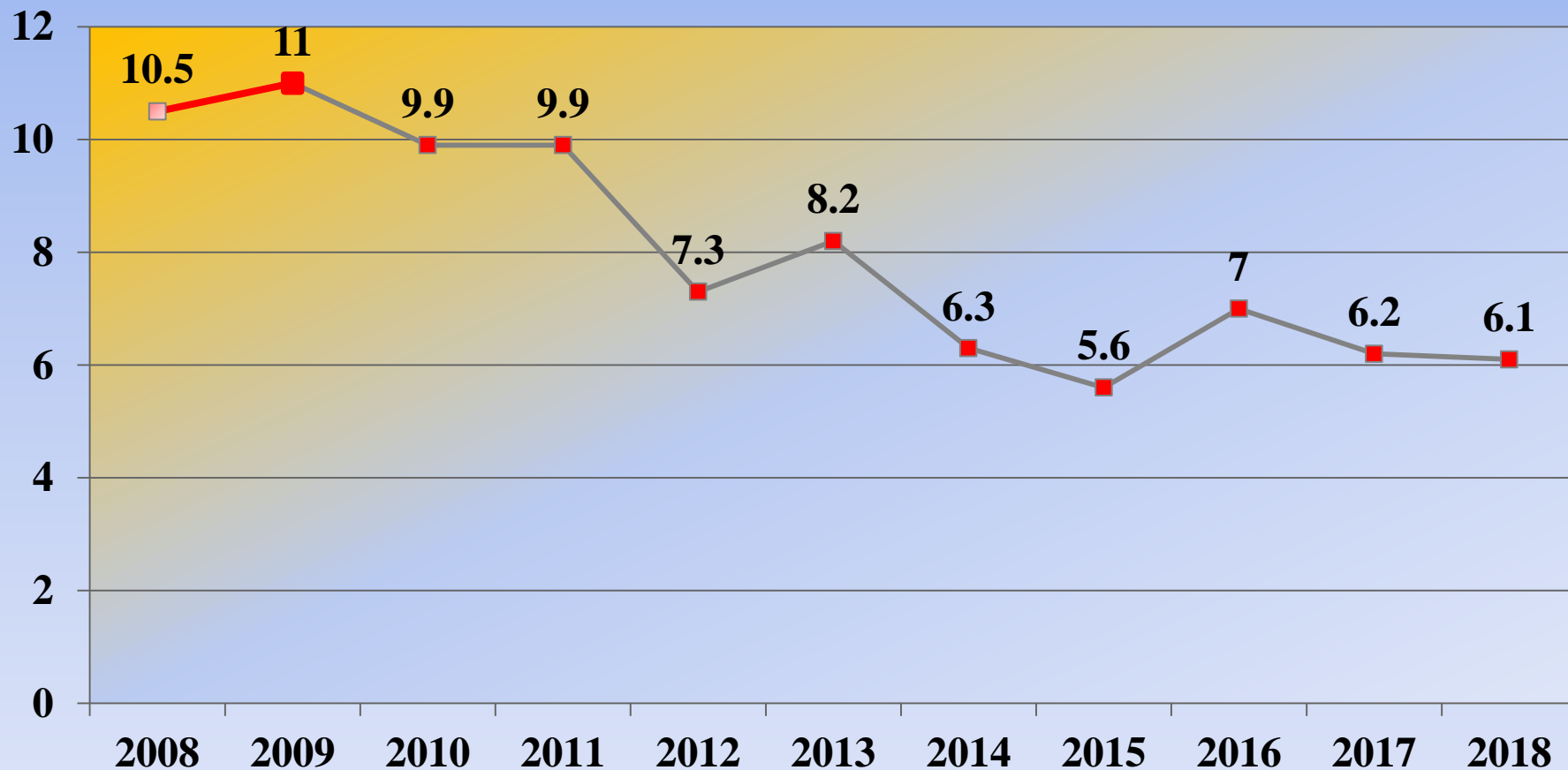
## Figure 2: External Debt to Gross International Reserves Ratio (%), (2008-2018)



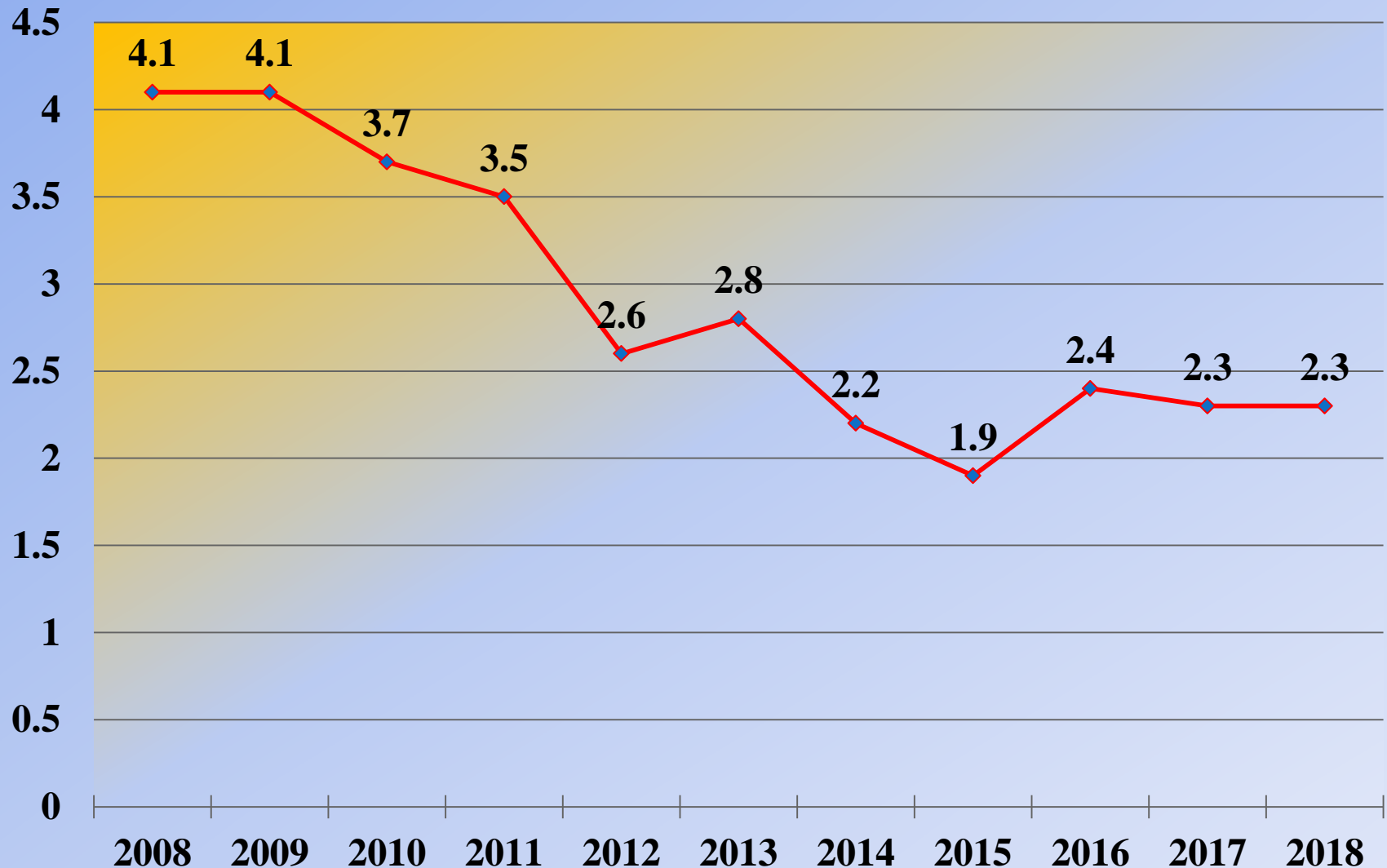
# Figure 3: External Debt to Gross Domestic Product Ratio (%), (2008-2018)



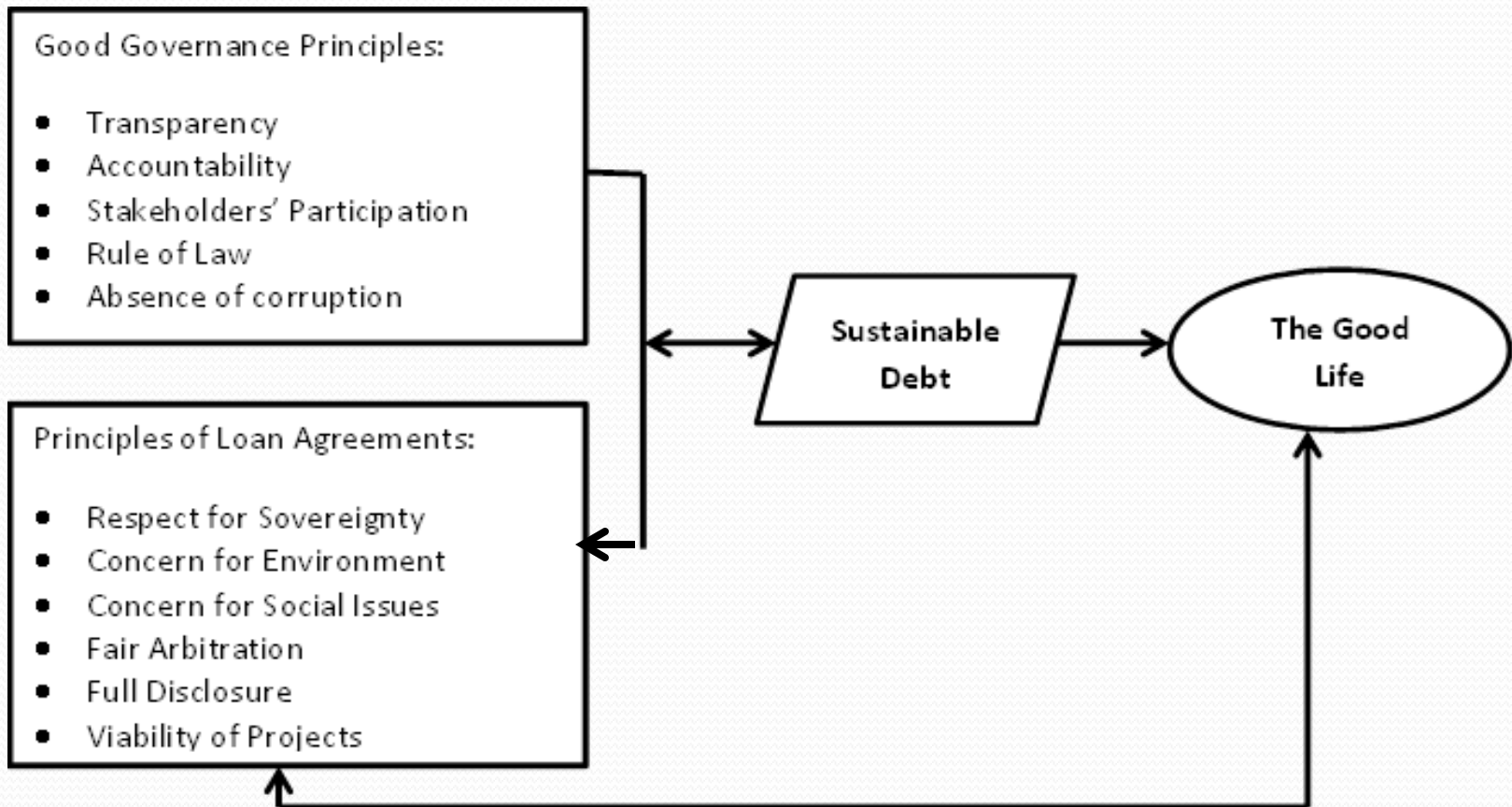
**Figure 4: Debt Service Burden/Exports of Goods and Receipts from Services and Primary Income Ratio (%), (2008-2018)**



# Figure 5: Debt Service Burden to Gross Domestic Product Ratio (%), (2008-2018)



# Model of Good Governance and Debt Sustainability



# COMPARISON OF FOUR LOANS

	LENDER TERMS	JICA	WB IBRD	CHINA	CHINA
	Project name	North South Railway	Clean Technology	Chico River Pump Irrigation	New Water Source Kaliwa Dam
2	Date Signed	1/21/2019	2/14/2019	4/10/2018	11/20/2018
3	Loan Amount	167.2 YEN	23.9 USD	62.09M USD	211.2M USD
	Interest Rate	0.1 %	$\frac{3}{4}$ of 1% plus .18% mgt. fee yearly	2% +.3% mgt. .3% com fee yearly	2% plus .3% mgt. fee, 3% com. fee yearly
5	Maturity	40 YEARS	18 YEARS	20 YEARS	20 YEARS
6	Implementing Agency	PHL / JAPAN	PHL	CHINA	CHINA
7	Respect For Sovereignty	YES	YES	NO	NO
8	Environment/ Social Issues	YES	YES	NO	NO
9	Fair Arbitration	YES	YES	NO	NO
10	Full Disclosure	YES	YES	NO	NO
11	Anti Corruption	YES	YES	NONE	NONE
12	Viability Of Projects	YES	YES	YES	YES

# Angola Model

- Resource-rich but poor country
- After long civil war, funds badly needed for reconstruction and development
- Not good credit risk to traditional fund sources
- China offered loans, no “inconvenient” questions asked
- Mineral resources pledged as collateral
- Also happened to Sri Lanka (sequestration of strategic port), Kyrgyzstan (land for loan)

Montenegro  
**£865m**

Djibouti  
**£1.1b**

Kyrgyzstan  
**£1.2b**

Papua  
New Guinea  
**£498m**

Samoa  
**£181m**



Pakistan  
**£41b**

Maldives  
**£968m**

Laos  
**£838m**

Fiji  
**£496m**





# Conclusion

- On the narrow definition of sustainability – one that considers only the project's EIRR - the debt to China is/could be sustainable.
- On the broad definition of sustainability – one that factors in good governance and international principles - it may not be sustainable.

# What is to be done? Recommendations for debt sustainability:

- Diversify loan sources
- Negotiate for lower interest rates and longer maturities
- Greater transparency in debt management – including release of data on new and old debts on real time
- Good (i.e. democratic) governance
- For patently onerous and one-sided loans, cancellation or debt repudiation