International Journal of Political Science and Governance 2021; 3(2): 152-155

E-ISSN: 2664-603X
P-ISSN: 2664-6021
IJPSG 2021; 3(2): 152-155
www.journalofpoliticalscience.com
Received: 13-05-2021
Accepted: 19-06-2021

Teg Prataap Singh Sandhu
Currently Pursuing Masters In Diplomacy, Law And Business At Op Jindal Global University, Sonipat, Haryana, India

Corresponding Author:
Teg Prataap Singh Sandhu
Currently Pursuing Masters In Diplomacy, Law And Business At Op Jindal Global University, Sonipat, Haryana, India

Debunking China's debt trap diplomacy

Teg Prataap Singh Sandhu

Abstract
During recent times, China's 'Debt Trap' stratagem has gained immense international attention as Beijing has been distributing non-viable loans at cheap rates across the globe to developing nations. The Chinese Debt trap involves, Beijing providing concessional loans to impoverished countries for infrastructural development with extremely stringent repayment requirements. The unsustainable debt on financially weaker countries leads to loss of strategic assets and resources; large economic dents; and surrender of sovereignty. China's seizure of the Hambantota Port for 99 years in Sri Lanka as an alternative to debt repayment is a prime example of the Chinese modus operandi. The International Monetary Fund stated that from 2013-2016 China's debt to developing nations increased from 6% to 11%. (Green, 2019). The China Hawks view this policy as a Chinese attempt to increase its geostrategic sphere of influence and build upon its massive economic clout. Brahma Chellaney coined the term 'Debt Trap Diplomacy' in 2017 in lieu of Beijing's predatory lending to exploit economically distressed nations to seize significant assets and increase their military presence.

Keywords: Non viable loans, debt, developing nations, sovereignty, strategic assets

Introduction

During recent times, China's 'Debt Trap' stratagem has gained immense international attention as Beijing has been distributing non-viable loans at cheap rates across the globe to developing nations. The Chinese Debt trap involves, Beijing providing concessional loans to impoverished countries for infrastructural development with extremely stringent repayment requirements. The unsustainable debt on financially weaker countries leads to loss of strategic assets and resources; large economic dents; and surrender of sovereignty. China's seizure of the Hambantota Port for 99 years in Sri Lanka as an alternative to debt repayment is a prime example of the Chinese modus operandi. The International Monetary Fund stated that from 2013-2016 China's debt to developing nations increased from 6% to 11%. (Green, 2019). The China Hawks view this policy as a Chinese attempt to increase its geostrategic sphere of influence and build upon its massive economic clout. Brahma Chellaney coined the term 'Debt Trap Diplomacy' in 2017 in lieu of Beijing's predatory lending to exploit economically distressed nations to seize significant assets and increase their military presence.

The Chinese approach towards debt repayment is in stark contrast to the traditional benefactor policies of nations belonging to the Paris Club. The states belonging to the Paris Club have a more sustainable and considerate approach towards debtor countries. The Chinese policies lack transparency as they disguise their vested interest behind self proclaimed acts of benevolence. The Chinese rationale behind setting debt traps across Asia and Africa is to support its Belt and Road Initiative. The BRI project was announced by Premier Xi Jinping in 2013 which aimed at regaining the might of the Middle Kingdom through a series of bilateral agreements across Asia, Africa and Europe. The Center for Global Development claimed that 23 out of the 68 participants of the BRI project were at a high risk of economic indebtedness to China (Dar, 2020). Even though the Chinese claim that the bilateral agreements aim towards mutual development, The China Hawks predict that the dependency created on China will be manipulated by Beijing to pursue their own strategic interests.

The hidden Chinese debts, myth or reality?

Chinese academicians and sympathizers argue against the predatory debt trap economics of Beijing and believe that the term is constantly reiterated by its rivals i.e. US and India to negate Chinese efforts towards internationalisation.

A recent article in the South China Morning post, stated that, “The arrival of the Biden administration in the US hopefully provides a long-overdue opportunity to review this crude and inept narrative fomented by the missionary convictions of Donald Trump’s leadership team, to reconsider the origins, ambitions and impacts of the belt and road plan, and to consider where the plan may go from here [1] ”. The Chinese through their various mouthpieces claim to be in complete denial of the exploitative nature of the Chinese debt trap. Beijing argues that it provides unparalleled opportunities for infrastructural growth to economically distressed countries at extremely subsidised rates and the inability of other creditors to match Chinese loans is the primary reason for attacking Chinese acts of ‘kindness’.

Chinese over the recent years have tremendously increased their global lending with Chinese loans amounting to approximately 5% of the world’s GDP. The Chinese loans are obscure in nature and lack transparency and it is estimated that China has distributed 1.5 trillion Dollars worth of loans to approximately 150 countries. The Chinese lending is greater than that of the IMF and World Bank which are internationally recognised lender institutions. China is not a signatory of the Paris Club and their lending is state sponsored which creates a problem for traditional data providers such as Bloomberg to account their credit. The Harvard Business Review in a report concluded that “adding portfolio debts (including the $1 trillion of U.S. Treasury debt purchased by China’s central bank) and trade credits (to buy goods and services), the Chinese government’s aggregate claims to the rest of the world exceed $5 trillion in total. In other words, countries worldwide owed more than 6% of world GDP in debt to China as of 2017 [2].”

Chinese Debt trap across different regions

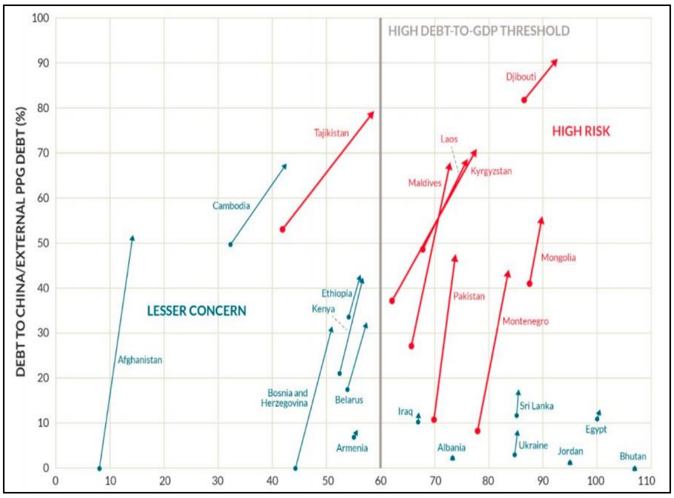
The CCP formally adopted the BRI project in 2017 and an estimated figure of 8 trillion dollars was announced to pursue energy and infrastructure growth across 68 countries. 23 BRI participants are in danger of financial indebtedness as a consequence of BRI financing.

8 out of the above mentioned 23 countries can be categorised as severely under risk of Beijing’s predatory lending with a stark difference between their rising debt percentage and their GDP growth rate. These eight countries can be categorised into the following regions:

South Asia: Maldives and Pakistan
Central Asia: Tajikistan and Kyrgyzstan
East Asia: Mongolia
South East Asia: Laos
Europe: Montenegro
Africa: Djibouti

[1] Dodwell, D. South China Morning Post. 2021. *China’s ‘debt-trap’ diplomacy is a myth made in the Trump era*. [online] Available at: <https://www.scmp.com/comment/opinion/article/3127314/myth-chinas-debt-trap-diplomacy-must-be-put-bed-once-and-all>

[2] Hart, S., Reinhart, C. and Tribesch, C., 2021. *How Much Money Does the World Owe China?*. [online] Harvard Business Review. Available at: <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china> [Accessed 26 April 2021].



Nedopil, C. (2019). Interpreting the official BRF Advisory council report for a more sustainable and green Belt and Road Initiative (BRI). *Center for Global Development.*

A. Djibouti

China’s only foreign military base across the globe is situated in the African nation of Djibouti. The International Monetary Fund recently stated that the external debt of the African nation has increased from 50 to 80% of its total GDP. Their Debt to GDP ratio is the largest across all the low income nations of the world. A large chunk of the infrastructural and development loan is indebted to the Chinese Exim Bank. China has approximately provided 1.4 million Dollars worth of loan to the Djiboutian government which amounts to 75% of their GDP. The extensive investment projects involve the formation of two airports, The Ghoubet Port, The Addis-Ababa-Djibouti Railway Line and various toll roads connecting major cities. The Chinese investment in Djibouti is below market rates, therefore is favourable for the Djiboutian government however all the indicators point that it is highly unlikely that the revenue generated from these grand projects would be sufficient to pay off the debt owed to the Chinese.

B. Maldives

Maldives, the archipelagic nation in the Indian Ocean is currently in the middle of unparalleled Chinese financing to expand its tourism industry, revive its civic infrastructure and equip itself to tackle the growing threat of climate change as per the guidelines issued by the National Sustainable Development Strategy. “The three most prominent investment projects in the Maldives are an upgrade of the international airport costing around $830 million, the development of a new population Center and bridge near the airport costing around $400 million, and the relocation of the major port (no cost estimate) [3] ”. These grand investment projects are being funded by the Chinese Exim Bank as they have been granting loans at concessional rates unlike other investors. A timeframe of 20 years has been granted to the Maldivian government to repay the debt with the International Monetary Fund and World Bank stating that debt distress poses a major threat to the country

[3] Hurley, J., Morris, S. and Portelance, G., 2021. *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*. [online] Cgdev.org. Available at: <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf> [Accessed 26 April 2021].

due to unfavourable repayment clauses and susceptibility to climate threat.

C. Laos

Lao People's Democratic Republic is one of Southeast Asia's most economically distressed countries however recent stats have shown a surge in the GDP of the country. In recent years, the GDP of the country has been growing at an average of 8% per year. In 2013, the ambitious China-Laos Railway project was announced with an estimated expenditure of 6 Million Dollars amounting to approximately half of the country's GDP. The Laotian government would be under immense amount of pressure to return an approximate loan of 4 Million Dollars to the Chinese Exim Bank within 25 years at an interest rate of 2.3% (Jansen, 2017). The IMF has already issued a public warning to Laos as terms of the project could be detrimental for the future growth of a financially weak country such as Laos.

D. Pakistan

The China Pakistan Economic Corridor (CPEC) is regarded as the founding block of the Chinese BRI project. The CPEC project is expected to cost an estimated amount of 62 Billion Dollars with China financing 80% of the project. Surprisingly, given the close ties between the two countries China has been charging around 5% interest rate for the concessional loans which is twice more than its normal interest rate. As a consequence of the large public debt owed to the Chinese, the external debt amounts to 70% to the total GDP of the country.

E. Montenegro

Montenegro's borrowing program is one of the most alarming in Europe. The public debt to GDP ratio stands at an astounding rate of 83%. The majors source of the debt is a Railway Project to connect the port of Bar with other East European countries. The first phase of the project would cost around 1 Million Dollars with the Montenegrin government owing an estimated 85% of the investment to the Chinese Exim Bank. As per recent official reports, "The estimated cost has since risen to $1.1 billion, or over 25 percent of GDP. The loan for the first phase of the project will reportedly be extended with an interest rate of 2 percent, five-year grace period, and 20-year repayment period [4]." The International Monetary funds has stated that due to unfavourable repayment clauses of the first phase of construction, the loans provided for the second and third phase should be at subsided in order to prevent an economic crisis.

F. Mongolia

Mongolia's economy is one of the weakest in Asia and is one of the many countries to have fallen prey to Chinese concessional loans. The Chinese Exim Bank since 2017 has been providing financial support to build a massive hydropower project and highway connectivity between major cities. However local reports suggest that both large scale projects have stalled as the Mongolian government has failed in the repaying the Chinese authorities. Since then the Mongolian government has taken additional grants from the Chinese Exim Bank to repay its former debt. It is predicted that Beijing will further exploit the economic vulnerability of Mongolia.

G. Tajikistan and Kyrgyzstan

The Central Asian Republics of Tajikistan and Kyrgyzstan are central to the land based connectivity of the Chinese BRI ambitions and have been stated at a high risk of external debt by the International Monetary Fund and the World Bank. More than 80% of the Tajik external debt is owed to the Chinese authorities as a result of massive infrastructural investments made in the country. The major chunk of the debt comes as a consequence of the Central Asia-China gas pipeline which is partially split between the Chinese and Tajik governments. Similarly, Kyrgyzstan owes approximately 1.5 Billion dollars as external debt to the Chinese Exim Bank which amounts to 65% of its GDP. Along with the Central Asia-China gas pipeline project other Chinese investments involve the formation of a new hydropower project and two airports.

China is the largest creditor to both the countries as they have been listed at a high risk of external debt distress by the International Monetary Fund.

India's Response to the chinese threat

Majority of India's neighbouring countries have been subject to the Chinese debt trap and have agreed to participate in China's $8 trillion One Belt One Road Initiative (OBOR), which aims to boost connectivity among Asian, African, and European countries. Since some of the projects are located in the Kashmir-controlled Pakistan area, India has rejected to be a part of the project. A direct loan deal has not been made between India and China although India has been the highest creditor of the Asian Infrastructure Investment Bank (AIIB), a regional bank of which China is the biggest shareholder (26.6 percent voting rights) and India is the second (7.6 percent voting rights), among other nations.

Prime Minister Narendra Modi in 2020 highlighted the stark differences between how India and China fund infrastructure programmes in other nations, though he avoided mentioning China specifically. He provided examples of India's infrastructural projects in countries across the globe such as Mauritius in Asia, Africa's Niger and South America's Guyana. He stated India's commitment to progress is "primarily human-centric," and the country wants to work for humanity's welfare. Respect, diversity, concern for the future and sustainable growth are hallmarks of India's development partnerships. He further stated that New Delhi does not have any hidden economic or strategic interests behind their acts of goodwill and instead are based on mutual growth and development.

Conclusion

China's global influence as a creditor has increased tremendously over the last couple years as it seeks to accomplish its BRI ambitions through economic exploitation of financially distressed countries. Given the state sponsored nature of Chinese loans granted through bilateral agreements, it is imperative of the IMF or World Bank to introduce transparency or mechanisms to protect smaller economies given the unfavourable and extremely stringent repayment policies. The growing wave of Chinese internationalism hit a major stumbling block as a result of the COVID-19 pandemic. Various projects in countries like

[4] *Ibid*

Egypt, Nigeria, Tanzania have been temporarily or permanently cancelled. The mercenary nature of Chinese predatory economics received huge international criticism recently when China was the only creditor country which refused to give additional time to smaller nations to repay economic loans in lieu of the international economic provided by the COVID-19 pandemic.

References

1. Hart S, Reinhart C and Tribesch C. *How Much Money Does the World Owe China?*. [online] 2021. Harvard Business Review. Available at: <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china> [Accessed 26 April 2021].
2. Dar, Y. Another Asian Country Falls Prey To China's Debt-Trap Diplomacy; Experts Wonder - Who's Next?. Retrieved 18 April 2021, from https://eurasiantimes.com/another-poor-asian-country-becomes-the-victim-of-chinas-debt-trap-diplomacy-experts-wonder-who-is-next/
3. Dodwell D. South China Morning Post. 2021. *China's 'debt-trap' diplomacy is a myth made in the Trump era*. [online] Available at: <https://www.scmp.com/comment/opinion/article/3127314/myth-chinas-debt-trap-diplomacy-must-be-put-bed-once-and-all>
4. Green M. China's Debt Diplomacy. Retrieved 16 April 2021, from https://foreignpolicy.com/2019/04/25/chinas-debt-diplomacy/
5. Hurley J, Morris S and Portelance G. *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*. [online] Cgdev.org. Available at: <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf> [Accessed 26 April 2021].
6. Janssen Peter. "Land-locked Laos on track for controversial China rail link." Nikkei Asian Review. June 24, 2017. https://asia.nikkei.com/Politics/International-relations/Land-locked-Laos-on-track-for-controversial-China-rail-link
7. Nedopil C. Interpreting the official BRF Advisory council report for a more sustainable and green Belt and Road Initiative (BRI). Center for Global Development. 2019.