

4. China's Debt-Trap Diplomacy

Prelims level: International- International Groupings.

Mains Level: GS-II Bilateral, regional and Global Groupings and Agreements Involving India and/or affecting India's Interests.

What is Belt and Road Initiative?

- In 2013, Chinese President Xi Jinping launched China's most ambitious project One Belt One Road (OBOR) which involves the building of two projects namely – Silk Road Economic Belt (SREB) and a 21st Century Maritime Silk Road (MSR). OBOR later came to be known as Belt and Road Initiative (BRI). It is a global development strategy adopted by the Chinese government involving infrastructure development and investments in 152 countries and international organizations in Asia, Europe, Africa, and the Middle East.
- The project is often described as a 21st century silk road, made up of a “belt” of overland corridors and a maritime “road” of shipping lanes.

Importance of BRI to China:

- **In the wake of the Global Slowdown**, BRI offers a new model of development to China to maintain its economic growth. OBOR envisions building networks of roadways, railways, maritime ports, power grids, oil and gas pipelines, associated infrastructure projects which helps Chinese economy.
- **BRI has Domestic and International Dimension:** as it visualises a shift from developed markets in the west to developing economies in Asia, Africa And a shift in China's development strategy concentrating on provinces in central and western China instead of the developed east coast region.
- **Strategically important** as China utilizes its economic clout to build its soft power.

How China showcases BRI?

- Significantly china showcases BRI as a major infrastructure initiative, which by developing roads, railways and sea routes, would make the movement of goods between different countries easier and cheaper, thereby promoting international trade.
- China is trying to make the world embrace the argument that the BRI project will prove useful to developing countries in enhancing mutual trade, economic relations and connectivity.
- While explaining the benefits of BRI, efforts are being made in public discourse to hide its political, economic and geopolitical implications and threats.

Real Issues concerned with BRI:

1. Debt –Trap Diplomacy of China:

A. KENYA:

- ✓ Beijing had lent huge amounts for the development of Kenya's railway network, which the African nation is not in a position to repay. China had lent 550 billion Kenyan shillings for construction of Kenya's Standard Gauge Railway project.
- ✓ It is not fetching enough revenue and has lost 10 billion Kenyan shillings in the first year itself. China is going to acquire not only that project but also the immensely profitable Mombasa port to make up for the deficit.
- ✓ This was the aftermath of Kenya signing an one-sided agreement was reached with the Exim Bank of China, and even the arbitration of this agreement can only take place in China. Significantly, all the SGR receipts still go to the escrow account as per the unequal agreement favouring China.
- ✓ Kenya's crushing debt to China now threatens to turn its busy port of Mombasa—the gateway to East Africa.

B. SRILANKA:

- ✓ We must remember that the modus operandi is the same as was in Sri Lanka, when Colombo had to hand over the port of Hambantota to China on a 99-year lease due to non-payment of Chinese borrowings.

C. DJIBOUTI:

- ✓ Similarly, another port in Djibouti, a country that has been the main military base of the US in Africa, is now on the verge of being taken over by a Chinese company due to heavy debt. In Djibouti, public debt has risen to roughly 80 percent of the country's GDP (and China owns the lion's share), placing the country at high risk of debt distress.

D. PAKISTAN:

- ✓ The China-Pakistan Economic Corridor (CPEC) is said to be the first project of BRI. Four years ago, the then Prime minister of Pakistan had said that CPEC would prove to be a "game changer" for Pakistan and South Asia.

But the way Pakistan has sunk into debt after four years shows that is not the case. Further, the growth there has come down from 5.8% in 2017-18 to 3.4% in 2018-19 and a projected 2.7% now. With the worsening economic condition of Pakistan, nobody in that nation is now calling CPEC a 'game changer'.

E. NEPAL:

- ✓ Nepal is delaying on signing an agreement worth \$56 billion to establish a Trans-Himalayan Multi-dimensional Connectivity Network under the BRI, which also includes a cross-border railway.
- ✓ Nepal is apprehensive of signing the commercial agreement because of concerns over the financing of the project.

F. Other Examples:

- Some of the other examples of China's Creditor Imperialism or Chequebook diplomacy are as:
 - ✓ Several other countries, from Argentina to Namibia to Laos, Burundi, Chad, and Mozambique to Zambia, have been ensnared in a Chinese debt trap, forcing them to confront agonizing choices in order to stave off default.
 - ✓ Not only this, the inland container depot in Nairobi is also under threat of a Chinese takeover.
 - ✓ In fact if we see it carefully, the whole Belt and Road Initiative (BRI) that was rolled out by China is actually proving to be a part of its debt-trap diplomacy.
- 2. **BRI represents political and Economic Ambitions** of China making countries like the US, Japan, Germany, Russia, and Australia unhappy about the impact of Beijing's moves on their own economic and political interests.

Chinese Funding of BRI Projects:

- The success of any scheme depends on its financing. This applies even more to infrastructure projects. When the Belt and Road Project was launched, all funding came from the Chinese government, the China-led Asian Infrastructure Investment Bank and other institutions from Beijing.
- Since investment in BRI and other related infrastructure was coming from China, whether the Chinese government itself or financial institutions under the Chinese government, many countries got caught in a debt trap due to different reasons.
- In most of these cases funding was at an exorbitant rate of interest or it was made for non-viable projects or both.
- Sri Lanka's Hambantota port became a startling example in this regard. Looking at this, many countries have started shying away from China's infrastructure proposals.

Opposition to BRI Projects:

- Since 2017, India, the U.S. and other countries have raised many concerns over the project.
- Opposition to BRI is increasing due to the rising debt burden in many countries. In the last two years, not only opposition parties in BRI partner countries, social organisations too are strongly opposing the project.
- European Union Ambassadors to Beijing issued a statement saying the BRI ran “counter” to their agenda for liberalising trade and “pushed the balance of power in favour of subsidised Chinese companies”. There have also been allegations of corruption in BRI projects. They had been critical of the lack of transparency with which many of the BRI projects were negotiated with governments.

Why India Opposes BRI:

1. CPEC:

- Amongst the first countries to oppose the project, India had signalled its strong displeasure ahead of the second BRF over the inclusion of the China-Pakistan Economic Corridor (CPEC) as a BRI project.
- The CPEC passes through Pakistan-Occupied Kashmir and is the main reason for India not participating in the BRI. CPEC which is being projected as the flagship project of the BRI ignores our core concerns on sovereignty and territorial integrity.

2. Pearl of Strings:

- A geopolitical theory on the potential intentions of China in the Indian Ocean Region is called as the String of Pearls. It refers to the network of Chinese commercial facilities, military facilities and relationships along sea lines of communication of China. It extends to the Sudan Port starting from the Chinese mainland.
- The main intention of this policy is strategically surrounding India which can act as an web during point of conflicts. The sea lines pass through many major maritime choke points like the Lombok Strait, the Strait of Hormuz, the Malacca Strait and the Strait of Mandeb besides maritime centers of strategic importance Somalia, Maldives, Bangladesh, Sri Lanka and Pakistan.

3. Debt –Trap Diplomacy:

- Chinese funding of infrastructure projects at exorbitant cost of interest in neighbouring countries, and finally taking over the projects has an strategic motto. This is an important point of concern for India.

Way Ahead:

1. Multilateralizing BRI Finances:

- The World Bank and other Multilateral Development Banks (MDBs) should work toward a more detailed agreement with the Chinese government when it comes to the lending standards that will apply to any BRI project, no matter the lender.

2. New grouping in line of “Paris Club”

- Another recommendation is to establish a new creditor’s group which would maintain the core principles of the Paris Club but with China playing a more meaningful role.

About “Paris Club”:

- It is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.
- It provides debt treatments to debtor countries in the form of rescheduling (postponement) or by concessional rescheduling (reduction in debt service obligations during a defined period).
- Currently, China is only an ad-hoc member of Paris Club.

3. Proactive lending by WB and other MDBs:

- Given the evidence that China’s lending imposes unsustainable burdens on vulnerable countries globally, it is past time for world leaders to insist that all projects adhere to internationally accepted best practices for transparency and financial sustainability and that lenders adopt modern labor, governance, and environmental standards for their development projects.

4. India can act as an Alternative:

- India should help neighbouring countries by providing concessional loans, development grants, line of Credit and technological and other help for important projects so that they will not fall into such debt traps.

5. Redressal of Sovereignty Issues:

- The CPEC passes through Pakistan-Occupied Kashmir and is the main reason for India not participating in the BRI. No country can accept a project that ignores its core concerns on sovereignty and territorial integrity. The best way forward is China should respect other country’s Sovereignty Issues.

6. Sustainable Funding by China:

- China should make this Belt and Road Initiative sustainable and prevent debt risks. It should support financing via multiple channels. One step it has already taken in this direction by using third-party market cooperation in addition to earlier funding from AIIB only.

7. Local Currencies:

- should be used for investments to curb exchange rate risks.

