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Chinese's BRI: A Threat to the Nations' Sovereignty



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INTRODUCTION

Although China introduced its ambitious mega infrastructure initiative, called Belt and Road Initiative (BRI), which can be termed its dream project, before the world in 2013, it seems that the same could soon turn out to be a nightmare for the dragon. The first conference of the BRI Forum was called in 2017. More than 100 countries participated, and it was thought that China was getting overwhelming support for the initiative from the rest of the world.

India boycotted that conference, as the China-Pakistan Economic Corridor (CPEC) being built through Pakistan-occupied Kashmir (PoK) was being projected as a part of BRI. However, when the second conference of the BRI Forum was organised in the last week of April 2019, again boycotted by India, a lot of apprehensions were expressed and questions were raised about several aspects of this project. China's confidence was seemingly shaken this time. Experts across the world have started raising questions about the feasibility of this project.

The Belt and Road Initiative is intended to give a boost to international trade by improving connectivity between different countries through road, rail and maritime routes. The proposal is being linked to the historical 'Silk Road', which according to Chinese claim, was first developed by the Han dynasty nearly 2,000 years ago. Apart from this, BRI will pave the way for a number of corridors in the world. In this initiative, there is 'Silk Road Economic Belt', which

would connect China with Central and South Asia, and subsequently with Europe. Along with this, there will be a new maritime 'Silk Route' which would connect China with South East Asia, the Gulf countries, East Africa and Europe. Six economic corridors are being planned to connect other countries with this belt and road. How far this initiative will go ahead and what shape it will take, is still being talked about.

Countries which are proposed to be partners in BRI, account for nearly one-third of the GDP and international trade of the world, while two-third of the world's population lives in these countries. Up to 25 per cent of the population in many of these countries lives in poverty. In the absence of infrastructure, resources in these countries are not fully utilised, and therefore their development is impacted. It is being claimed that development of infrastructure would reduce constraints to trade, and therefore the condition of people in these countries may improve.

It is being said that the project would not only improve road, rail and maritime connectivity between different countries, but it would also make transportation of goods easier, cheaper, and faster. At present it takes nearly 30 days to take goods from China to central Europe by the sea route. This time would be reduced by half through the rail route. When it takes longer to deliver goods from the factory to the destination, obviously it poses an impediment to trade. The supporters of BRI claim that it would encourage growth in the world through trade. The success of BRI would make trade easier in different corridors of the world, they claim.

As per the proposals, nearly 70 countries, including China, were expected to participate in BRI. Since the project has not taken shape fully, it is difficult to conclusively estimate how much investment would be required for it.

However, a broad estimate says that investments in BRI may total \$1,000 billion to \$8,000 billion. Apart from this, there will be investments from governments in different countries and also the private sector. All said and done, the total investment is expected to be so big that nobody is ready to say anything about the financial part of the project.

However, the benefits expected from BRI would not be easy to realise. Even if the transportation of goods through road, rail and maritime routes is facilitated, there is no guarantee that trade will improve automatically. Research by the World Bank shows that trade may remain inhibited due to a host of reasons. Building so huge infrastructure needs several trillion dollars of investment, which China cannot make on its own. Moreover, the project looks too risky for other countries to finance it.

Most of the countries where the infrastructure is supposed to be built, are so weak economically that they would be excessively dependent on other countries, including China. The proposed borrowing for the projects may increase their debt burden. The World Bank says that the debt/GDP ratio of the poorer BRI countries may impact their sovereignty. For this reason, they are scared of participating in BRI.

According to the World Bank, in most of these BRI countries, legal systems are too weak to protect the rights of investors. To make this mega project take off, these countries may have to make structural changes, which will not be an easy task.

Generally, sovereign nations decide to undertake infrastructure projects on their own. However, when these decisions are taken under the influence of other (powerful) countries, it may impact their sovereignty, as they might have to compromise on their national interests. One such example

was seen in Sri Lanka recently. When China undertook the construction of Hambantota port in Sri Lanka, resulting in billions of dollars of debt on Colombo, the latter had to surrender its port to China on a 99-year lease. And today, Sri Lanka is neck deep into debt trap and their economy is in doldrum, facing problems of food security, energy security and are faced with the problem of sovereign default.

India has boycotted BRI from the beginning, saying that it might take the debt burden of most BRI countries to unsustainable levels. However, the major cause of India's opposition has been the CPEC being constructed by China through Pakistan-occupied Kashmir (PoK). India has said, "We are of the firm belief that connectivity initiatives must be based on universally recognised international norms, good governance, rule of law, openness, transparency and equality.

Connectivity initiatives must follow principles of financial responsibility to avoid projects that would create unsustainable debt burden for communities; balanced ecological and environmental protection and preservation standards; transparent assessment of project costs; and skill and technology transfer to help long-term running and maintenance of the assets created by local communities. Connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity." This Belt and Road Initiative was introduced to the world with much fanfare. However, the cold response of most large and rich countries, especially those from where major investment was expected, is raising questions about the likelihood of success of this initiative.



Chapter-1

Chinese's BRI: A Threat to the Nations' Sovereignty

Recently, Sri Lanka's credit rating has been significantly lowered by international agencies, pushing Sri Lanka out of the international capital market. As a result, Sri Lanka could not reschedule its foreign borrowing. The devaluation of Sri Lanka's currency started due to the paucity of foreign exchange, and when Sri Lanka tried to curb imports, it led to shortage of commodities, especially fuel and food, causing hyperinflation. The Sri Lankan government believed that by curbing imports of fertilizers foreign exchange would be saved and domestic production of organic food, would be encouraged, which would also help increase exports. But this could not happen and the foreign exchange reserves kept depleting further. The Sri Lankan government had to sell its gold reserves and enter into currency swap agreements with India and China to prevent any default in repayment of international debt.

Behind Sri Lanka's crisis is China's old strategy of debt trap. Not only Sri Lanka, but many more countries of the world have been trapped by China. The story starts with Sri Lanka accepting China's proposal for development of Hambantota port, without any feasibility study. Between 2007 and 2014, China gave five loans amounting to \$1.26 billion for the development of this port, in the beginning at 1 per cent or 2 per cent, but later rate of interest was escalated to 6.3 per cent with shorter repayment periods. After that China invested \$1.4 billion in Columbo port city project. Billions of

dollars in loans have been given to Sri Lanka by China, for developing a seaport, airport, highways and power stations. By 2020, Sri Lanka's total liability to China had increased to about \$ 8 billion (2020), but these projects are far from earning adequate revenues for debt servicing, even today.

So far major forcible takeovers of national assets of other countries by China have made headlines of global newspapers. There was takeover of Hambantota port of Sri Lanka in 2018 and more recently, threat is looming large of similar takeover of Mombasa port of Kenya, if it defaulted on a \$3.6 billion loan from China, used to build the Mombasa Nairobi Standard Gauge Railway (SGR). Modus operandi has been the same every time, trapping the national governments in the vortex of debt and when they are unable to pay back loan and interest, then forcing the governments to transfer the ownership/ operations to China. All this is being done under Belt Road plan and infrastructure development by China.

Though, China boasts that Belt Road Initiative is a positive effort for improving China's connectivity with other countries, with an objective to promote trade and development. But the majority view differs from this. It is being considered as an attempt to promote China's geopolitical interests and enhance China's influence across the world.

What is BRI?

BRI is generally considered to be a mega infrastructural initiative, with intent of promoting international trade, while improving the connectivity between different countries of the world through developing road, rail and sea routes. This proposal is being linked to the concept of 'Historical Silk

Road', by China. China claims that the route was developed by Han Dynasty almost 2000 years ago.

Countries which are proposed to be partners in BRI, account for nearly one-third of the world's GDP and international trade, while two-thirds of the world's population lives in these countries. Many of the countries involved in the BRI project are so poor that 20-25 percent of their population lives under poverty. It is being argued that in the absence of the infrastructure, their resources are not fully utilized, which impact their development adversely. It is claimed that the construction of basic infrastructure will reduce trade barriers and help poor people of these countries get out of poverty and underdevelopment.

It is being told that with completion of this scheme, the connectivity of roads, railways and waterways will improve between different countries, which will make the movement of goods and people easier and cheaper. At the same time, it will also save significant amount of time and energy. Today, it takes more than 30 days to ship goods from China to Central Europe, which may be possible in nearly half time by rail, with BRI. It is being argued that due to delays in getting goods from the factory to the destination, the trade is hampered. It is believed that by promoting trade, the global growth and incomes will improve. The success of BRI will make the business extremely smooth in the world's important corridors.

Since full scope of the BRI project has not yet been exposed, it is difficult to say how much total expenditure is expected to be made on this project. But it is believed that China will spend more than 1000 billion dollars, that is, more than a trillion dollars on BRI projects. Apart from this, it is expected that the governments of many countries and private

sector will also invest in this initiative. All this shows that this ambitious project will have huge investment, which is not possible to be estimated as on date.

China's argument is that the BRI's objective is to promote mutual trade, economic transactions and cultural exchanges amongst developing countries themselves and also with developed world. Therefore, BRI is not a project of mere infrastructure creation, but it is an attempt to achieve these bigger objectives. It is also being said that while USA, which has been providing the market to countries around the world, is now getting introvert under the policy of 'America First', rejecting multilateralism. In such a situation, other countries, including developing countries, will have to work for filling the vacuum in the global economy. Belt Road initiatives can be helpful in this. With these arguments, China claims that agenda of BRI is in essence 'build community with shared future for mankind'.

Historical Silk Road

It is said that the original Silk Road came into existence during the western expanse of the Han Dynasty (206 BC-220 BC), in which the trade mechanism developed between present day Central Asian countries of Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and China; and also with present day India and Pakistan. This route continued to extend to Europe, having a length of about 4000 miles.

It is said that due to this route connecting the Eastern and Western markets, Central Asia was the center of the first globalization, due to which not only did prosperity spurred in this region, but it also became a medium of cultural exchanges. China used to sell silk, spices, etc. to Western

countries, and in return it used to get gold, glass and ivory. During the first millennium, this route was used under Tang Dynasty (618-907 BC) in China and the leadership of first Roman and later Byzantine empires.

But after the attacks of Mongols in Central Asia, the trade slowed down and the result was that, the countries of Central Asia were separated from each other. Trade between these countries today is only 6.2 percent of their total world trade. China argues that the new Silk Road will help increase this inter-regional trade.

BRI is not well defined

Despite so much of fun-fare, BRI is yet not very well defined, as official list is not available, on how many projects it has in its periphery. Therefore, it is difficult to distinguish projects which come under BRI and other projects which China is undertaking, to exhibit its presence in the world. The government of China is working on a number of projects through itself and its companies. All these projects are not part of BRI, but there is a complete lack of clarity about what is included in BRI and what is not.

BRI projects are being funded in many ways. The Chinese government is sometimes lending at subsidized rates for these projects and sometimes at commercial rate, the Chinese government may invest itself or China Development Bank or other Chinese financial institutions can also lend to any scheme or various multilateral international financial institutions may also support them for these schemes. Apart from this, funding can be done on the basis of public-private partnership, jointly by Chinese companies or companies of other countries' or any mix of the above. According to 'Financial Time', in 171 cases, finances for BRI were made

available through Export-Import Bank of China; in 78 cases finance came through China Development Bank, in 45 cases from the Industrial and Commercial Bank of China; in 24 cases projects were funded by the Bank of China and in 40 projects by other Chinese institutions. None of these institutions are such that they lend for BRI projects only. That is Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB), controlled by China, had extended loans to India on a large scale, which is not a BRI country.

So if we look at the financing of these institutions, then we cannot predict how big the size of BRI is. Therefore, in the absence of a list of BRI projects, it is not possible to trace the coverage and size of BRI. Even if you estimate on the basis of China's investment in BRI countries, it is not possible to know the coverage of BRI on that basis. Based on the contracts of Chinese companies, it is known that they have received contracts worth 250 billion dollars in BRI over the last 5 years. But if other companies' contracts are also added to these, BRI's investment will obviously be more than 250 billion dollars. Therefore, total presence of Chinese investment in BRI cannot easily be estimated. In fact this is a big Chinese puzzle.

China is trying to be bully

President Xi Jinping wants to register his name in the history that he expanded the Chinese empire under the scheme like BRI. BRI has been included in the Chinese constitution also. In this ambitious project of the Chinese government, though efforts have been made to include all the governments of the world, companies, financial and other organizations, 'think tanks' etc., including those from China, it is linked with regional infrastructure development in BRI countries, only in

relation with China. It is being showcased as a reform, which include highways, railways, pipelines and special economic zones, mainly, but most of the participation in the same is visible only by the Chinese government and its associated institutions and we find that the Chinese government and its affiliates are investing heavily in these projects. However, private sector companies from all over the world, including China, are reluctant to support BRI. Significantly, Xi Jinping has repeatedly been saying that the role of private sector in the construction of infrastructure on such a large scale is absolutely essential. Experts also believe that if private sector companies do not invest in BRI then all the BRI's objectives will be difficult to achieve. BRI is a demonstration of the economic diplomacy of the Chinese government, through which they are trying to increase the influence of China globally by financial support and finance to governments of BRI's partner countries, in greed for business for Chinese companies. In public discussions about the benefits of BRI, efforts are being made to hide political, economic and geopolitical threats arising out of this mega initiative.

At the second Conference of the Belt Road Forum, not only governments of the affluent countries, but also the big companies present there, raised concerns about the risks associated with BRIs. Even though government machinery in China dominates Chinese companies, both private and public, these companies have started raising voice about the political risks and challenges of investment in BRI countries. Not only that, they also point out that regulatory institutions in BRI countries are also in very poor condition. Significantly, wherever risk is high, private companies do not invest there. As far as Chinese State Enterprises are concerned, they have to agree to the Chinese government, so

it has been seen that mostly Chinese government companies have come forward in BRI projects. Government companies obviously cannot go against the government, whether projects been promoted are profitable or not. But private companies have more freedom and they can reject any one or all such projects where they are not economically viable. There is also a large presence of private sector in China today. According to a survey, it shows that both private and public sector companies are fearing big risks in BRI. Both types of companies consider investment climate and the political risks in these countries as a major challenge.

The effort of the China is that for additional capacity, they will get a big market in the world through BRI. But the question arises here is that, if China's public sector companies and financial institutions are harmed by risks associated with BRI, then it will ultimately impact Chinese economy adversely. Significantly, due to the continuously ongoing trade war, the financial capacity of the Chinese government is gradually decreasing, and on the other hand, Chinese government is facing the problem of depleting foreign exchange reserves.

Though China is taking BRI very seriously, it is clear that investors from countries other than China are not keenly interested in BRI at present. In the Second Conference of the Belt Road Forum, when the investors of Western countries started raising their apprehensions openly, it became clear that roping in private sector in BRI projects would not be an easy task for the Chinese government. Due to all these apprehensions, uncertainties and contradictions associated with this BRI projects, investors fear that investing in BRI projects is extremely risky. However, supporters of the project maintain that the success of this project may be

suspected, but this project has to become a reality, since China has so far invested huge money in BRI. But here we must not forget that this project is not possible to be concluded by the Chinese government alone; and private sector investment is very important.

What are China's plans for its New Silk Road?

President Xi made the first announcement of Belt Road Initiative in 2013 during his official visits to Kazakhstan and Indonesia. This was a two-way plan: Silk Road economic belt and maritime Silk Road. Both were collectively referred to as the one belt, one road initiative, but it eventually came to be known as the Belt and Road Initiative.

Xi Jinping then announced plans for the 21st Century Silk Road in the summit of the Association of South-East Asian Nations (ASEAN) in Indonesia in 2013. Xi said that to expand maritime trade, from South and East Asia to East Africa, China will invest in the port development in Indian Ocean.

International organizations such as the Asian Development Bank says that in the coming days, various countries will have to invest hugely to overcome their infrastructure bottlenecks; hence the Belt Road Initiative that talks about connecting Asia, Africa and Europe, may be helpful in addressing these infrastructure issues.

Chapter-2

Debt trap diplomacy

The success of any scheme depends on its financing. This applies more to the infrastructure projects. When the Belt Road project was first started, all the financing was done by the Chinese government, China centric Asian Infrastructure Investment Bank and other Chinese institutions.

Now China is moving towards a new type of financial management, in which they talk of 'Third Party Co-Operation', in which the burden of investment will be borne by more than one country. But it must be understood that this change in Chinese stand was not without any reason. In fact, due to investment in infrastructure by the Chinese government itself or by the financial institutions under the Chinese government in China's financial system, many countries have been trapped into debt trap. Sri Lanka became the first victim of the same. It is worth noting that due to the unbearable burden of loan a few years ago, Sri Lanka had to give their Hambantota port on a 99-year lease to China. Looking at the recent Sri Lanka's experience, many countries have started distancing from China's infrastructure proposals. Similarly in these circumstances, the Djibouti port (Africa) is also on the verge of being handed over to China.

With worsening debt trap of the poor countries, BRI's opposition is also mounting. In the last few years, not only the opposition parties in the BRI partner countries but also the social organisations have been vehemently opposing the BRI. Many countries are also reviewing BRI's infrastructure projects with renewed scrutiny. Hambantota has become a 'new caution story'. Malaysia reduced the size of the rail

project costing nearly a billion dollars. The project cost has also been reduced in Maldives, Ethiopia and Pakistan. Significantly, Malaysia's Prime Minister Mohathir Mohammed had dismissed many infrastructure projects funded by China before it was abrogated, by saying that his country does not support such kind of borrowing and even said that China will bring new kind of colonialism. Similarly, due to the projects being made by China, Ethiopia suffers from huge debt crisis and has postponed the re-payment of the \$ 4 billion rail project by 20 years ahead. Critics in Zambia also say that under the pressure of Zambian debt, China will control its state properties. Pakistan's balance of payment is increasingly widening due to the China-Pakistan Economic Corridor (CPEC) being built at a cost of \$62 billion. Wherever China's companies are building infrastructure projects, there is a growing concern in those countries due to their unbearable debt, that China is exploiting these countries by leveraging their resources and colonisation is increasing in true way. These problems being faced towards the implementation of the plan, forced China to change its entire strategy. One Chinese think-tank has asked Chinese enterprises to change their strategy with respect to BRI.

This attitude of China on infrastructure issues is being called 'debt trap diplomacy' across the world. All the countries around the globe, whom China is approaching with infrastructure plans, are looking at these proposals with doubts linking the same with the experience of the countries falling into debt trap, and the resulting experience of parting with the strategic national resources, such as Hambantota port of Sri Lanka. It's important to know that the proposal of the Hambantota port was not financially sound, because it is known to be world's least busy ports. Because of this, revenue

from the port was much less compared to the interest on the amount spent on the development of the port. As a result Sri Lanka had to part with the port and cede it to China on long lease. Experts believe that this port is strategically important for China, as China was able to increase its presence in the Indian ocean by occupying this port.

While analyzing the expenditure on China's infrastructure projects, an organization called Centre for Global Development, has concluded that due to this increasing debt, the economic condition of eight countries will be miserable. A research institute named Centre for Global Development says that due to such kind of debt, the eight countries, that are approaching a very critical condition, are Djibouti, Kirgizstan, Laos, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan. Research Institute says that China has failed to make use of efficient methods adopted by other international institutions in reference to this kind of loan. Many times, China waived debt, while many times the area and property have been snatched from debtor countries.

Grande bee institution a 'Think Tank', which is an advisory research institute of the Chinese Government, released a report in April 2019 which states that China's enterprises which are associated with BRI-related port projects are battling with problems today. It has been stated in the report that there are serious drawbacks in the professional evaluation of the projects. At the same time, there are serious issues in debt patterns. With the lack of transparency of information, there is also a complete lack of evaluation of the impact of these projects on the society and culture in the region.

Although the Chinese think tank itself is pointing to

serious shortcomings in this context, the Chinese government has repeatedly said that international media is spreading misleading information about BRI. This is the reason why China is reconsidering the measures to disseminate information about BRI for the international world.

While China is saying that the global media is spreading misconceptions about BRI, on the other hand, due to China's debt trap diplomacy, USA, Japan, Germany, Russia and Australia have expressed dissatisfaction over the economic and political impact on BRI countries. EU countries had gathered last year and accused China of breaching free trade and giving unfair benefits to Chinese enterprises. After Italy agreeing to several BRI projects, many European countries are extremely unhappy. Significantly, Italy has made 29 agreements with China, with an investment of \$ 2.5 billion and working closely with China regarding infrastructure especially Italy's ports, transport and logistics. 13 countries of the European Union are already part of BRI, but Italy is a major European power, which has sent a serious blow to western leaders opposing China's advances. Chinese companies are also no less culprit.

While on the one hand, through the development of infrastructure and through its blatant aggression of promoting trade, the Chinese government's strategy of trapping the poorer countries in its debt trap is being taken seriously; role of Chinese companies is no less dubious. Some people believe that both Chinese government and Chinese companies are exploiting poor countries in the name of building infrastructure. But some people believe that not Chinese government, but only China companies are culprit.

If we talk of Chinese companies engaged in infrastructure, then it is found that they are motivated by

maximising profits. At the same time, due to government's control, they also have huge amounts of bureaucratic interferences, inefficiencies and negligence. They lure poor countries into the greed of cheap borrowing and also lure them to take projects that are not economically viable. They also give the officials of the respective countries a wrong opinion about the sustainability and benefit of those projects. Many times, governments come under their hoax and sign even non-subsidized loans, which are impossible to repay. It can be said that although Chinese companies are also culprits to a large extent in trapping the countries into debt trap, in spite of this, the Chinese government cannot be relieved from the charge, deliberately blaming the construction of infrastructure, the poor countries being implicated in debt trap and their resources are being captured. But whether Chinese companies are guilty or the Chinese government's nefarious diplomacy, the loss is only for the poor countries.

Chapter-3

BRI is China Centric

China doesn't concede that BRI is a strategic plan and calls it an 'initiative' and is therefore encouraging countries to come forward to build infrastructure in their respective countries with China's initiative, and help themselves grow their trade and therefore GDP. This may also improve movement of people and help cultural exchange. China says that BRI will help people living in these countries, especially poor countries, to improve their living standards and they will become part of global trade. However, if we try to analyse deeply we find that all these plans are China centric. Firstly, we must understand that China has huge foreign exchange reserves, and China has been searching for new grazing grounds to invest and get better returns from this pile up of foreign exchange reserves. Secondly we need to understand that Chinese economy has been receding for many years, firstly due to global recession and lately due to beginning of trade war by USA under Donald Trump. Under the circumstances first endeavour of the Chinese government is to fetch new business for its companies, especially infrastructure companies. Most of the contracts for BRI projects have gone to Chinese companies only. These companies are generally under the ownership of Chinese government. Further, China is destined to gain from improved connectivity due to BRI projects, because its trade with US is going down due to trade war and it wants to compensate the same by increasing its trade with other countries.

In this context many experts believe that this is being carried out under China's well thought of strategy. It's believed that under Xi Jinping reign China, while trying to register its presence on global map firmly, has been trying to shape global standards and institutions. Former Editor of Far Eastern Economy says "This is manifestation of Chinese ambition to become superpower in 21st century." That is real intent of China is to change geo political balance in the world.

Some experts try to explain BRI little differently and they say China's image before its neighbours would improve with this as BRI would help them improve their economy. Some other experts try to explain BRI in the context of America's diplomacy. In 2011 when US Administration under Obama started concentrating on Asia with renewed interest, China thought it to be an attempt to reduce its position in the continent. A former Chinese Military officer said that BRI is a strategic attempt to counter American advance towards East.

China is also trying to develop its western region, which has remained more or less neglected so far, with this initiative. Therefore one can conclude that China's BRI is an attempt to overcome problems faced by its economy to take Chinese economy on the path of sustained development. It's notable that most of the developing countries, striving to develop, have been plagued with the problem of 'Middle Income Trap'; and they fall into a trap due to one reason or the other, after reaching a level of income. This is what is called 'Middle Income Trap'. Chinese government's objective is to give a boost to Chinese exports with the help of BRI, to help China come out of declining trend.

Whether we go by what experts are saying about BRI or we make a reality check looking at implementation system of BRI projects, we are made to understand that BRI is primarily

China centric. Though we find rampant corruption in implementation, indiscipline, lack of planning and inflated costs, Chinese government has been pushing BRI hard, riding on its financial muscles.

Experts believe that since China has a large amount of foreign exchange reserves, which are not being used appropriately, and China is not getting fruitful returns, utilising these unused foreign exchange reserves will be possible in BRI. Significantly, China has foreign exchange reserves of nearly \$ 3000 billion.

Chinese government companies, who have been going through a huge financial crisis in the absence of business, can expand their work through BRI, especially construction and engineering services abroad and earn huge profits.

Can BRI save China from downfall?

Through such a large scale development project, China is trying to entrap the BRI countries and establish their economic dominance. Simultaneously, China also has an endeavor that its companies will have the opportunity to fetch business through these projects. The way the plan is being executed and the infrastructure that has been built so far, mostly the Chinese companies are getting benefitted. Many times, Chinese companies are also making profit from fraud and wrong methods. Generally, Chinese companies are making profits in the creation of infrastructure in less prosperous markets. The Chinese investment firms, which have been hit by recession, has mostly benefited from these projects.

There is a lot of criticism of China due to trapping of these poor countries into debt and the indiscipline of Chinese companies. Due to the inefficiency of the Chinese companies,

lack of adequate planning and lack of transparency, questions have started arising regarding the BRI scheme. In such a situation, the Chinese government has begun to change the entire strategy of BRI. Now they are talking about 'Third Party cooperation' and shared investment by different countries. Now China has understood that it will have to share the benefits of business through BRI with other countries. European companies have also started making cost benefit analysis of BRI projects.

Rising fears against China

It is clear that China is pushing its interests through BRI, whether it is the investment of China's large foreign exchange reserves, business arrangements for its companies, and the trapping the poorer countries of the world into deep debt, to pursue their strategic interests. However, China's disguised or actual scheme is being hidden from the world and it is being told that it is pushing the BRI scheme for world welfare. China says that it is trying to increase the connectivity between the countries of the world through the BRI, thereby increasing trade between these countries, with an estimated objective to increase growth, promote cultural exchange and end poverty.

But China's logic is not being accepted by the world on its face value. The way China is aggressively pursuing BRI, it is also leading to a number of doubts in many countries of the world. There is a growing apprehension that the unity of ASEAN countries can be broken by BRI. At present, ASEAN's leadership was trying to preserve the regional interests; due to the BRI project, there are agreement by China and other countries on bilateral basis, which may lead to regional economic focus on China.

At the same time, there are concerns due to the problem of debt crisis coming to many countries, that China is pushing the debt-laden diplomacy through BRI. Due to this, sovereignty and autonomy of the nations is being affected. By using the logic of economic development, China has increased its concern about the establishment of its sea ports in Myanmar, Pakistan, Sri Lanka etc. in the Indian Ocean region. Non transparent contracts, predatory loans (under debt trap strategy), of the deal and corrupt deals; are all affecting the sovereignty of the countries.

The countries of this region, which have border or maritime disputes with China, are also apprehensive that the way the main infrastructure projects are being transmitted through China, it may have an adverse impact on national security. Meanwhile, China has called for its immigrant citizens to be included in this scheme, due to this, there is concern among countries like Malaysia and Indonesia.

Because of China's aggressive implementation of its BRI scheme, its opposition is increasing at the global level. Particularly the world's largest powers like America, India and many countries of Europe, many countries stand in its opposition. To somehow tone down the opposition of BRI, China has started lowering down its bigger plans. China is trying to make clear and well-defined rules in the projected infrastructure project. The Chinese government is also exploring the possibility of redefining the BRI project so that the level of transparency can be increased. China realises that it will not be able to run such projects single handed. After the change in China's stance, positive signs of increasing its partnership with other global powers like Japan, etc. have also been shown, and Japan is also ready for cooperation for investment in Thailand. China must consider that instead of

forming a China-centric project, it should be changed into multilateral project, in which the participation of all the small countries should be ensured. If this happens then it is possible that the big powers of the world can come forward to take this project seriously.

Pakistan's experience with BRI

The China-Pakistan Economic Corridor (CPEC) is said to be the first project of BRI. To understand the future impact of BRI, Pakistan's experience of CPEC is actually the torch bearer for the world. Four years ago, the then Prime Minister of Pakistan, Nawaz Sharif, had said that the CPEC would prove to be a 'game changer' for Pakistan and South Asia. But after four years, the way in which Pakistan has sunk into debt, the government revenue is not growing, and the GDP growth of Pakistan has dipped from 5.8 percent in 2017-18 to 3.4 percent in 2018-19 and in 2019-20 it is expected to dip further to 2.7 percent, nobody in Pakistan can afford to say that the CPEC is a 'game changer'.

Today Pakistan is going through a huge payment deficit. The advantages of CPEC are not seen anywhere. This plan of 15 years between 2015 and 2030 will include industrial zones, Special Economic Zones, construction of power projects etc. By 2018 \$18 billion has been spent on 22 projects, out of them there were 10 power generation and 3 road projects. Interestingly, 4000 MW of additional power is being generated from these power generation projects, but without much use, since Pakistan does not have the capacity to transmit and distribute electricity, because its transmission lines, transformers and grid have worn out. The point of concern for Pakistan is even more acute due to the production cost of electricity, theft, transmission and distribution losses;

and the cost of security by the Chinese people in these projects. All these factors are pushing the cost of electricity from these Chinese projects to an extra ordinarily high level.

Another major project of CPEC, Gwadar Port, which was inaugurated in November 2016, is not earning sufficiently, since the port has to compete with other ports in the region and there is a lack of industrialisation there. It is worth mentioning that for the next 40 years, China is destined to get 91 percent of its earnings from this port.

In the same CPEC project, a 7000 km long pipeline is also being set up, which will take oil and gas from Gwadar port to the city of Tianjin, China, east of China. Interestingly, the cost of transportation of oil from this line is higher by \$10 per barrel as compared to waterways. The success of the Dasu Rehabilitation Project will also depend on the use of that infrastructure. While India, Iran and Afghanistan are holding Pakistan responsible for terrorist activities, there is very remote chance that they will use the infrastructures made in Pakistan for their businesses.

It looks that due to the huge cost of the construction project in China, the burden of debt is increasing on Pakistan and due to the pressure of payment and most uncertain benefits from these infrastructure projects Pakistan is in deep trouble and woes of Pakistan May multiply in future. Therefore, Pakistan need not be very optimistic about CPCSE project.

Chapter-4

What is the way forward?

So far, BRI is being seen as a one-sided initiative of the Chinese government. But the way BRI is getting unfolded, it has become clear that unless it is not brought to a multilateral forum, it will be difficult for China to take it forward. With emerging scenario, it's now clear that though, BRI has been a one-sided initiative, however it can't move forward unless multilateral approach is adopted. How the conflict between these two ends would be resolved is the major problem of BRI. Involvement of international financial institutions like World Bank, Asian Development Bank etc. has started as their affiliation with this work is being sought. The World Bank has made studies about this project. The World Bank believes that it is already deeply connected to the BRI countries and it is also a partner in some BRI projects, and these projects are worth nearly \$80 billion. But expressing concerns about this, the World Bank has also pointed towards the challenges and dangers arising out of BRI. In the last five years, BRI projects have been struggling with numerous problems. In terms of numbers, 14 percent projects involving 32 percent cost of present BRI projects are running through difficulties. The lack of local stability, unilateral decision-making process, lack of local industrialisation and labor force participation as well as escalation of cost, problem of land acquisition, etc. are the major problems being faced by these projects. The World Bank has recently started studying the proposed benefits of the BRI project and the policy and regulatory solutions for the problems being faced there.

Similarly, the Asian Infrastructure Investment Bank is studying about better regulation and management of BRI projects. We have to understand that there are many apprehensions of the World Bank about BRI. This has been discussed in detail in many reports of the World Bank, but there are scant efforts by International Financial Institutions to take BRI project in their hands. China's paradox can be a snag in the solution to this problem. The time has come to come clear whether China will come out of its 'China Alone' policy and make extensive efforts to advance BRI through global platforms. If it doesn't happen China will create obstacles in its own plan.

Eight countries at Risk of Debt Trap

There are 23 BRI countries which were subject to debt distress according to international standard measures of debt sustainability. However, out of these 23 countries 15 countries were considered to be less vulnerable to debt distress. Eight countries are identified to be subject to debt distress due to future BRI related financing. Maldives, for instance, had debt to GDP ratio of 73.1 percent in 2015, which increased to 83.1 percent in 2016 and by 2018 the forecast was it would increase to 109 percent. Similarly other countries are also subject to similar kind of situation.

Though Debt-GDP ratio shows the vulnerability of these countries due to unsustainable debt burden, a qualitative analysis of debt situation of these countries give us a more clear and horrifying picture about the same. In this context bilateral relationship of these countries with China can be a useful guide for the future vulnerability of debt.

Djibouti

Recent IMF assessment about the Djibouti's borrowing program reveals that in just 2 years between 2015 and 2017, Djibouti public debt has increased from 50 to 85 percent of GDP. This is unprecedented for any low income country. This makes Djibouti vulnerable as most of this debt consists of government, guaranteed public enterprise and is owed to China government owned China Exim Bank. China has provided total funding of \$1.4 billion for Djibouti's major investment projects, which is equivalent to 75 percent of Djibouti's GDP. In future, new projects which are in pipeline, are two airports, a port at Goubet, an oil terminal and a toll road. Some of these loans are at high commercial rate. Though, IMF has been issuing cautionary statements about Djibouti's vulnerability due to projects, not earning sufficient revenue, Djibouti continues to borrow both at lower than market rates and at high commercial rates. All this makes Djibouti subject to high unsustainable debt.

The Maldives

Promotion of national tourism, upgradation of urban infrastructure and adoption to climate change in accordance with National Sustainable Development Strategy are some of the stated objectives of an unprecedented public investment program in Maldives. Three most prominent investment projects include upgradation of international airport costing around \$830 million, a new population centre and a bridge near airport, costing around \$400 million and relocation of the major port (of which no cost estimate is available). In all these projects China is heavily involved. Though, China's Exim Bank has announced financing of airport project at

concessional rates and repayment terms, IMF and world bank have put Maldives at a high risk of debt distress due to its vulnerability to exogenous shocks.

Lao People's Democratic Republic ("Laos") Though Lao's GDP has been growing at an average growth of 8 percent, it continue to remain among poorest countries in South East Asia. It plans to build China Laos railways. IMF has been raising doubts since 2013, about the ability of Laos to service its debt, if it moves ahead with this railway project, which involves a total cost of \$6 billion, which is nearly half of Lao's GDP. Although, Ministry of Finance of Laos is maintaining that Laos's government will not give guarantee for the majority of financing from China (China Exim Bank), however, the government will definitely be under considerable stress to cover any losses. Secrecy is being maintained about the financial terms for many elements of the project, but the fact remains that Laotian government itself has signed loan agreements with China Exim Bank, which means all sovereign guarantee for same.

Montenegro

According to World Bank's estimates Montenegro's public debt may increase to 83 percent of GDP in 2018, if there are no fiscal adjustments. Reason for huge piling up of their public debt is building of infrastructure project, namely, a motor way linking the port of Bar with Serbia. This would integrate Montenegrin transport network with those of other Balkan countries. For this a loan to the extant of 85 percent of the project cost would be provided by China Exim Bank under an agreement reached in 2014. Total cost of the project is \$ 1.1 billion which is 25 percent of Montenegro's GDP. In this SB process, whereas first phase of project may complete

smoothly, however, as per IMF's, estimates troubles would start in second and third phase, as non-concessional loan provided by China could lead to debt default.

Mongolia

Case is made that Mongolia's future economic development depends upon the large infrastructure investments, which are likely to raise productivity and facilitate exports. However, these projects cannot be funded by internal resources. Mongolia needs concessional loan. China Exim Bank offered financing of \$1 billion at a concessional rate in 2017, for hydropower project and a highway project from the airport to the capital. But as per the information available, power project is stalled and money is being transferred to other project. It is apprehended that Mongolia may soon default in the repayment of loan, despite its concessional financing by China.

Tajikistan

Tajikistan is the first leg of the land based projects of BRI. Tajikistan is one of the poorest countries in Asia and has been assessed as being at high risk of debt distress by IMF and World Bank. Tajikistan plans to increase its external debt both at concessional rates and at non-concessional rates, to pay for infrastructure investment in power and transportation sectors. Some of these elements support BRI. Further there is a gas pipeline going through Tajikistan, which is financed by China and there would be pressure on Tajikistan to bear some of its cost. Tajikistan has also issued \$500 million in Eurobonds to pay for a new hydro power project. China accounts for nearly 80 percent of increase in external debt of Tajikistan between 2007 and 2016.

Kyrgyz Republic (Kyrgyzstan)

Like Tajikistan, Kyrgyzstan is also a relatively poor country. Many new BRI related infrastructure projects are being constructed there, with external debt by March 2017, its sovereign debt reached 65 percent of GDP and 90 percent of this debt was external debt. Largest single creditor to Kyrgyzstan is China's Exim bank with a total loan of more than \$1.5 billion, which is 40 percent of country's total external debt. The projects are a chain of hydro power plants, a China-Kyrgyzstan-Uzbekistan railway, additional highway construction and completion of Central Asia-China pipeline. With increase in public investment of the kind mentioned above, its currency has depreciated significantly and although Kyrgyzstan is considered to be at moderate risk of debt distress, Kyrgyzstan remain vulnerable to shocks.

Pakistan

China-Pakistan Economic Corridor (CPEC) is at the center stage of BRI. Total value of CPEC projects is estimated at \$62 billion, of which \$33 billion is in energy projects. China is financing nearly 80 percent of this amount. The debt distress has compelled Pakistan them to cancel many of the projects including three major road projects. The major reason of Pakistan's risk of debt distress is high interest rates being charged by China. Reports indicate that whereas China Exim Bank is charging nearly 2-2.5 percent concessional rate in other countries, Pakistan's loans are being charged at 5 percent. According to IMF, Pakistan's public debt ratio to GDP may go above 70 percent because of these adverse shocks. Pakistan is already under huge debt stress and has so far approached IMF several times and also has requested six debt treatments from the Paris Club. Now huge borrowing on

account of CPEC may push Pakistan to request Paris Club seventh time in near future.

China's Response to Debt Distress in BRI Countries

It is surprising that whereas countries have been facing debt distress of similar kind, the response of Chinese government to the problem has been differential, ad-hoc and on case to case basis. So far, it has generally refrained from participating in multilateral approaches to debt relief, although it does take part in debt relief discussion at international financial institutions and engage itself informally with IMF staff for individual countries. Other major official creditors do participate in multilateral mechanisms with regard to sovereign defaults. China is not even a member of Paris Club and therefore has no obligation to act in solidarity with Paris Club members. It does not even inform the Paris Club about the management of its credit activities.

There has been almost absence of the data of actual amount of debt in different BRI countries and this is total lack of multilateral or other framework to define China's approach to debt sustainability problems. Therefore, analysts have to base their analysis only on the anecdotal evidence of actions taken by China about the same, which is mostly ad hoc, and based on case to case approach.

Following are few examples of how China has acted in the situation arising out of debt distress of BRI countries.

1. In 2011 Tajikistan was asked to give away 1158 square kilometers of so called disputed territory in exchange of writing off an unknown amount of debt owed by Tajikistan. However, Tajikistan authorities said that it agreed to provide only 5.5 percent of the land sought by China.

2. In 2011 when Cuba sought debt relief due to desperate economic situation, China being its single largest creditor agreed to restructure US\$ 4 to 6 billion. However, details of the transactions remained secret, though it was reported that China also agreed to extend additional trade credit and financing for port renovation. Recent reports also indicate that some of the debt was forgiven.
3. According to IMF estimates, China has provided 80 percent of what it was expected to provide under HIPC, that is heavily indebted poor countries. China has been a creditor of 31 out of 36 HIPC countries. China has so far provided relief to at least 28 HIPC countries and 100 percent forgiveness to Burundi, Afghanistan and Guinea
4. In case of Sri Lanka it was a different treatment altogether. China which financed construction of the Hambantota Port to the tune of US\$ 8 billion, forced Sri Lanka for a debt for equity swap accompanied by 99-years lease for managing the port.

Chapter-5

Disciplining China

The 'Paris Club' is an informal group of creditor nations whose objective is to find workable solutions to payment problems faced by debtor nations. The Paris Club has 19 permanent members, including most of the western European and Scandinavian nations, the United States of America, the United Kingdom and Japan. The Paris Club has an informal nature of its existence and deems itself a "non-institution."

China's discriminatory approach towards relief to indebted countries is due to the fact that it is not a member of the Paris Club. In G20 presidency in 2016, China did show some interest in Paris Club's membership, however, it did not give any commitment for the same. There is a history of non-transparent credit activities of China. If China takes membership of Paris Club and Chinese authorities fully participate in Paris Club activities, then as per the commitments of Paris Club, it will have to share data with other members on reciprocal basis. It is hoped that if China 'walk the talk', then China would move towards greater policy coherence and discipline when it comes to avoiding unsustainable debt.

BRI's future is in doldrums

The Belt Road plan which China had put forward to the world with great fanfare and the enthusiasm with which this plan was welcomed by all the concerned countries, a plan which was implemented in many countries with fast speed and of which many projects were constructed and were completed in a short span of time, today its future seems to be

hanging in the balance.

The whole world is shocked by the worst crisis in Sri Lanka. It is being said that behind the crisis in Sri Lanka, the major reason is the debt which Sri Lanka has dipped into deep debt. This is the loan that Sri Lanka took from China for the construction of its ports and rail etc. Due to not being able to repay the loan taken for the construction of the Hambantota port, China not only snatched that port from Sri Lanka, later due to possible default in repayment of other similar loans, it got trapped into the vortex of sovereign debt and today its credit rating has come down to such a low level, that it has become impossible for it to reschedule its loans. During the Corona period, Sri Lanka's revenue from tourism has also reduced significantly, due to which its problems have increased manifold.

Similarly, Kenya's Mombasa port is also almost certain to be captured by China. The strings of Pakistan's financial crisis are also connected with China in some way or the other. Many other countries like Maldives, Laos, Djibouti (Africa), Montenegro, Mongolia, Tajikistan, Kyrgyzstan etc. have all become victims of this debt trap diplomacy of China. In view of this, Malaysia has reduced its Belt Road projects significantly.

Overall, wherever China's Belt Road project was started, that plan is not in a position to achieve completion. In all these countries, where these schemes were started in connivance inappropriately, due to the dishonest ruling regimes, people are the real sufferers. Due to this, agitations have started against these BRI projects in many parts of the world.

Since the real motive was to trap vulnerable countries into the debt trap, under the debt trap diplomacy, under China's Belt Road, preference was given to the projects, which were

not economically viable. Habantota port is one such port where there is very less traffic. The power projects built under CPEC in Pakistan did not have the infrastructure to distribute the electricity produced by them, due to which the project was not profitable. Traffic has yet not started on most of the rail and roads built under this project. But due to these projects and other wrong policies, a total foreign debt of \$ 90 billion has accumulated on Pakistan, of which \$ 25 billion is from China alone. It is not a matter of Pakistan's ability to repay such a huge debt. As a result, not only its credit rating has dipped due to sovereign crisis, its rupee has also depreciated hugely. Today Pakistan Rupee has reached around Rs 191 per dollar.

Today, when the concerned countries are in trouble due to the Belt Road project, the attitude of the whole world towards China is changing rapidly. It is worth noting that the countries of Europe had taken the Belt Road plan hand-in-hand. But due to the role of China in the spread of the pandemic, the thinking of the affected countries is changing fast. Not only this, due to the lockdown caused by Covid-19 and disruption in economic activities, these projects generally have come to a halt. But at the same time, due to the increasing bitterness between China and USA, the attitude of the countries of Europe, towards BRI is also changing.

War and Belt Road

It has to be understood that the stated objective of the China-backed Belt Road project, is to connect the whole world by rail, road and waterways. However, BRI is not the only initiative of its kind, along with it many other projects have also started. These include the European Union's 'Global Gateway', the US-led Bluedot Network (BDN), the G-7-led

'Build Back Better World' (B3W), Japan's Quality Infrastructure Investment (QII), Russia's Euroasia Economic Union (EAEU)) and the International North South Transport Corridor sponsored by India, Russia and Iran.

It is true that the China-backed Belt Road project is currently the largest among such endeavours in the world, involving 142 countries, focusing on the geography of Africa, Asia and Europe. But the rapidly changing international equations in wake of the Russia-Ukraine War, could have a huge impact on this project and other projects. The landmass of Russia to China was considered to be the most reliable route for European markets. Russia, Ukraine, Poland, Belarus etc. were a major part of the Belt Road and Rail Plan. This plan may be eclipsed due to the Russo-Ukraine war. The Belt Road Cooperation Forum, comprising China and 17 Central and Eastern European countries, is already in trouble due to escalating tensions between the USA and China. And now due to the increasing tension between Russia and European countries, this forum may further get pushed back. For connectivity between China and Europe, China will now have to rely on the old maritime route. That is, China's dream of rail connectivity can now get shattered.

It is also possible that Russia, affected by US sanctions and other actions against Russia, may also move closer towards China, for which America may also have to bear the brunt. On the other hand, the friendship between Russia and India is important for both the countries. In the short term it is possible that Russia will have to rely on China's Union Pay after the departure of MasterCard and Visa, but in the long term it is possible for Russia to pursue the EAEU infrastructure project. But, China's stake will be significant in that. European countries must understand that China may

become a headache for them. In such a situation, it will be important for them to stop the success of China's Belt Road plan. Nothing can be said about the final outcome of the tug of war between various international powers to protect their respective interests in the times to come, but it can be certainly be said that chances of China's Belt Road plan getting success are very very meagre.



Rs. : 50/-

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