
CHINESE DEBT - A DIPLOMATIC ENCASHMENT OF BALEFUL TYRANNY

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Abstract

In the disguise of the generous loans the Chinese government is keeping developing countries indebted. The infamous Chinese debt trap is the diplomatic policy of china whereby it provides easy loans to the countries with the knowledge that the country will not be able to repay the loan. The ambitious Belt & Road Initiative (BRI) of the Chinese government has been criticized by many as the Trojan horse aiming to conquer the developing countries. Sri Lanka is the spitting example of how the dragon patiently keeps its treasury open till the time it has the perfect opportunity to strike. But Sri Lanka is just one of the examples of the countries that have either lost or opened their natural resources, lands or ports to the Chinese Government in lieu of the money they can't repay. It is a strategic geopolitical effort of China for penetrating the trade routes in the Indian Ocean. From taking control of the Hambantota Port to the strategic military base in the tiny east African nation of Djibouti China are aggressively investing & indebting nations. The situation will only be worsened by the ongoing COVID-19 pandemic. The pandemic has forced the countries to undergo one or other form of lockdown that has adversely affected the economy. With Poverty and lack of opportunities many developing and third world countries will look towards the easier way of getting financial assistance and the vicious circle debt trap will only get worse. This possesses a unique threat to India; we are surrounded by countries that are in debt of China. The Sino-Pak relationship is evident, the recent development of Mandarin becoming compulsory in schools of Nepal is evidence of Chinese infiltration in Nepal's politics and Sri Lankan port is already under Chinese Control. There is an imminent threat of using the land and resources of our immediate neighbors to facilitate the deployment of the armed forces in Indian territories in case of a clash with China. China's hefty investment in BRI across Africa, Asia and Europe exhibit its diabolical plans for dominating the trade routes in both the Indian ocean and the Eurasian Trade axis. The capitalist approach of acquisition also possesses a threat to the sovereignty of small countries. This paper discusses the domino effect of the Chinese loan and how we can avoid the Chinese imperialist dominance over the world.

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INTRODUCTION

“When you get in debt you become a slave.”

-Andrew Jackson

The issue of sovereign debt owed to Chinese government by the developing and third world countries has raised an alarm amidst the economists and world leaders. In past decades China has lent both censored and uncensored loans to the poor and developing countries. China has a striking contribution 16% of the total debt owed globally. The Kiel Institute for the World Economy China in its report has stated that China has also extended unreported loans of approximately \$200 Billion.

Almost all of this lending is official, coming from the government and state-controlled entities.² Currently China is a bigger lender than both International Monetary Fund (IMF) and World Bank. It also plays the role of the favorite lender for the African and Asian countries. Apart from the bilateral loans and grants China is investing billions of dollars in the continent under its ambitious Belt & Road Initiative (BRI). BRI is the ambitious infrastructure development project of China aiming to connect Africa, Asia and Europe.

The project is often questioned due to its opaque terms and conditions and lack of definite structure. Anything and everything funded at a foreign location by China or the banks with majority Chinese holding are often labeled as part of BRI. All the countries getting benefits of BRI has one thing in common they have something that hold value to China. It can be the natural resource or strategic value in the geopolitics.

WHY THE CHINESE INVESTMENT IS LABELED AS DEBT TRAP?

The strategic investment of China in the African and Asian countries is often labeled as Debt trap by the western countries. China has on various occasion denied the allegation and called it a conspiracy theory of the American camps. But after looking into the over investment and grant of loans to countries while overlooking country’s capacity to pay back and the neo-colonial action of exploiting the natural resources and strategic location of the indebted countries contradict Chinese claims of clean hands.

² Sebastian Horn, Carmen M. Reinhart & Christoph Trebesch, *How Much Money Does the World Owe China?:* HARVARD BUSINESS REVIEW <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china>

The debt of these countries towards china is increasing manifolds with each passing year. These countries are poor, corruption ridden and are under massive international and bilateral debts. Their dependency on Chinese loan will not automatically create the capability to service the loan.

BRI and other Chinese investment are laden with the claims of corruption and malpractices. During 2015 Sri Lankan election considerable amount of money was rolled in from the Chinese Port Construction Fund to the supporters of the then Prime Minister of Sri Lanka Rajapaksa. Though, the allegations were denied by Mr. Rajapaksa.

Maldives is also investigation Chinese corrupt practices and involvement of former President Abdulla Yameen. Yameen’s government gave contracts to Chinese firms at inflated rates and on the top of it, they entered into on-sided free trade deal with China. Hilariously the thousand-page document was passed by the parliament within 5 minutes.

In January 2020 Pakistan was shocked by the revelation of multi-million fraud done by the Chinese firms in name of the China-Pakistan Economic Corridor. A nine member Committee for Power Sector Audit, Circular Debt Reservation & Future Roadmap in its 278 page long report³ has revealed the Chinese firms has extracted huge benefits from 6 china funded projects under the CPEC through over invoicing & tariff rates. It was also revealed in the report that the projects were made favorable for the Chinese companies since it was funded by the single country.

Terms of the Chinese funding are always in favor of the Chinese firms. It eliminates the interested European firms through its opaque bidding system, resulting in allotment of major construction tender to Chinese firms. In the name of loan china is not only earning through interest but also through income generated at the project which ideally should benefit the citizens of the recipient country. Thus, the only country profiteering out of this transaction is China, the recipient is encouraged to overlook the malpractices and corruption involve therein.

How china over look the interest of the recipient country and viability of project is evident from its funding of China-Laos railway line. The cost of this project is whopping \$6billion that is half country’s GDP. In addition to this china has also approved \$600 million loan to

³ https://economictimes.indiatimes.com/news/international/business/pakistans-internal-report-indicts-china-for-corruption-in-cpec-power-sector/articleshow/75823762.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Laos for a hydro-power project. Laos being one of the poorest Southeast Asian countries will be facing substantial challenges in servicing this loan. China is knowingly providing unsustainable loans to poor countries in attempt to cease their collaterals.

Threats posed by this

The real trouble takes shape once the country is over burdened by the debt and is unable to service it. A multi-fold of threats ranging from geo-political and economic interests to national security are connected with the Debt Diplomacy of China. For many this ‘in kind’ repayment of the debt is the first sign of neo-colonial setup in the African and Asian countries. Various Chinese assistant comes with a price that often reminds us of the repressive colonial rule and the racial supremacy defeated in the World War II.

In the aftermath of the COVID-19 pandemic China has extended help to Nepal and as a neither result nor Mandarin has become a compulsory subject in the schools of Nepal. What china is doing with other countries is not new. It is doing the same thing that Great Britain did with china after the opium war⁴, China was forced to open the ports and give Hong Kong to Britain. With increased foreign influence the powerful nations forced china to cede territory and enter into unequal treaties.

China has channeled this humiliating experience as motivation behind its debt diplomacy across the globe. China is not waging war but it is just taking over the control of the resources and thereby creating a neo-colonial ecosystem or as some says re-establishing the Middle Kingdom.

In 2011 when the China owned half of the total debt of Tajikistan, it wrote of a portion of the debt in lieu of the cession of the disputed territory of Tajikistan⁵ and in the same year Chinese company was given mining rights after less than half an hour of discussion in the Tajikistan’s parliament⁶.

Even after negative reports of feasibility of development of port Sri Lankan Government borrowed heavily from china and constructed Hambantota Port. It is no surprise that the port

⁴ Panos Mourdoukoutas, *China Is Doing The Same Things To Sri Lanka That Great Britain Did To China After The Opium Wars*, <https://www.forbes.com/sites/panosmourdoukoutas/2018/06/28/china-is-doing-the-same-things-to-sri-lanka-great-britain-did-to-china-after-the-opium-wars/#184260b97446>

⁵ Bradley Jardine, Eurasianet, Edward Lemon and Eurasianet, *Tajikistan’s Security Ties with China Are a Faustian Bargain* <https://globelynews.com/asia/tajikistans-security-ties-with-china-are-a-faustian-bargain/> last visited on 29.06.2020

⁶ Farangis Najibullah, *Silver Lining? Tajikistan Defends Controversial Decision To Give Mine To China*, <https://www.rferl.org/a/silver-lining-tajikistan-defends-controversial-decision-to-give-mine-to-china/30199786.html> last visited on 29.06.2020

was not as successful as the Sino-Sri-Lankan representatives had projected. Under the pressure of the surging debt and interest at the rate of 6 percent the Sri Lankan Government wrote off the control of the port and 15,000 acres of land around it to a Chinese company on lease for a term of 99 years⁷.

Once the Sri Lankan government became unable to manage the expenses of the Mattala Airport (built by help of the Chinese loans) the management of the airport was granted to a Chinese company. After receiving, many debts from China Djibouti have agreed to let China build a naval base at Djibouti housing 10,000 troops. This example shows how subtle debt-for-equity swap makes countries lose control over their resources under pressure of the loans they've received from China and thereby affect the sovereign authority of the nation.

EFFECT OF COVID-19 ON CHINA AND THE INDEBTED COUNTRIES

The COVID-19 pandemic has affected everyone but it has hit worst blow to the small under developed and the developing countries. These countries will now have to sustain the additional economic burden of the aftermath of the pandemic. If we work on the assumption that by the end of the year 2020 and second quarter of the 2021 the vaccine for this virus will be discovered and easily available to everyone. Then also these countries will have to tackle to additional cost they incurred in the healthcare sector in addition to the economic loss suffered by them due to shutting down the border and international trade.

The already slow economies will now be need of more loans for rejuvenating their economy and to battle with the ongoing pandemic. The sub-Saharan region is facing the unprecedented health & economic crisis. IMF has projected the Economic growth of sub-Saharan Africa to decline by 1.6 percent in 2020.⁸ The decline is linked to the rapid fall in the in the export prices and evident disruption of economic activities due to the COVID-19 Pandemic.

The mitigating efforts of the countries around the globe in form of restraining the import and export has led to disruption of the production and thus declined the external demand. This has further exacerbated by the steep fall in the price of the commodities specially oil. These factors have affected the region to an extent that the recent developments are on verge of

⁷ Thomas Ameyaw – Brobbey, *The Belt and Road Initiative: Debt Trap and its Implication on International Security*, ASIAN JOURNAL OF MULTIDISCIPLINARY STUDIES, Vol. 1, No. 2, (2018), ISSN 2651-6705

⁸ International Monetary Fund, publisher, *Regional economic outlook. Sub-Saharan Africa : COVID-19 : an unprecedented threat to development*, ISBN: 9781513538495

reversal. The fragile healthcare system of the region has caused a blow to the country’s economy.

The countries dependent on tourism (Cabo Verde, Comoros, The Gambia, Mauritius, São Tomé and Príncipe, Seychelles) will suffer with the severe consequences in the aftermath. The health & economic crisis in the sub-Saharan region is unprecedented and requires collective global efforts to reduce the casualties.

Talking about the Asian countries the story is not very different. These small nations are largely dependent on loans. After the outbreak of COVID-19 China has granted urgent loan of \$500 million⁹ to Sri Lanka after its foreign reserve plummeted to \$ 7.2 Billion resulting into constrained import of 156 items including essential food items like rice & grains until July 2020¹⁰. The urgent loan might have been a temporary boon for Sri Lanka but it has to deal with the upcoming financial complication as about \$1 Billion international Sovereign Bonds is maturing in October.

In April, International Monetary Fund has approved disbursement of \$1.386 Billion to Pakistan to meet out the Balance of payment needs emerging due to the COVID-19 pandemic.¹¹ In May, World Bank approved loan of \$500 Million¹² and the Asian Development Bank approved emergency COVID-19 loan of \$305 Million to Pakistan for medical equipment and distribution of aid to the affected people.¹³

In the early May, Pakistan made a formal request to the G20 nations for grant of Debt relief on the condition that it would not contract any non-concessional loans except those who fall under the International Monetary Fund & World Bank guidelines. After the request was made the G20 nations has agreed to freeze the loans for the period of May to December 2020¹⁴. As per the projections of World Bank, Pakistan’s debt-to-GDP ratio would increase to 91.3% by June 2021.¹⁵ A similar debt relief was secured from the Paris Club.

⁹ [Sri Lanka gets USD 500 million loan from China as financial aid](https://www.newindianexpress.com/world/2020/mar/18/sri-lanka-gets-usd-500-million-loan-from-china-as-financial-aid-2118472.html)
<https://www.newindianexpress.com/world/2020/mar/18/sri-lanka-gets-usd-500-million-loan-from-china-as-financial-aid-2118472.html>

¹⁰ [Impact of COVID19 on food supply chains in Sri Lanka](https://www.netherlandsandyou.nl/latest-news/news/2020/06/02/impact-of-covid19-on-food-supply-chains-in-sri-lanka)
<https://www.netherlandsandyou.nl/latest-news/news/2020/06/02/impact-of-covid19-on-food-supply-chains-in-sri-lanka>

¹¹ International Monetary Fund Press release no. 20/167,
<https://www.imf.org/en/News/Articles/2020/04/16/pr20167-pakistan-imf-executive-board-approves-disbursement-to-address-covid-19>

¹² <https://www.deccanherald.com/international/world-bank-approves-500-million-loan-for-pakistan-841339.html>

¹³ http://timesofindia.indiatimes.com/articleshow/75574859.cms?utm_source=contentofinterest&utm_medium=ext&utm_campaign=cppst

¹⁴ <https://theprint.in/economy/pakistan-requests-g-20-members-for-debt-relief/414832/>

¹⁵ <https://tribune.com.pk/story/2239641/3-pakistan-among-latest-countries-get-paris-club-debt-relief/>

These Asian & African nations will soon be facing the dreadful choice of deciding between whether to pay the loan and add burden to their economic deficits or lose the control over the natural/ strategic resources they have kept as collateral with China. Some of the countries will be very tempted to procure more loans to pay off the outstanding loans owed by them to different international organizations, countries etc. This will only worsen the existing debt crisis.

At the juncture it is pivotal to evaluate the effect of COVID-19 on Chinese debt especially to BRI projects. These projects are mainly funded by the major Chinese banks, whether these banks are willing and capable of the funding that was committed earlier remains in hands of future. The lockdown, social distancing and required sanitation standard will make the development project a challenging work. With already slow trade the future of the newly completed projects are unpredictable.

The pandemic can in fact become a long terms boon for the project. This pandemic has created highlighted a major drawback in the existing supply chain. Major companies have realized that specific country-based supply chain can easily succumb to disruption in cases like the current pandemic. This will encourage both Chinese and other manufacturers to invest and create a global collaboration. At the same time Chinese companies will try to penetrate the digital market which in turn can be a blessing for the small countries.

SUGGESTION & CONCLUSION

Blanket condemnation of Chinese debt diplomacy and resultant the economic crisis will bear no fruit. It is very important to establish regional cooperation and international standards for mitigating the dual problems of global pandemic and debt crisis.

It is the need of the hour that we recognize and categories different economies on the basis of damages sustained by them due to the pandemic. Only after proper identification of the nation we can divulge into plans and policies for tackling with the problem. International solidarity can be the key to avoid the up-coming major debt crisis that is already looming over these countries.

International collaboration and monitoring of the debt extended to the vulnerable countries should be prioritized. Dependency on loan can be phased out by sustainable diversified lending that in turn will ensure that no single country/entity will have enough power over the recipient country to force it into ceding its resources. We have to be very careful in replacing the dependency on Chinese loan as it will defeat the purpose of the target country becomes

dependable on any country other than China. Along with the investments the nations should work on ways to restore the bilateral trade and creation of more jobs. Digitalisation of the major sectors can play a pivotal role in this.

But a major concerning role will be played by china, as the debt extended by china is majorly a power play for geopolitical benefits. Currently the action of China is exhibiting that it will not be open to losing the upper hand. India is an open market for the countries who are moving their manufacturing units from China. To distract Indian government from the economic opportunities posed by this situation China has not shied in engaging its armed forces. In deliberate violation of the de-escalation plan agreed between the countries, Chinese troop had not retreated from the area. This led to a skirmish between the personnel of both the resulting in martyrdom of 20 Indian Soldiers.¹⁶

Another military tussle in waiting for the Sino-Japan end. China is also engaging in a maritime dispute with Japan over the island known as Senkaku in Japan and Diaoyu Island in China. The dispute over the island dates back to 1970 and both the countries claims is as part of their sovereign power. Since mid-April 2020 Japanese coast guards have announced that they have spotted 67 Chinese government ships near Senkaku Island. If Japan retaliates then the Asian subcontinent will become the military flash point. The Treaty of Mutual Cooperation and Security provides that in case of an attack on Japan by any foreign country USA will assist the government of Japan.¹⁷

China is playing its cards to dominate the Asian and African continent. All the investments in the small and poor countries are about to show the true intentions of China. Now that many countries will not be able to service their loan and will be looking for debt relief, we will get to know how true China's claim for no-string attached debt it really was. China has already denied making a joint forum for all countries who owe debt to China. It is dealing every country on individual basis and negotiating the terms. Never the less it will not be an exaggeration to opine that China's move will create domino effect the result of which we can only assume.

¹⁶ Rahul Singh, HINDUSTAN TIMES , <https://www.hindustantimes.com/india-news/3-staggered-clashes-took-place-in-galwan-valley/story-P1tT2X2fWaJu7smOHXEE0L.html> last visited on 06.062020

¹⁷ <https://www.cia.gov/library/readingroom/docs/CIA-RDP07-00469R000100950001-2.pdf> last visited on 26.06.2020