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A Critical Analysis of China's Debt Trap Diplomacy

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Abstract: - Trough the means of Debt Trap Diplomacy, China is seen to be extending loans to economically weaker countries, intended to aid development, but due to the various conditions that come with it, it becomes difficult for the borrowing country to repay. The non repayment of such loans are seen to be utilized for diplomatic advancement. In one it leads towards economic growth and regional connectivity, on the other hand, it is seen to be utilised to gain influence and access to strategic resources. It raises questions about economic sovereignty and the ethics of international finance.

Keywords: Debt Trap Diplomacy, Belt and Road Initiative, Geopolitical Strategy, National Sovereignty

Introduction:

The term Debt Trap Diplomacy was coined by an Indian Academician Brahma Chellaney in 2017(Ajnoti, 2022). This type of diplomacy refers to offering projects/loans on terms that end up being too difficult for countries to repay, eventually compelling them to accept political or economic concessions. It has been witnessed that developing nations are often lured by China's offer of cheap loans for transformative infrastructural projects, which require a considerable investment. These developing countries, mostly low- or middle-income countries remain incapable of carrying on with repayments. It provides opportunity to China to demand concessions or advantages in exchange for debt relief. Concessions may include handling over control of strategically valuable facilities such as ports, natural resources, and land.

If we talk about the global trade then we can see that China's role is highly publicised and politically polarising but financially China's influence due to lack of data and lack of transparency remains obscure. China has lent much of its financial resources in financing projects under Belt and Road Initiative (BRI)(Bondaz et al., 2015). The initiative has formidable presence and influence which has led other western countries to accuse China of pursuing a debt –trap diplomacy through it. Since last two decades China has become a major global lender. The Belt and Road initiative is a trillion-dollar project aimed at connecting countries across continents for trade with China at its centre. Beijing has characterized the project for both its global trade ambitions and for infrastructure starved developing economies. But in reality, many vulnerable countries are finding themselves overwhelmed by Chinese depts. China is in the midst of a rapid push to gain economic and political ascendancy across the Asia pacific region and the world and its splashing out billion dollars across the globe through concessional loans to developing countries for infrastructure projects. But what happens when countries often poorer than China cannot pay back. Since the beginning of 2000, China has distributed huge amounts of loans to low- and middle-income countries. some recent studies examine Chinese lending but certain aspects are not known by anyone such as how loan contracts are written, what are the terms and conditions nothing is clearly known by anyone. The texts of the contract are neither disclosed by China nor the borrower countries due to the confidential clauses(*How BRI Debt Puts China at Risk – The Diplomat*, n.d.). But because of the covid 19 pandemic the terms and conditions of China's tech companies are getting disclosed for the global public interests.

China is offering up bad loans as a form of entrapment to gain influence and power across the world. Foreign nations are lured by China's offer of cheap loans for transformative infrastructure projects then when predictably these countries are unable to keep up with their payments Beijing can demand concessions or other advantages in exchange for debt relief this is known as debt trap diplomacy. Opaque lending practices also lead to mistrust. Research shows that developing countries owe much larger debts to China than was earlier believed. Critics call this "TROJAN HORSE" approach they allege many loans to build infrastructure projects using

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Chinese contractors in strategically located developing nations are a form of debt trap diplomacy(Aina, n.d.). China considers debt trap as a false allegation created by western media, having an aim to obstruct the joint development of China and other developing countries they also alleged that the west is doing so in order to maintain the western world's traditional superior position(Rajah et al., 2019).

Hidden debt:

Research says that China has given more loans to developing countries in comparison to earlier times and because there was underreporting of these loans hence the problem of hidden debt has come up. Hidden debt means that deter countries and international countries has incomplete knowledge about the loans given to other countries by China and they are also unaware of the conditions. China does not report international lending institutions and adopt opaque lending methods to escape from traditional data gathering institutions, because they are state owned loan distribution. Credit rating agencies such as MOODY and standard and poor's data providers like BLOOMBERG only mostly focuses on private creditors and because China's lending is state sponsored hence China does not come under the radar of these agencies. Moreover, China is not a member of OECD and the Paris club which are an informal group of creditor nation.

Practices undertaken by China that point towards Debt Trap Diplomacy:

It has been alleged that Chinese funding is often made for non-viable projects with appropriate risk assessment. For example, in 2014, Montenegro successfully concludes negotiations with Chinese partners to finance a highway project despite the fact that the project was deemed economically unviable by two feasibility studies. China has invested heavily in middle- and low-income developing countries which have history of debt sustainability problems, lack the fiscal capacity to directly finance infrastructure and are not commercially appealing for attracting investment. For instance, China has invested in several infrastructure projects in African countries like Ethiopia, Nigeria etc. The Chinese government neither provide official data on its international lending, nor does it disclose details regarding the volume or the terms of the loans it provides and how the debt negotiations are adjudicated if the borrower cannot service its debts. China does not subscribe to any guiding multilateral frameworks, set by the international monetary fund or the world bank, to define its approach to debt sustainability problems, choosing instead to deal with countries on a case by case basis. Often it capitalises on fiscal mismanagement of borrower countries, centering negotiations on equity swaps rather than on other measures of alleviating debt. Infrastructural agreements with china often provide Chinese firms the right to access and control land and assets as collateral. Thus, China has acquired assets in several countries, including those under BRI projects, as a part of debt renegotiation process. These acquired projects hold strategic importance beyond their economic use. For instance, Hambantota port in Sri Lanka can be used for increasing Chinese presence in the Indian oceanic region. Almost all of Chinas overseas lending is extended via Chinese state-owned entities and the recipients also tend to be state owned enterprise. Moreover, Chinese workers make up a bulk of the labour force engaged at the infrastructural projects in foreign countries. In most cases the loans extended by China are non-concessional and costly. This contrasts starkly with the infrastructural lending of advanced industrial countries that provide subsidized, concessional credits to finance underdeveloped countries.

Reasons why countries have been vulnerable to Debt Trap:

Infrastructural investment is widely recognised as a crucial driver of economic and social development. However, middle income and low-income developing counties lack the fiscal capacity to domestically finance infrastructure projects. Countries participating in the BRI are lured by the promise of socio-economic transformation and development. Countries find it difficult to fulfil conditionality for accessing development assistance offered by multilateral lending agencies such as the IMF. Such conditionality's may include structural and governance reforms, targets for macroeconomic indicators, accounting, and auditing systems etc. Chinese loans are not as stringent in their requirements for safeguards and reforms. Governance issues, such as lack of adequate pre project viability analysis, corruption, reckless propensity to borrow, fiscal mismanagement etc. has made it easier for China to push loans for even unviable projects.

Implications of Chinese Debt Trap Diplomacy:

Debtor countries and international institutions have an incomplete picture on how much countries around the world owe to China and under which conditions. Debt distress raise possibility of defaulting increased vulnerability to Chinas coercive tactics, lowered accountability of governments due to non-disclosure of debt agreements to taxpayers. Chinas own commercial interests and global reputations can also be undermined due to failure of projects.

Financial and economic dominance may also be converted into political leverage which can be used to influence domestic and foreign policy decision of indebted nations. According to the general Indian view of nature of the BRI is less about economic development and more about larger political and strategic goals. China consistently tried to run down Indian contributions to the ancient silk roads. BRI is the closest thing to a grand strategy for not only protecting their interest abroad but expanding them and pushing a Chinese model of development. Security risk with possibility of use of commercial assets acquired by China for military purposes, increased political influence of China on India's neighbours can put a strain on their diplomatic relations with India. Several South Asian countries are benefiting hugely from Chinese generosity. Chinas infrastructure overcapacity can actually be necessary in its immediate and extended neighbourhood where there are substantial infrastructural

There is a clear element of power competition with the United States that runs through BRI. That ranges from Chinas positioning of itself as a defender of globalization as because of the BRI projects in many countries are also accompanied by a robust military relationship that the Chinese have promoted in the form of equipment sales and delegation visits.

Chinese loan contracts have confidentiality clauses which prevents countries from disclosing loan amounts as well as other terms and conditions. China has also entered in many informal collateral arrangements with different countries which suppress the transparency in transactions.

Impact on India:

With the use of Debt trap diplomacy, China is establishing a Geopolitical influence in South Asia, China's strategic investments in India's neighbouring countries, give it a foothold in South Asia, encircling India with Chinese economic and military influence(Devulapalli, 2020). With these regions China strengthens its presence, challenging Indias influence and limiting India's regional dominance. Chinas investments create competition for India in regional trade and connectivity projects that are larger in scope and quicker to implement. Chinese infrastructure development also competes with Indian- led projects, often challenging India's bids to increase connectivity with Southeast Asia and the Indian Ocean. It also gives rise to security concerns, the Indian Ocean is a critical trade route for India, and Chinas influence in countries like Sri Lanka, the Maldives and Djibouti, where China has established their military base, threatens India's control over this region, China's presence and influence in these areas could impact India's maritime security and put pressure on India's naval strategy. Moreover, growing debt burden in India's neighbouring countries like Pakistan can lead to the growth of regional instability. This can impact India's security and stability, especially along the India- Pakistan border, and heighten tensions in the region. China's increasing economic influence complicates India's diplomatic relationship with its neighbours. For instance, nations like Sri Lanka and Nepal have shown greater alignment with China due to economic dependencies, making it harder for India to maintain diplomatic influence. India is forced to balance or compete with China diplomatically in its neighbourhood, limiting its regional policy flexibility.

Conclusion:

China has rapidly expanded its influence through BRI project and aggressive lending across the world. But her lending programs lack transparency and often oriented towards achieving her geopolitical goals rather than financial objectives alone. There is a wide gap between Chinas rhetoric and its practice, for example, its frequent claims that BRI projects are win- win for all parties concerned. But over the years, the image that China has tried to cultivate of the BRI being a mere economic project aimed at fulfilling a crucial development need for infrastructure in Asia, Africa, and Europe and at increasing people to people contacts have been punctured by several unflattering reports of the nature of these projects. In the main, these revolve around the high costs of Chinese projects that have led many nations into debt traps, lack of transparency on their terms, alleged bribery of host government officials, the use of Chinese labour and the use of old, polluting technologies. The objective ultimately is to promote a Chinese model of development and politics. Chinese seek to undermine the relevance and legitimacy of democracy. The narrative is of China working together with a country rather than attempting to impose its values on it like the west apparently does.

Countries should conduct proper risk assessment and measure economic viability of infrastructure projects prior to signing agreements. China should cooperate with multilateral institutions to provide an estimate of debt levels of countries involved in BRI. Also, it should follow internationally acceptable practices for sustainable debt resolution. China can become a member of the Paris Club to help countries find sustainable solutions to raising debts. The Paris club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. As debtor countries undertake reforms to stabilize and restore their macroeconomic and financial situation, Paris Club creditors provide appropriate debt treatment. The international community should expand alternatives to Chinese infrastructure financing to fulfil infrastructural deficiencies in low- and middle-income countries.

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