Trap of the Century?

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The Belt and Road initiative (BRI) –"project of the Century" as proclaimed by the President Xi Jinping and "the path of Xi Jinping", as decreed by the State- controlled Chinese media, was first proposed in 2013. But its complete blueprint was released only in 2015 and it was integrated into the government's 13th Five Year Plan. By mid-2016, 57 countries had become active participants in the BRI, and 30 had formally signed the BRI cooperation contracts. With China claiming to have established 75 overseas economic cooperation zones in 35 BRI countries, and the China Development Bank "tracking" more than 900 projects worth $900 billion in 60 countries, China's National Development and Reform Commission (NDRC) defined the BRI as a "systematic project" that "aims to promote the connectivity of Asian, European, and African continents and their adjacent seas" through "all-dimensional, multi-tiered and composite connectivity networks" to realise "diversified, independent, balanced and sustainable development in these countries." The loosely defined objectives concealed the real intention which was to extend the Chinese empire to half the world through economic diplomacy and to gain political and economic control over Indian Ocean-rim countries.

The BRI comprises an overland Silk Road to link western China to Western Europe through the Eurasian supercontinent and a 21st Century Maritime Silk Road across the Indian Ocean connecting the Western Pacific to the Mediterranean, both being underpinned by an "unprecedented wave of Chinese investments in virtually all types of transportation infrastructure, including rail, roads, ports, airports, electricity generation, telecommunications and various other forms of connectivity." This expansive connectivity network will have very serious strategic implications for the world, because, as Jeff Smith of The Heritage Foundation, a Washington-based think-tank, observes, it mainly serves the Chinese economic and foreign policy objectives, "from energy security to counterterrorism and from boosting Chinese exports to popularizing the Chinese currency". Given that Asia will require infrastructure investments exceeding $1.5 trillion annually for the next 12 years "to maintain growth momentum," no other country in the world has the requisite economic muscle to provide financing of such a scale. China's promise of easy finances to build roads, ports and railways therefore attracted many investment-starved countries, especially in South Asia which undoubtedly is the least financially integrated region in the world, with intra-regional trade in South Asia accounting for less than 5% of total trade, compared to 35% for East Asia and 60% for Europe, while intra-regional investment accounts for less than 1%. China's BRI was thus initially cheered by many countries.

In contrast to the 1990s when China was a major FDI-destination, China has now emerged as a net FDI-exporter, its outbound FDIs growing annually at a rate of 30% between 2005 and 2015. In 2016, for the first time, Chinese outbound FDI surged to $183 billion, far exceeding its inward FDI of $133 billion. As The Atlantic pointed out, while China was the world's largest recipient of loans from the World Bank and Asian Development Bank (ADB) till the 1990s, its loans to developing countries now exceed those of the World Bank itself. As its economy shows signs of slowing down and demand for its products slumps across Europe and America, China is desperately seeking a conduit to export its vast surplus and idle capacity it had created in its state-controlled monoliths and private sector. Besides, it also has huge unused forex

reserves in its Central Bank. But the most important unstated objective is possibly to seek alternative sea routes for trade. Today the eastern seaboard and the narrow Malacca Strait accounts for 80% of China's oils and a vast quantity of it goods trade. China desperately wants to build alternative routes through Pakistan, Central Asia, Myanmar and other corridors.

China cares very little for human rights anywhere in the world including within its own borders, and has gained trust and business in many countries by supporting their authoritarian dictators or helping suppress their human rights violations in international fora. BRI is also helping China to export its model of online information control, surveillance, and censorship of the internet, which is why authoritarian Governments from Russia to Zambia, Zimbabwe, Ethiopia, Uganda, Kenya, Maldives and Philippines are so enthusiastic about BRI. The fledgling democracies which are being gradually captured by corrupt or authoritarian leaders are particularly vulnerable to Chinese money-power their leaders so desperately need to stay in power and serve Chinese interests.

Using economic tools to advance a country's interests is nothing new in geopolitics. But the way China is practicing this age-old tactic of statecraft has started sending shivers across the globe, and many countries are just waking up to the perils of the consequence of a debt-trap being carefully laid by China trying on the sly to become the world's most extensive commercial empire through the BRI, which involves funding exceeding US$ 1 trillion, of which $300 billion is estimated to have been spent already. However, most of this funding is provided by way of loans rather than grants to developing countries, and not on the easiest of terms. Under the grand strategy of Chinese foreign policy, the loans often come by way of Chinese equipment, Chinese products and inputs, besides management of Chinese firms, using Chinese manpower, to build roads and ports of its BRI partners. These loans naturally impose heavy costs on them and some have started to back out, as they fear, rightly, that these might be a ruse to influence their domestic politics and internal affairs and might ultimately infringe upon their sovereignty.

Several completed BRI projects are already bleeding, like the World's "emptiest" international airport near Hambantota and possibly the World's "emptiest" Port at Hambantota despite being situated near one of the busiest maritime trade routes, both built at huge cots financed by China, as well the much-publicised, multibillion-dollar Gwadar port in Pakistan. As analyst Brahma Chellaney points out, China would rather prefer the projects to continue to operate this way and remain non-profitable, because the heavier the debt burden on smaller countries, the greater the influence China can exercise over them. After all, it has successfully used its enormous clout to push Cambodia, Laos, Myanmar, and Thailand to nullify a united ASEAN stand against its aggressive territorial claims in the South China Sea. There is also a military angle to it; as Chellaney says, Chinese attack submarines have docked twice at Sri Lankan ports, and two Chinese warships were recently pressed into service for the Gwadar port security.

Hambantota port was built by China at a cost exceeding $1 billion, but could attract practically no container traffic to generate the revenue with which to repay the debt, forcing Sri Lanka to transfer the port along with 15000 acres of land to Chinese firms on a 99-year lease in lieu of debt relief. After Maithripala Sirisena was elected the Sri Lankan President in January 2015, he found the country saddled with $8 billion in Chinese debt, and bulk of its revenue going towards repayment of this "unprecedented debt", due to deals negotiated by the previous Rajapaksa government. Sri Lanka is already in a serious debt trap, with a substantial part of its external debt owed to China to resolve which it has agreed to convert its debt into equity, leading ultimately to Chinese ownership of projects. In a repeat of

Hambantota story, $3.8 billion investment in a city-sized casino resort in Cambodia has produced a "sprawl of mostly empty hotel buildings, deserted beach bars and the unfinished shell of a casino on a remote part of the Cambodian coast" which has caused "extensive environmental damage", besides "displacement of thousands of people." An expensive Chinese-built railway in Kenya "carries less than 20% of the freight it needs to break even."

Benefits of BRI are thus going to China and Chinese firms, while costs have to be borne by the partner nations. According to a 2018 study by John Hurley, Scott Morris and Gailyn Portelance of the Washington-based Center for Global Development, of the 68 countries participating in the BRI, 27 have "junk" financial ratings and 14 are unrated; in eight countries- Djibouti, Kyrgyzstan, Laos, Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan, the "future BRI-related financing will significantly add to the risk of debt distress." Each of these countries already carries a heavy debt burden- Pakistan's debt was almost 70% of its GDP and Maldives' and Djibouti's 83% and 87% respectively in 2016. Debt Traps are indeed integral parts of the Chinese Grand Strategy – China sees debt-for-equity swaps as a tool to advance its geopolitical agenda to control ownership stakes in sensitive ports and infrastructure facilities in countries through servicing of their growing debt to China.

China itself is suffering from a debt problem - its Debt: GDP ratio has grown from a 141% in 2008 to 256% in 2017, which is clearly unsustainable, given its lower per capita income compared to the developed countries that can withstand such high debt burden. With its economy already in a slowdown mode, it may even trigger a recession leading to another global financial meltdown.

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It began as a faint murmur of protest, but the murmurs are now rising to a tumult. Jeff Smith of Heritage Foundation, a Washington based think-tank, recounts these instances in a well-researched paper. Thailand had rejected proposals in 2016 for Chinese infrastructure investments and refused to grant land rights for them. "Thailand is not Laos," its minister had said then, referring to Laos where China's $6.7 billion funding for the railway amounts to half the country's GDP.

Even China's all weather friend Pakistan with which it enjoys a relation "stronger than steel and sweeter than honey" had to cancel a Chinese proposal in 2017 to finance and construct the multibillion dollar Diamer-Bhasha Dam over the Indus in Gilgit-Baltistan, as China's financing conditions which included Chinese ownership of the project were perceived to be against Pakistan's interests. Three major road projects already stand cancelled and Pakistan also rejected a demand that the Chinese currency Yuan be used in the Gwadar Free Trade Zone, to operate which China already has a 40-year lease. The China-Pakistan Economic Corridor (CPEC) which includes energy and infrastructure projects worth $60bn, employs more than 7000 Chinese engineers and workers, protected by 15000 Pakistani security-men.

CPEC projects, the shining diadem of BRI, details of which are opaque and often shrouded in utmost secrecy - are estimated to cost $62 billion. 80% of this cost will be financed by China – but in its own terms. Pakistan, the biggest debtor to China now, is facing a crippling debt-burden and adding to its distress are the higher interest rates being charged by China – 5% for some projects against 2-2.5% concessional rate

given to most China Exim Bank customers. Some Pakistanis have started seeing the CPEC as a "Trojan Horse" rather than a "Gift" from an "Iron Brother". Chinese enterprises will enjoy multiple tax and duty concessions which are unavailable to Pakistani businessmen, Chinese nationals will enjoy visa-free access to Pakistan without reciprocity and Chinese aid will come either as costly loans or equity swap. To add insult to injury, Pakistan cannot take loans from anyone except Chinese banks and already had to refuse a loan of $8 billion offered by ADB on softer terms. China has reportedly financed 80% of Pakistan's external debt, and Pakistan's external debt payments are estimated to soar by 65% in the current fiscal, to $12.7 billion.

Pakistan is also facing an overwhelming foreign exchange crisis with its forex reserve dwindling to only $8.4 billion in September 2018. It is contemplating to approach the IMF for a bailout loan of US$ 12 billion which the US is likely to oppose for fear that the funds will ultimately go to China in the form of debt repayment. Now the only option for Pakistan is to approach China and to convince it that without the funds, the future of CPEC itself will become uncertain. Pakistan's fears are not unfounded, for a failure to pay off its debt will give control to China over its coal mines, oil pipelines and power plants and enormous leverage to China in Pakistan's affairs.

Beginning with Hambantota, China's BRI has lost much of its sheen, as country after country is seeing through the Chinese game-plan of unequal treaties and ultimate debt-equity-swap, recognizing that ultimately it will only benefit China, not them. In Malaysia, the corrupt government under Najib Razak who is now in jail for swindling billions of dollars of taxpayers' money, had a cozy relationship with China. He had contracted projects worth billions of dollars for the BRI, giving the technology giant Alibaba the right to turn a site near Kuala Lumpur airport into a Digital Free Trade Zone. After winning the May 2018 elections, the new prime minister and veteran politician Mahathir Mohamad had to visit China in August, to tell the Chinese that Malaysia was cancelling the $20bn East Coast Rail Link, a massive BRI project, as well as two oil pipelines in Sabah province. What he did not tell was that these projects not only had hugely inflated costs, but their terms were also heavily skewed in China's favour. "We do not want a situation where there is a new version of colonialism happening because poor countries are unable to compete with rich countries," Mahathir said in Beijing. The East Coast Rail Link, he said, could have been built by a local company with half the $13.4 billion sum his predecessor agreed to pay state-owned China Communications Construction.

In August, 2018, Myanmar scaled back the $7.3 billion Chinese-backed Kyauk Pyu Deepwater port project to only $1.3 billion, "over concerns it is too expensive and could ultimately fall under Beijing's control if Myanmar were to default on its debt." In June 2018, Vietnam witnessed public protests against government's proposal to grant special economic zones to foreign firms with leases of up to 99 years, which stirred fears that it would end up "giving China control over parts of Vietnamese territory." Last month, in Maldives, after the unlikely defeat of strongman Abdulla Yameen who had locked up his opponents in jail including the Supreme Court judges who had ruled against him, the President elect Ibrahim Mohamed Solih has now pledged to review the commitments Yameen had made to China for its BRI projects. During Yameen's regime, China had surpassed India to become the second-largest exporter to the archipelago nation after the United Arab Emirates. The country owes $2 billion debt to China, a

huge burden for a 400,000 plus nation entirely dependent on tourism. Similarly, China owns 82 percent of Djibouti's and 55 percent of Kenya's foreign debt. Nepal is the only country in the neighbourhood now steadily slipping into China's orbit, without probably realizing the dangers.

Even the UN had raised a red flag about financial risks involved in BRI just after the OBOR summit in May 2017, with an UNESCAP study highlighting disproportionate amounts of debts arising from the BRI projects in several countries owed to China compared to their GDPs. The $62 billion CPEC projects in Pakistan are equivalent to 20% of its GDP, and two BRI agreements signed with Kazakhstan in 2013 and 2014 for $52 billion are worth almost 40% of Kazakhstan's GDP. The study also reported that the financing for BRI-related infrastructure projects will require huge Chinese capital investments of the order of $4 trillion, which will have serious social, environmental and political consequences for Asia.

India's was a lone voice amidst global adulation for the BRI, when it refused to participate in the BRI summit in China on account of the CPEC unveiled in 2015 which traverses the POK. But since mid-2017 the democratic QUAD—Australia, India, Japan, and the U.S.—and several European countries have begun to signal major reservations about the BRI. No major European country has signed a formal BRI MoU with China so far, as it fails to meet the European standards for transparency and accountability and retains too much control. The controls extend to the security of Chinese investments through all means, including military. Since 2008, the Chinese military footprint has been extended to the Indian Ocean, through naval patrols and its first overseas military base in Djibouti. Humbantota is a part of this well-orchestrated strategy, as is the BRI, to link the country's "core" national security interests to expansion of its influence and authority. In fact, the Chinese Defense Minister Wei Fendge stated in 2018 that China was "ready to provide security guarantees for the One Belt, One Road project." The Heritage paper of Jeff Smith has quoted General Qiao Liang from the PLA Air Force that Chinese military must "have the capacity to prepare for expeditions along the belt and road", terming the BRI "a tremendous incentive for China's military reforms according to our national interests and needs." Chinese military strategy is inextricably linked with economic coercion, an example of which was recently demonstrated in Australia where there is a raging debate about Chinese influence operations inside the country through "propaganda, political donations, and the mobilization of sub-groups within Australia's Chinese population to urge Canberra to support China's territorial claims in the South China Sea."

The QUAD along with EU nations is holding out a new vision for connectivity as an alternative to BRI, based on democratic and equitable principles of high-quality, transparent, sustainable and inclusive infrastructure along with development finance programmes, responsible and sustainable lending and debt financing, rule of law, and respect for sovereignty and autonomy of nations.

As Prime Minister Narendra Modi had said at the June 2018 Shangri La Dialogue, "There are many connectivity initiatives in the region. If these have to succeed, we must not only build infrastructure, we must also build bridges of trust. And for that, these initiatives must be based on respect for sovereignty and territorial integrity, consultation, good governance, transparency, viability and sustainability. They must empower nations, not place them under impossible debt burden." The bottom-line is trust, and China is facing a huge deficit of global trust at the moment.