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Belt and Road Initiative "BRI"

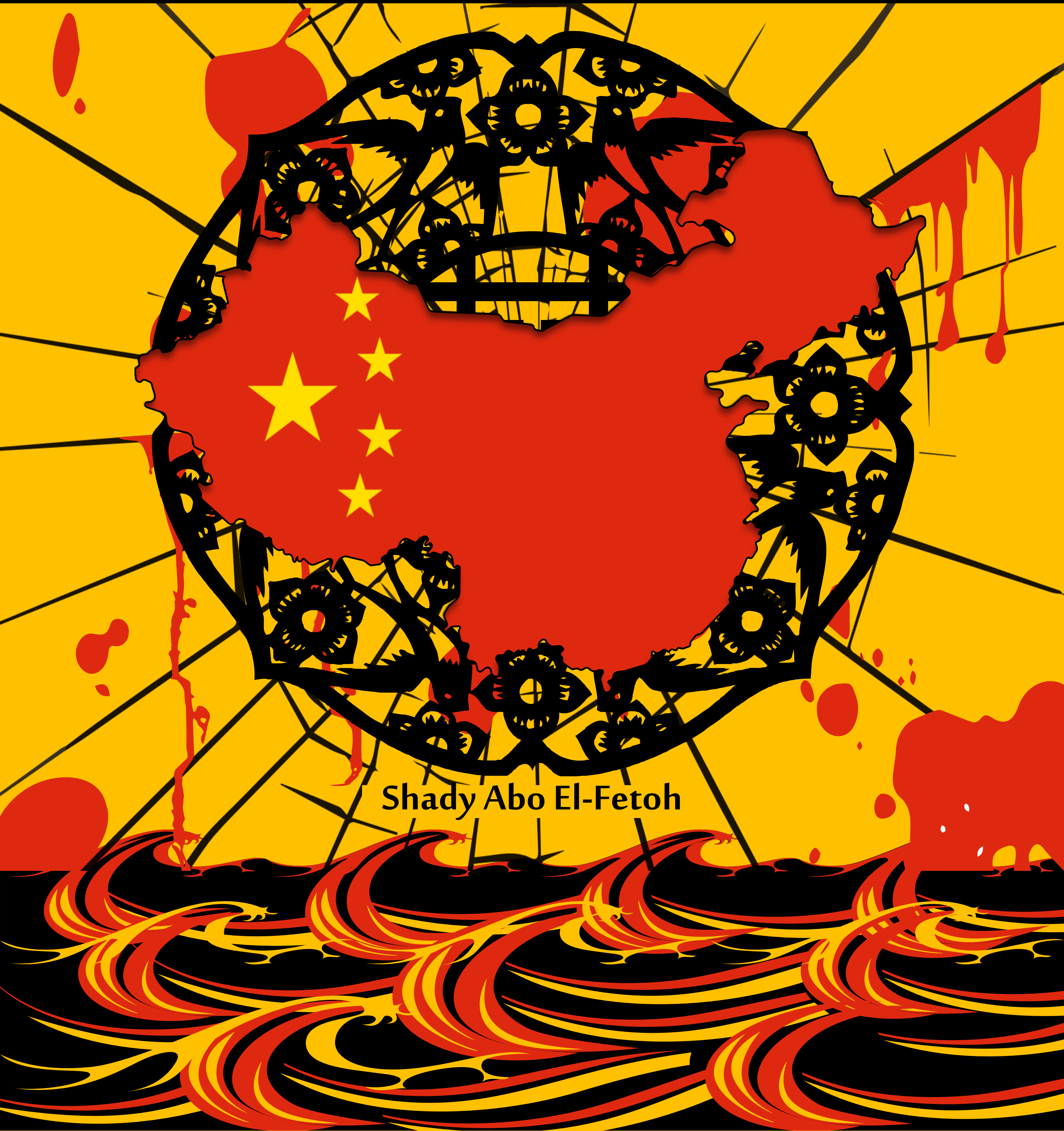
Chinese Debt-Trap Diplomacy

China's Top Debt Traps

SHADWICK International Research Center May, 2019

The Return of Chinese Empire

Chinese Debt-Trap Diplomacy



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The Return of Chinese Empire

Chinese Debt-Trap Diplomacy

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China has been planning for decades to return the Chinese Empire once again and has developed a master plan to dominate the world through the Belt and Road Initiative “BRI”.

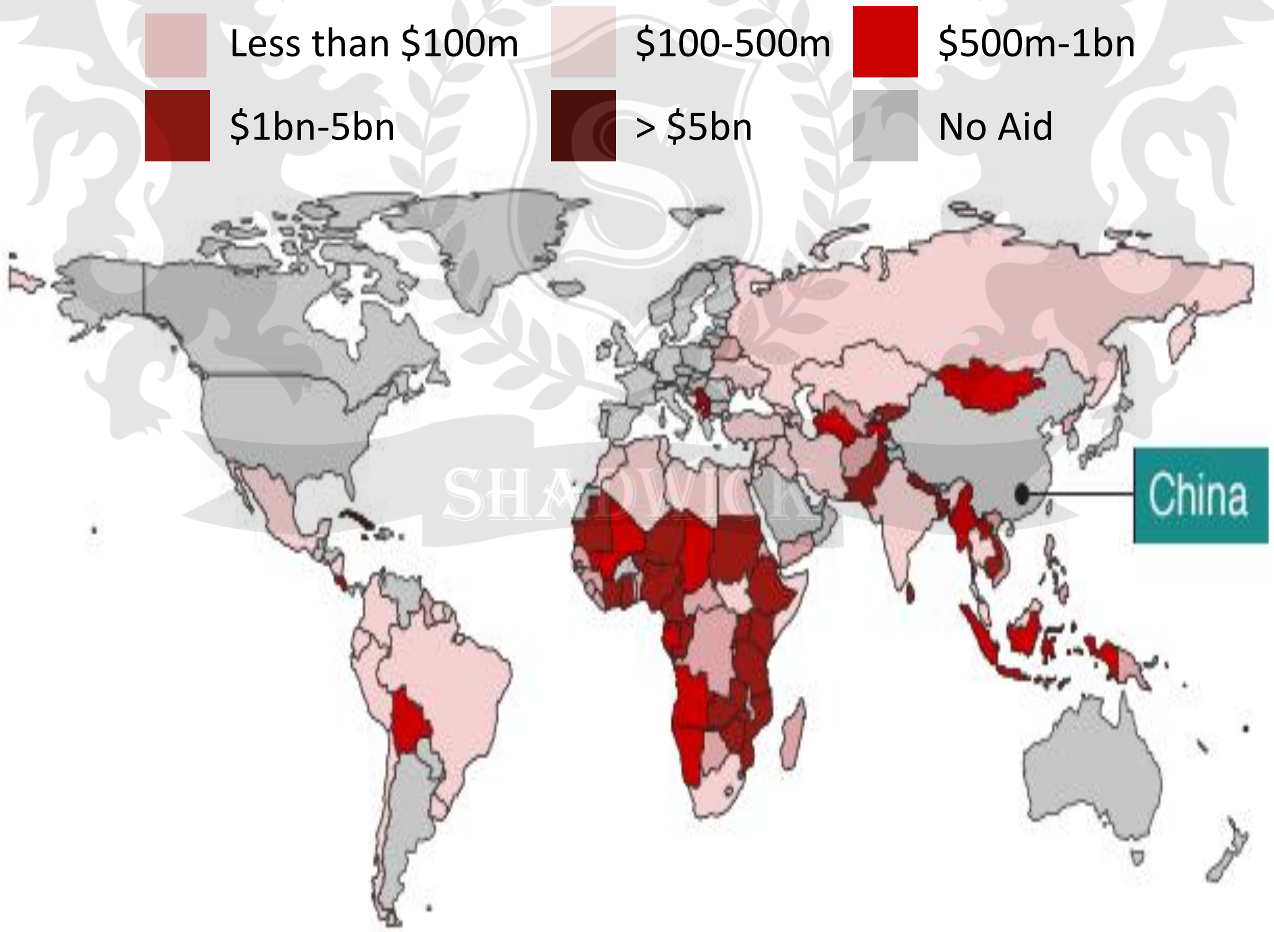
The Return of Chinese Empire

Chinese Debt-Trap Diplomacy

- Since the beginning of the second millennium, China has begun to plan for the restoration of its former empire.
- China began to control its soft economic power, which has gained control in many countries of the world, especially in Africa. That soft power, which was later called the Chinese debt trap.
- Unfortunately, many countries suffer from major economic disasters as a result of falling into that trap.
- The Chinese government is launching Chinese state-owned enterprises to these countries and is backed by billions of dollars from Chinese sovereign wealth funds, and these companies are seeking to buy and buy corrupt officials in those countries to prepare the country to fall into China's debt trap.
- Chinese enterprises are implementing infrastructure projects in that country, financed by high interest and falsehood, and projects are starting to realize huge losses, and then China is trading these countries to acquire assets to repay the debt.
- There are many international examples, including but not limited to (Venezuela - Kenya - Ethiopia - Sri Lanka - Pakistan - Zimbabwe - Ghana - ...).
- In this report, we will first analyze the so-called China's deception, with some examples and what China does with its global partners.

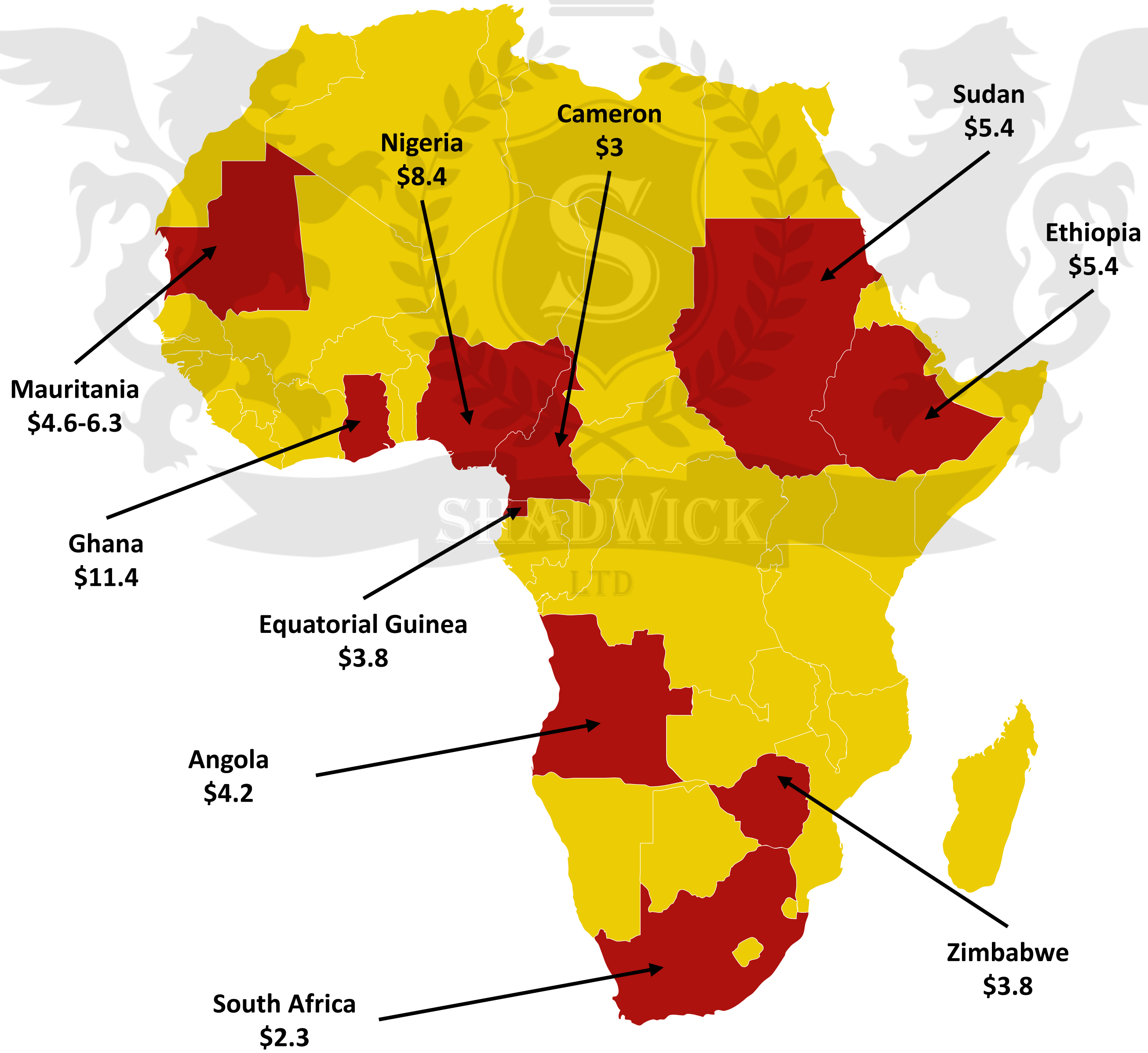
Shady Abo El-Fetoh

Where China Sends Aid, 2000-14



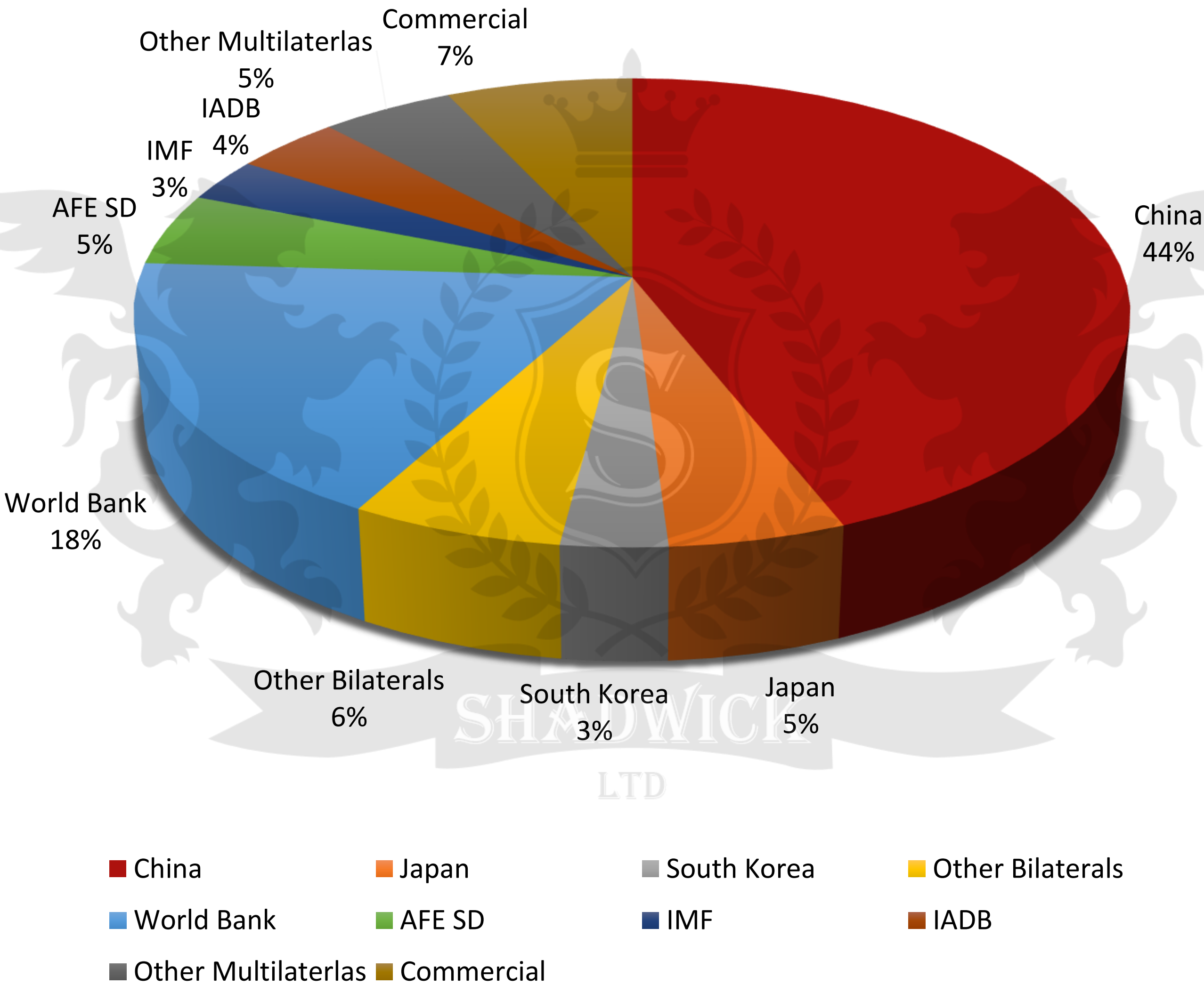
Source: AidData - BBC

China Assistance to Africa: Top Ten Recipients Countries from 2000-11.



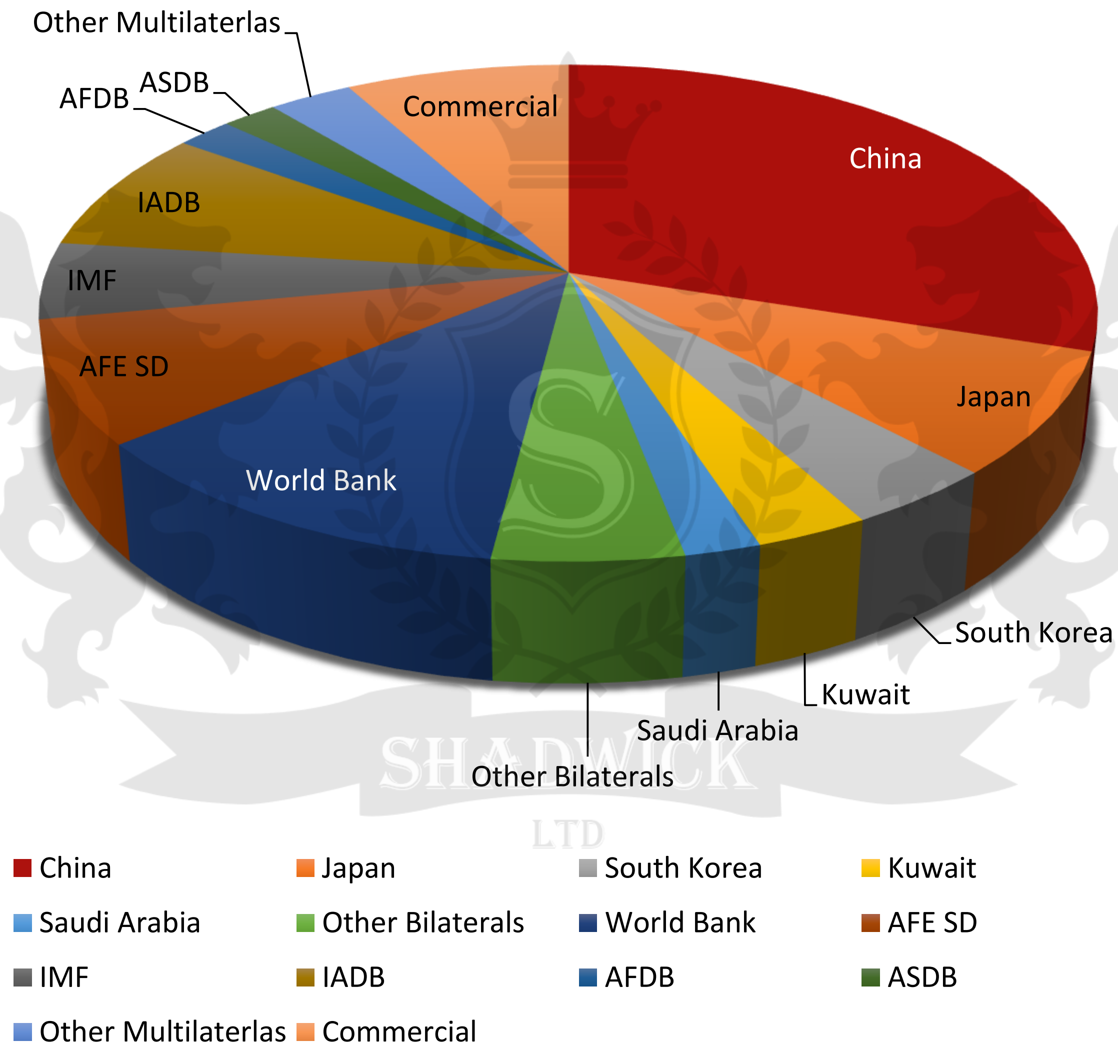
Sources of Loans Announced to Government of Low-Income Developing Countries with High-Risk/Unsustainable Public Debt in 2017, During the Period 2013-17: Figure 1

All 16 Countries
Total Value of loans 2013-17: USD 39.4 billion



Sources of Loans Announced to Government of Low-Income Developing Countries with High-Risk/Unsustainable Public Debt in 2017, During the Period 2013-17: Figure 2

15 Countries excluding Ethiopia
Total value of loans 2013-17: USD 23.3 billion



Countries with Public Debt Ratings of Unsustainable or High-Risk of Unsustainability, 2013 & 2017. Figures 2,3

2017: 32 Countries

Rating	Countries
High-Risk of Unsustainable	Sudan
	Afghanistan
	Albania
	Barbados
	Haiti
	Jamaica
	Djibouti
	Mauritania
	Costa Rica
	Lebanon
	Cyprus
	Chad
	Brazil
	Macedonia
Moderate Risk In 2013	Dominica
	Gambia
	Laos
	Maldives
	Mozambique
	Samoa
Low Risk Unsustainable in 2013	Ethiopia
	Bolivia
	Cabo Verde
	Cambodia
	Trinidad & Tobago

Rating	Countries
No Evaluation In 2013	Zimbabwe
	Belarus
	Central African Republic
	Thailand
	Montenegro

2017: 15 Countries

Rating	Countries
High-Risk of Unsustainable	Sudan
	Afghanistan
	Albania
	Barbados
	Haiti
	Jamaica
	Djibouti
	Mauritania
	Costa Rica
	Lebanon
	Cyprus
	Chad
	Brazil
	Macedonia
	Egypt

How China leaving developing countries into debt ?

- **Pakistan:** need to look at the fallout from projects in Sri Lanka, Tajikistan, and several countries of Africa, all of which are now facing huge debt risks brought by Chinese investments. Let's see what China did to other countries in the past. The recent data from the Centre for Global Development (CGD), suggests China's Belt and Road Initiative (BRI) program has already left several developing countries drowning into debt.
- **Tajikistan:** In 2011, Tajikistan wrote off an unknown amount of loan owed to China in exchange of 1,158 square kilometers of land and this was only 5% of the land what Chinese demanded.
- **Kyrgyzstan:** Kyrgyzstan's debt from infrastructure projects has rose from 62 % of the GDP to 78 %, while China's share of this debt will jump from 37 % to 71 %.
- **Sri Lanka:** In Sri Lanka, China did a debt to equity swap against $8 billion loan at 6% provided for construction of Hambantota Port against 99 years lease for managing port.
- **Venezuela**: China has invested over $60 billion in Venezuela from 2008 up till 2014. All the Chinese loans to Venezuela were commodities-backed, under which Venezuela was obliged to keep supplying China millions of barrels of oil.
- **Nepal:** In November 17, Nepal cancelled a $2.5 billion deal with China for the construction of a much-needed hydroelectric dam, because Nepalese officials were worried that the deal would align the country too closely with Beijing.

Emerging Chinese imperialism in Asia

- China's Belt and Road Initiative raises debt risks not only in Pakistan, but also in some other South Asian countries, Bangladesh, Sri Lanka and Nepal, a Center for Global Development study found. If we look at the patterns of Chinese investments in recent years in the said countries, it appears Chinese propensity for control over domestic markets and natural resources in this region.
- Examining it carefully since the global financial crisis 2008 till 2016, Chinese investments in South Asia have concentrated mostly in two sectors of energy and transport. While 53% of these investments have been in energy projects, around 30% have been in transport schemes. Indeed, except Sri Lanka, where majority of Chinese investments have been in transport, similar investments in Pakistan, Bangladesh and Nepal have been overwhelmingly in energy. The share of energy projects in total Chinese investments in these three countries during 2008-2016 is 68%, 55% and 68%, respectively. Transport accounts for 27%, 36% and 8% of the share of total Chinese investments in these countries.
- Chinese firms are making huge investments in gas projects and port facilities in Bangladesh and coal and road projects in Nepal. In Sri Lanka, transport and energy projects account for 58% and 9% of Chinese investments during 2008-2016. So is the case in coal-fired energy plants in Pakistan where Chinese companies expanding their control.

African nations must wake up to China's new form of colonialism that is chipping away at their critical infrastructure one major asset at a time

Africa's worsening debt position is the result of many factors, including a fall in global commodity prices since 2014, low levels of taxation, and governments' growing tendency to issue Eurobonds:

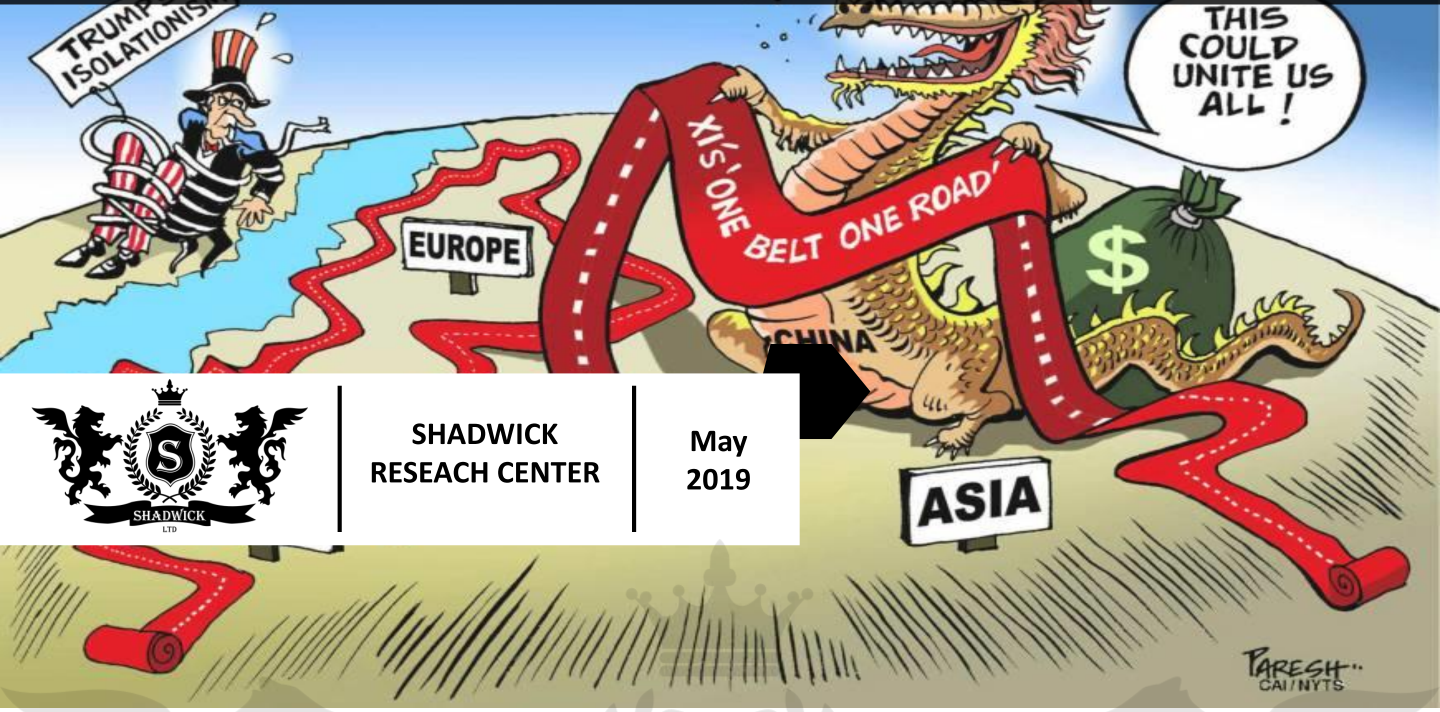
- foreign currency-denominated securities that typically bear higher rates of interest than loans from international financial institutions or bilateral development partners. But China's role is also critical.
- Although the terms of Chinese financing are generally opaque, Johns Hopkins University's China-Africa Research Initiative estimates that China provided $143 billion of loans to Africa between 2000 and 2017, with at least 80 percent coming from Chinese state institutions.
- The Jubilee Debt Campaign, a U.K.-based watchdog, reckons that African governments owe roughly 20 percent of their external debt to the Chinese state—well over half of all African sovereign debt that's owed to foreign governments. At the 2018 Forum on China-Africa Cooperation, held in Beijing in September, Chinese President Xi Jinping announced a target of an additional $60 billion of investment and loans to Africa, which suggests the flow of financing is unlikely to diminish anytime soon.
- Proponents of China's lending model note that much of this money has gone toward building infrastructure, including the roads, bridges, ports and power plants that form the building blocks of Africa's industrialization. But it also comes with hidden costs. Critics say the personalized nature of Chinese deal-making—which lacks the transparency demanded by the World Bank, the IMF and other lenders from the West—frequently involves kickbacks to corrupt officials and too often results in vanity projects that aren't really needed. In many cases, governments commission Chinese firms for projects without competitive tenders, leading to work that is overpriced.

African nations must wake up to China’s new form of colonialism that is chipping away at their critical infrastructure one major asset at a time

- At other times, Chinese entities, benefiting from scale and Chinese state finance, underprice their competition, sidelining local firms and delivering shoddy work because they’ve cut too many corners.
- As the loans have piled up, Western officials have increasingly accused the Chinese government of setting “debt traps”:
  financing projects with high risks of default, with the ultimate aim of compelling states to relinquish strategic resources. In an October speech, U.S. Vice President Mike Pence railed against “Chinese debt trap diplomacy,” arguing that the benefits of Chinese lending “flow overwhelmingly to Beijing.”
- Grant Harris, a senior Africa official in the Obama White House, has called Chinese debt the “methamphetamines of infrastructure finance,” writing that it’s “highly addictive, readily available, and with long-term negative effects that far outweigh any temporary high.”
- Concerned members of civil society within Africa frequently look to Sri Lanka as a worrisome potential precedent.

In this paper we analyze the following points:

Belt and Road Initiative “BRI”.



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The Silk Road Economic Belt and the 21st Century Maritime Silk Road.

- It was known as the One Belt One Road (OBOR) and the Silk Road Economic Belt and the 21st Century Maritime Silk Road until 2016.
- The Chinese government calls the initiative "a bid to enhance regional connectivity and embrace a brighter future".
- Some observers see it as a push for Chinese dominance in global affairs with a China-centered trading network. The project has a targeted completion date of 2049, which coincides with the 100th anniversary of the People's Republic of China.

Description:

- The **Belt and Road Initiative** (**BRI**) is a global development strategy adopted by the Chinese government involving infrastructure development and investments in 152 countries and international organizations in Asia, Europe, Africa, the Middle East, and the Americas. "Belt" refers to the overland routes for road and rail transportation, called "the Silk Road Economic Belt"; whereas "road" refers to the sea routes, or the 21st Century Maritime Silk Road.
- The Belt and Road Initiative is about improving the physical infrastructure along land corridors that roughly equate to the old silk road. These are the belts in the title, and a maritime silk road. Infrastructure corridors encompassing around 60 countries, primarily in Asia and Europe but also including Oceania and East Africa, will cost an estimated US$ 4–8 trillion.

- The initiative has been contrasted with the two US-centric trading arrangements, the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. The projects receive financial support from the Silk Road Fund and Asian Infrastructure Investment Bank while they are technically, are coordinated by the B&R Summit Forum.

Political control:

- The Leading Group for Advancing the Development of One Belt One Road was formed sometime in late 2014, and its leadership line-up publicized on February 1, 2015. This steering committee reports directly into the State Council of the People's Republic of China and is composed of several political heavyweights, evidence of the importance of the program to the government.
- In March 2014, China called for accelerating the Belt and Road Initiative along with the Bangladesh–China–India–Myanmar Economic Corridor and the China–Pakistan Economic Corridor in his government work report presented to the annual meeting of the country's legislature.
- On March 28, 2015, China's State Council outlined the principles, framework, key areas of cooperation and cooperation mechanisms with regard to the initiative.

Initial objectives: China's Says

- The stated objectives are to construct a unified large market and make full use of both international and domestic markets, through cultural exchange and integration, to enhance mutual understanding and trust of member nations, ending up in an innovative pattern with capital inflows, talent pool, and technology database. The initial focus has been infrastructure investment, education, construction materials, railway and highway, automobile, real estate, power grid, and iron and steel.

- Already, some estimates list the Belt and Road Initiative as one of the largest infrastructure and investment projects in history, covering more than 68 countries, including 65% of the world's population and 40% of the global gross domestic product as of 2017.
- The Belt and Road Initiative addresses an "infrastructure gap" and thus has potential to accelerate economic growth across the Asia Pacific area, Africa and Central and Eastern Europe: a report from the World Pensions Council (WPC) estimates that Asia, excluding China, requires up to US$900 billion of infrastructure investments per year over the next decade, mostly in debt instruments, 50% above current infrastructure spending rates.
- The gaping need for long term capital explains why many Asian and Eastern European heads of state "gladly expressed their interest to join this new international financial institution focusing solely on 'real assets' and infrastructure-driven economic growth".

The land corridors include:

- The New Eurasian Land Bridge, which runs from Western China to Western Russia through Kazakhstan, and includes the Silk Road Railway through China's Xinjiang Autonomous Region, Kazakhstan, Russia, Belarus, Poland and Germany.
- The China–Mongolia–Russia Corridor, which will run from Northern China to the Russian Far East. The Russian government-established Russian Direct Investment Fund and China's China Investment Corporation, a Chinese government investment agency, partnered in 2012 to create the Sino-Russian Investment Fund, which concentrates on opportunities in bilateral integration.
- The China–Central Asia–West Asia Corridor, which will run from Western China to Turkey.
- The China–Indochina Peninsula Corridor, which will run from Southern China to Singapore.

Chinese Debt-Trap Diplomacy.

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- **What is China debt trap diplomacy?**

  Debt-trap diplomacy is a type of diplomacy based on debt carried out in the bilateral relations between countries. ... Yet many countries have borrowed heavily from China and others. Any new FOCAC loan pledges will likely take Africa's growing debt burden into account.
- **What is China debt trap policy?**

  The current debt trap policy is a brilliant expansionary plan which works by lending to developing economies to build infrastructure; which would create wealth (for Chinese companies), generate employment (for Chinese citizens), increase trade flows (of Chinese goods) and consequently lead to gain in geo-political ...
- **Who owns most of China's debt?**

  With China's 2014 GDP being US$ 10,356.508 billion, this makes the government debt of China approximately US$ 4.3 trillion. The foreign debt of China, by June 2015, stood at around US$ 1.68 trillion, according to data from the country's State Administration of Foreign Exchange as quoted by the State Council.
- **Is BRI a debt trap?**

  It's a (Debt) Trap! ... While the BRI provides vital infrastructure funding to developing countries, it also leaves many with unsustainable debt.

China's Debt-Trap Diplomacy Hide Hegemonic Intentions and Challenges to States' Sovereignty.

- Debt-trap diplomacy is a type of diplomacy based on debt carried out in the bilateral relations between countries. It involves one creditor country intentionally extending excessive credit to another debtor country with the alleged intention of extracting economic or political concessions from the debtor country when it becomes unable to honor its debt obligations (often asset-based lending, with assets including infrastructure). The conditions of the loans are often not made public and the loaned money is typically used to pay contractors from the creditor country.
- More recently analysts in media often reference the practice with respect to the foreign policy of China, especially under Paramount Leader Xi Jinping. Xi has expanded China's foreign aid, infrastructure investment, energy engagement and interconnectedness. China is a world leader in infrastructure development, having undergone rapid economic growth since its reform and opening under Deng Xiaoping due to its infrastructure-based development strategy. Some commentators fear that China is buttressing repressive regimes, exploiting developing countries in a neocolonialist manner through high-rate loans, and most of all seeking to coerce the countries invested in to align with on key strategic and military issues.
- China has been accused of requiring secret negotiations leading to non-competitive pricing on projects where bidding must be go to Chinese state-owned or linked companies that charge significantly higher prices than would be charged on the open market, and bidding must be closed.
    - The key is the secretive conditions of the loans as well as their high interest rates.
    - Many Chinese loans associated using Chinese contractors in strategically located developing countries to build infrastructure projects with China's Belt and Road Initiative.

Filling the Infrastructure Gap

- Still, just because China benefits doesn't automatically mean the recipient country doesn't. Chinese infrastructure projects are filling a serious need — the Asian Development Bank estimates that Asia alone needs about $26 trillion of investment in infrastructure until 2030 in order to sustain current growth rates.
- According to the International Monetary Fund, a lack of adequate infrastructure is one of the single biggest hurdles for growth and development in Africa and Latin America. So, according to Haenle, the BRI's focus on developing infrastructure could bring about "a clear 'win-win' situation."
- "There is nothing inherently wrong about infrastructure investment or promoting global connectivity in the developing world," Haenle argues.
- There is "a huge gap in the money that is needed for development and the money that is out there. Particularly in the infrastructure," Marina Rudyak says. Rudyak has worked in development for years and is now finishing her Ph.D. on Chinese development cooperation at Heidelberg University in Germany. Multilateral institutions and current donors cannot fund all necessary development projects, so there is still plenty of space for China besides the traditional donors: "It is not the question of American *or* Chinese money, EU *or* Chinese money. Africa needs *all* of that."
- Van der Putten explains that international development banks, like the African Development Bank and the World Bank, have limited funds available. This is not enough to finance all necessary infrastructure development. Western commercial banks cannot provide risky loans anymore since the economic crisis. "China's role is crucial here," van der Putten says. "Not only is it an alternative source of financing, it is also a really big one."

Filling the Infrastructure Gap

- China's development banks, such as the China Development Bank and the China Exim Bank, make project financing available against normal tariffs. "This is not development aid," van der Putten emphasizes, but it has some of its characteristics. "These are risky loans to developing countries, meant to improve their infrastructure."

The China Model of Lending

- Chinese money fills a gap in international infrastructure funding. So why is it causing debt and debate? For one thing, most BRI funding is based on state-to-state structures. This can create challenges for sovereign debt, with possible implications for bilateral ties.
- Usually, loans are guided by standards determined by multilateral institutions like the World Bank, the International Monetary Fund, or multilateral mechanisms like the Paris Club. But China is not a member of the Paris Club, so it doesn’t need to inform members on its credit activities and it doesn’t have to follow any standards.
- “Without a guiding multilateral or other framework to define China’s approach to debt sustainability problems, we only have anecdotal evidence of ad hoc actions taken by China as the basis for characterizing the country’s policy approach,” the CDG report concludes.
- Instead of universal standards, “China generally follows local laws when it lends for development projects,” Scott Morris explains. Morris is one of the authors of the CDG report on debt among BRI countries. “This can mean high standards when local laws are strong and very low standards when laws are weak.”
- The difference with loans from institutions like the World Bank, is that these institutions assess local laws and will impose their own protections if local laws are too weak. China leaves this responsibility with partner-governments and “follows whatever local laws say,” Morris says.
- “China is also not as sensitive to debt sustainability issues, such as that lending terms are not strictly aligned with the country’s debt risks,” he adds. To what extend recipient countries benefit from Beijing’s loans therefore strongly depends on their own standards.

China Always Wins

- With its idea of “win win-cooperation,” Beijing always has something to gain from its funding as well. If political leverage is merely a useful side-effect, what does China have to gain from the billions of dollars it spends on infrastructure abroad?
- China’s model of development is based on trade. Better infrastructure is meant to increase trade, which spurs development. The BRI aims to connect and develop China’s western regions, but it also aims to develop other markets to its own advantage. The West has reached its growth potential and is not going to buy more from China. But Africa, with its large, young and growing population, is the continent with the real growth potential. By spurring development in African countries, China wants to develop and open up a new market on the continent.
- Moreover, infrastructure development projects are “an investment in a better relationship between the Chinese government and the government of the recipient country,” van der Putten explains. “By handing out the loan, there is a diplomatic gain already, because it tightens the ties with that particular country. That is a gain for China that cannot be expressed in money.”
- What *can* be expressed in money is the work that China provides for its own construction companies through BRI projects. Often Chinese policy banks make money available for a particular project in a recipient country on the condition that Chinese companies execute the project. “So, for a large part, the money flows from Chinese policy banks to Chinese construction companies,” van der Putten explains. “The railroad is being built, the highway is being built. Maybe it will never be used, but those construction companies reached their goal.”

Price for Beijing

- The debt problems among the BRI countries also come at a price for China. Between 2000 and 2014, Beijing spent $13 billion on actions relating to debt. With debt rescheduling it mitigates risks by extending the terms on loans.
- China also carries significant risk itself when lenders default on their loans, according to Morris. Although “debt is essential for infrastructure investment,” Morris says, “large amounts of debt carry significant risks and need to be carefully managed by lenders and borrowers.”
- Most importantly, the international critique is also creating a “huge problem in China,” Rudyak says. “The Chinese general public is highly critical of Chinese aid and Chinese loans.” China is not getting its money back *and* the country is being criticized by the international community. So why, an increasing number of Chinese ask, doesn’t Beijing spend this money on the poor at home?

China and Multilateral Lending

- In a multilateral context, China does work according to World Bank standards. The Asian Infrastructure Investment Bank (AIIB) “totally” fits the rules set in the Bretton Woods system, Rudyak says. “If you look at the real work they are doing, other than that it was founded or proposed by the Chinese and that it sits in Beijing, next to all other Chinese policy banks, it’s a normal, boring, multilateral bank.”
- The AIIB channels a lot less money than China’s other policy banks, such as the China Development Bank or the China Exim Bank. Some critics argue that China wants to build a separate system next to the current dominant order or Bretton Woods institutions such as the World Bank and the IMF. With its own policy banks, Beijing can circumvent the current order and the standards and regulations that go hand in hand with it.
- Van der Putten doesn’t think China wants to replace the World Bank. “When it comes to development funding and infrastructure funding, China just uses all means available,” he says. But Beijing can use its growing lending clout to gain more influence in the World Bank.
- “It is inevitable that China will also seek to have its global stature and influence commensurate to its relative power,” Haenle says. In institutions like the World Bank, Beijing still doesn’t have the level of influence it would like to have. “Beijing is taking on greater leadership in the Bretton Woods institutions and United Nations, but also forging its own institutions that it believes are better adapted to the realities of today.”

China and Multilateral Lending

- This view is shared more and more by other world leaders as well. In calling for efforts to modernize institutions in order to reflect the current balance of power, rather than create new ones, German Chancellor Angela Merkel indirectly spoke to China. “From our part of the world, influenced by Western values, we should be ready to look at established institutions and see the balance of power realistically reflected with them,” she said at the World Economic Forum in January 2019. “We have to accept new realities and reforms, and a new approach that will address those who harbor doubts about the international system.”
- By setting up new institutions, “China does not want to upend the international order, it wants to revitalize it,” Haenle believes. “I have had one Chinese friend compare Beijing’s view of the international system to that of temples. They’d like to build new temples, repair old temples, but they don’t want to knock any temples down.” It wouldn’t be logical for China to overturn the international system either, as “China has been one of the greatest beneficiaries of the global order over the past four decades.”

China's "Debt-Trap Diplomacy":

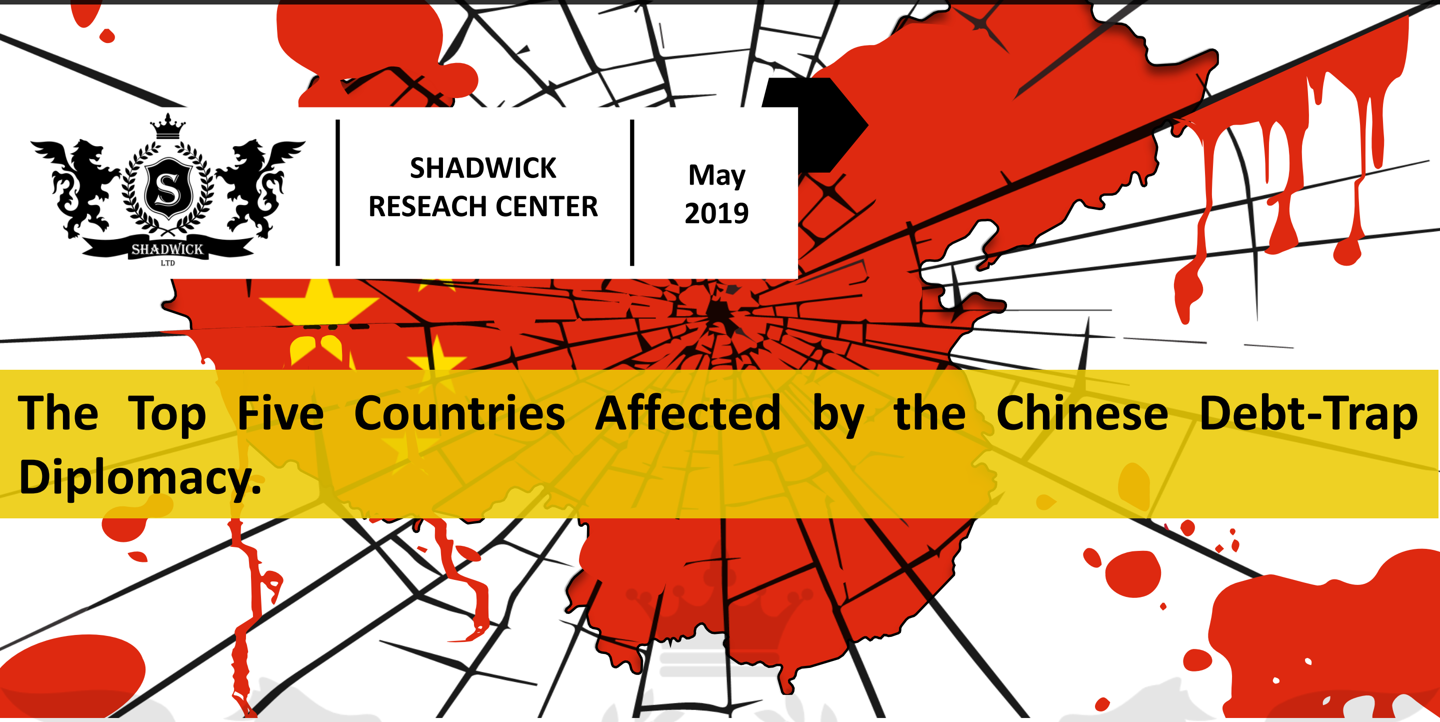
- "Some believe China engages in 'debt-trap diplomacy' through the BRI, ensnaring developing countries with debt dependence and then translating that dependence into geopolitical influence," says Paul Haenle, former U.S. government adviser and director at the Carnegie-Tsinghua Center, summarizing much of the critique.
- "Particular concerns around China's actions in Sri Lanka, Pakistan, and Malaysia are central in the debt trap debates. China acquired 99 years of operating rights for the Hambantota Port in southern Sri Lanka after costs for the project spiraled out of control, forcing Colombo to give up control of the port in return for a Chinese bailout," Haenle explains.
- Finding alternatives to payment when countries cannot afford to pay back their loans is not a new practice for China. Back in 2011, China reportedly wrote off Tajikistan's debt in exchange for 1,158 square kilometers of disputed territory, the CDG report says. But last year "the debt-trap argument gained further credence after Malaysian Prime Minister Mahathir Mohamed cancelled $23 billion in BRI projects and warned China against falling prey to 'a new version of colonialism,'" according to Haenle.
- Some Western nations were quick to play into this sentiment. Rex Tillerson, the U.S. secretary of state at the time, warned against the Chinese development approach in a speech at George Mason University in Virginia. According to Tillerson, China's strategy "encourages dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty, denying them long-term, self-sustainable growth."
- Frans-Paul van der Putten has been following China for 12 years now at Clingendael, a Dutch international relations think tank. He considers it unlikely that creating debt among its Belt and Road partners is a deliberate and thought-through Chinese strategy, with the intention to swap debt for resources or diplomatic support later. But Beijing isn't doing much to prevent this from happening either. This fits China's usual pragmatic approach, according to van der Putten: "it doesn't really matter whether those countries can pay back later, because if they can't, we'll find another way to benefit." China is not afraid to use the debts as leverage and it deals with its debtors in an ad hoc and case-by-case manner.

Intentions and Politics

- The Bretton Woods institutions "are a mirror of post-1945 and the world has changed," Rudyak says. "But now of course the problem with the reform is that many of the countries that want to have a bigger say are not liberal democracies."
- Morris and his co-authors argue that Beijing should multilateralism the BRI in order to streamline China's increasing efforts in international development funding and minimize debt problems. "China has valued its engagement with the multilateral institutions and as a result it's an influential relationship. I think these institutions stand the greatest chance of convincing and helping China to improve its project and lending standards," according to Morris.
- China's recent step to open a joint Capacity Development Center with the IMF, to train experts on policy and economics so countries can better decide whether to take up loans, is therefore an encouraging move.
- "The fact is that China has a lot of development knowledge to share. From going to poverty to being where China is now, is something none of us in the West did in the same way and on the same time scale," Rudyak argues. Criticism of China is often based on its political system. This is not to say that there is nothing there to criticize about the political system, but "inside this system, there are many people who are genuinely passionate about what they do and who really want to share their knowledge with the world."
- Instead of blanket criticisms of "debt trap diplomacy," we should better deconstruct what specific projects are going wrong or right and why. "The reason is not that simple [as saying it's] because the Party wants it," Rudyak says. When we only talk about the Party, "we are neglecting those who genuinely want to change something, [those] who came out of poverty and now say: I want to help others to be less poor."

Sophie van der Meer is a political scientist and journalist from the Netherlands.

China’s Top Debt Traps.



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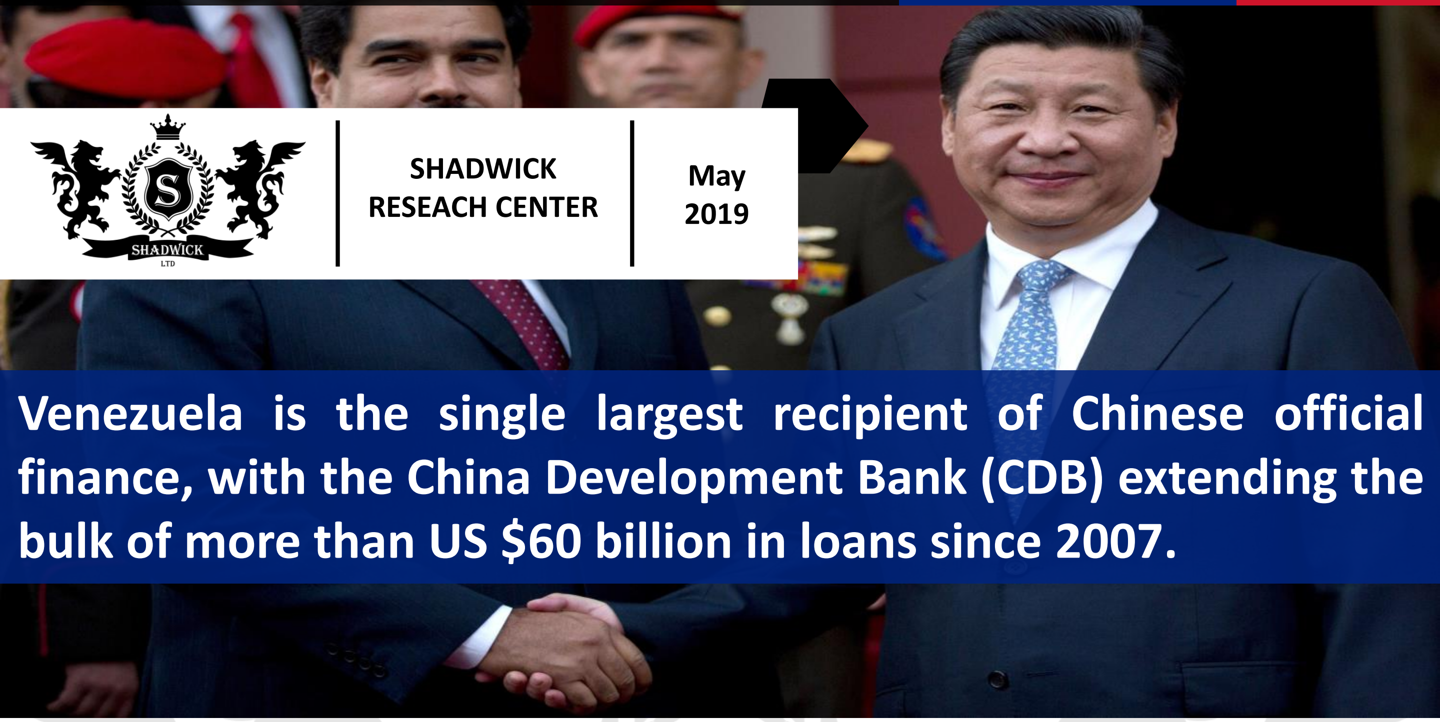
The Top Five Countries Affected by the Chinese Debt-Trap Diplomacy.

- **VENEZUELA**
  Is the single largest recipient of Chinese official finance, with the China Development Bank (CDB) extending the bulk of more than US $60 billion in loans since 2007.
- **PAKISTAN**
  US$19 billion worth of loans to **Pakistan**, part of the China–Pakistan Economic Corridor (CPEC) and other projects. A New York Times investigative report from December 2018 reported on emerging military dimensions of the investments, which it termed a debt-trap and stated are under poor governance and transparency.
- **ETHIOPIA**
  Ethiopia negotiating with China as to how to manage the debt, to make it sustainable and try to reduce some distress that comes from debt… and there is substantial progress.
- **ZAMBIA**
  ‘China Must Be Stopped’: Zambia Debates the Threat of ‘Debt-Trap’ Diplomacy
- **KENYA: $ 3.8 Billion**
  China Seized Some Major Port of Mombasa in The African Nation of Kenya, As A Result of Debt-Trap Diplomacy
- **SRI LANKA**
  Sri Lanka’s failure to pay debt obligations and a subsequent 99 year lease given to China in place of payment



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Venezuela is the single largest recipient of Chinese official finance, with the China Development Bank (CDB) extending the bulk of more than US $60 billion in loans since 2007.

- Venezuela and China are, respectively, the site of the world’s biggest oil reserves and the world’s biggest oil importer. The original commercial rationale for the loans (or for “win-win” ties, in Chinese rhetoric) was to finance long-term oil partnerships between the two nations.
- The China-Venezuela loans-for-oil relationship has gone badly wrong. Certainly Chinese loans to Venezuela, especially in the aftermath of the global financial crisis, facilitated deeply flawed economic decision-making at a time when Chávez may have otherwise had to adopt more practical polices to tap into international credit. In this sense, CDB lending to Venezuela both before and after Chávez’s death has fed into the Venezuelan government’s own disastrous appetite for unsustainable and unaccountable debt.
- China’s lending to Venezuela stands in clear contrast to some other examples meant to highlight China’s debt-trap diplomacy. This lending has not only greased the wheels of Venezuela’s path to self-immiseration, but it has also clearly undermined China’s own economic and geostrategic interests. Specifically, the collapse of Venezuela’s oil sector, and with it the entire economy, has meant that the country has been unable to make loan repayments and oil shipments to China according to the original loan terms. If this weren’t enough to undermine Chinese energy security interests, the collapse of Venezuelan oil exports has contributed to recent rises in global oil prices, thus contributing to increases in China’s massive oil import bill.

Conclusion

How China's Sovereign Risk Assessment Changed in Venezuela:

- This growing opportunity cost of borrowing from China has encapsulated the China-Venezuela lending relationship since oil production began to falter in 2013–14. Mired in its historically devastating crisis.
- Venezuela has struggled to repay its outstanding Chinese debts because of its dwindling state oil production. China has consequently questioned whether their commercial approach to lending is sufficient, while increasingly incorporating a more traditional macroeconomic approach to sovereign risk. For example, China reportedly conditioned its recent $5 billion in joint-venture financing on the government's currency devaluation30 — a far cry from non-intervention in Venezuelan affairs.

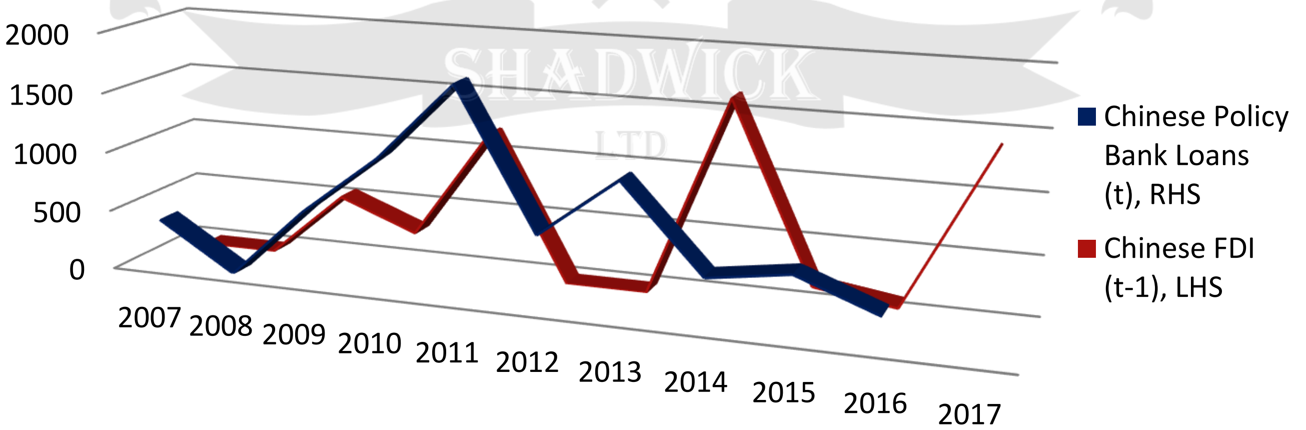
What has prompted China's about-face as a creditor?

- Given the importance that China places on state-to-state relations, its shifting creditor position reflects politics as much as economics. China views its state-to-state cooperation as the diplomatic entryway into new creditor-debtor relations, but the administrative channel is also a lifeline for resolving investor disruptions and commercial disputes.
- From a political perspective, China has a long-history of cross-ideological relationships in Latin America, but little tolerance for political instability. For instance, Argentina's regime stability has allowed China to forge business deals across the political aisle with both President Mauricio Macri, a center-right president, and Cristina Fernández de Kirchner, a leftist former president.

Conclusion

- It also has not shied away from doing business in Brazil after the presidential victory of far-right candidate, Jair Bolsonaro. According to a Chinese Foreign Ministry Spokesperson, Lu Kang, "China congratulates Brazil on a smooth presidential election and congratulates Mr. Bolsonaro for his election…China has always aimed to develop the China-Brazil relationship from a strategic and long-term perspective. We are willing to maintain and further develop our current partnership with Brazil in order to better serve the people of our countries, as well as striving to maintain regional peace and stability for the world."

Figure 1: China's Finance and Investment into Venezuela (US$ millions, New Financing)



Note: Policy bank loans include financial commitments that are rolled-over in any given year (see *Total Bilateral Financing* from Table 1).

Sources: Calculated from Torino Capital data; China-Latin American Finance Database (Inter-American Dialogue), CEIC data, MOFCOMM, SEC, China Global Investment Tracker, AID data, and the Atlantic Council.

Conclusion

<u>How China’s Sovereign Risk Assessment Changed in Venezuela:</u>

What has prompted China’s about-face as a creditor?

- China was more circumspect regarding Venezuela’s political transition. For more than a decade, China had extended new financial commitments to Venezuela, even during periods of volatility such as the global financial crisis and the 2014 commodity downturn. However, the scale of its new financial commitments eased over time, particularly since former President Hugo Chávez was first diagnosed with life threatening cancer in 2011 and was then succeeded by Nicolás Maduro in 2013 (see Figure 1). Chinese FDI and trade finance continued with news of a successful transition. However, public bankers have been more skeptical of Maduro’s ability to manage the economy and repay Venezuela’s debts, particularly as Venezuela’s cash crunch stymied repayments on both its ‘loan-for-oil’ deals, and the financing of its $7.5 billion high-speed railway project.

In the case of Venezuela, however, China was ensnarled by a creditor trap in Venezuela, much more than Venezuela was caught in a debt trap by China.

Conclusion

Table 1: China's Lines of Credits to Venezuela

China's Lines of Credits to Venezuela	From 2007 till 2017											Total
	07	08	09	10	11	12	13	14	15	16	17	
Original Tranches (A, B, C, Great Fund) (Billions USD)	4.0	0.0	4.0	8.9	11.4	0.0	5.0	0.0	0.0	0.0	0.0	33.3
Renewed Tranches (A, B, C, Great Fund) (Billions USD)	0.0	0.0	0.0	0.0	4.0	4.0	0.0	4.0	5.0	0.0	0.0	17.0
Total Central Government Financing	4.0	0.0	4.0	8.9	15.4	4.0	5.0	4.0	5.0	0.0	0.0	50.3
Direct Joint-Venture Financing	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0	0.0	2.2	0.0	6.2
Other Bilateral Credits	0.0	0.0	1.5	1.1	1.5	0.5	1.1	0.0	0.0	0.0	0.0	5.7
Total Bilateral Financing	8.0	0.0	9.5	18.8	32.3	8.5	15.1	8.0	10.0	2.2	0.0	62.1
Amount (% of Total for LatAm)	83.3 %	0.0%	35.0 %	41.1 %	87.5 %	64.3 %	72.1 %	40.0 %	20.3 %	10.4 %	0.0%	41.4 %
No. of Loans	1	0	3	2	3	2	4	1	1	1	0	17

Sources: Calculated from data supplied by Francisco Rodriguez, Torino Capital; Venezuela's Official Gazettes; and the Inter-American Dialogue's China-Latin America Database.

Conclusion

- Policy banks have not lent the central government any new funds directly since 2015, instead channeling funding toward joint ventures (see Table 1). Policy banks have also conditioned such new funding on 'monitoring' of oil production and economic reforms. Beyond these financial institutions, state-owned insurance firms, such as Sino sure, have increasingly adopted macroeconomic risk metrics that are similar to Western investment banks and multilateral institutions in their project evaluations.

> Compared to market-based creditors who often want short term policy assurances to ensure higher near-term financial returns, Chinese creditors seek to promote long-term commercial opportunities by tying their investments to guaranteed contracts for its state-owned firms, Chinese content requirements to stimulate machinery exports, or commodity guarantees.

- In summary Chinese lenders have become more circumspect about their Venezuelan lending, which reflects their learning curve as a creditor. After mispricing Venezuelan investment risk, China appears to be placing a growing emphasis on macroeconomic assessment relative to commercial project evaluation.
- Notably, the bulk of China's Venezuelan lending occurred during the leadership of President Hu Jintao, who publicly prioritized China's global commerce above its geopolitics.

Conclusion

- Between 2010 and 2013, Venezuela accounted on average for about 64 percent of China’s new approved lines of credits to Latin America. By contrast, between 2014 and 2017, Venezuela represented only 18 percent of China’s total new lines of credits to the region (See Table 1). In recent years, China’s current president, Xi Jinping, has taken a more assertive foreign policy posture internationally. However, Xi’s shift in diplomatic tone has aligned with a period where China has been unwinding its financial commitments to Venezuela, a pattern that contradicts the premise of the debt escalation associated with debt-trap diplomacy.

Conclusion

- On the eve of the global financial crisis, President Chávez and President Hu laid the foundations of the China-Venezuela state-to-state relationship when they crafted the China-Venezuela Joint Fund (FCCV). The timing was good for both governments. For Venezuela, President Chávez was able to court a creditor to help expand the Venezuelan state, particularly his development plan and social reforms under the banner of "Socialism of the XXI Century." For China, Venezuela's abundant natural resources and energy supplies could help China secure long-term access to these vital national assets.
- The relationship worked even during hard times, given President Chávez's willingness pragmatically to manage the economy when necessary. In contrast, Maduro was more ideological than Chávez, refusing to reform the Venezuelan economy when it buckled under the weight of the global commodity correction in 2014.
- Maduro wanted an ideological partner in China, but China was first and foremost a commercial partner. While China's foreign policy emphasized 'nonintervention' in sovereign affairs, it also placed the onus of economic decision on local governance choices. From China's perspective, even if its policy banks have been willing financiers of Venezuela, the Bolivarian carries the burden of engineering its own economic crisis. For this reason, China has been steadily unwinding its financial ties over the last half-decade.
- In U.S. policymaking circles in recent years, many practitioners have viewed China as more culpable, suggesting that China's foreign economic policy reflects the pernicious pattern of debt-trap diplomacy. According to this perspective, China's financial sirens helped to shipwreck the Venezuelan economy. In other words, China, who emerged as a major Latin American financier for energy, mining, and infrastructure projects, used its financial might to entice Venezuela to accumulate large and costly loans.

Conclusion

- In exchange for these financial offerings, China increased its economic and political leverage by trapping the oil-rich nation in an unsustainable debt spiral. However, in many ways, China was entangled in a creditor trap more than Venezuela was captured in a debt trap. China's tendency to bank unconditionally has a diplomatic appeal throughout Latin America, but left Chinese creditors exposed to moral hazard risk in the case of Venezuela.
- Pursuing unconditional lending meant that China's policy banks had eventually to lend defensively to help overcome the errors of Chávez's and Maduro's governance deficit. They provided debt relief to a political regime that was gravely mismanaging the economy in hopes of eventual debt repayment. Basically, China's lack of policy conditionality had meant a tacit acceptance of Venezuela's massive balance sheet expansion during China's decade-long presence from 2004 to 2014. Rather than imposing policy conditionality on debtor governments, China's public bankers attempted to secure their Venezuelan loans commercially with commodity guarantees. China's policy banks thus based their overseas lending to Venezuela on a non-Western interpretation of sovereign risk, which emphasized the expansion of credit in developing countries to create commercial opportunities.
- However, as Venezuela experienced an unprecedented institutional and economic collapse, China became a reluctant, defensive lender.

Conclusion

- China had paid a high cost for its creditor learning curve in Venezuela as the country fell into arrears on both its oil collateral and its financing of its transport infrastructure. To mitigate their high exposure during the Maduro years, China's policy banks thus steadily tempered new state-to-state lending. However, they also had to incur a series of costs to facilitate debt repayment, including providing temporary debt relief, restructuring the terms of the country's outstanding loans, reducing required oil shipments, and relaxing repayment deadlines.
- In response to these costs, policy banks have increasingly reoriented their hemispheric strategy toward equity rather than debt financing, and also encouraged its firms to progressively focalize their Venezuela investment in the energy sector.
- In the meantime, China continues to deepen its diplomatic ties with Venezuelan actors across the political spectrum, with the aim of fostering its long-term commercial interests beyond the current crisis. For example, it has signaled its willingness to work with Venezuela's opposition on multiple occasions, prompting National Assembly leader, Juan Guaidó, to recently court China, saying that its "support will be very important in boosting our country's economy and future development".
- Indeed, why would China intentionally invite debt problems in the developing world when the appeal of China's South-South cooperation is its development rhetoric? Why would Beijing allow for such a debt spiral in Venezuela, its flagship state-to-state lending case in Latin America, after investing billions in its soft power image?

  We think the answer is that it was unintentional—a product of China mispricing Venezuelan risk as a creditor.

Conclusion

Figure 2: China’s Finance and Investment into Venezuela (US$ millions, New Financing)

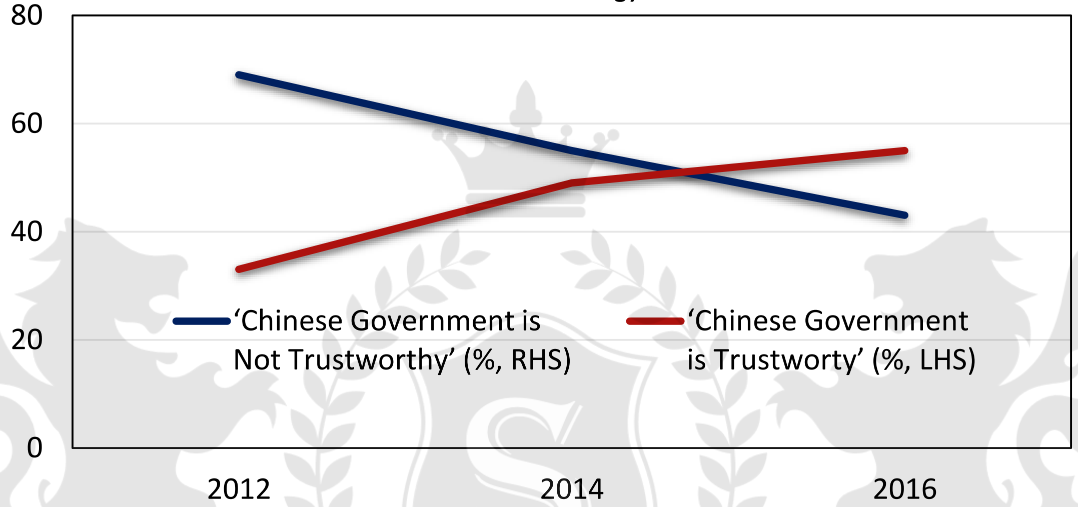
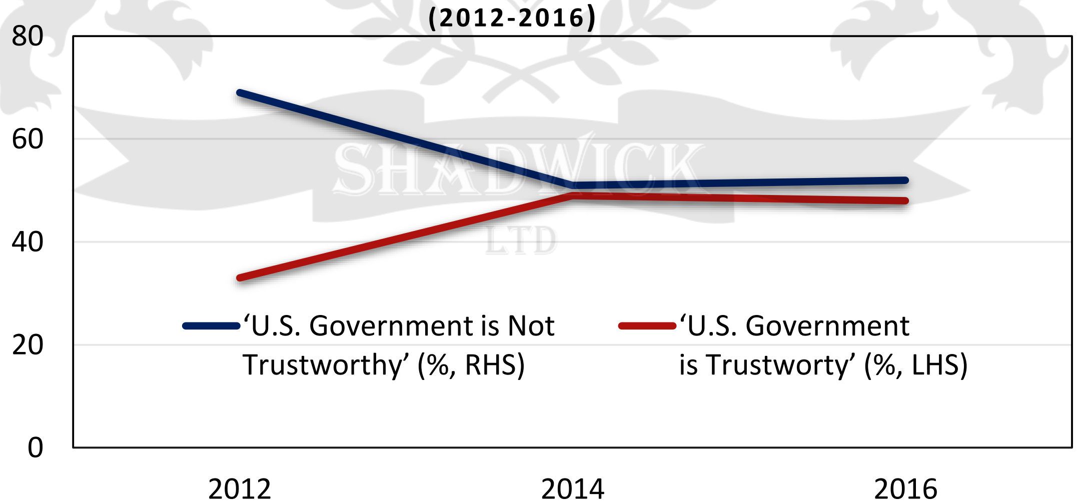
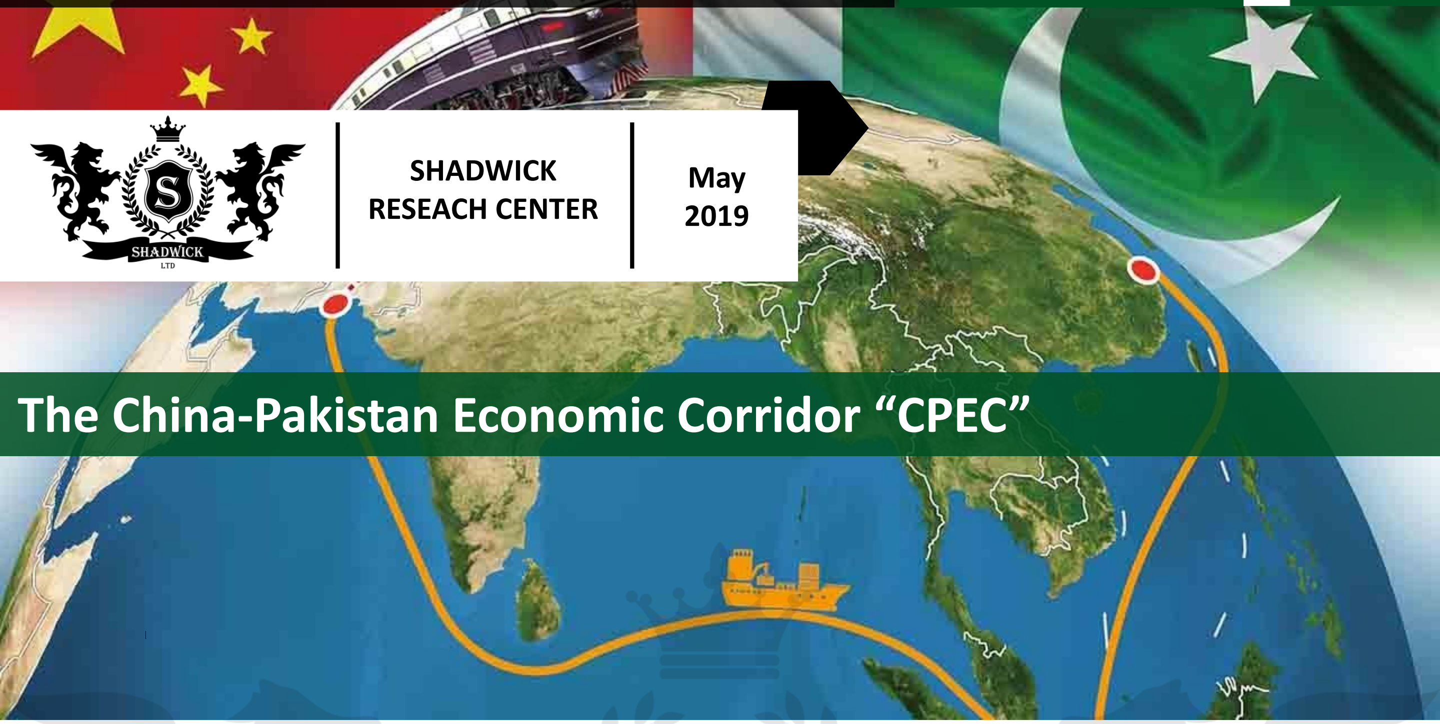


Figure 3: Venezuelans Say ‘U.S. Government is Trustworthy’ (2012-2016)



Conclusion

- Ultimately, China’s creditor mishaps create an opportunity for the United States, which has seen its image improve in Venezuela over the last half-decade (see Figure 3). By contrast, China has not gotten much political leverage from its investments in Venezuela, which, at their peak, accounted for three-quarters of China’s Latin American portfolio.
- To the extent that the U.S. government remains concerned about China’s ability to gain hemispheric influence through its economic ties, it should strive to compete economically with China.
- The state-to-state model is floundering in Venezuela, creating a window of opportunity for alternative development ideas. While Venezuela’s political crisis limits near-term opportunities, the United States could bolster its regional capital by articulating a strategic vision for helping improve Latin American development. The BUILD Act, a bipartisan bill which created a new U.S. development agency this past summer, is a step in the right direction. By leveraging private investment, the new development agency aims to support developing countries transition toward market economies, using loans, loan guarantees, equity capital, insurance, and technical assistance.
- The United States will gain little regional capital through its ongoing critiques of China’s ‘predatory economics’ given that much of the region still views China as offering a development opportunity. However, presenting the region with a competing development vision could help restore U.S. economic and political leadership.



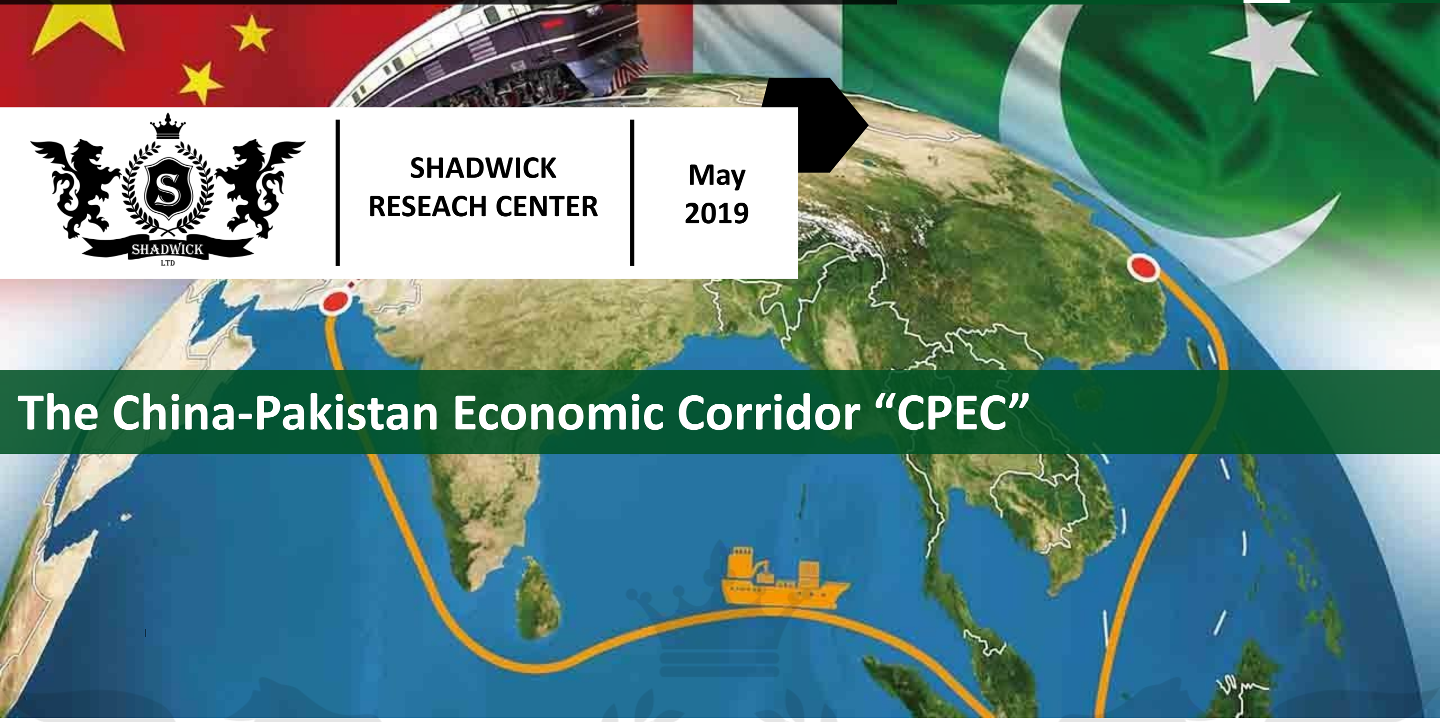
SHADWICK RESEACH CENTER

May 2019

The China-Pakistan Economic Corridor “CPEC”

The key agreement for the projects listed under the CPEC was signed in 2013. The China-Pakistan Economic Corridor is a series of projects intended to modernize Pakistani infrastructure and strengthen its economy through construction of transport networks, energy projects and special economic zones whose cost has ballooned to $62 billion. The overall launching time span of CPEC spreads from 2014 to 2030. There are three phases for implementation of the projects. The short term, midterm-term and long-term projects are estimated to be completed by 2017, 2025 and 2030 respectively. It is the network of highways, railways, pipelines, transport, oil, gas and energy.

- Pakistan will have to payback $100 billion to China by 2024 of total investment of $18.5 billion, which China has invested on account of bank loans in 19 early harvest projects, under CPEC.
- China has become the biggest lender to Pakistan after surpassing Japan. Pakistan owes $19 billion (1/5 of its total debt) to China. The CPEC loans will add $14 billion to Pakistan’s total public debt, raising it to $90 billion by June 2019, abating Pakistan’s economic ability to service huge amount of debt.
- Although CPEC has the potential to transform the Pakistan economy, but this transformation would come at heavy price of making Pakistan a colony of China. Piling up loans from China is a big gamble for Pakistan economy.
- Patterns of Chinese investments in South Asia-Pakistan, Bangladesh, Sri Lanka and Nepal-all of which are part of BRI, depicts Chinese propensity to control the domestic markets and the natural resources of the S. Asian nations.
- With the start of China-Pakistan Economic Corridor (CPEC) in 2013, the bulk of Chinese loans to Pakistan have increased many folds.



SHADWICK RESEACH CENTER | May 2019

The China-Pakistan Economic Corridor “CPEC”

- Though there is no clear estimation in this regard, however, economists believe that around $19 billion out of total $90 billion foreign debt of Pakistan, is from China.
- In other words, China has now become the biggest bilateral lender to Pakistan, surpassing Japan. According to the State Bank of Pakistan, by Jun 2017, China’s bilateral debt to Pakistan was stood at $7.2 billion, which was increased by over $3 billion in four years. (It was $4 billion in Jun 13). Apart from bilateral debt, Pakistan currency swaps in Jun17 stood at $1.5 billion, which took the figures to $8.7 billion.

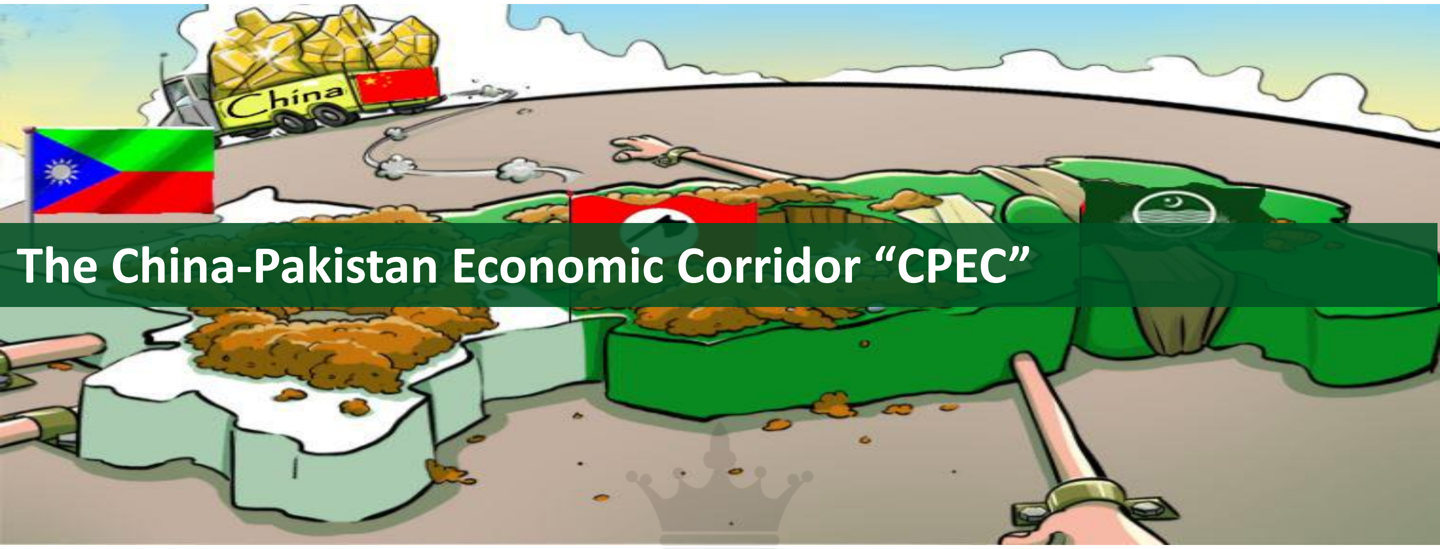
Debt from China

$Billion	17-Jun	Source
China Bilateral Debt to Pakistan	7.2	From SBP Annual Report.
Currency Swap	1.5	From SBP Annual Report.
Central Bank Deposits	0.7	From SBP Annual Report.
ICBC Pakistan Branch Loan	2.7	ICBC Pakistan Branch Report.
Privet Sector-Non Guaranteed Debt	3.5	Estimated $3.5bn out of $4.2 bn Private Sector in last 30 months are from China .
Debt Liabilities to Direct Investor	1.5	Estimated $1.5bn of China Mobile.
Total		**17.1**

Figures are based on Jun-2017

The China-Pakistan Economic Corridor "CPEC"

- The data further shows that by June 17, the Industrial & Commercial Bank of China (ICBC) Pakistan branch, secured a loan of $2.7 billion from the parent company, and swapped Pak rupees with dollars, taking the debt to $12.1 billion. Similarly, the total Chinese private sector external loan has up from $3 billion in Jun15 to $7.2 billion in Dec17, happened mostly in the form of IPPs' financing under CPEC and other projects.
- In addition to this, Pakistan's debt liabilities to direct investors from China stood at around $3.5 billion. This amount is loaned to foreign investors operating in Pakistan. The biggest investment ($1.5 billion) by a foreign company in the last few years is from China Mobile, adding the toll to some $17.1 billion.
- Since these statistics are based on June 2107, while Pakistan's total external debt and liabilities have constantly increasing from $83.1 billion then to $88.9 billion by Dec17 and still growing. If we add the current year's debt inflow of $1.6 billion so far, Pakistan's total debt liabilities to China stand around $19 billion.
- According to experts' calculation, Pakistan will have to payback $100 billion to China by 2024 of total investment of $18.5 billion, which China has invested on account of banks' loan in 19 early harvest projects mostly relating to energy sector under CPEC. [5] The interest on these loans will be around 7% per annum payable in 25 to 40 years. This means Pakistan would have to pay China roughly in between $7-8 billion as EM [6] for the next 43 years from 2018 onwards.



The China-Pakistan Economic Corridor "CPEC"

- This situation does not augur well for Pakistan's economy despite the prospective dividends of CPEC. In fact Pakistan heavily relies on CPEC and has put all its eggs in one basket. Piling up loans form China and building too much hopes on the CPEC may be a big gamble for Pakistan economy.
- The proponents of CPEC rightly claim that Pakistan will have an increased FDI and other external funding inflows, however, they forget that this surge in imports required for the projects will likely generate a counterbalance. The real challenge will be how to manage increasing CPEC-related outflows; once Chinese investors started moving their profits back home to China.
- Although CPEC has the potential to transform the Pakistani economy, but experts fear this transformation would come at heavy price of making Pakistan a colony of China. Prominent local economists have also expressed serious concerns over Pakistan's ability to service the growing debt. Hafiz Pasha, a former finance minister, and Ashfaq Hassan, a former adviser to the Finance Ministry, have estimated that CPEC loans will add $14 billion to Pakistan's total public debt, raising it to $90 billion by end June 2019.
- This is appalling scenario for Pakistan public debt, which is already reaching alarming stage, with debt-to-GDP ratio galloping to 70%, burdening every Pakistani citizen with $982. The situation going fast from bad to worse as Pakistan has to recently raise loans from various IFIs by mortgaging its national assets; Motor Ways, Air Ports, radio & TV stations at 8.75% interest rate.

CPEC Impact on Local Economy

- The Govt. of Pakistan and ruling elite views CPEC as game changer for the country and region, however, experts and local economists have different insights. They view CPEC has much less to offer Pakistan for trade. The Chinese approach of not partnering with local companies is not going to help create new job opportunities for millions of Pakistani youth.
- On the other hand Pakistan govt. is awarding sweeping tax exemptions to Chinese firms, a situation which is creating damaging and discriminatory playing field against Pakistani firms virtually abolishing the remaining locally owned manufacturing sector in the country. As a result local markets are flooded with Chinese goods.
- Then there are stories of malpractices in CPEC Projects. For instance violation of procurement rules also widely reported in media. Pakistani officials were reported to have said that the Chinese companies had refused to take part in international competitive bidding to get the contracts in the power sector, arguing if Pakistan wanted funding from Beijing for various projects, Beijing wanted the projects.

Deepening Debt

- When China inaugurated Belt and Road, in 2013, Prime Minister Nawaz Sharif's new government in Pakistan saw it as the answer for a host of problems.
- Foreign investment in Pakistan was scant, driven away by terrorist attacks and the country's enduring reputation for corruption. And Pakistan desperately needed a modern power grid to help ease persistent electricity shortages.
- Pakistani officials say that Beijing first proposed the highway from China's western Xinjiang region through Pakistan that connected to Gwadar port. But Pakistani officials insisted that new coal power plants be built. China agreed.
- With CPEC under fresh scrutiny, Chinese and Pakistani officials in recent weeks have contended that Pakistan has a debt problem, but not a Chinese debt problem. In October, the country's central bank revealed an overall debt and liability burden of about $215 billion, with $95 billion externally held. With nearly half of CPEC's projects completed — in terms of worth — Pakistan currently owes China $23 billion.
- But the country stands to owe $62 billion to China — before interest balloons the figure to some $90 billion — under the plan for Belt and Road's expansion there in coming years.
- Pakistan's central bank governor, Ashraf Wathra, said publicly in 2015 that he had no clarity on Chinese investments in Pakistan and was concerned about rising debt levels. It still took him months after that to secure a briefing from cabinet officials.

Deepening Debt

- “My main question was, ‘Do we have any feasibility studies of these projects and a cost-benefit analysis?’ Their answers were all evasive,” recalled Mr. Wathra, who has since retired.
- Ahsan Iqbal, a cabinet minister and the main architect for CPEC in the previous government, said the project was well thought-through and dismissed Mr. Wathra’s account.
- “No one wanted to invest here — the Chinese took a chance,” Mr. Iqbal said in an interview.
- But the bill is coming due. Pakistan’s first debt repayments to China are set for next year, starting at about $300 million and gradually increasing to reach about $3.2 billion by 2026, according to officials. And Pakistan is already having trouble paying what it owes to Chinese companies.

Major Chinese investments in Pakistan

- The second phase of the China-Pakistan Economic Corridor (CPEC)–an ambitious plan to integrate sea and land routes across Eurasia under China's Belt and Road Initiative, 5 major projects in Pakistan worth $57 billion include ;
  - Gawadar Port: Gawadar Port is a main element of the CPEC. It is an alternative shipping route for transporting oil into China. Under the agreement, Chinese Overseas Ports will manage Gawadar free-trade zone on a 43-year lease with control of all the port's business affairs.
  - Karot power station: This 720 megawatt hydro-project worth $1.42 billion is located in Azad Kshmir, would be completed by December 2021.
  - Direct current transmission line from Lahore to Matiari: The project worth $2 billion aims at producing 4,000MW of electricity from coal power plants. According to media reports, the Chinese company involved in the project has put the project on hold after just nine months owing to various problems, including differences with the government over the size of a revolving fund.
  - Karachi Circular Railway: This project, worth $2.07 billion would be completed by 2020. It faced lot of resistance from local residents, who refused to leave shantytowns built near the railway track after police demolished their homes.
  - Karakoram Highway: Beijing is financing the 1,300-kilometer Karakoram Highway that is currently the only overland cross border connection between China and Pakistan.

Major Chinese investments in Pakistan

- Orange Line Train, Lahore: The 27-kilometer metro train project cost \$1.6 billion, out of which \$300 million would come from the Federal Government of Pakistan, the rest is financed through loan by the Government of China. Govt. of Pakistan has approved Rs.20 billion in tax exemptions for the project.
- The viability of these projects need a close examination, particularly the interest rates being charged by the China Development Bank and the China EXIM Bank. Official documents have revealed that with an estimated debt-equity ratio of 80%-20%, these investments guaranteed 17% to 20% rate of return in dollar terms on their equity (only the equity portion, and not the entire project cost). According to analysts, China will recover its investment in less than 26 months, and bleed Pakistan for the rest of the 25-year contract period.

China's 'Belt and Road' Plan in Pakistan Takes a Military Turn.

Under a program China insisted was peaceful, Pakistan is cooperating on distinctly defense-related projects, including a secret plan to build new fighter jets.

When President Trump started the new year by suspending billions of dollars of security aid to Pakistan, one theory was that it would scare the Pakistani military into cooperating better with its American allies.

- The reality was that Pakistan already had a replacement sponsor lined up.
- Just two weeks later, the Pakistani Air Force and Chinese officials were putting the final touches on a secret proposal to expand Pakistan's building of Chinese military jets, weaponry and other hardware. The confidential plan, reviewed by The New York Times, would also deepen the cooperation between China and Pakistan in space, a frontier the Pentagon recently said Beijing was trying to militarize after decades of playing catch-up.
- All those military projects were designated as part of China's Belt and Road Initiative, a $1 trillion chain of infrastructure development programs stretching across some 70 countries, built and financed by Beijing.
- Chinese officials have repeatedly said the Belt and Road is purely an economic project with peaceful intent. But with its plan for Pakistan, China is for the first time explicitly tying a Belt and Road proposal to its military ambitions — and confirming the concerns of a host of nations who suspect the infrastructure initiative is really about helping China project armed might.
- As China's strategically located and nuclear-armed neighbor, Pakistan has been the leading example of how the Chinese projects are being used to give Beijing both favor and leverage among its clients.

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- Since the beginning of the Belt and Road Initiative in 2013, Pakistan has been the program’s flagship site, with some $62 billion in projects planned in the so-called China-Pakistan Economic Corridor. In the process, China has lent more and more money to Pakistan at a time of economic desperation there, binding the two countries ever closer.
- For the most part, Pakistan has eagerly turned more toward China as the chill with the United States has deepened. Some Pakistani officials are growing concerned about losing sovereignty to their deep-pocketed Asian ally, but the host of ways the two countries are now bound together may leave Pakistan with little choice but to go along.
- Even before the revelation of the new Chinese-Pakistani military cooperation, some of China’s biggest projects in Pakistan had clear strategic implications.
- A less scrutinized component of Belt and Road is the central role Pakistan plays in China’s Beidou satellite navigation system. Pakistan is the only other country that has been granted access to the system’s military service, allowing more precise guidance for missiles, ships and aircraft.
- The cooperation is meant to be a blueprint for Beidou’s expansion to other Belt and Road nations, however, ostensibly ending its clients’ reliance on the American military-run GPS network that Chinese officials fear is monitored and manipulated by the United States.

[Read The Times’s series “China Rules,” about how China wrote its playbook to counter the West.]

China’s ‘Belt and Road’ Plan in Pakistan Takes a Military Turn.

Under a program China insisted was peaceful, Pakistan is cooperating on distinctly defense-related projects, including a secret plan to build new fighter jets.

- In Pakistan, China has found an amenable ally with much to recommend it: shared borders and a long history of cooperation; a hedge in South Asia against India; a large market for arms sales and trade with potential for growth; a wealth of natural resources.
- Now, China is also finding a better showcase for its security and surveillance technology in a place once defined by its close military relationship with the United States.
- “The focus of Belt and Road is on roads and bridges and ports, because those are the concrete construction projects that people can easily see. But it’s the technologies of the future and technologies of future security systems that could be the biggest security threat in the Belt and Road project,” said Priscilla Moriuchi, the director of strategic threat development at Recorded Future, a cyberthreat intelligence monitoring company based in Massachusetts.

An Asset on the Sea

- The tightening China-Pakistan security alliance has gained momentum on a long road to the Arabian Sea.
- In 2015, under Belt and Road, China took a nascent port in the Pakistani coastal town of Gwadar and supercharged the project with an estimated $800 million development plan that included a large special economic zone for Chinese companies.
- Linking the port to western China would be a new 2,000-mile network of highways and rails through the most forbidding stretch of Pakistan: Baluchistan Province, a resource-rich region plagued by militancy.
- The public vision for the project was that it would allow Chinese goods to bypass much longer and more expensive shipping routes through the Indian Ocean and avoid the territorial waters of several American allies in Asia.
- From the beginning, though, key details of the project were kept from the public and lawmakers, officials say, including the terms of its loan structure and the length of the lease, more than 40 years, that a Chinese state-owned company secured to operate the port.
- If there was concern within Pakistan about the hidden costs of the China-Pakistan Economic Corridor, also known as CPEC, there was growing suspicion abroad about a hidden military aspect, as well.
- In recent years, Chinese state-owned companies have built or begun constructing seaports at strategic spots around the Indian Ocean, including places in Sri Lanka, Bangladesh and Malaysia.
- Chinese officials insisted that the ports would not be militarized. But analysts began wondering whether China's endgame was to muscle its way onto coastal territories that could become prime military assets — much as it did when it started militarizing contested islands in the South China Sea.

An Asset on the Sea

- Then, Sri Lanka, unable to repay its ballooning debt with China, handed over the Chinese-built port at Hambantota in a 99-year lease agreement last year. Indian and American officials expressed a growing conviction that taking control of the port had been China's intent all along.
- In October, Vice President Mike Pence said Sri Lanka was a warning for all Belt and Road countries that China was luring them into debt traps.
- "China uses so-called debt diplomacy to expand its influence," Mr. Pence said in a speech.
- "Just ask Sri Lanka, which took on massive debt to let Chinese state companies build a port of questionable commercial value," Mr. Pence added. "It may soon become a forward military base for China's growing blue-water navy."
- Military analysts predict that China could use Gwadar to expand the naval footprint of its attack submarines, after agreeing in 2015 to sell eight submarines to Pakistan in a deal worth up to $6 billion. China could use the equipment it sells to the South Asian country to refuel its own submarines, extending its navy's global reach.

Fighter Jets and Satellites

- According to the undisclosed proposal drawn up by the Pakistani Air Force and Chinese officials at the start of the year, a special economic zone under CPEC would be created in Pakistan to produce a new generation of fighter jets. For the first time, navigation systems, radar systems and onboard weapons would be built jointly by the countries at factories in Pakistan.
- The proposal, confirmed by officials at the Ministry of Planning and Development, would expand China and Pakistan's current cooperation on the JF-17 fighter jet, which is assembled at Pakistan's military-run Kamra Aeronautical Complex in Punjab Province. The Chinese-designed jets have given Pakistan an alternative to the American-built F-16 fighters that have become more difficult to obtain as Islamabad's relationship with Washington frays.
- The plans are in the final stages of approval, but the current government is expected to rubber stamp the project, officials in Islamabad say.
- For China, Pakistan could become a showcase for other countries seeking to shift their militaries away from American equipment and toward Chinese arms, Western diplomats said. And because China is not averse to selling such advanced weaponry as ballistic missiles — which the United States will not sell to allies like Saudi Arabia — the deal with Pakistan could be a steppingstone to a bigger market for Chinese weapons in the Muslim world.
- For years, some of the most important military coordination between China and Pakistan has been going on in space.
- Just months before Beijing unveiled the Belt and Road project in 2013, it signed an agreement with Pakistan to build a network of satellite stations inside the South Asian country to establish the Beidou Navigation System as an alternative to the American GPS network.

Fighter Jets and Satellites

- Beidou quickly became a core component of Belt and Road, with the Chinese government calling the satellite network part of an "information Silk Road" in a 2015 white paper.
- Like GPS, Beidou has a civilian function and a military one. If its trial with Pakistan goes well, Beijing could offer Beidou's military service to other countries, creating a bloc of nations whose military actions would be more difficult for the United States to monitor.
- By 2020, all 35 satellites for the system will be launched in collaboration with other Belt and Road countries, completing Beidou.
- "Beidou, whatever any users use it for — whether it's a civilian navigating their way to the grocery store or a government using it to coordinate their rocket launches — those are all things that China can track," said Ms. Moriuchi, of the research group Recorded Future. "And that's what is most striking: that this authoritarian government will be a major technology provider for numerous countries in Asia, Africa and Europe."
- For the Pentagon, China's satellite launches are ominous.
- China's military "continues to strengthen its military space capabilities despite its public stance against the militarization of space," including developing Beidou and new weaponry, according to a Pentagon report issued to Congress in May.
- In October, Pakistan's information minister, Fawad Chaudhry, said that by 2022, Pakistan would send its own astronaut into space with China's help.
- "We are close to China, and we are getting more close," he said in a later interview. "It's time for the West to wake up and recognize our importance."

Wooing Pakistan's Military

- Though the relationship between China and Pakistan has clearly grown closer, it has not been without tension. CPEC could still be vulnerable to political shifts in Pakistan — as happened this year in Malaysia, which shelved three big projects by Chinese companies.
- Campaigning during the parliamentary elections that made him prime minister in July, Imran Khan vowed to review CPEC projects and renegotiate them if he won. In September, after meeting in Saudi Arabia with the crown prince, Mr. Khan said that the kingdom had agreed to invest in CPEC too.
- Pakistan's new commerce minister then proposed pausing all CPEC projects while the government assessed them.
- The moves by Pakistan's new government angered Beijing, which was concerned they could set back Belt and Road globally.
- But in Pakistan, China has a steady ally it can approach to smooth things over: the country's powerful military establishment, which stands to fill its coffers with millions of dollars through CPEC as the military's construction companies win infrastructure bids.
- Shortly after the commerce minister's comments, the Pakistani Army's top commander, Gen. Qamar Javed Bajwa, hurried to Beijing for an unannounced visit with President Xi Jinping. The meeting came six weeks before Mr. Khan made his first official visit with the Chinese president, a trip he had listed as a priority.
- Statements from the military said General Bajwa and Mr. Xi spoke extensively about Belt and Road projects.

Wooing Pakistan's Military

- General Bajwa "said that the Belt and Road initiative with CPEC as its flagship is destined to succeed despite all odds, and Pakistan's army shall ensure security of CPEC at all costs," read a statement from the Pakistani military.
- Shortly after the Beijing meeting, Pakistan's government rolled back its invitation to Saudi Arabia to join CPEC and all talk of pausing or canceling Chinese projects has stopped.
- But China could face another challenge to its investments: a Pakistani financial crisis that has forced Mr. Khan's government to seek loans from international lenders that require transparency.
- Throughout September, international delegations traveled to Islamabad carrying the same message: Reveal the extent of Chinese loans if you want financial assistance.
- In a late September meeting with visiting officials from the International Monetary Fund, Pakistan's government asked for a bailout of up to $12 billion. The fund's representatives pressed Pakistan to share all existing agreements with the Chinese government and demanded I.M.F. input during any future CPEC negotiations — a previously undisclosed facet of the negotiations, according to communications seen by the Fund and a Pakistani official. The fund also sought assurances that Pakistan would not use a bailout to repay CPEC loans.
- But the Chinese Embassy in Islamabad stepped up its engagement as well, demanding that CPEC deals be kept secret and promising to shore up Pakistan's finances with bilateral loans, Pakistani officials say.

Wooing Pakistan’s Military

- Three months after taking office, Mr. Khan still has not made good on his campaign promises to reveal the nature of the $62 billion investment Beijing has committed to Pakistan, and his government has backtracked on an I.M.F. deal.
- In early November, Mr. Khan visited Mr. Xi in Beijing, a trip during which he was expected to clinch bilateral loans and grants to ease Pakistan’s financial crisis.

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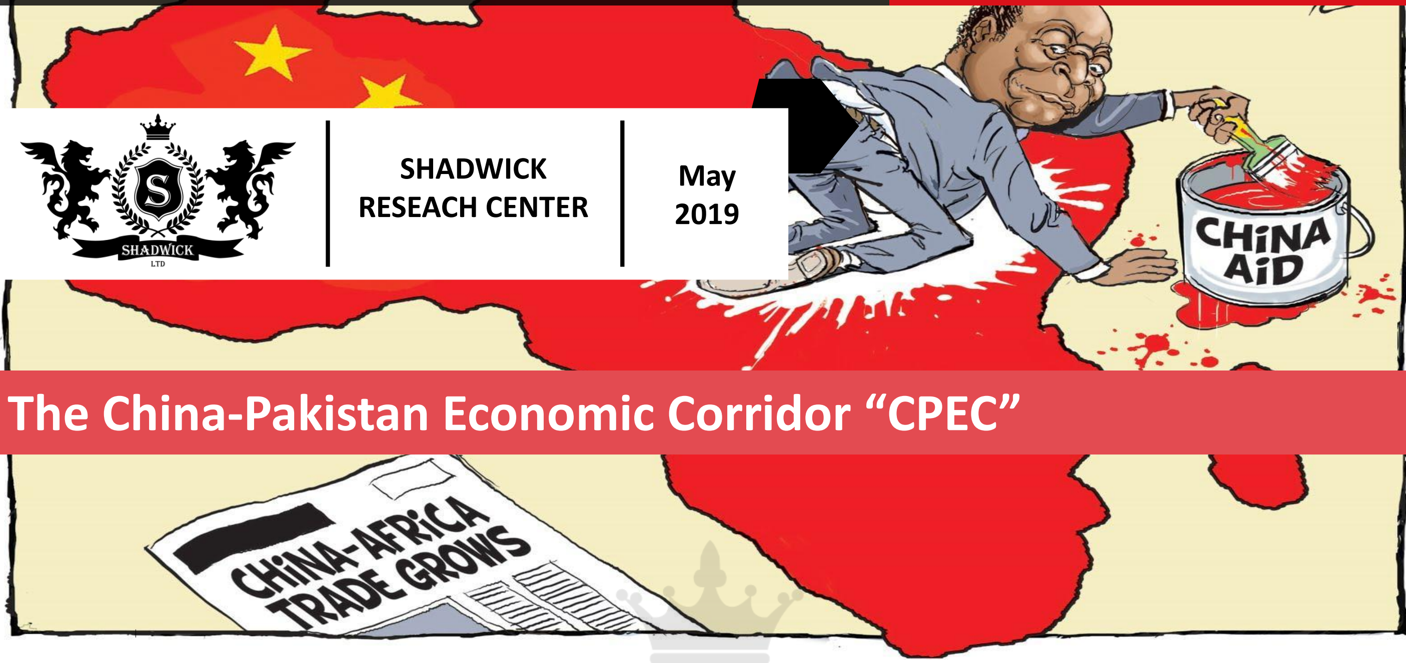

The China-Pakistan Economic Corridor “CPEC”

The economic relationship is multi-faceted. Between 2000 and 2014, China provided over $12 billion in loan finance (usually tied to infrastructure projects undertaken by Chinese firms). There is growing Chinese investment in the Ethiopian economy, while imports of cheap consumer goods from China ($3.4 billion in 2015) greatly exceeding exports from Ethiopia to China ($380 million in 2015).

- The Chinese appear to be interested in Ethiopia for political reasons (among African countries, its governance and developmental orientation is closest to that of China, and it hosts the African Union headquarters), and as a business partner. Ethiopia's focus on infrastructure has created numerous opportunities for Chinese construction firms.
- Ethiopia is also a significant market for Chinese exports that will expand as Ethiopia's rapid economic growth continues. For Ethiopia, Chinese finance provides critical support for the government's legitimacy, as electricity, transport, and employment opportunities continue to expand, stimulating economic growth and helping promote exports to other countries. China's "business is business" approach is welcome by comparison to western aid providers who often link their contributions to changes in the Ethiopian legal and political structure.
- As a top destination for Chinese loans in Africa and the continent’s fastest growing economy, Ethiopia has received over $12.1 billion from China’s state policy banks China’s policy banks, such as the Export-Import Bank of China, are state-owned banks tasked with financing state-directed development and trade projects. since 2000, according to a report last year by Johns Hopkins University.

Chinese Aid to Ethiopia

The Tirunesh Dibaba Beijing Hospital.

- Chinese aid to Ethiopia has included dispatch of medical teams and teachers, and educational scholarships for Ethiopian students studying in China. China's aid program funded the construction of a vocational school in Ethiopia.
- Although the plan was to use Chinese vocational instructions, the school eventually switched to German instructors, with students learning skills including engineering, automobile, architecture and construction.
- In June 2009, the Chinese ambassador assisted in laying the foundation stone for the Tirunesh Dibaba Beijing Hospital, planned as a modern hospital 6000 square meters in size with 100 beds.
- The Chinese government is funding construction and will provide medical instruments and equipment.
- The hospital is named after Ethiopian runner Tirunesh Dibaba, who won two gold medals at the 2008 Beijing Olympics.
- The hospital was completed in November 2011 and handed over to the Ethiopian government. Fifteen Chinese medical personnel were sent to help their Ethiopian counterparts.

Belt and Road Initiative "BRI" and The Addis Ababa-Djibouti Railway

Belt and Road Initiative "BRI" and The Addis Ababa-Djibouti Railway.

- The Addis Ababa-Djibouti Railway is an important part of the Belt and Road initiative in Africa since it connects landlocked Ethiopia to the sea by linking the capital, Addis Ababa, with the Port of Doraleh, a multipurpose port just west of the Djiboutian capital of Djibouti City, with terminals for handling oil, bulk cargo and containers.
- The railway links the Ethiopian capital to neighboring Djibouti, and is tied to China's global infrastructure push that critics say sets a "debt trap" for poorer countries.
- Under the initiative Beijing is seeking to build roads, railways, ports and pipelines in more than 60 countries globally, mostly through state financing, along land and sea routes that span Asia, Africa and Europe.
- The 470-mile rail link – the first standard-gauge electrified railway on the continent built with Chinese standards and technology – was fully financed by Chinese banks and built by two Chinese state-owned companies.
- Export-Import Bank of China put up $2.9 billion, or about 70%, of its cost, according to China's finance ministry.

Ethiopia is renegotiating billions of dollars in loans from Beijing for a railway to avoid being buried by “serious” debt woes.

The Two Governments Moving Closer to Making The Deal Final.

- Ethiopia negotiating with China as to how to manage the debt, to make it sustainable and try to reduce some distress that comes from debt… and there is substantial progress.
- The two governments were in talks to restructure the loans for the railway, which opened on January 1, 2018.
- It’s common practice for a country unable to meet the terms of an existing loan to try to renegotiate a new repayment schedule or new financing. But when Ethiopian Prime Minister Abiy Ahmed visited Beijing in September, he said the Chinese government had agreed to restructure some of its loan agreements with Addis Ababa, and had extended the period for repaying the railway debt by 20 years.
- But despite the increasing debt pressure on Ethiopia, the country’s ambassador to China, Teshome Toga Chanaka, defended Beijing’s ambitious trade and infrastructure plan, known as the Belt and Road initiative.
- Although the investment has left Ethiopia now looking to reduce its debt load, Chanaka maintains it was a wise move to sign up for the project since it links Ethiopia, a country of 100 million people seeking to become a significant regional and international trade player, with Djibouti, the gateway to the Suez Canal and the Red Sea.

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'China Must Be Stopped': Zambia Debates the Threat of 'Debt-Trap' Diplomacy

Zambia was one of 30 African countries that had much of its debt wiped off the books in the mid-2000s as part of the Heavily Indebted Poor Countries and Multilateral Debt Relief initiatives, which were jointly led by the International Monetary Fund and World Bank.

- Yet a decade later, the country is deep in the red again. At the end of 2017, Zambia's external debt stood at $8.7 billion, higher than its pre-bailout peak. Overall government debt was 59 percent of gross domestic product, up from 21 percent in 2011, when the ruling Patriotic Front assumed power. The Zambia Institute for Policy Analysis and Research, a Lusaka-based think tank, warns that this level of debt is "in the territory of unsustainable."
- The IMF had categorized six low-income African countries, including Zambia's neighbors Zimbabwe and Mozambique, as suffering from "debt distress"—meaning they've already struggled to service the loans on their books. Nine others, including Zambia, were said to be at "high risk."
- According to government statistics, Zambia owed 28 % of its sovereign debt to China—a figure that is likely higher, since Chinese deals sometimes go unreported and contracted debt that has not been disbursed is not included in official data.
- ZNBC, the national radio and TV broadcaster, and ZESCO, the national power utility, have both helped guarantee their Chinese loans by establishing joint ventures with state-owned Chinese companies. Critics say these deals give China a dangerous degree of leverage over key national resources and may be a step toward ultimately signing assets over to China entirely.

Belt and Road Initiative "BRI" and The Addis Ababa-Djibouti Railway

A consequence, in part, of elevated global copper prices.

- Zambia inked deals for projects including highways, bridges, hospitals, water treatment plants, two 50,000-plus seat stadiums, the airport in Lusaka and another in the Copperbelt, and a 750-megawatt hydroelectric power plant. Much of this was funded by China.
- In 2016 alone, Zambia received $1.7 billion worth of loans from Chinese sources, including the state-owned China Exim Bank, the China Development Bank, and Industrial and Commercial Bank of China. Aided by prior debt relief, Zambia also turned to multilaterals, including the World Bank, as well as markets, issuing $3 billion worth of Eurobonds between 2012 and 2015.
- the Fitch projects that external debt will reach 69 percent of GDP; in a typical low-income country, economists say that anything above 40 percent is risky. Zambia's ability to repay has been hampered by stunted growth since 2014, when copper prices again took a hit.
- The economic impact is already significant. Local businesses report that it's becoming harder to access finance. Curious new taxes are also appearing. Some of the proposed levies, on weather reports and boreholes, are almost comically dubious.
- Zambia's 2019 budget allocates more money to debt service payments than to health and education combined—areas where the government has already struggled to manage its cash flow.
- Civil servants routinely report delayed wages, and health facilities struggle to stock essential medicines.
- Zambia, like other countries in Africa, is inching toward a crisis.

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China Seized Some Major Port of Mombasa in The African Nation of Kenya, As A Result of Debt-Trap Diplomacy

Nairobi fails to repay massive debts on shady loan for underperforming railway, Kenyan infrastructure ripe for the taking

- Kenyan infrastructure took China lent $ 3.8 billion loan to build a standard gauge railway between Mombasa and Nairobi and highways in Kenya.
- A state company called China Construction Company completed the largest infrastructure project.
- The project was completed before one and half year from its time but the railway lost 100 million dollars in the first year of operation, which is operated by the Chinese, Also China threatened to seize the port of Mombasa and the possibility of imposing fees and taxes on the railway which Created.
- Moody’s noted that Kenya is at high risk of losing strategic assets because of debts owed to Beijing.
- After a subsequent report from the country's Auditor General, local media began to express concern that Chinese lenders may be angling to seize assets, since it does not appear the Kenyan government will be capable to repaying the loans.
- Kenya may soon face default on Chinese loans to develop its largest and most lucrative port, the Port of Mombasa. This could force Kenya to relinquish control of the port to China.
- The Kenyan media has debated whether Chinese loans are worth the risk of falling into debt traps, drawing analogies with Sri Lanka, and some commentators have argued that these loans could jeopardize Kenyan sovereignty.
- At the End, Kenya forced to relinquish control of its largest and most lucrative port in Mombasa to Chinese control.

The Project was Completed Before One and Half Year From its Time But The Railway Lost 100 Million Dollars in The First Year of Operation, Which is Operated By The Chinese

- Kenya has taken large loans from China for the development of some major highways, and especially for the SGR, which forms a crucial transport link to and from Nairobi for the import and export of goods through Mombasa.
- Other assets related to the inland shipment of goods from the port, including the Inland Container Depot in Nairobi, and the Standard Gauge Railway (SGR), may also be compromised in the event of a Chinese port takeover.
- SGR, which is operated by the Chinese, may have been designed to be a “loss-making venture.” Also Kenya reportedly accepted loans of KES 500 billion (US$4.9 billion) for the SGR’s construction.
- With a reported loss of KES 10 billion (US$98 million) in its first year of operation, it would be nearly impossible to repay the loans taken for its construction in the time requested.

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Sri Lanka's failure to pay debt obligations and a subsequent 99 year lease given to China in place of payment

Sri Lanka's failure to pay debt obligations and a subsequent 99 year lease given to China in place of payment.

- This project is largely the reason as why Sri Lanka is as the best clear example of getting trapped in Chinese debt trap diplomacy Loans given by the People's Republic of China to construct the Hambantota Port in Sri Lanka, and being forced to hand over assets sovereign strategic which important to China,
- The project named after the former president Mahinda Rajapaksa, Previous governments, under the leader Mahinda Rajapaksa of the Sri Lankan Freedom Party, borrowed 8 billion dollars from China.
- The Debt Trap started by a loan given to the Sri Lankan government by the Exim Bank of China to build the Magampura Mahinda Rajapaksa Port and Mattala Rajapaksa International Airport.
- EXIM Bank of China funded the construction of Hambantota port and the project certainly was not an economically sensible decision.
- In fact, there were serious concerns about the necessity of constructing an additional international port in Sri Lanka, particularly one financed through borrowing at commercial rates, and whether such a port would be able to generate enough revenue to break even.
- The state-owned China Communications Construction Company (CCCC), through its subsidiary the China Harbour Engineering Company (CHEC), is the firm behind to build the Magampura Port at a cost of US $361 million which was 85% funded by China's state-owned Export–Import Bank at an annual interest rate of 6.3%.

China Played this Game to Take Hambantota Port As A New Naval Base for The Chinese Army

HEC CHINA HARBOUR

- The CCCC, a Chinese real estate investor and developer blacklisted by the World Bank on allegations of corruption, financed a variety of infrastructure on the island: the Southern Highway, the Outer Circular Highway, Matala International Airport and Hambantota Port.
- Sure enough, Hambantota port was not making enough revenue to repay China when loan payments came due. this is real reason Sri Lanka moved to lease the port to China.
- Due to Sri Lanka’s inability to service the debt on the port, it was leased to the Chinese state-owned China Merchants Port Holdings (CM Port) Company Limited on a 99-year lease for $1.12 billion in 2017.
- USA & Japan make believe now, that china played this game to take the port as a new naval base for the Chinese Army.

The Return of Chinese Empire

Chinese Debt-Trap Diplomacy

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