

## **The Belt and Road Initiative: Debt Trap and its Implication on International Security**

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**Abstract**– One concern that has been raised against China’s infrastructure financing foreign policy – the Belt and Road Initiative – which entails lending to sovereign, mostly developing countries is debt trap. This paper draws inspiration from China’s policy response towards a defaulter country – Sri Lanka – to look at the implication of this concern from an international security perspective with two cases: Djibouti and Pakistan. It argues that, an event of default and China’s policy response of debt-for-equity swap would lead to a direct involvement on others domestic politics which would prompt various levels of civil, regional and international conflicts.

**Keywords** – China, the Belt and Road Initiative, Debt Trap, International conflict, Djibouti and Pakistan

### **INTRODUCTION**

There is no doubt that the economic growth of China is having great externalities on its international power and capabilities and as they increase; states and scholars of international relations anxiety of a threat to international security certainly increases. It is this economic growth that has made it possible for China to dream of an international “unimpeded trade” routes that could “facilitate connectivity” and ensure “people-to-people bond” embodied in the Belt and Road Initiative (BRI). From China’s perspective, the BRI is purely of an economic venture to ensure global sustainability and the wellbeing of all.

Shepard believes that the BRI is very much on course to succeed because among other factors, China has developed effective mechanisms that include “soft infrastructure” in the realm of international, organizational and commercial pacts and aids that do not dwell on one-size-fits-all standards [1]. Its involvements in other places of the world have shown its ability and given credibility to over compete other companies and governments for international contracts because it has the money to execute its planned programs. Ramasamy and Yeung also provide three similar reasons for

success as they averred “the Asian giant has the resources, finances and industrial base to see through the project” with a proven track record and finance [2].

However, others harbor perspectives that go beyond just economic and development. Hurley, et al concluded that the initiative’s method of infrastructure financing through lending to states could create debt sustainability problems for some of the participating states. BRI also increases the argument over the nature of Chinese foreign policy objective of either assertiveness or sangfroid and a linkage between offensive and defensive realism. Thus, Flynt and Bingbing averred that BRI will serve as Chinese grand strategy that will for the long term, leverage Chinese capabilities to enhance its regional and global influence and ensure greater global multipolarity contrary to the preference of the United States [3].

A current global concern associated with the BRI is the issue of debt trap. The concern associated with the debt trap is that China is encouraging smaller and developing countries to pile up massive debt that fiscal analyses say are going to have difficulty to repay. This comes against the backdrop that the implementation strategy associated with the BRI entails

infrastructure financing. In this way, China as the biggest player and the richest is finding subtle ways to lend money to poor countries for infrastructure that hitherto may not have really needed. What is the long term implication on international security as debt pile up on poor countries and they are not able to accrue enough money from their infrastructure to offset their debts?

This paper will explore the international security challenges of the debt trap accentuated by BRI to aid further research and policy direction. Two countries have been considered—Djibouti and Pakistan— and they fit the possible security implication argument of the debt trap issue because their nature of vulnerability is likely to engender policy response from China. They were also purposively selected due to their important geostrategic positions and their importance to BRI. The paper argues with the evidence from Sri Lanka and makes a case of the two countries that, many of the developing countries would not be able to repay their loans and thus China may eye a debt-for-equity swap or a direct involvement of certain key sectors of these developing countries which could prompt various levels of civil, regional and international conflicts.

The next section will look briefly at BRI and followed by an exposition on the debt trap brouhaha. Further, the Sri Lanka scenario will be presented and show how it could be linked with the two cases stated above. The penultimate section will have a discussion on the security implications and finally conclude.

## **BRIDGING THE GLOBAL INFRASTRUCTURE GAP**

Beijing believes that the rapid urbanization of countries around the globe must correspond with infrastructure development to meet the demands such urbanization would bring as well as give life to the global economy which has remained sluggish. However, Monika Chansoria notes that there is an “attempt to re-establish the Middle Kingdom” [4] and one of the tools being employed by China is BRI, thus, “India, long suspicious of China’s ambitions, has

refused to back the BRI.”[5] The BRI is an infrastructure financing initiative initiated by China, aimed to utilize both the land and sea to connect China with the rest of the world to achieve closer economic connectivity; deeper unimpeded, open, inclusive trade cooperation; broader development opportunities for all countries; people-to-people bond. The initiative is made up of two strands: Silk Road Economic Belt and the 21st Century Maritime Silk Road. The Silk Road Economic Belt seeks to link China with Europe via Eurasia by road and railways; while the latter is responsible to link China with Africa, Asia and Europe via the Pacific and Indian oceans.

The land and sea routes are further divided into six economic corridors: the New Eurasia Land Bridge (international railway line from Jiangsu Province, China to Rotterdam, Netherlands); China-Mongolia-Russia (highway and railway connectivity of the three countries thorough Russia Eurasia Land Bridge and Mongolia’s Steppe Road); China-Central Asia-West Asia (railway networks from Xinjiang, China through to central and Western Asia to connect Arabian Peninsula and Mediterranean Sea); China-Indochina Peninsula (connects China with five Indochina countries that will include Singapore and Malaysia); China-Pakistan (connects Kashgar, China to Gwadar, Pakistan) and Bangladesh-China-India-Myanmar (roads and railways to link these countries) [6].

More than 100 countries and international organizations are believed to have join the initiative but it must be added that almost all these countries are developing countries that will depend on Chinese finances for their infrastructural development which would come mainly from the Silk Road Fund, Asian Infrastructure Investment Bank (AIIB) and the China Development Bank who have already pumped billions of dollars into the initiative. China believes that “global economic growth requires new drivers, development needs to be more inclusive and balanced, and the gap between the rich and poor needs to be narrowed” and “China is ready to provide more public

goods to its Asian neighbors through connectivity” and hopes that the BRI will be able to “rebalance the world economy by fostering new demand and ensuring effective supply particularly in the current situation where the world economy has remained sluggish” [7].

The Silk Road Fund was established with US\$40 billion. The AIIB “has provided US\$1.7 billion in loans for nine projects in participating countries” while the “Silk Road Fund has invested US\$4 billion in those countries”, by 2017. Additional financial commitments have been made including RMB 100 billion to the Silk Road Fund and China Development Bank and China Export-Import Bank will respectively introduce RMB250 billion and RMB130 billion in support [7]. Other sources of money are tabled by Sarah Chan [8].

### **THE DEBT TRAP CONCERNS**

One of the concerns raised by experts’ analysis of the BRI focuses on the sustainability of the huge debts being incurred by the partner countries with already debt related problems. The concern is that developing countries with weak domestic institutions wouldn’t be able to service their debt because the money involved are too much for the various governments and would further impede the public investment and economic growth as well as create sovereignty issues through perpetual dependency on China. This problem has arisen because the implementation strategy entails Chinese lending to sovereign states for infrastructure development.

Currently, it is not clear how this project will engender enough economic growth and revenue for these countries to service their accumulated debts. Originally, they have weak institutions and are vulnerable to trade deficits. Imbalance terms of trade can result in exchange rate depreciation, thus increase the burden of debt settlement, worsening livelihood and increasing poverty [9]. When a state wallows in too much debt than it could service, it would resort to sacrificing domestic spending on welfare to service external debt with the attendant effect of accentuating deplorable

conditions [10]. Such countries will find it difficult to attract foreign investment and when they do, investors would demand high returns on their investment as a source of security against high risk [11]. Research shows that relationship between investment spending and positive growth is weak and short-term [12].

China itself is currently being cautious of the debt trap issue according to Keith Bradsher who believes, China is tapping “the brakes on its global push for influence” as Chinese officials worry that “too much overseas activity risks creating wasteful white elephants that can drag down Chinese companies and local partners alike” and considering that “Chinese institutions need to be careful how much they lend under the program – and make sure that international borrowers can pay back” because “current international conditions are very uncertain, with lots of economic risks and large fluctuations for interest rates in newly emerged markets” thus “China has begun a broad, interagency review of how many deals have already been done, on what financial terms and with which countries”[13].

However, Chinese Foreign Ministry spokesperson, Lu Kang believes that Chinese debt trap is non-existent and that the “US accusations of China creating “debt traps” for smaller countries are irresponsible and disappointing lies” [14] despite Christine Lagarde’s advice that “the first priority is that the Belt and Road only travels to where it is really needed.”

### **THE SRI LANKA DEBACLE**

Sri Lanka has used China’s umbrella for cover against UN sanctions for human right abuses and relationship between the two has long been cordial. China obliged to construct Hambantota Port although feasibility studies had proved it non-profitable and Sri Lanka’s debt was at a peak. Reports indicate that between 2005 and 2017, China pumped about \$15billion to Sri Lanka for projects including the Hambantota port, international airport, cricket stadium, railway and Colombo port city project. Only 34 ships had berth at the harbour from

2010 to 2012 compared with 3,667 ships at the country's main harbor, Colombo port.

Sri Lanka had by 2015, become heavily indebted to China amounting to about \$8 billion and with a total external debt of 44.8 billion with \$4.68 billion repayment due at year end and the government predicted accumulated foreign debt to take 94% of the country's GDP [15]. In 2017, debt stood at 77.60% of GDP [16] and its expected generated revenue in 2018 was \$14.8 billion with a scheduled debt repayment of \$12.3 billion [17]. The consequence of all these and Chinese pressure for repayment at a 6% interest rate was the leasing of the Hambantota port including 15,000 acres of land around it to China in a debt-for-equity swap deal for 99 years. Although the deal erased \$1 billion debt, Sri Lanka is now in more debt to China than ever.

About \$7.6 million were believed to have been channeled from China to the personal coffers of former president, Mahinda Rajapaksa and his cronies for election 2015. This has raised concerns about Chinese influences vis-à-vis corruption and propping up autocratic regimes. The debt-for-equity deal has granted China tremendous influence in Sri Lanka domestic politics and the Indian Ocean region calling into question Sri Lanka's sovereignty. Writers suggest, "China is turning Sri Lanka into a modern day semi-colony" and "doing the same things to Sri Lanka that Great Britain did to China after the Opium Wars" [16].

#### **DEBT TRAP VULNERABILITY OF DJIBOUTI AND PAKISTAN**

Djibouti is on the 21<sup>st</sup> Century Maritime Silk Road that would link China via the India, Red, and Mediterranean Seas to Europe and place of China's foreign military base. Pakistan is on the 3<sup>rd</sup> route that links China to South Asia and Southeast by land and it is one of the initiative's key economic corridors: The China-Pakistan Economic Corridor (CPEC). These countries perfectly fit the possible security implication argument of the debt trap that this paper mounts because their nature of vulnerability is likely to engender policy

response from China and the IMF and the Center for Global Development have concluded their high risk of debt distress due to BRI related financing.

#### ***I. From the Red Sea Coast of East African: Djibouti***

The Washington Center for Global Development found that 8 countries could suffer from debt distress due to BRI related financing and one of such countries is Djibouti. It is one of the East African countries at the Horn and the proneness of weak states including African states to wars and conflicts means that Djibouti is not isolated from this menace. Djibouti is a very poor country with a 2017 population of only 957,000 which is not even attractive for any international company to cash in on overseas market. Djibouti's importance could not be realized until one looks at the world map to see its geographic location.

Djibouti officials are on a similar path of a borrowing spree with fears that they might meet the fate of their counterparts in Sri Lanka. The Center for Global Development mentioned that rising debt-to GDP ratios and the levels of debt are important in accessing the debt distress in countries. The country's actual gross debt-to GDP was reported as 72.1% and 86.6% respectively for 2015 and 2016 while its forecast debt-to GDP for 2017 and 2018 were estimated as 88.1% and 87.5% respectively [10]. The Washington Center for Global Development has recorded that \$1.4 billion, almost at par with the country's overall GDP has been provided to Djibouti by China for funding major projects equivalent to 75% of the GDP with further projects worth billions laid out. The IMF confirms in 2017 that Djibouti is still one of the debt distress countries and this has significantly increased due to the state's externally financed infrastructure projects through China's Belt and Road Initiative. The report indicates that its debt-to GDP ratio has increased from 50% in 2014 to 85% in 2016 and expected to increase to 87.1% in both 2018 and 2019 [18] with the country's overall GDP at \$1.72 billion [19].

The IMF has warned against any additional borrowing and advised government to develop strategies to manage the huge debt. However, Djibouti continues to borrow in huge quantities from China through the BRI. In 2017, the Doraleh Port was completed by the China Merchant Port Holding Company for \$340 million. In July 2018, it launched its \$3.5 billion International Free Trade Zone [19]. The IMF indicates that debt accumulation increased sharply between 2014 and 2016 with the building of the Addis Ababa – Djibouti railway and water pipeline from Ethiopia of an amount of \$860 million [18]. Other projects include two new airports, Port of Ghoubet, oil terminal, among others.

Due to these huge loans, debt burden for Djibouti is likely to be elevated in the coming years. It is not clear whether the various projects could be profitable to yield the needed money for debt repayment and how Djibouti can pay back the loans. From Sri Lanka, it wouldn't be a surprise if China forces Djibouti in a debt-for-equity swap or cancel debt for concession of a territory or natural resources as it did to Tajikistan in 2011[10] or secure new projects funded by more debts as it did to Cambodia in 2016.

## ***II. To the Arabian Sea Coast: Gwadar, Pakistan***

A look at the map indicates a short straight sea trip between Djibouti to Gwadar, Pakistan. Pakistan is also concluded by the Washington Center for Global Development to be at high risk of debt sustainability problems due to its BRI related financing. Pakistan through the China Pakistan Economic Corridor is a very important member of BRI and it's estimated that CPEC projects are about \$62 billion [10] but not without high interest rate of about 5%. Among the CPEC projects listed by Abdul Khaliq include the Gwadar Port; \$1.42 billion Karot Power Station; a \$2 billion current transmission line; \$2.07 billion Karachi circular railway; \$1.6 billion Orange Line train, among others. It is the hope that these projects would transform the Pakistani economy.

However, debt distress challenges, experts analyses reckon could render Pakistan a perpetual dependence on China thus making it a semi-colony of China or a client state [20]. Like Djibouti and Sri Lanka before it, Pakistan is struggling to survive under debt and BRI related financing is compounding its woes. The Washington Center for Global Development puts Pakistan's 2015 and 2016 actual gross debt-to GDP ratio as 65.7% and 70% respectively and forecasted 2017 and 2018 respectively as 69.1% and 67.6%. The CPEC projects are soaring up Pakistan's debt and it is estimated that by June 2019, Pakistan's debt owed to China will be \$19 billion of the total \$103 billion and \$27 billion will be needed for debt servicing [20, 21].

Pakistan has petitioned the IMF for \$12 billion bailout. The Asia Times reported that apart from \$1 billion, China will lend additional \$2 billion to avoid balance of payment crisis and apart from an initial \$6 billion granted for the first two years of CPEC, additional \$5 billion was loaned for 2017-18 year. Monika Chansoria indicated that Pakistan's gross debt was \$83 billion in 2017 [20] and rose to \$92 billion in 2018 according to Adnan Aamir [22], which had averaged \$53.53 billion from 2002 until the CPEC was introduced and 88% of these increases were due to commercial banks and bilateral credits from China. In 2017, it obtained \$10 billion for debt servicing out of which \$4.4 billion came from China and it is estimated that Pakistan will borrow about \$13 billion more for debt servicing in 2019. The IMF has cautioned that Pakistan's Chinese debt servicing could amount to \$4.5 billion annually from 2024 onwards [22] and CADTM estimates that Pakistan will pay \$100 billion by 2024 of a total investment of \$18.5 billion [21]. CPEC is also believed to have cost Pakistan \$19 billion in high tech machinery purchasing and expected to rise to \$27.8 by 2021 creating a balance of payment deficit of \$15.63 billion [22]. Although huge sums of Chinese money are entering Pakistan, Aamir notes that "not a dollar of the Chinese loans has entered Pakistani banking channel."

Implications of these debts to Pakistan and their repayment or default and China's likely response including debt-for-equity swap and offering of concessions are not different from those discussed earlier with countries with similar fate. Chansoria [20] noted that "by means of financing the entire CPEC, Pakistan has compromised its sovereignty and reduced itself to a client state and neo-colony of the People's Republic of China."

### **DEBT DEFAULT, POLICY RESPONSE AND INTERNATIONAL CONFLICTS**

Debt distress in both Djibouti and Pakistan due to China's BRI related projects could have consequences for global international peace and security vis-à-vis Chinese policy responses such as debt-for-equity swap as in the case of Sri Lanka in 2017 or the 2011 Tajik case of debt cancellation in exchange for territory. Such Chinese policy responses would sour the bilateral relationship between China and its defaulters since they could very much affect defaulter's sovereignty and international image. Analysts and scholars claim Sri Lanka has been reduced to a modern day colony because "China is doing the same things to Sri Lanka that Great Britain did to China after the Opium Wars" over Hong Kong and Djibouti and Pakistan would fare no better. China has dispute with many states especially its neighbors and many others look at China with suspicion and its policy responses towards its BRI defaulters would worsen matters.

Xi Jinping has managed to secure life-time presidency but the same cannot be said with other states and governments would change. Already "new governments in places like Malaysia and Sri Lanka have questioned why their predecessors borrowed so much from Beijing" and this is not different in Pakistan especially. Politically, it makes no sense for a new government to actively pursue its predecessor's projects that it deems economically nonviable. Thus, it wouldn't be surprised if an ambitious leader assumes office and decides that BRI projects aren't his and seeks to avoid Chinese interference in his

programs to restore sovereignty and international prestige. The result will be animosity.

Another security implication from the domestic level is the threat of civil conflicts and wars. The Sri Lanka swap deal has prompted domestic resentment as locals say they don't want their lands to be given to the Chinese and thus they won't leave the areas demarcated for development. Such dissents are likely to hit places like Djibouti and Pakistan especially whose media have complained of secrecy of CPEC deals and not too good public perception. Djibouti was plunged into civil war in 1991 – 1994 and 1999 through rebel rebellion, Front for the Restoration of Unity and Democracy who aimed to overthrow the government due to marginalization, oppression and economic degradation. Rebels would resurface when BRI projects become white elephants and China begins to take over them. China takes pride in its governance model and hopes to export its "socialism with Chinese Characteristics" and Xi's life presidency is seen as "Chinese democracy". As China becomes deeply involved in others politics, it will prop up autocratic regimes thus accentuating repression and marginalization which would be a recipe for domestic dissension and conflicts. Civil conflict in Djibouti is likely to be contagion in Somali, Eritrea and Ethiopia.

Perhaps the most serious consequence for international security and peace would be external involvement of great powers. Djibouti has become an attractive spot for global military superpowers with China becoming the latest country to station military base in close proximity to the US Camp Lemonnier. Djibouti also houses France's biggest Foreign Legion deployment in which troops from Spain and Germany are hosted. As debt distress renders Djibouti a Chinese overseas territory, China would like to wield great influence to dictate affairs among these powers. The US has expressed displeasure that Chinese base "will provide China foothold at the Bab el-Mandeb Strait, a strategic chokepoint in the international maritime trade" and thus it is "carefully

monitoring Chinese encroachment and emergent military presence” because “there is nowhere else in the world where the US military is essentially co-located in close proximity to the country it considers as strategic competitor” though China maintains that its “live-ammunition drills ...should be interpreted as legitimate and reasonable” [19]. As China gain foothold, vital interests between these powers could clash and Djibouti rather than East Asia could become the starting point of US – China war.

Another power behind the scene is France. France is Djibouti’s former colonial master and since independence, France has maintained tremendous influence in Djibouti. France defense policy in post independence Africa has been “to maintain its own strategic position in Africa without an overly conspicuous deployment of forces in Africa itself and to reserve the right of intervention on behalf of African states and regimes” based on the agreements signed between France and its former colonies [23]. France presence has resulted in the seemingly albeit not perfect sangfroid in the region as the possibility of internal conflicts between rivals ethnics such as Afar and Issa and external conflicts between Djibouti and Somalia and Ethiopia and Somalia – who sees the acquisition of Djibouti and the Haud-Ogaden region of Ethiopia as a necessity in its effort to unite the Somali people as the flag of Somalia demonstrates – are high.

In a situation of Djibouti’s debt distress and its associated consequence of Chinese influence in domestic politics could also result in China’s stepping on the foot of France in Djibouti who is considered by Thomas A. Marks as “France’s strategic toehold in Africa” [23]. A conflict between France and China is likely to draw in the US based on the constructivist’s shared values, ideas and norms and the fear of all these permutations is that Djibouti may find itself making enemies and drawn into conflicts by its military guests.

Among all the countries, India is the most worried of Chinese debt trap on developing

countries. India is one of China’s long lists of countries with disputed borders and relations between the two have long been bad. India is worried about encirclement through Chinese debt trap strategy. India is concerned that China would use Hambantota for military ventures although the lease agreement forbids military activity as one Indian official ranted as “the only way to justify the investment in Hambantota is from a national security standpoint – they will bring the People’s Liberation Army in” [17]. India’s worry about China at Hambantota has necessitated its plans to operate Sri Lanka’s airport nearby. China’s actions are seen as “part of a determined strategy to extend its influence across the Indian Ocean at the expense of India” [15]. Thus India became concerned when a Chinese submarine and warship docked at Sri Lanka’s Colombo Port. India believes that with Sri Lanka taken at the south, the acquisition of Pakistan and Djibouti would not augur well for the country. It is “worried that it is losing the geopolitical competition against China and it’s obviously feeling somewhat nervous” because it “doesn’t have those kinds of resources to compete with.” This may prompt India’s counter alliances to tilt closer to Japan and the US. Things might not look good.

## CONCLUSION

The aim of BRI albeit brilliant, its implementation strategy is questionable with the huge debt it is likely to impinge on developing countries. For China to ward off suspicion it should create conditions that make developing countries apart from just providing territories, have a major share of responsibility and the program should be taken step by step where successes and failures from one step would be replicated and corrected at the next step rather than so many commitments at a goal. Countries that suspect Chinese international intentions are many enough and the security implications arising from BRI would complicate matters and put China’s credibility at stake. This paper concludes that the BRI’s debt trap will not just rain perpetual hardship on developing countries but likely to cause international security

problems through civil wars and conflicts and interstate conflict involving great powers.

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