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Perspective: BRI - China's Debt Trap

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Why in News

China's **Belt and Road Initiative (BRI)** has left scores of **Lower and Middle-Income Countries (LMIC)** saddled with "hidden debts" totalling USD 385 billion.

Key Points

- **Indebting Countries:** China is using debt rather than aid to establish a dominant position in the international development finance market.
China's Belt and Road Initiative (BRI) is **plunging nations into massive debt.**

- **Recent Study about BRI:** A recent study by **AidData** (an international development research lab) has found out that **42 countries have more than 10% of their GDP owed as debt** to China.
 - These debts are systematically underreported to the **World Bank's Debtor Reporting System (DRS)** because, in many cases, central government institutions in LMICs are not the primary borrowers responsible for repayment.
 - 35% of China's BRI infrastructure project portfolio has encountered **major implementation problems, corruption scandals, labor violations, environmental hazards, and public protests.**

China's BRI and India

- **About BRI:**
 - More than 100 countries signed agreements with China to cooperate in BRI projects like **railways, ports, highways and other infrastructure.**
 - It was announced by the Chinese President Xi Jinping-led regime in 2013. It encompassed five kinds of activities:
 - Policy coordination
 - Trade promotion
 - Physical connectivity
 - Renminbi internationalisation
 - People to people contacts.
- **Routes of BRI:**
 - **New Silk Road Economic Belt:** It encompasses trade and investment hubs to the north of China; by **reaching out to Eurasia including a link via Myanmar to India.**
 - **Maritime Silk Road (MSR):** It begins via the **South China Sea** going towards **Indo-China, South-East Asia** and then around the **Indian Ocean** thus reaching Africa and Europe.

- **Issues Associated to BRI:**

- **Chinese Monopoly in the Projects:** The investments under the BRI are mostly done by the state-owned enterprises and banks in China.
 - Most of the contracts (93%) have also gone to the state-owned enterprises in China.
 - The **host countries or other companies hardly have any role to play.**
 - **Increased Corruption and Reduced Competition:** Chinese monopoly in lending and building infrastructure has further led to corruption.

Due to **no private sector participation**, there is no competitive element in the programme.
 - **Lack of Transparency and Environmental Concerns:** The debt trap diplomacy, the lack of transparency and **unreasonable loan conditions** have made the scheme extremely unpopular.
 - At least **236 BRI projects** have been facing the **debt related problem.**
 - This has also led to dumping of steel and cement raising environmental concerns.
 - **BRI- A Recipe For Total Failure:** China sold most of its connectivity projects to the countries which were looking at China for the success of its economic model in infrastructure projects and wanted to emanate the same path, even if it was not viable for the countries.
 - Moreover, **China has overcommitted itself** and now it is **not able to sustain the aid-program.**

The fate of those projects is undetermined which were started but not finished.
 - More than 35% of the project portfolio is stuck on the implementation stage.
- **Response of Recipient-Countries:** China is now facing the **BRI backlash in a growing number of countries** across Africa, Asia, Latin America, and Central and Eastern Europe.

Policymakers in some countries have **cancelled high-profile BRI projects** and many other countries have **decided to take a second look** at whether the benefits of BRI participation outweigh the risks.

- **Global Responses to BRI:**

- **B3W Initiative:** The **G7** Countries proposed a '**Build Back Better World (B3W) initiative**' at the **47th G7 summit** to counter China's BRI.

It aims to address the infrastructure investment deficit in developing and lower income countries - the space which has been increasingly captured by China.

- **Blue Dot Network (BDN):** It is a multi-stakeholder initiative **formed by the US, Japan and Australia** to bring together governments, the private sector and civil society to promote high-quality, trusted standards for global infrastructure development.

BDN was formally announced in november, 2019 at the **Indo-Pacific Business Forum in Bangkok, Thailand.**

- **Global Gateway:** In a bid to compete with BRI, the **European Union** recently launched the Global Gateway, a new infrastructure development scheme.

- **Concerns for India:**

- **Hamper India's Strategic Interests:** The **China-Pakistan Economic Corridor (CPEC)** passes through Pakistan-occupied Kashmir (PoK) and Baluchistan, both of which are home to a long-running insurgency where it faces terrorism and security risks.

- CPEC would hamper India's strategic interests in the South Asian region. and can aid Pakistan's legitimacy in the Kashmir dispute too.
- Also, **attempts to extend CPEC to Afghanistan** may undermine India's position as economic, security and strategic partner of Afghanistan.

- **China's Strategic Rise in the Subcontinent:** Along with **China-Myanmar Economic Corridor (CMEC)** and **CPEC**, China is also developing the **China-Nepal Economic Corridor (CNEC)** which will link Tibet to Nepal.

- The endpoints of the project will touch the boundaries of the Gangetic plain.
- Thus three corridors signify the economic as well as strategic rise of China in the Indian subcontinent.

Way Forward

- **Participatory Alternatives:** Alternative projects must be **launched by more advanced countries** which are also **participatory in nature** keeping into account the **interests of the host/recipient countries.**

Unless there is a partnership with the host country, the success of the project is not assured.

- **Alternate Funding Sources:** Alternative sources of funding these connectivity projects must be taken into account. The larger nations will have to come forward.

Also, **more professional financial institutions shall be invited** to provide assistance in such issues.

- **India's Role:** India will have to work with its partners in the region to **offer alternative connectivity arrangements to its neighbours.**
 - Connectivity is increasingly seen as a tool for exerting foreign policy influence.
 - India stepping forward to enhance interconnectedness will **provide a new theatre for geopolitical competition with China** in South Asia and the Indian Ocean.
 - Connectivity also presents India with an **opportunity to reestablish its regional primacy.**
- **Collaboration with Like-Minded Countries:** India's ability to act alone in South Asia and the larger Indian Ocean is limited.
 - It must **seek help from partners like Japan** when necessary **to build and upgrade its infrastructure** and create an alternative to Chinese-led connectivity corridors and infrastructure projects.
 - Countries like **Australia, France, Germany, the UK and the US** have technical expertise and are already present in the region to some extent.
 - India must **identify the advantages each of these nations offer** and leverage them to **collaborate in areas of common interest** and pursue its strategic connectivity goals.

Conclusion

- China, in order to go ahead and protect its own interests has put in place a network of investments which has led to several low and middle income countries in severe debt.
- There are ways to deal with it but any individual country cannot go ahead and provide an alternative to BRI but the larger and stronger economies can come together to find a way ahead.