



## Mains Marathon

**Day 12:** China's debt-trap policy is an area of concern not just for smaller nations but also for India. Highlight the major issues raised by it and suggest a way out. (250 words)

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### Approach / Explanation / Answer

- Start your answer by giving an overview of China's debt-trap policy
- Discuss how China's debt trap is the cause of concern for smaller countries and India
- Discuss issues with China's debt-trap policy
- Conclude Your answer by giving a Way Forward

### Answer:

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 honour its debt obligations.

For example, **China took Sri Lanka's Hambantota port on a 99-year lease**, on account to Sri Lanka's failure to pay Chinese debt.

### Cause of Concern for Smaller counties

**India's immediate neighbours - Sri Lanka, Pakistan and Nepal - have either plunged into an economic crisis or are showing signs of economic distress.** Sri Lanka is in the throes of a deep economic crisis, with sky-rocketing inflation and depleting foreign reserves. Pakistan too, in the middle of a political crisis, is facing an economic one. Nepal, likewise, is foreseeing an economic crisis and has banned the import of vehicles and other luxury items, due to declining foreign exchange reserves. Nepal Rastra Bank, the country's central bank, said that they have been seeing symptoms that there may be some kind of crisis in the economy, mainly because of growing imports.

**Apart from economic distress, one thing running common between these countries is that they are all part of China's Belt and Road Initiative (BRI).** The BRI is a global infrastructure development strategy developed by the Chinese to invest in nearly 70 countries. The Chinese government, through BRI, invests in building ports, roads, bridges, dams, power stations, railroads, etc. China is known to have BRI deals with all three countries.

**Around 40 countries that felt the benevolence of China** have the rug pulled from under their feet. Among these are Laos, Zambia and Kyrgyzstan too.

## Cause of Concern for India

- **Smaller nation falling into the lap of China:** India is concerned with the smaller nations like Nepal, Pakistan etc coming under the influence of China.
- **Growing Chinese influence:** It has increased the China's influence in the region to a considerable level which is against India's desire to emerge as a net security provider in the region.
- **Challenge to Indo-Pacific Strategy:** The China's debt trap policy will lead to increase in China's assertiveness which is a direct challenge to the open and peaceful Indo-pacific region.
- **Against Sovereignty of India:** The Chinese funded projects like **China-Pakistan Economic Corridor (CPEC)** which passes through the territory of India are a direct challenge to the sovereignty of India.

## Issues with China's debt-trap policy

**Opacity:** The opacity is typical because China has a history of hiding loans as trade credit or by routing them through special purpose vehicles. China does not publish records of its foreign loans, and the majority of its contracts contain non-disclosure clauses which prevent borrowers from revealing their contents.

**High-Interest Rates:** Chinese debt isn't cheap; interest rates seem to be about three times what other countries charge on bilateral aid.

**Lend to projects with low credit Ratings:** China funds projects to countries which do not have a good credit rating, and which have few alternative sources of external finance. It protected its interests by holding project assets as collateral, taking over quite a few. Lending has therefore been followed by asset grabs.

**Taking control over the Projects:** The claim is that China lends money to other countries, which end up having to cede control of key assets if they can't meet their debt repayments.

## Responses to China's debt-trap policy

- **Global Response:**
  - **B3W Initiative:** The **G7** Countries proposed a '**Build Back Better World (B3W) initiative**' at the **47<sup>th</sup> 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.
- **India's Response:**
  - With the growing influence of China, India is looking to strengthen its walls with its 'human-centric development' approach. India has offered a credit line of \$2.5 billion to Sri Lanka.. Additionally, India and Nepal have also committed to fix their ties.
  - **India is looking to maintain its influence in the region and counter the growing debt-trap initiatives of its eastern neighbour China via cooperative strategies and humanitarian aid**, a move aimed to ringfence its strategic interests in the region and also keep the shadow of China away from its other borders.

## Way Forward

- **Participatory Alternatives:** Alternative projects must be **launched by more advanced countries** which are also **participatory in nature** taking into account the **interests of the host/recipient countries**.
- **Alternate Funding Sources:** Alternative sources of funding for 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**.
- **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.

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