

## BRI's 'debt trap diplomacy' : reality or myth?

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## **BRI's 'Debt Trap Diplomacy': Reality or Myth?**

*By Pradumna B Rana and Ji Xianbai*

### **SYNOPSIS**

*Some commentators argue that China deliberately pursues the “debt trap diplomacy” to project undue political influence over smaller countries that borrow from it under the Belt and Road Initiative. Our recent book, which includes a survey of stakeholders, examines the facts and myth surrounding this thesis.*

### **COMMENTARY**

THE GEOSTRATEGIST from India, Brahma Chellaney, is frequently credited with having coined the term “[Debt Trap Diplomacy](#) (DTD)” in 2017. Chellaney opined that the aim of China’s Belt and Road Initiative (BRI) was to saddle small nations with debt that they could not hope to repay “leaving them even more firmly under China’s thumb”.

Since then, based on a review of a limited number of cases and projects, many other commentators and analysts have come up with similar views on the BRI. The DTD thesis has, therefore, morphed into something approaching conventional wisdom.

### **World Leaders’ Use of DTD Thesis**

The DTD thesis has also been widely used by world leaders. For example, in 2018, United States Vice President, [Mike Pence](#), referred to the imperative to provide “foreign nations a just and transparent alternative to China’s debt-trap diplomacy”. A bipartisan group of [16 US senators](#) in August 2018 also expressed apprehensions about the BRI by citing “the dangers of China’s debt-trap diplomacy”.

They noted that it was imperative that the US counters China’s attempts to hold other countries financially hostage and force ransoms that further its geopolitical goals.

Leaders in Japan and Australia which together with the United States and India comprise the Quad (Quadrilateral Security Dialogue forum), also frequently use the term.

A recent [research paper](#) authored by Lee Jones and Shahar Hameiri from Chatham House, a London-based international affairs think tank, offers a robust challenge to the DTD thesis. Jones and Hameiri argue that the BRI portrays a reality that is both messier and more nuanced. They find that oftentimes controversial BRI projects were initiated by recipient governments, and the perceived debt problems arose mainly because of the misconduct of the local elites.

However, their focus is on the experience of only two countries, Sri Lanka and Malaysia, a very small subset of over 165 countries and international organisations that have signed the BRI memorandum of understanding (MOU) or other cooperation agreements with China.

### **DTD a Myth?**

In our recent [book](#), *China's Belt and Road Initiative: Impacts on Asia and Policy Agenda*, we conducted an online perception survey of opinion leaders (defined as policymakers, academics, and representatives of businesses and media) from a wide range of stakeholder countries, 26 Asian countries that have signed the BRI MOU with China. Stakeholder participation and perception are important for the success of a BRI project. Also, it is the stakeholder country that is ultimately responsible for repaying BRI loans to China.

Opinion leaders from Japan, Australia, and India were excluded from our survey as they have not yet signed the BRI MOU. China was also excluded for obvious reasons. Over 1200 opinion leaders responded to our survey questionnaire. We also simulated a computable general equilibrium model, and conducted regional case studies to assess other economic impacts of the BRI.

The key findings of our book challenge the DTD thesis on three grounds:

- *First*, after having considered both the benefits and costs of the BRI, on balance, 41.6% of the respondents to our survey of stakeholders believed that the BRI represented a net benefit for their countries, while only 14.8% said that it was a net cost. 40.6% noted that it was too early to tell. The strongest endorsements for the BRI came from Bangladesh (64.5%), Pakistan (59.7%), and Nepal (58.8%), while the opinion leaders from the Philippines were the least receptive to the BRI.

The Korean, Myanmar, and Vietnamese opinion leaders took a more neutral stance saying that it was too early to ascertain whether the BRI was a net opportunity or cost to their respective countries.

- *Second*, on the DTD thesis itself, more than 42% of the respondents to our stakeholder survey rejected the narrative as “alarmist”, although it is important to bear in mind that 30.6% felt otherwise. More than a quarter (27.3%) of the respondents had not made up their minds as yet. Echoing the conclusions of the Chatham House report, some respondents noted that domestic factors which were in the purview of host

governments (such as corruption and reckless propensity to borrow) were responsible for rising debt levels rather than Chinese BRI financing.

For instance, one opinion leader remarked that “DTD happens when weak governance is married with international borrowing”. Like the Chatham House report, yet others felt that China’s financial system was too fragmented and poorly coordinated for it to pursue detailed strategic objectives such as ensnaring countries in debt traps.

- *Third*, using the methodology developed by the [Center for Global Development](#) in Washington DC, which focuses on the level of public and publicly-guaranteed debt to GDP ratio, we found that three out of the five South Asian countries for which data are available are presently facing debt distress. These are Sri Lanka, Pakistan, and Maldives. However, Sri Lanka owes more to Japan than to China (only 3%).

The country also borrows extensively from international capital markets (54%). Similarly, Pakistan owes more to multilateral development banks and Islamic creditors (34%) than to China (only 6%). Maldives appears to be an exception, but the country has been at a high risk of distress for at least a decade, with or without the BRI.

### **COVID-19 and BRI’s Future**

Summing up, in contrast to the views of many commentators and analysts, our recent book finds that although there are a large number of implementation issues confronting the BRI, the DTD thesis is more a myth rather than a reality. Presently, because of the ongoing pandemic, many BRI projects are on hold and a number of BRI countries are facing difficulties in servicing their debt obligations to China. China is helping these countries to restructure their debt including through partial debt forgiveness.

China will not let the BRI collapse as this project, labelled as the “project of the century” by President Xi Jinping, marks the country’s re-emergence in the global scene and its eventual ascent to be the number one economy in the world. The success of the BRI could also spell good news for Asia as a whole. The BRI has the potential to convert “Maritime Asia” into “Continental Asia” which will herald the “Renaissance of Asia” as the global centre of economic and political gravity.

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