Belt and Road Initiative Projects: Capitulation to Chinese Hegemony

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Two announcements in November 2017, one each by Nepal and Pakistan, potentially led to large scale damage to the Chinese coveted project, the Belt and Road Initiative (BRI). In the first instance, Nepal cancelled its biggest hydroelectric project on the Budhi Gandki river in November 2017, citing procedural shortcomings in awarding the contract. The $2.5 billion contract had been awarded to the Chinese firm Gezhouba Group Corporation (CGGC) in June 2017. With a capability to generate 1,200 Mega Watt (MW) of power, the project would have provided most of Nepal's 1,400 MW annual energy requirement. Cancellation of the project indicated the growing unease of the smaller nations, due to debt fears at a later stage, as the bulk of the funding was being provided by Chinese banks.

In another major blow to Chinese ambitions, their all-weather friend Pakistan also cancelled a $14 billion Diamer-Basha dam project in November 2017, citing its construction by Chinese firms as being against Pakistan's national interests. The dam was part of the $57 billion Chinese-Pakistan Economic Corridor (CPEC) which is a key component of the BRI. Energy projects are a major outlay of the CPEC, with planned investment of $33 billion by Chinese firms. The Diamer-Basha dam had the capability to generate 4,500 MW of energy and the single project would have provided one-fifth of Pakistan's energy requirement. The main reasons for the cancellation of the project were strict conditions on the Chinese ownership of the project, operational and maintenance costs[1]. Pakistan had earlier failed to get funding for the project from the World Bank

Chinese investments in Venezuela highlight the failure of expanding influence through financial diplomacy.

as well as Asian Development Bank (ADB) as the dam was to be constructed on the river Indus in the Indian territory of Pakistan Occupied Kashmir (POK).

BRI and Indian Neighbourhood

The BRI formally took shape in May 2017 with the Chinese outreach to connect Asia with Europe through the land and sea routes and is embedded in the security concept of "Development Equals Security". With 68 countries as signatories to the scheme, China will be investing almost $150 billion a year to fund the construction activities. The secondary aims behind the grand initiative have led to scepticism about China's hidden agenda. China is seeking new markets for its goods, identifying new markets for Chinese firms and exporting its existing overcapacity in cement, steel and other industries. Its insistence on the recipient countries taking loans from Chinese banks at high rates, and employing Chinese companies and labour for the construction of projects has worried the local governments.

An analysis of the signatory countries indicates that most of them need infusion of funds for the creation of new infrastructure or for its modernisation. India's neighbourhood has also been equally impacted, with Bangladesh, Pakistan, Nepal, Bhutan, Myanmar and Afghanistan all being participating countries. The maximum investment is planned in Pakistan, with the CPEC having projects worth US$57 billion. Bangladesh has signed agreements worth $21.5 billion, with investments in development of the Pyra deep sea port, the Bangladesh-China-India-Myanmar Corridor, and railway and energy projects. China is developing the $10 billion Special Economic Zone at Kyuak Pyu in western Myanmar, along with pipelines for transportation of the oil to southwest China. The Chinese $8.3 billion investments in Nepal focus on Foreign Direct Investment (FDI) in tourism and energy generation projects, train connectivity between Kathmandu and the Chinese border town of Kerung and construction of transmission lines across the country. Road connectivity from Shigatse to Kodari in central Nepal has already been achieved. The Chinese investment in Sri Lanka has been in the construction of Hambantota seaport, Mattala international airport and development of a financial district in Colombo.

Venezuela Experience

The Chinese investments in Venezuela highlight the failure of the expanding Chinese influence through financial diplomacy and serve as an example for high cost of the projects for the host country and their subsequent impact on the economy[2]. By leveraging its financial strength and expertise in infrastructure construction, China saw an opportunity in Venezuela under its “Go Out Policy” to open new markets and gain access to Venezuela’s most important natural resource, oil. The Chinese lending from 2000 to 2014 increased to $63 billion. China also received preferential deals in infrastructure projects and market access to almost $6 billion worth of Chinese consumer goods[3]. The Chinese loans had an important caveat: the debt was to be repaid in oil. Thus, it had secured a guaranteed energy supply chain from Venezuela. By providing such heavy funding, it had also indirectly managed to provide support to the dwindling popularity of the Venezuelan government.

Hambantota port is an example of Chinese strategy to grab territory while writing off debt of smaller nations.

The deal was favourable to Venezuela as a barrel of oil was $ 100 in 2014 but it collapsed to $ 30 a barrel in 2016, forcing Venezuela to pay back more than double the oil to China. This led to heavy strain on the Venezuelan economy and the country witnessed an economic collapse, with unfinished infrastructure projects, large scale demonstrations and rioting – a humanitarian crisis purported by the Chinese policy of loan for oil. The opposition parties had declared the Chinese loans as null and void as they were not approved by the National Assembly. In order to protect or redeem its investment, the Chinese leadership will have to reach out to the opposition parties and, thus, will meddle in Venezuela’s internal affairs. Venezuela was the first example of the adverse impact of Chinese loans which are given at a premium lending rate.

Neighbourhood Concern

India is not a signatory to the BRI due to its well-founded concerns of sovereignty and territorial integrity. India’s statement announcing its decision not to attend the BRI conference on May 14, 2017, made a pointed reference to how “connectivity initiatives must follow the principles of financial responsibility to avoid projects that would create unsustainable debt burdens for communities; balanced ecological and environmental protection and preservation standards; transparent assessment of project costs; and skill and technology transfer to help long-term running and maintenance of the assets created by local communities.”[4] As the BRI projects get underway, the affected countries are realising the impact of the punitive Chinese conditions for execution of the projects and have started fearing the negative bearing on their nations’ economies. The Chinese insistence on using Chinese firms for construction, converting debt to long-term leases or payment in natural resources, has fuelled sovereignty issues.

Pakistan: The biggest growing concern within Pakistan is the escalating cost of the CPEC and its impact on the common man. The project execution costs are increasing through multiple layers due to expensive credit, tax incentives for Chinese companies and investors, higher power tariffs, and preference for Chinese firms to execute projects.[5] Funding of power projects is being done by Chinese firms at loans of 6 to 7 percent and the financing of transport projects is being provided by China's government and firms at the loan rate of 2 to 2.4 percent.[6] However, the interest costs could reach almost 13 percent with insurance costs. Massive tax incentives have been given to Chinese firms on the import of machinery and specialised equipment. The concerns are increasing due to limited information available about the projects as well as the execution methodology. The Pakistan government has set up a revolving fund equal to 22 percent of estimated monthly invoicing to ensure continuous payment to the Chinese firms engaged in the construction of power projects. Gwadar port and the surrounding special economic zone have been leased to the Chinese firm for 40 and 22 years respectively, with substantial tax incentives. The Pakistani officials were confounded by reports of new terms for Chinese funding of three road projects due to corruption concerns.[7] The Chinese persistence for the use of the yuan as the trading currency in Gwadar has also led to strained relations. As Pakistan faces increased isolation in the international arena due to its active support to terrorism, which translates into lower international funding, the CPEC seems to be the only answer for its policy-makers to develop infrastructure and, in turn, in the coming years, Pakistan will be increasingly dictated by China to meet the Chinese regional aspirations, and will get reduced to a status of a vassal.

Sri Lanka: Hambantota port and Mattala international airport were constructed with Chinese assistance and both soon became loss making entities. Over 85 percent funding for both projects was provided by the Chinese EXIM Bank. With increasing debt due to heavy Chinese loans, the Sri Lankan government signed an agreement with China in July 2017 for leasing the port and 15,000 acres of surrounding land for 99 years in exchange for writing off a debt of $1.1 billion. Thus, China has acquired a deep sea port near the shipping lines carrying its crude oil supply, and Sri Lanka has lost its territory for the next century.

Chinese Ambition and its Fallout

The global financial crisis of 2008/09 led to a sharp decrease in Chinese exports. Fearing social unterest, China spent over $600 billion in the next five years in the creation of infrastructure to generate millions of jobs in all sectors to reduce unemployment. As the infrastructure development cycle neared its completion, the available construction capacity had to be diverted to maintain the employment status. Hence, the strategic dividends of linking China with Eurasia are overshadowed by China's quest to seek new markets for its finished products and generate employment opportunities for its companies. Forty-seven of China's 102 central-government-owned conglomerates are participating in 1,676 Belt and Road projects.[8] Chinese banks have been providing loans at an average rate of interest varying from 3 to 6 percent, whereas the World Bank and Asian Development Bank rates are around 0.25 to 3 percent. In contrast, India's line of credit to Bangladesh, Nepal and Bhutan is at 1 percent or less.

The Chinese strategy to grab land in the smaller, less developed nations is simple: it gives them loans at high rates for infrastructure projects, gets equity into projects, and when the country is unable to repay the loan, it gets ownership of the project.[9] The Venezuelan and Sri Lankan experiences comprise a significant lesson for the countries which have received large amounts of Chinese aid and given the state of their economies, are unable to pay the mounting debt. Cambodia is another example where 80 percent of its debt is due to Chinese loans and it is unable to pay the amount. Also, Laos, where the China-Laos rail link cost at $ 7billion is equal to half its GDP.

Beijing needs to clarify its *modus operandi*, make the BRI transparent to allay the apprehensions of the affected countries, and bring in credible financing mechanisms. It needs to nurture better understanding of its intentions and visions, to prevent unnecessary suspicions about its geopolitical ambitions.[10] Perhaps, taking a step in this direction, China has offered a 40-year concessionary loan to Indonesia, without a sovereign guarantee, to finance the $5.9 billion Jakarta-Bandung high speed rail link. However, past experience has shown that Chinese policy-makers have been quick to leverage the debt with sovereign guarantees in the form of long-term leases, repayment in natural resources or a majority stake in the management of the project.

Whatever may be China's grand strategic designs, it has managed to gain two important deep sea ports of Hambantota and Gwadar near its maritime shipping lines. Chinese submarines have berthed at Hambantota port and two Chinese warships now provide security to Gwadar port.[11] Given the GDP of the recipient countries in the BRI projects and Chinese investments, the smaller countries, overwhelmed with Chinese debt, will be forced to accommodate Chinese foreign policy imperatives, thus, compromising their national objectives. Such a scenario will also have an adverse impact on the security situation in the neighbourhood. India will be affected due to the continuous Chinese presence at Hambantota, Gwadar and within Pakistan. In Pakistan's case, its debt and repayment on the CPEC will be roughly $ 5billion in 2022. It is then that Pakistan will realise that the Chinese blueprint for transformation was, in fact, a Chinese master stroke for the control of Pakistan, both strategically and economically. Thus, most likely, Gwadar will end up being a permanent Chinese strategic naval base in the immediate future.

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Notes

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6. Ibid.
7. The three road projects affected are: 210-km-long Dera Ismail Khan-Zhob Road, 110-km-long Khuzdar-Basima Road, and 136-km long Karakarom Highway between Raikot to Thakot
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