China's BRI: The Dragon Riding the Tiger

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Chinese President Xi Jinping enunciated the concept of 'One Belt One Road' (OBOR) in 2013 and China eventually changed it to Belt and Road Initiative (BRI), fearing that the term OBOR may be misinterpreted. China officially projected that the BRI was intended to harness the collaborative trade, infrastructure, development and cultural potential along the ancient Silk Route. The BRI involves infrastructure development and investments in the countries of Asia, Europe and Africa, the belt denoting the overland routes for road and rail transportation, termed the 'Silk Road Economic Belt' (SRB), while the 'road' refers to the sea routes or the '21st Century Maritime Silk Route'.[1] The China-Pakistan Economic Corridor (CPEC) is a flagship project of the BRI.

The Chinese government regards the BRI as a bid to enhance regional connectivity and embrace a brighter future. Factually, China's efforts to portray itself as an apostle of peace is to hide its policy of ambiguity and deceit, with the BRI being a vital ingredient of becoming a 'great power' in the earliest possible timeframe. Over the past five years, the world is getting wiser to the fact that the BRI is the Chinese push for domination in global affairs, and a network that is essentially China-centric, which, in turn, gives tremendous strategic advantage to China.[2]

Magnitude and Tentacles

The BRI is estimated to be the largest infrastructure and investment project, covering more than 68 countries, including 65 percent of the global population and 40 percent of the global Gross Domestic Product (GDP) as of 2017.[3] According to some estimates, Beijing will be spending $26 trillion on the BRI, in contrast to the Marshall Plan, which is equal to $103 billion in today's cost.[4] As per the World Pensions Council (WPC), China requires up to $900 billion of infrastructure investments per year over the next decade, mostly in debt instruments, 50 percent above the current infrastructure spending rates.[5] The SRB covers countries situated on the original Silk Road through Central Asia, West Asia, Middle East and Europe, and South Asia and Southeast Asia have been added to this grouping.[6]

The 'North Belt' of the BRI goes through Central Asia, Russia and Europe. The 'Central Belt' goes through Central Asia and West Asia to the Persian Gulf and the Mediterranean. The 'South Belt' connects China to Southeast Asia, South Asia, and Indian Ocean through Pakistan. The BRI will integrate with Central Asia through Kazakhstan's Nurly Zhol infrastructure programme.[7] To China's advantage, many countries along the BRI have joined the China-led Asian Infrastructure Investment Bank (AIIB), and the same goes for most countries along the '21st Century Maritime Silk Road' that is aimed at Chinese investments in Southeast Asia, Oceania, and North Africa through the South China Sea, Southern Pacific Ocean, and in the Indian Ocean Region (IOR).

The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, runs from southern China to Myanmar and is officially classified as "closely related" to the BRI. The CPEC, also classified as part of the BRI, is a US$ 62 billion collection of infrastructure projects throughout Pakistan that aims to rapidly modernise Pakistan's transportation networks, energy infrastructure, and economy. The CPEC has already become operational, with Chinese cargo transported overland to Gwadar on November 13, 2016, for onward move by sea to Africa and West Asia. In addition to the 21st Century Maritime Silk Road, China is actively pursuing the Northern Sea Route to realise an 'Ice Silk Road' to foster development in the Arctic region in close cooperation with Russia. Both countries are seeking cooperation in oil and gas exploration, in addition to collaborative ventures by Chinese and Russian companies.

BRI Investment Strategy

In November 2014, China announced plans to create a $40 billion development fund (Silk Road Fund), separate from the banks created for the initiative; its role being to invest in businesses rather than lend money for projects. The first beneficiary of the Silk Road Fund was Pakistan's Karot hydropower project, which

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is not part of the much larger CPEC investment. The Chinese government has already promised to provide Pakistan with at least $350 million by 2030 to finance the hydropower station. China's Sanxia Construction Corporation began work on the Karot hydropower project in January 2016.

A slowing economy apart, unemployment and internal stability are the biggest worries of China. During 2017, China spent Yuan 1.24 trillion ($196 billion) on internal security compared to Yuan 1.02 trillion in central government funding for the military. In Xinjiang, China spent $9.1 billion on domestic security in 2017—a 92 percent increase from 2016. With 30 percent unemployment rate among graduates, China saw over 30 percent increase in protests by workers across China in 2015. China is to relocate 9.81 million people living in impoverished and unsustainable conditions in 22 provinces to "geographically less disadvantaged areas" during 2016-20 at a cost of $158 billion.[8] By 2026, China hopes to move a population of 250 million from the rural regions to the cities, which appears an impossible task and likely to increase strife between the 'haves' and 'have-nots'.[9]

Faced with the internal situation of unemployment, 80 percent of Chinese companies were ready to participate in the BRI. China, therefore, asked them to invest abroad and capture jobs in projects, according to the BRI plan. In fact, the directive apparently was to 'splurge' money without much thought, knowing that the target country cannot repay it within the prescribed time-limit, enabling China to extract repayment in strategic terms. For example, of the original CPEC loan of US$ 46 billion (now $62 billion) that Pakistan has taken from China under the Sovereign Guarantee, only an amount of $11 billion for infrastructure purposes is a Chinese government loan whereas the $35 billion investment for the power sector is by Chinese companies. Presently, China's total debt ratio, or outstanding external debt to GDP ratio, stands at 14 percent, but China says that the financial risks arising from its mounting $1.71 trillion external debt are manageable, playing down the concerns over its massive accumulation.[10]

China's Debt Trap Policy

In simple terms, China's 'Debt Trap Policy' involves extending excessive credit to the target country with the aim of extracting strategic gains by controlling it politically and taking over/establishing base(s) when the debtor country is unable to honour its debt obligations. The conditions of the loans are often not made public and the loaned money is typically used to pay contractors from the creditor country. The debt trap also enables opening of an enormous number of jobs for Chinese nationals, promoting the yuan vis-à-vis the US dollar, and spreading the use of the Chinese language as part of a soft cultural takeover. Most important is the strategic, political and economic control over the target country, which, in turn, increases China's control over the oceans and the sea lanes of communication.

In a massive strategic gain for China, Hambantota port was transferred to China for 99 years in July 2017. Sri Lanka did this to service the debt on the loan it took from China's Exim Bank to build the port (for the $1.5 billion Hambantota port, 85 percent of the finances came as loan from China's Exim Bank, at an interest rate of 6.5 percent), the repayment amounting to Sri Lankan (SL) Rs 9.1 billion ($60 million) annually.[11] China's Merchants Ports Holdings Company Ltd, which also has the contract for Colombo port, got charge of the operations under a $1.12 billion deal, with 70 percent stake. The first phase of Hambantota development commencing 2011 cost $650 million but by December 2016, instead of being able to adhere to the debt repayment schedule, the cumulative losses rose to over $3 billion.

With regard to the CPEC and related Chinese projects, China is prepared for more investments in Pakistan but has refused to provide more loans. Pakistan is seeking loans from the International Monetary Fund (IMF), which it is finding hard to get because of its continuing support to terrorism, and the US signalling that the IMF should not help Pakistan repay the Chinese debts. Chinese exports to Pakistan are increasing while Pakistani exports to China are dropping. Pakistani authorities blame the trade barriers by Beijing on Pakistani goods and claim that the Free Trade Agreement (FTA) is tilted "against" Pakistan. In October 2018, the State Bank of Pakistan enhanced the deficit for the previous fiscal year by around $1 billion to a record high of $18.99 billion compared to $17.99 billion reported in July 2018.[12] Foreign Direct Investment (FDI) also dropped 43 percent to $438 million in the July-September quarter compared with $763 million in the same quarter last year. Pakistan needs to pay $90 billion back to China over 30 years for the CPEC and this doesn't include cumulative debt interest in case of default.

China has indebted Maldives by $3.2 billion, as per Reuters, during President Yameen's five-year regime. Chinese firms are engaged in some 17 projects in Maldives; these financing mechanisms imply China gaining control of large areas of Maldives. The IMF predicts the Maldivian debt reaching 121 percent of the GDP by 2020. Maldives' markets are flush with Chinese goods without import duty

BRI projects facilitate Chinese access to natural resources, markets for its products and job avenues for its workers.

because of the FTA. Tourism is the largest industry of Maldives, accounting for 28 percent of the GDP and more than 60 percent of its foreign exchange receipts. Chinese tourists visiting Maldives are the largest in number, averaging over 300,000 annually, equalling 70 percent of Maldives' population. In Djibouti, Chinese loans to develop a strategic port comprise 77 percent of the country's total debt. Akin to Sri Lanka, Pakistan, Maldives and Djibouti, other nations that are half way or caught in China's debt trap are Tajikistan, Kyrgyzstan, Lao and Mongolia.[13] Zambia, Venezuela, Congo, Montenegro and Papua New Guinea would also join this category.

The Hiccups

The BRI envisions a corpus of almost $1 trillion initially, to build roads, ports, railway networks and digital highways across nations and regions but the questions that remain are: is the BRI leading to Chinese hegemony in the region and, consequently, will the target countries actually benefit in a holistic manner despite China's burgeoning economy, technological prowess, an overwhelming superiority in defence capabilities and its massive involvement in all the major economies of the world, including the US? The BRI is the opposite of the Marshal Plan, because instead of helping the poor countries develop, it debt-traps them.[14] The Marshal Plan injected billions of dollars into Western Europe, inducing political stability and economic recovery. Chinese President Xi Jinping appears to have assumed the role of a village money-lender at a global level, with the intent to acquire an expanding pool of bonded labour. The difference here is that Xi Jinping has his government money safe and instead is funding the BRI through debt-laden Chinese companies despite China and these companies facing mounting economic challenges (internally and externally), aggravated by the US-China trade war.

There is little doubt that China's BRI-related projects are to facilitate Chinese access to natural resources, markets for its low-cost 'use and throw' goods, open up job avenues for Chinese workers and open the avenues to the seas to China, rather than to support the local economy.[15] Pakistan and Maldives may now rue the disadvantage in signing the FTA with China but there is little scope for renegotiation. Countries that cannot repay China's debt are forced into signing more projects on Chinese terms, perpetuating the debt-trap further. Malaysian Prime Minister Mahathir Mohammad has disapproved Chinese investments in Malaysia, comparing these to selling off the country to foreigners; labelling the

China-funded projects as "unfair" deals authorised by former Prime Minister Najib Razak. After an official visit to China in August 2018, Mahathir cancelled the $20 billion East Coast Rail Link project and two other $2.3 billion pipeline projects that were awarded to the China Petroleum Pipeline Bureau, saying, "It will be deferred until such time we can afford it, and may be we can reduce the cost also if we do it differently."[16]

There are serious challenges for China as well. China's Export and Credit Insurance Corporation, 'Sinosure', has already incurred a loss of more than $1 billion on the Ethiopia-Djibouti railway alone.[17] This being just one example, the cumulative blowback to China would be a serious challenge, especially if the trade war does not ease. China would like to hide these losses and would try to stop any harm to the Chinese economy by manipulating the currency but there is a limit to what can be done. Besides, Chinese companies suffering losses and employees losing job imply more dissent. The Chinese dragon is riding the tiger (BRI) from which it cannot get off. China must also face the blowback of the China-assisted genocide in Balochistan for the security of the CPEC.

Future Strategic Objectives of the BRI

With the centre of gravity of future conflict encompassing the Indian Ocean Region (IOR) in the larger Indo-Pacific region, China is consolidating its strategic hold over the IOR. The Chinese ports of Gwadar (Pakistan) and Djibouti already house Chinese Marines. China has a People's Liberation Army (PLA) Brigade stationed at Skardu and is developing and funding an Afghan National Army (ANA) Mountain Brigade in Badakshan, which amounts to stationing of PLA troops under the pretext of training and joint counter-terror operations. A joint China-Pakistan military base is coming up at Jiwani, which, together with Gwadar and Pakistan Naval Base at Pasni, gives China access to Pakistan's entire sea coast. China plans to extend the CPEC to Afghanistan and wants India to join it in order to justify its economic viability despite undertaking projects in Pakistan Occupied Kashmir (POK) (Indian territory) without reference to India.

Even before China took over Hanbantota port for 99 years, Chinese nuclear submarines and warships did not dock at the berths of the Sri Lanka Port Authority (SLPA) in Colombo, mandated to accommodate military vessels, but instead, docked at the Colombo South Container Terminal (CSCT), a deep-water facility built, controlled and run by China through an aid project; the CSCT is also a 'Chinese enclave' within a Sri Lankan administered harbour, the berthing itself being a violation of protocol. So it goes without saying that China will use Hambantota for military purposes. Maldives may have had a change of government but it remains debt-trapped by China, and multiple Chinese projects are ongoing in that country. If Maldives wants a waiver, it will come with a strategic price—in exchange for ‘control’ over maritime projects, as done in Sri Lanka.

For China, developing the Kyaukpu port in Myanmar is strategically as important as Gwadar, with communications and oil-gas pipelines linking the Kyaukpu Special Economic Zone (SEZ) with mainland China, the sea run to Hambantota and beyond, that would not attract much Western attention. It avoids the Malacca bottleneck and its importance goes up if the Kra canal project in Thailand comes through, a review of which has been orchestrated by China. China’s control of Kyaukpu has strategic implications for India. With Nepal in the bag, China is endeavouring to increase its footprint in Bangladesh. If and when the Bangladesh Nationalist Party (BNP) comes to power in Bangladesh, China can be expected to redouble its efforts.

Conclusion

The BRI, at the cost of debt-trapping the developing nations and impinging on India’s strategic interests, is not good for India. India, in conjunction with its strategic partners and multilaterals, including Japan, America, India (JAI) and Quad, needs to take stock of the situation. The mistakes or rather the intransigence in the Western Pacific should not be allowed to be replicated elsewhere. Ensuring an open and rule-based order on the seas of the Indo-Pacific is good but there is also the need to inhibit militarisation of the Indian Ocean where strategic consolidation by China aims much beyond its needs to ensure the safety of its sea lanes of communication. Beyond the establishment of an alternative to China’s BRI by the US, there is also a requirement to collectively and effectively ‘dissuade’ nations from falling into China’s debt-trap policy. Such dissuasive measures may need to go beyond those in vogue presently; for example, focussed collective investments. Finally, there is the question of ‘acting’ when the instigation comes, of which the Chinese love to provide ample opportunities. How this can be done multilaterally is the challenge, without a formal military alliance. Working out and streamlining its execution will need to be addressed. Concurrently, India must build up its military strength.

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