China’s Belt and Road (BRI): Investment and Lending Practices in Developing Countries. Is There a “Debt Trap”?

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China’s One Belt One Road project has been a great source of speculation for some time since its announcement by the Communist Party of China and China has since fielded a barrage of endless accusations that they are seeking to assert “global hegemony” and consequently engaging in imperialism since then.

Xi Jinping and the CPC have always assured the international public that China’s main focus is multipolarity but this hasn’t staved off their critics among every level of power in the US. But what about China’s broad-scale infrastructural projects is so imperialistic in nature and is the much-feared “debt trap” a real phenomenon?

To examine whether the debt trap is real, we must consider first what actually is a debt trap and what historical examples we can draw from the West to first to establish a comparative baseline.

The Debt Trap: The IMF’s Structural Adjustment Program versus China’s Lending Practices

The other major avenue through which African countries become beholden to the West’s unfortunate and often unfair measures is via the International Monetary Fund’s Structural Adjustment Programs which have historically been heavily involved in the regions that China is now involved in.

The US and UK for example pressured Tanzania into following this program. As an agrarian raw materials exporting nation, Tanzania compensated for low growth with foreign capital inflows including in the form of foreign aid. This foreign aid was later restricted in the 1970s and by 1980s and the country had no other choice but to approach the IMF. The IMF extended Tanzania a tranche loan under the condition that they reduce domestic credit drawings by the public sector. Since then, Tanzania has been trapped into a circuitous relationship with the IMF where they are stuck between accepting liberalizing reforms or being starved of funding. And the same stories can be found for 25 other countries across the African republic.

By the same token, IMF intervention in Indonesia and South Korea was deeply unpopular. The IMF also initiated a series of harmful structural adjustment reforms on Bangladesh after they accepted credit from the IMF under the three year Structural Adjustment Facility. Bangladesh subsequently underwent a shift from government to military rule under martial law where the negotiated adjustments took place including a strong shift from public lead growth to a mixed economy. By 1978 the moves towards privatization of sectors like agriculture and industrial development and they incentivized private investment which had the ultimate cost of massive job loss and stagnating growth at around 4%.

So, in order to examine whether China has an impact on the Global South that is equivalent to that of the IMF or as some of the pundits argue worse than, we must compare their impact with the of the West's international financial body, the IMF.

Similarly, the West gives aid to most African countries with Egypt, Kenya and South Sudan being the largest beneficiaries. US, Canada, Japan and France all follow a program of aide known as "tied debt" essentially meaning that the money given to these African countries must be spent on each countries national companies or that a percentage majority of these purchases must be made at each countries companies. The ultimate consequences of a program where African countries are beholden to importing solely from the US, Europe, Australia and Canada is that they are locked into a vicious cycle of being able to afford less than they otherwise would have at a globally non-competitive rate creating an artifical hike in these nations' production prices. This current structure continues a cycle of poverty alongside other expectations or pressures for structural reform from these exact same nations.

Zambias President, on Western trade relations, said

> "they are not prepared to discuss the issues of justice and fair play concerning the international trade and commercial sector, which imposes consider able suffering and privation on developing countries. The developing world continues to subsidize consumption of the developed world, through an iniquitous trade system. The existing structure is designed to consign us to perpetual poverty and underdevelopment. It is unrealistic to expect support, relief or respite from those who benefit from the status quo."

The African subcontinent by contrast have a notion of a specifically Chinese model of growth as unique from the West. President of the African Development Bank said

> "the phenomenal growth rate and the fact that hundreds of millions have been lifted out of poverty is an attractive model for Africans and not just the elderly leadership. Young, intelligent, well-educated Africans are attracted to the Chinese model even though Beijing is not trying to spread democracy. We can

> learn from them how to organize our trade policy, how to move from low to middle income status, to educate our children in skills and areas that pay off in just a couple of years."

The 2 billion dollar credit line China extended to Angola in 2004 was used by the nation for railroad repair, road building, office construction, a fibre optic network and oil exploration – all of which was possible because China does not follow a model of tied debt. China immediately guaranteed them a contract for the sale of oil in which they were able to begin paying back the loan which was originally at 1.5% interest and was dropped to 0.25% interest including a five year interest free period which is being recuperated over a space of 17 years. For Angola, this is a realistic goal for not only paying back their debt to China but also for upgrading their infrastructure enough to begin investing in other trade projects.

Tanzanian leader Julius Nyere who have also accepted similar deals with China once commented on the country's relationship saying "the Chinese people have not asked us to become communists in order to qualify for this loan. They have never at any point suggested that we should change any of our policies, internal or external."

Another of the biggest investment's China has entered into in the subcontinent of Africa is funding the building of Sudan's Merowe Dam. China won the bid for the dam because comparative to other contenders they promised to keep Chinese staff costs low, which from 2003 to 2005 employed 18, 000 Chinese workers and 16, 000 Sudanese workers.

Another of China's larger project in the BRI was the East Coast Rail Link with Malaysia. China put negotiation on this project above all else when a Malaysian company rejected the original terms of the project, instantly the Chinese company sought to negotiate new terms until both parties were happy. Outside observers would have noted no instance of imposing hegemony on Malaysia at all. And that's not the only instance where resistance lead to China negotiating new terms with local players

Similarly, China has been accused of "land-grabbing" in the African subcontinent mainly by its rivals but China has not invested in major plots of agricultural land outside of infrastructure projects and has always historically had a firm focus on food self-sufficiency. Another of China's biggest projects in subcontinent is the Mombasa-Nairobi Standard Guage Railway which connects the port city of Mombasa and Nairobi. The project itself is a massive boost the Kenyan economy, not only in that it facilitates trade but is being built almost entirely with local resources generated within Kenyan Railways.

The next biggest project along the BRI in Africa is the Karuma Hydroelectric Power Station. The project cost cost $458 million with 85% of that in a concessional loan from the import-export bank of China where again Sinohydro won the major contract for procurement and construction largely because of cheaper costs of materials and labour. By comparison, another procurement company may have loaded Kenya with significantly more debt while developing necessary infrastructure needed to electrify the country.

Ultimately, not only is China working within the systems of the countries they work with but in Global South nations that have been overrun by lawlessness since early British, or French colonization and later American financial domination, they are improving those systems by investing in new infrastructure, and discouraging against corruption at the local political levels.

In order to work with China fully, each nation must invest capital wisely and even then China cancels or suspends debt repayments at great cost to themselves. Many on the left attempt to argue that that imperialism at its core is purely about “exporting capital” as Lenin originally described it in the context of British imperialism limits us in our understanding of imperialism entirely.

What people tend to ignore in his original descriptions are a reference to a parasitic capitalism that sought to aggressively extract surplus value usually through manipulation or force without benefiting the domestic economy of the country that the capital is exported to.

For example, following the logic of the original reductionist position the US’ relationship with Australia could be considered definitely imperialist simply on the grounds that they are Australia’s primary investor. To many this would sound like a ridiculous argument when the US export technology that Australian businesses in turn benefit from without the same traps that they would extend to other countries.

So, what we really need to be asking ourselves when we examine this definition is whether or not that particular countries investment is actually growing the domestic economy. For every major metric of investment as exploitation,

China does not fit the mould and its time for the left rather than simply parroting Old Ideological lines to recognize the need for an analysis that fits the era. China not only is not exploiting the Global South but many of the countries they engage with on economic policy are far further to the right than they are. A country with a strong history of devastation at the hands of British imperialism themselves is not going to simply abandon this historical memory. In fact, it is China’s historical memory of being looted by the British which is exactly why China sees its greatest revenge as the drive towards increasing domestic living standards and building towards a counterhegemonic bloc of Global South nations with exactly the same history of looting at the hands of European and Western colonialism as theirs.

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