More refutations of ‘China debt-trap’ allegations

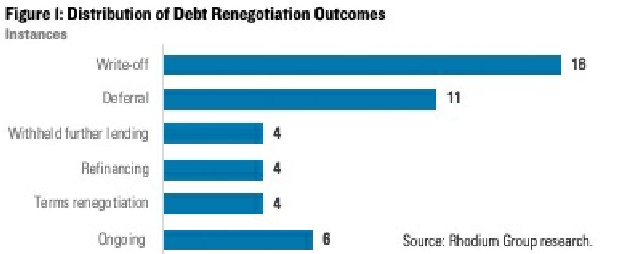
At the Second Belt and Road Forum for International Cooperation, held 25-27 April in Beijing, China’s Finance Ministry announced a new “Debt Sustainability Framework” outlining the criteria for Belt and Road Initiative (BRI) loans. It is based on standards similar to those used by the World Bank and IMF, but with “Chinese characteristics”. Finance Minister Liu Kun said, “It should be noted that even if a country is assessed as being high risk, or even in debt distress, it does not automatically mean that its debt is unsustainable in the long term”, nor that it should be denied credit. “Judgement” must always be used. Governor of the People’s Bank of China, Yi Gang, said that long-term debt sustainability decisions must also assess the effects of improvements to infrastructure, of people’s living standards, poverty reduction and greater productivity.

Despite rampant attacks on the BRI since the first forum in 2017, the fruits of the initiative are becoming harder to deny and many outlets are beginning to defend the project from its detractors. A sample of such reports from around the time of the second forum appears here.

“China’s Belt and Road partners aren’t fools” – Foreign Policy Magazine, 1 May: A very significant perspective given the publication’s US establishment credentials. Freelance writer Jacob Mardell who is currently travelling through Belt and Road countries opened, “Chinese finance is attractive for good, practical reasons”, going on to say that “English-language coverage of Belt and Road largely targets the flaws of the initiative—principally that it lacks transparency, promotes poor standards, and deals in ‘debt trap diplomacy’. The critical tone contrasts dramatically with the mood on the ground in many countries touched by the BRI. Critics of Belt and Road tend to see the initiative as a conscious exercise in power projection. They are not necessarily wrong, but this focus on Beijing overlooks the agency of local decision-makers and fails to comprehend their attitude toward Chinese funding.”

BRI sceptics forget that partner countries have agreed to the projects, they are not “passive and unwitting recipients of Chinese designs”. The article provides examples of successful projects that have transformed economies, and others which have failed—some for lack of local oversight. Many countries have been denied finance from all other sources. Poorer countries, Mardell says, prefer China’s “self-interested development model” to “EU [or other] strings-attached finance”.

“New Data on the ‘Debt Trap’ Question” – Rhodium Group, 29 April: This report by an independent researcher acknowledges that there is a high number of debt renegotiations, which may put a brake on BRI development; however asset seizures are extremely rare and China does not use its leverage against smaller nations. The study reviewed 40 cases of Chinese debt renegotiation, showing that they usually lead to a more balanced outcome for both lender and borrower, or in many cases are weighted in favour of the borrower, including the extension of terms, and often partial or even total debt forgiveness. **(See graph.)** Concludes the report, “despite China’s size and growing international economic clout, its leverage in some of these cases remains quite limited, even in disputes with much smaller countries”.



China debt renegotiation outcomes - Rhodium Group

The *Sydney Morning Herald* reported this study on 2 May under the headline, “Data doesn’t support Belt and Road debt trap claims”. The article cites Australian National University senior lecturer Darren Lim suggesting the Trump administration had pushed the “debt trap diplomacy line” and that “It beggared belief that Beijing was deliberately setting up recipient countries to fail.”

“America’s False Narrative on China” – Project Syndicate, 26 April: Stephen S. Roach, former chairman of Morgan Stanley Asia and senior fellow at Yale University, took on misconceptions about America’s trade deficit with the USA, refuting allegations of Chinese intellectual-property theft and currency manipulation, and showing that China’s industrial policy is comparable to that of the USA or European nations.

What if “the China bashing is more an outgrowth of domestic problems than a response to a genuine external threat?” Roach asks. “In fact, there are strong grounds to believe that an insecure US—afflicted with macroeconomic imbalances of its own making and fearful of the consequences of its own retreat from global leadership—has embraced a false narrative on China.”

Those US issues are reflected in the fact that the USA ran trade deficits with no fewer than 102 countries in 2018. The other distortion is that the US-China trade imbalance is overstated by some 35-40 per cent, because it includes goods that are assembled in China from components made in other countries.

Roach dissects the claim that China is stealing intellectual property from the USA, to the tune of hundreds of billions of dollars each year. Those figures are based on flimsy modelling and extrapolation from intercepted counterfeit and pirated goods, or illicit financial flows. Charges of "forced" technology transfer assume "that sophisticated US multinationals are dumb enough to turn over core proprietary technologies to their Chinese partners", and the US Trade Representative's March 2018 report admits that "there is no hard evidence to confirm these 'implicit practices'."

Roach concludes: "All in all, Washington has been loose with facts, analysis, and conclusions, and the American public has been far too gullible in its acceptance of this false narrative."

"Is China the world's loan shark?" – *New York Times*, 26 April: China-Africa relations expert at Johns Hopkins University Dr Deborah Bräutigam reports that a number of academics have searched for evidence of Chinese underhandedness and come up empty-handed. The university's figures tracking Chinese loans to Africa and South America over 17 and 12 years respectively show "the risks of BRI are often overstated or mischaracterised".

"China Debt Trap Worries Are Overblown, CIW's Golley Says" – Bloomberg interview, 30 April: Acting Director of the Australian Centre on China in the World at the Australian National University, Jane Golley, says that Belt and Road exposure is a small part of the global debt burden, and that "debt trap" concerns are overblown. The responsibility of local governments accepting loans must be taken into account. Countries like Australia can help by fostering good governance—if we cooperate with Beijing rather than try to compete, with offers that amount to "chicken feed".

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