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China's Use of Predatory Lending Practices to Gain Global Influence

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China is working to ensure extensive long-term influence in the global political economy through the The Silk Road Economic Belt and 21st Century Maritime Silk Road, or the Belt and Road Initiative, and drastic increases in lending to African countries. Since 2013, China has invested over $25 billion USD in The Silk Road Economic Belt and 21st Century Maritime Silk Road, or the Belt and Road Initiative (BRI) projects,[1] expanding their political and economic influence in numerous Asian, European, and African countries, often with negative effects on the indebted nation's financial stability. China mirrors their irresponsible lending practices from BRI countries in many African nations whose projects are not solely a part of the BRI, ensuring growing influence over nations exhibiting major challenges in repaying requested amounts to Chinese lenders. Some stakeholders assert that China is simply looking to encourage economic growth and infrastructure investment in nations that traditionally struggle to attract foreign investment, but the risk levels of many loans and severe consequences in many host countries counters this theory. After careful evaluation of their global infrastructure investments, it is clear that China is using predatory lending practices to increase their global influence at the expense of financial and social stability in project host countries.

Belt and Road Initiative Overview

Across Asia, Europe, and Africa, China has claimed a dominant presence in infrastructure financing in an effort officially stated aimed at increasing connectivity across the regions. In 2013, President Xi Jinping announced The Silk Road Economic Belt and 21st Century Maritime Silk Road, or the Belt and Road Initiative (BRI).[2] The official objective of this

[1]"A Joint People's Bank of China - International Monetary Fund High-level Conference on the Belt and Road Initiative (BRI)." (IMF. 2018)
[2] Ibid.

initiative is to "promote policy dialogues, foster connectivity and cooperation in infrastructure, tade, finance, and 'people-to-people exchanges,'"[3] and has "strong potential to bring much-needed infrastructure in countries and facilitate trade and financial flows."[4] In the five years following the beginning of the initiative, China has invested over $25 billion into BRI infrastructure projects, not including projects in the planning or construction phase, which constitute a large percentage of the total BRI projects.[5] Approximately 50 Chinese state owned enterprises (SOEs) have played roles in the 1,700 BRI projects to date.[6]

To support the BRI, China has been working in close collaboration with the IMF,[7] and established a number of additional international finance institutions with more lenient lending structures, changing the political landscape of international finance institutions. The institutions that China has taken the lead in establishing include the Asian Infrastructure Investment Bank, the Silk Road Fund, the New Development Bank, and the Contingent Reserve Arrangement.[8] The new international development finance organizations, although officially intended to complement existing Western-led institutions, have effectively been acting as a counterweight to the World Bank and the IMF's financial structure[9] and have even been described as a counter to America's hegemonic power,[10] as many view the IMF and the World Bank as being western-led in part due to both headquarters being located in Washington, D.C.. Additionally, the new

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[3] Ibid.
[4]"A Joint People's Bank of China - International Monetary Fund High-level Conference on the Belt and Road Initiative (BRI)."
[5]"Mapping the Belt and Road Initiative: This Is Where We Stand." (Mercator Institute for China Studies. July 2018)
[6]"Embracing the BRI Ecosystem in 2018." (Deloitte United States. February 2018)
[7]"A Joint People's Bank of China - International Monetary Fund High-level Conference on the Belt and Road Initiative (BRI)." (IMF. 2018)
[8]Diwakar, Amar. "China's Debt-Trap Diplomacy Along the Belt and Road." (The Wire. August 2018)
[9] Ibid.
[10] Ibid.

institutions do not require many of the same macroeconomic and governance reforms that western-led banks do, providing an alternate finding option for repressive regimes who want to encourage investment in their country, but do not wish to reform their governance practices. [11]

In addition to concerns regarding the lower lending standards of new finance institutions, experts have raised increasing concerns regarding the implementation of the stated objectives objectives, specifically with regard to infrastructure lending and the political implications of many projects. The IMF emphasizes that high-quality projects and institutional capacity in partner countries are essential to the initiative's success,[12] but these are the areas that many experts are concerned are the project's greatest weaknesses,[13] as "the initiative includes many nations with high levels of corruption, and with domestic institutions that range from fragile democracies to full-blown autocracies."[14] Some experts raise concerns that China will "export the worst aspects of the Chinese economy, while increasing the strains on its already stressed financial system,"[15] with loans that are "notoriously opaque."[16] The risk levels of China's loans are also alarming to stakeholders, as shown in the map below.[17]

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[11] Snell, Sabrina. China's Development Finance: Outbound, Inbound, and Future Trends in Financial Statecraft. (U.S.-China Economic and Security Review Commission. December 16, 2015)

[12] "A Joint People's Bank of China - International Monetary Fund High-level Conference on the Belt and Road Initiative (BRI)."

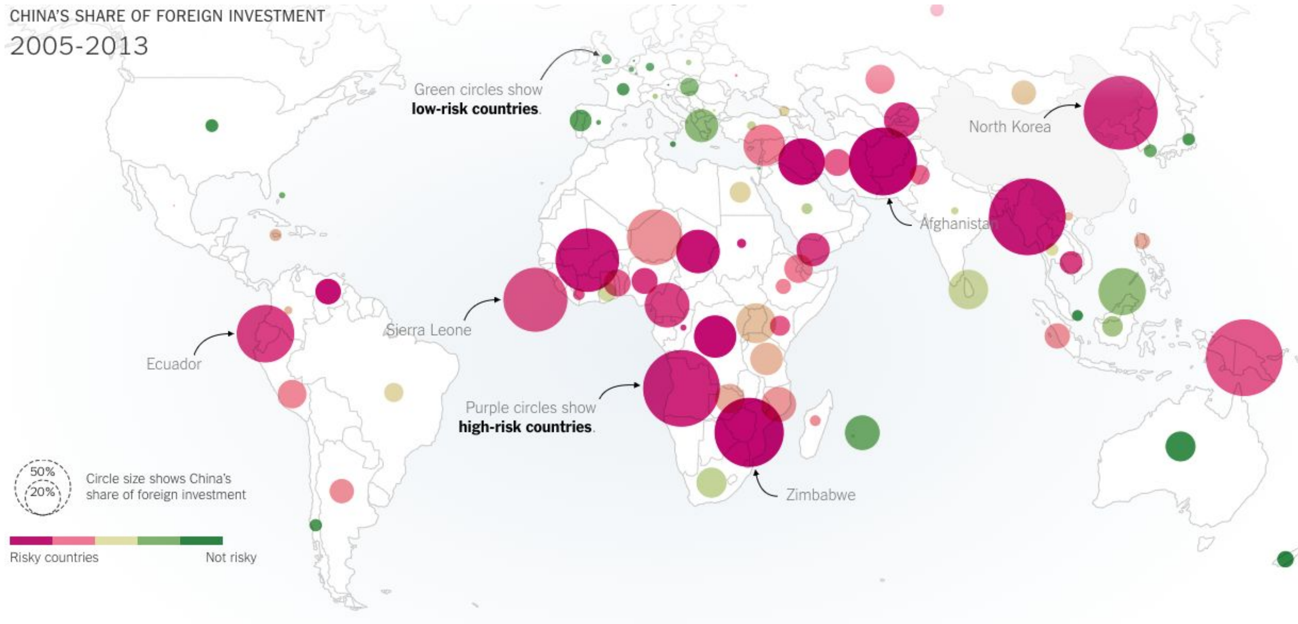
[13] Interview by author. October 3, 2018.

[14] Fontaine, Richard, and Daniel Kliman. "On China's New Silk Road, Democracy Pays A Toll." (Foreign Policy. May 16, 2018)

[15] "Embracing the BRI Ecosystem in 2018."

[16] Gerstel, Dylan. "It's a (Debt) Trap! Managing China-IMF Cooperation Across the Belt and Road." Nuclear Stability in a Post-Arms Control World | Center for Strategic and International Studies.

[17] (Aisch, Gregor, Josh Keller, and K. K. Rebecca. "The World According to China." The New York Times. July 24, 2015.)



Additionally, the project is increasingly being viewed as a key component of Xi Jinping's plan to increase China's influence and security in global politics,[18] and there are steady concerns that the main beneficiaries of many BRI projects are Chinese state-owned enterprises.[19] China's consistent use of predominantly Chinese companies and workers to complete the infrastructure projects severely limit the benefit to the project's host country. Similar to the methods utilized by many european colonial powers in Africa, China brings in their own companies and workers to provide maximum benefit to the Chinese people, effectively limiting skills transfer and host country benefits, and increasing the host country's dependence on China.[20] Additionally, because the actual investing is under the control of SOEs, they need to ensure proper returns and commercial viability, and are therefore less likely to forgive loans and generally have higher interest rates than a sovereign lender.[21]

[18] "Mapping the Belt and Road Initiative: This Is Where We Stand."
[19] "Embracing the BRI Ecosystem in 2018." Deloitte United States.
[20] Fernholz, Tim. "China's "debt Trap" Is Even Worse than We Thought." Quartz. (June 29, 2018)
[21] "Embracing the BRI Ecosystem in 2018." Deloitte United States.

Global powers are creating strategies to counter China's BRI efforts, with Japan presenting the Expanded Partnership for Quality Infrastructure in 2015,[22] India starting the Asia-Africa Growth Corridor in 2017,[23] the EU's new Connectivity Strategy,[24] and Russia's Greater Eurasia economic integration concept.[25] Although "blanket allegations that China fails to deliver on promised investment have been proven to be unfounded,"[26] there remain a large number of case studies that provide a basis for the growing concerns.

Belt and Road Initiative Case Studies

As China looks to help close the $1.7 trillion annual infrastructure funding gap in Asia, [27] they have loaned money to countries with unsustainable financial structures. China has enabled BRI-funded project hosting in 65 countries,[28] 23 of which are at risk of high debt stress.[29] Of those 23 countries, eight the assessed as "highly vulnerable"[30] in order of highest assessed risk are Djibouti, Tajikistan, Lao, Maldives, Mongolia, Pakistan, and Montenegro,[31] all of whom will owe at least 40% of their external debt to China once BRI lending is complete.[32] The risk level of BRI loans in each country can be indicated by the nations' credit ratings, which are illustrated in the map below.[33]

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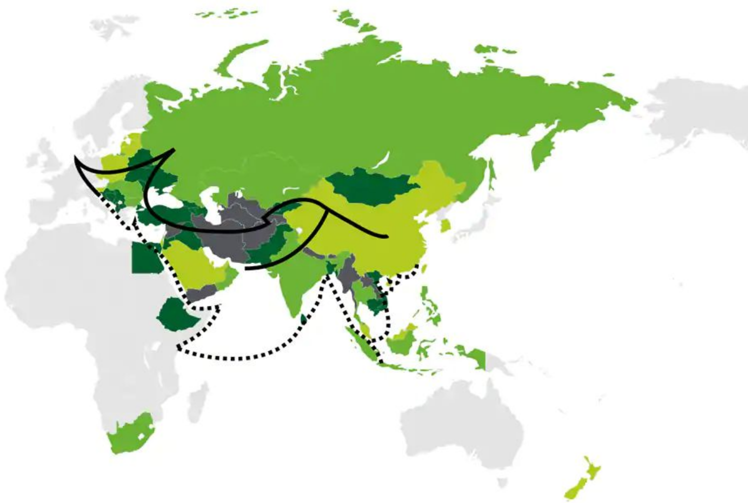
[22]"Mapping the Belt and Road Initiative: This Is Where We Stand." Mercator Institute for China Studies.
[23] Ibid.
[24]"Europe's Response to China's BRI." (The ASEAN Post. October 01, 2018)
[25]"Mapping the Belt and Road Initiative: This Is Where We Stand." Mercator Institute for China Studies.
[26]Ibid.
[27]Diwakar, Amar. "China's Debt-Trap Diplomacy Along the Belt and Road."
[28] "Belt and Road Initiative." (World Bank. March 2018)
[29]"Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective." (Center For Global Development. March 04, 2018)
[30]Diwakar, Amar. "China's Debt-Trap Diplomacy Along the Belt and Road."
[31]"China's Belt and Road Initiative Heightens Debt Risks in Eight Countries, Points to Need for Better Lending Practices." (Center For Global Development. March 04, 2018)
[32]Gerstel, Dylan. "It's a (Debt) Trap! Managing China-IMF Cooperation Across the Belt and Road."
[33]"Embracing the BRI Ecosystem in 2018." Deloitte United States. February 2018.

Figure 7. BRI participating countries' ratings

Risky route
More than half the nations listed under BRI are rated "junk" or not graded



Source: Chinese government; Bloomberg. **Deloitte Insights | deloitte.com/insights**

Many of these countries have taken more loans than they are realistically able to repay, a practice fueled by China's willingness to continue lending despite the borrower nation's low likelihood of repayment. The debt-to-GDP ratio is often used by investors as a main indicator allowing them to assess a country's ability to make future debt payments,[34] and will be used as a primary factor in assessing each of the eight most at risk nations' abilities to repay China, and thus the effect China may have on each country.

Djibouti, one of the eight countries "highly vulnerable" BRI countries,[35] faces many challenges with regards to Chinese lending.[36] The country is facing the turnover of some key infrastructure assets to China, as they are projected to have public debt of 88% of GDP by the

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[34]"Mongolia Government Debt to GDP." Kenya Government Debt to GDP | 1998-2018
[35]Fernholz, Tim. "China's "debt Trap" Is Even Worse than We Thought."
[36]Cheng, Amy. "Will Djibouti Become Latest Country to Fall Into China's Debt Trap?" (Foreign Policy. July 31, 2018)

completion of the BRI projects in their country.[37] Despite international concerns, Djibouti's government continued working with the Chinese to build the Doraleh Multipurpose Port, completed in May 2017, and is continuing the planning of a new $3.5 billion International Free Trade Zone with China.[38] China's economic influence in Djibouti has led to increased military influence, with China's first foreign military base a short six miles from the U.S.'s sole permanent military base on the continent.[39] This Chinese base is fueling concerns among U.S. diplomats that China will gain increasing influence in the region, which is crucial for maritime trade, and a crucial part of approximately four percent of the global oil trade.[40]

Tajikistan, another of the eight countries with the most dangerous debt levels involved in BRI projects, has much to gain from an increase in infrastructure, just as China has much to gain from them, but is facing intense financial strain in trying to repay the loans. Currently ranking 127 human development,[41] the lowest of all the former soviet nations,[42] Tajikistan has much to gain from an increase in infrastructure investment. At the intersection between the Pamir, Karakoram, and Hindu Kush and Tian Shan mountain ranges, Tajikistan proves to be crucial territory for the BRI initiative.[43] However, Tajikistan has agreed to sign land and mining rights over to China in lieu of gradual loan repayments, and is widely believed to have exchanged 2,000 hectares of scare arable land for "hundreds of millions of dollars" in debt relief.[44] This highlights China's stronger desire for long term benefits to its own power and economic

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[37]Cheng, Amy. "Will Djibouti Become Latest Country to Fall Into China's Debt Trap?"
[38] Ibid.
[39] Ibid.
[40] Ibid.
[41]"Human Development Reports." | Human Development Reports. 2018.
[42]Reynolds, Sam. "For Tajikistan, the Belt and Road Is Paved with Good Intentions." (The National Interest. August 23, 2018)
[43] Ibid,
[44] Ibid.

opportunity than mutually beneficial agreements, as Tajikistan's people would have benefited greatly from accessing the land China now owns. Further emphasizing this, China uses predominantly Chinese workers to complete the projects, with 82,000 Chinese workers in Tajikistan as of 2014.[45] The limited local Tajikistani workers China does hire are paid less than the Chinese workers, if paid at all,[46] perpetuating Tajikistan's dependence on foreign powers. The focus on novelty construction projects over useful infrastructure, supported by China's lending, further impedes benefits to the people of Tajikistan, but increases potential return to China.[47] The Chinese loans are also said to encourage the continuation of the corruption and human rights abuses perpetrated by the current regime by not attaching good governance requirements to their loans.[48] With these negative side effects from hosting BRI projects, it is clear China is lending money not for mutual benefit, but for increasing gains from the country, including power over much of its land and resources.

Lao, another one of the eight countries hosting a BRI project and at high risk of debt distress,[49] is continuing to accumulate risky Chinese loans despite struggles repaying current investments. The country is projected to have public debt that reaches 70% of GDP by 2022, up from 60 percent of GDP in late 2017.[50] These figures are in stark contrast to the IMF's recommendation for public debt to stay below 50% of GDP, and the World Bank's more conservative suggested public debt cap of 40% of GDP.[51] Lao's government is taking on the larger public debt burdens in hopes that the economy will grow faster in the future than the debt

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[45]Reynolds, Sam. "For Tajikistan, the Belt and Road Is Paved with Good Intentions."
[46] Ibid.
[47] Ibid,
[48] Ibid.
[49]Hutt, David. "How Worried Should Laos Be About Its Debt Problems?" (The Diplomat. July 13, 2018)
[50] Ibid.
[51] Ibid.

repayments,[52] a plan with slim chance at success, condemned by multiple international development banks, but strongly supported by Chinese lenders.[53] Lao faces significant risks of increased reliance on high interest lenders like China as they now plan to graduate out of Least Developed Country status in 2024, decreasing their ability to access grants and low-interest loans, and increasing their dependence on high interest rate lenders like China.[54]

The Maldives is also rated at high risk of debt distress, but is continuing to pursue a growing relationship with China, causing a potentially dangerous political balance of powers. Although their debt-to-GDP ratio was only 25.6 in 2017,[55] the International Monetary Fund (IMF) and the International Development Association (IDA) explains the rating saying:

> "The current government continues its massive scaling up of infrastructure investment to achieve sustainable and inclusive economic growth and diversify the economy. This scaling up could transform the economy but it also carries risks. The slowdown in tourism receipts in 2015 and 2016 and rise in recurrent and capital spending have weakened public finances. The country faces challenges with rising debt levels, greater reliance on external financing, and tighter limits on capacity to repay."[56]

President Adbulla Yameen was reelected in September 2017, and is widely expected to continue increasing infrastructure spending and growing closer to China,[57] furthering the IMF and IDA's concerns about the country's finances. This is also having political implications, as India, a

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[52]Hutt, David. "How Worried Should Laos Be About Its Debt Problems?"
[53] Ibid.
[54] Ibid.
[55]"Maldives Government Debt to GDP." (Kenya Government Debt to GDP 1998-2018 Data. 2018)
[56]STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS. (International Monetary Fund. October 6, 2017)
[57]Pal, Alasdair. "Maldives' Chinese Debt and Political Risk Could Lead to Trouble In..." (Reuters. September 18, 2018)

traditional ally of The Maldives, is increasingly alarmed by the nation's growing relationship and financial dealings with China.[58] Scott Morris of the Center for Global Development is concerned about China's large influence in the small nation, saying, "That raises concerns to have such a dominant role being played by another government."[59] He went on to highlight the possibility of debt distress in the country explaining, "You have to think about what happens in a case of distress - who calls the shots in that situation. China is not bound by the kinds of standards that other major creditors are."[60] Although the estimate of The Maldives' public debt based on publicly available information is about $1.3 billion, former prime minister Mohamed Nasheed claims the debt to China could be more than $2.5 billion.[61]

Mongolia, although recently upgraded to a B rating from a B minus by Moody's,[62] still faces significant risk of not being able to repay loans to China. Their current debt-to-GDP ratio is at an extremely high 79.4,[63] and they continue to face more economic challenges than opportunity.[64] Their inflation rate of 8%, fueled by strong domestic demand,[65] is concerning to investors. However, many international bodies are showing growing faith in the economy, including the World Bank and the IMF.[66]

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[58]Pal, Alasdair. "Maldives' Chinese Debt and Political Risk Could Lead to Trouble In..."
[59] Ibid.
[60] Ibid.
[61] Ibid.
[62]"Subscribe to the FT to Read: Financial Times Fitch Upgrades Mongolia Debt Rating as Commodities Cycle Lifts Income." (Financial Times.)
[63]"Mongolia Government Debt to GDP."
[64]Kleiman, Gary. "Mongolia Debt-rescue Anniversary Shuns Celebration." (Asia Times Online :: Asian News, Business and Economy. July 18, 2018)
[65] Ibid.
[66] Ibid.

Pakistan is also facing "a balance of payment crisis,"[67] in large part due to the $62 billion China-Pakistan Economic Corridor plan.[68] Although Pakistan and China have a strong friendship, the "win-win situation" China describes Pakistan's BRI projects as has been increasingly viewed instead as "China winning twice."[69] After realizing that the situation was unsustainable, Pakistan approached the IMF for assistance, which was met with Chinese hostility.[70] China has also used their economic influence over Pakistan to force Pakistan to buy Chinese equipment for Chinese projects, both paid for by high interest Chinese loans.[71] China continues to describe its projects in Pakistan as the "fastest and most effective."[72]

Montenegro's most prominent BRI project is the "highway to nowhere,"[73] the loan for which drastically increased Montenegro's debt, and which is descriptive of many ineffective Chinese-funded projects.[74] This forced the government to raise taxes, end financial benefits for mothers, and partially freeze public sector wages.[75] An EU official explained that Montenegro has essentially "strangled itself" and that, "there is a big question about how they complete it," with their shrunken fiscal space.[76] This is creating immense political implications, as Montenegro is attempting to gain accession to the EU, but is facing major challenges due to its finances.[77]

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[67]Kynge, James. "A Tale of Two Harbours Tells Best and Worst of China's 'Belt and Road'." (Financial Times. September 25, 2018)
[68] Ibid.
[69]Andani, Ali Salman. "Under the Guise of Friendship, China Is Looting Pakistan." (Asia Times Online :: Asian News, Business and Economy. October 24, 2018)
[70] Ibid.
[71]Ibid.
[72]"Embracing the BRI Ecosystem in 2018." Deloitte United States.
[73]Barkin, Noah. "Chinese 'highway to Nowhere' Haunts Montenegro." (Reuters. July 16, 2018)
[74] Ibid.
[75] Ibid.
[76] Ibid.
[77] Ibid.

In addition to the eight countries with the highest risk of debt distress, other countries are showing increasing concern about hosting BRI projects. Kuala Lumpur suspended approximately $20 billion in BRI projects to investigate the projects' links to corruption,[78] and Malaysia canceled approximately $3 billion worth of BRI projects September 2017,[79] due to increasing concerns over debt levels and "cooling of enthusiasm for China's investments."[80]

Sri Lanka is another example of the one-sided benefits of many BRI projects, China's negligence in regards to borrower due diligence, and the severity of the negative consequences of not repaying the requested amount to China. In 2009, Sri Lanka had one of the highest debt-to-GDP ratios in the region, at 86.2.[81] The prime minister in 2010, Mahinda Rajapaksa, desperately searched for funding to construct a port in Hambantota, in which China invested $1.5 billion.[82] At this time, Sri Lanka's debt-to-GDP ratio had decreased, but still remained dangerously high at 71.6.[83] The following year, China loaned Sri Lanka an additional $200 million for an international airport, followed by another $810 million the next year to fund the second phase of the port project.[84] China continued to loan Sri Lanka money into 2013, with $272 million for a railway and over $1 billion for the Colombo Port City Project,[85] despite Sri Lanka's 70.8 debt-to-GDP ratio.[86] Two years later, Sri Lanka owed China $8 billion,[87] and

[78]Kynge, James. "A Tale of Two Harbours Tells Best and Worst of China's 'Belt and Road'."
[79] Ibid.
[80]Jorgic, Drazen. "Fearing Debt Trap, Pakistan Rethinks Chinese 'Silk Road' Projects." (Reuters. September 30, 2018)
[81]"Sri Lanka Government Debt to GDP." (Government Debt to GDP, 2018)
[82]Diwakar, Amar. "China's Debt-Trap Diplomacy Along the Belt and Road."
[83]"Sri Lanka Government Debt to GDP." (Government Debt to GDP, 2018)
[84] Ibid.
[85] Ibid.
[86] Ibid.
[87] Ibid.

official estimates predicted that 94% of Sri Lanka's GDP would be consumed by foreign debt.[88] By 2017, China had successfully forced Sri Lanka to sign a 99-year lease of the Hambantota port over to China, in an effort to reduce Sri Lanka's foreign debt burden.[89] In light of this evidence, it is clear that China's lending did not fully take Sri Lanka's ability to repay the debt into consideration, which is a necessary feature of responsible lending practices. Moody's still rates Sri Lanka at B1 and maintains a negative outlook, citing "reliance on external funding" as a dominant feature in Sri Lanka's profile.[90] Additionally, the country's "ongoing high vulnerability to a potential tightening in external and domestic financing conditions" is cited as a factor in continuing the negative outlook.[91] The "high frequency of debt repayments" is evaluated as a major limiting factor to economic gains in Sri Lanka[92], as Sri Lanka is increasingly indebted to Beijing,[93] due to Chinese interest rates as high as seven percent.[94]

The expansive lending in Sri Lanka has increased China's political influence in the country. In 2015, China spent millions in a failed attempt to re-elect Rajapaksa in Sri Lanka, in an effort widely considered an attempt to continue Sri Lanka's willingness to accept Chinese funding.[95] This highlights China's use of lending and vested interest in continue their lending practices effects on foreign governments politics. As of 2016, Sri Lanka owed $64.9 billion to various financers, 12% of which was owed to China alone.[96] China was also Sri Lanka's largest

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[88]"Let Bygones Be Bygones, Colombo Urges Beijing, as Chinese Loans Take Their Toll." (South China Morning Post. October 19, 2015)
[89]Diwakar, Amar. "China's Debt-Trap Diplomacy Along the Belt and Road." (The Wire. August 2018)
[90]"Moody's Affirms Sri Lanka's Ratings at B1; Maintains Negative Outlook." Redirecting. July 26, 2018.
[91] Ibid.
[92] Ibid.
[93]Fernholz, Tim. "China's "debt Trap" Is Even Worse than We Thought."
[94]Cheng, Amy. "Will Djibouti Become Latest Country to Fall Into China's Debt Trap?" (Foreign Policy. July 31, 2018)
[95]Fernholz, Tim. "China's "debt Trap" Is Even Worse than We Thought." (Quartz. June 29, 2018)
[96]Shepard, Wade. "Sri Lanka's Debt Crisis Is So Bad The Government Doesn't Even Know How Much Money It Owes."(Forbes. October 03, 2016)

lender (not including grant money) in 2016,[97] with the second largest lender Japan lending Sri Lanka approximately just one fourth of China's total,[98] illustrating China's large role in Sri Lanka's debt crisis. Although they are not the sole party responsible, as the largest lender to the country, they hold the majority of the blame. With these figures in mind, it is clear that China is not concerned with the mutual benefits of BRI projects in Sri Lanka, but rather is focused on creating the most benefit for themselves.

However, not all BRI projects end in dire financial circumstances. China's investments in the Piraeus port in Greece helped the port grow from the 93rd largest container port in 2010, to being 38th in 2017.[99] Costco, the Chinese company that owns the port, hopes to make it the largest port in the Mediterranean in the next 18 months.[100] Although this project appears extraordinarily successful, the benefits to Greece are limited as the port continues to be owned by a Chinese company.[101] China has also invested in over 50 industrial parks, which are said to boost jobs, tax revenues, and additional FDI.[102] In August 2018, China released guideline papers to SOEs involved in BRI projects covering major issue areas such as proper due diligence, feasibility studies, and ongoing project operations.[103] However, these reports outline additional future project plans that reignited regional concerns.[104]

These projects frequently have strong impacts on the host country's political structure. China's investment of millions of dollars in Sri Lanka's recent elections in hopes of ensuring the

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[97]"US Biggest Donor, China Biggest Lender to Sri Lanka in 2016." Economynext. 2018.
[98] Ibid.
[99]Kynge, James. "A Tale of Two Harbours Tells Best and Worst of China's 'Belt and Road'."
[100] Ibid.
[101] Ibid.
[102]"Embracing the BRI Ecosystem in 2018." Deloitte United States.
[103] Ibid.
[104] Ibid.

re-election of a pro-BRI prime minister[105] is just one example of the BRI's influence on politics. Deloitte raised concerns including "reputational, legislative and environmental to those surrounding interest rates, foreign exchange rates, remittances and financial uncertainty. One could also add issues over tax regulations, how well local talent can run project areas, and other economic and even natural disaster risks."[106] Richard Fontaine, president of the Center for a New American Security, and Daniel Kliman, senior advisor with the Asia Program at the German Marshall Fund of the United States, raised severe concerns about the BRI's implications for the future of democracy, saying:

> "By fueling debt dependency, advancing a "China First" development model, and undermining good governance and human rights, the initiative offers a deeply illiberal approach to regions that contain about 65 percent of the world's population and one-third of its economic output… the initiative's rhetoric and branding should not obscure its core aim: to access markets and project influence and power throughout Eurasia and the Indian Ocean rim."[107]

These effects will be long-lasting, even if future administrations in BRI host countries seek to decrease involvement with China, as "recipient countries will find their foreign-policy choices constrained," because "the potentially destructive international economic consequences of failing to make repayments breeds long-term dependence on China and expands Beijing's influence."[108]

[105]Fernholz, Tim. "China's "debt Trap" Is Even Worse than We Thought."
[106]"Embracing the BRI Ecosystem in 2018." Deloitte United States.
[107]Fontaine, Richard, and Daniel Kliman. "On China's New Silk Road, Democracy Pays A Toll." (Foreign Policy, May 16, 2018)
[108] Ibid.

Some experts view China's investments in digital connectivity, part of the New Silk Road Initiative, as China's effort to expand its "surveillance regime."[109]

China's economy is benefiting greatly from their high-risk BRI projects. China's foreign reserves are generating higher returns, SOEs in construction and engineering are increasingly successful, and ensuring China's excess production has markets,[110] enabling the country to maintain high growth rates. The export markets are also growing for higher value added components, and increasing international use of the renminbi.[111]

However, not all effects of the BRI projects are positive for China. Experts raise concerns that China's continued lending to "unstable and corrupt countries"[112] will increase their already high debt levels as "it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors."[113] Additionally, China's reputation as a credible entity for doing businesses has suffered from their lending practices, prompting China to publicly commit to improving their practices. Following Malaysia's decision to cancel two major projects, "Beijing launched a publicity blitz to defend the BRI."[114] BRI projects in Pakistan are now open to investors other than China, although no new partners were announced at that time.[115] They have taken additional steps to encourage better lending practices, with a 2016 ruling that holds SOE managers more accountable for lending practices than before, allowing them to face "disciplinary action in court" for irresponsible lending practices.[116] An increase in MNC

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[109] Fontaine and Kliman. "On China's New Silk Road, Democracy Pays A Toll."
[110] "Embracing the BRI Ecosystem in 2018." Deloitte United States
[111] Ibid.
[112] Ibid.
[113] Ibid.
[114] Gerstel, Dylan. "It's a (Debt) Trap! Managing China-IMF Cooperation Across the Belt and Road."
[115] Ibid.
[116] "Embracing the BRI Ecosystem in 2018." Deloitte United States.

involvolvement is expected in the next five years, that will help ensure the projects are more sustainable and commercially viable,[117] but the lending completed to date will not be undone by this this change.

Despite minor improvements, China is able to continue these lending practices due to their unique position in the global political economy. China has not become a member of the Paris Club,[118] "an informal group of creditor nations whose objective is to find workable solutions to payment problems faced by debtor nations,"[119] and whose members include "most of the western European and Scandinavian nations, the United States of America, the United Kingdom and Japan."[120] This highlights China's lack of commitment to ensuring quality repayment solutions for hosts of BRI projects. China has also "shown little inclination to adhere to internationally recognized norms of debt sustainability, such as the sovereign lending principles issued by the United Nations Conference on Trade and Development."[121] They also continue to favor loans over grants,[122] which disproportionately benefits China.

China in Africa

China is continuing these irresponsible lending practices across the African continent, raising similar concerns regarding their growing influence over highly indebted countries. Quartz Africa takes a grim view of China's involvement in the continent, claiming,"Chinese conglomerates are making the most of Africa's cheap labor, natural resources, and need for

[117]"Embracing the BRI Ecosystem in 2018." Deloitte United States.
[118] Fontaine, Richard, and Daniel Kliman. "On China's New Silk Road, Democracy Pays A Toll." (Foreign Policy, May 16, 2018)
[119]"Paris Club." (Investopedia. April 26, 2018)
[120] Ibid.
[121] Fontaine and Kliman. "On China's New Silk Road, Democracy Pays A Toll."
[122] Fontaine and Kliman. "On China's New Silk Road, Democracy Pays A Toll."

infrastructure."[123] Panos Mourdoukoutas, Professor and Chair of the Department of Economics at LIU Post in New York, views China's involvement in Africa as another wave of colonization, explaining:

> "The reason Chinese corporations are in Africa is simple; to exploit the people and take their resources. It's the same thing European colonists did during mercantile times, except worse. The Chinese corporations are trying to turn Africa into another Chinese continent. They are squeezing Africa for everything it is worth."[124]

Although many African leaders are welcoming the increase in investment despite international concern, prominent figures like Zambian politician Michael Sata, who echoed Mourdoukoutas concerns in a letter to Harvard University, saying:

> "European colonial exploitation in comparison to Chinese exploitation appears benign, because even though the commercial exploitation was just as bad, the colonial agents also invested in social and economic infrastructure services. Chinese investment, on the other hand, is focused on taking out of Africa as much as can be taken out, without any regard to the welfare of the local people."[125]

Many nations with which China is involved are in desperate need of better infrastructure to grow their economies,[126] which China claims as the motivation behind their lending practices.[127] And not all analysts agree that China is taking advantage of African nations, with some pointing to China's role in encouraging many countries to participate in the global economy.[128] However,

[123] "China in Africa." (Quartz. 2018)
[124] Mourdoukoutas, Panos. "What Is China Doing In Africa?" (Forbes. August 06, 2018)
[125] Ibid.
[126] Ibid.
[127] Ibid.
[128] Ibid.

several case studies point to the dangerous effects of allowing China unchecked financial influence in Africa.

Angola is the largest African borrower from China,[129] and is facing serious challenges in meeting China's repayment requirements. Following Angola's civil war in 2002, Chinese companies played a major role in the reconstruction efforts, with 50 Chinese state owned enterprises and 400 private Chinese businesses operating in Angola by 2015.[130] However, Angola uses its oil reserves as the main source of repayment to the Chinese, leaving little for export to other markets.[131] This is contributing to the country's liquidity crisis, furthering their challenges in repaying loans and building their economy.[132] Angola's foreign reserves are at just over one third of their 2013 levels, at $12.8 billion in February 2018,[133] another figure alarming to economist predicting the future financial success of the country. Despite this, China has "moved quickly to signal that it wants to upgrade its relationship with Angola,"[134] and the Angolan president called on China to invest in to invest in mining, agriculture, animal husbandry and tourism to encourage Angolan efforts to diversify their economy and move away from oil dependence.[135] However, these investment loan repayments are likely to be based in oil,[136] furthering Angola's challenges in meeting all of China's oil payments. Yigal Chazan warns in the Financial Times that:

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[129] Kangethe, Kennedy. "Kenya Holds Third Highest Chinese Debt in Africa."
[130] Chazan, Yigal. "Angola's Debt Reliance on China May Leave It Short-changed." (Financial Times. June 13, 2018)
[131] Chazan, Yigal. "Angola's Debt Reliance on China May Leave It Short-changed."
[132] Ibid.
[133] Ibid.
[134] Ibid.
[135] Ibid.
[136] Ibid.

> "Now as Mr Lourenço turns his attention to economic diversification, China might leverage mounting Angolan debt to secure bigger stakes in new projects, as it appears to have done in south Asia, and swell Luanda's loan repayment obligations. China has loaned Angola more than $60bn since the two countries established diplomatic relations in 1983. At the end of 2017, Angola's debt to China amounted to $21.5bn — about half its external debt — and this year the burden is likely to grow with Luanda negotiating a further $4.4bn in Chinese loans."[137]

These figures make it clear that China is not concerned with Angola's ability to responsibly make their loan repayments, but only with ensuring either increased oil payments or growing influence in the country.

Ethiopia is the second largest borrow from China in Africa, but Chinese investment is cooling over concerns of project profitability. Although previously celebrated as a ""model country"[138] for Chinese investment by the Chinese Communist Party, recent concerns over the lack of profitability of some projects are concerning to some investors.[139] The standard-guage railway connecting Addis Ababa to the port of Djibouti is the main concern of investors concerned with decreased profitability, as Zhao Lei, a professor at the Central Party School in Beijing says there has been "insufficient consideration of the additional infrastructure and the service and maintenance" in regards to the project.[140] They also cite Ethiopia's debt-to-GDP ratio of 59 as an area of concern to investors,[141] although China is continuing to lend to many

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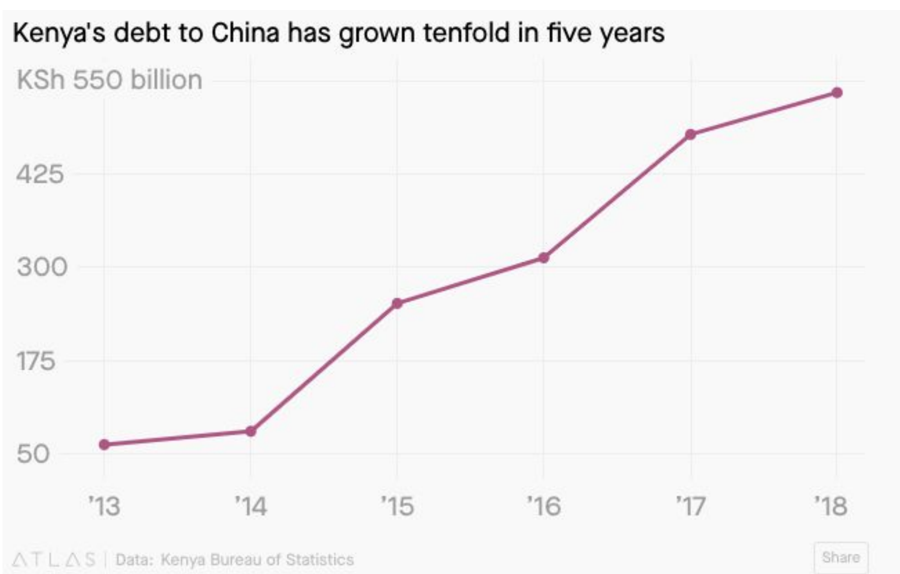
[137] Chazan, Yigal. "Angola's Debt Reliance on China May Leave It Short-changed."
[138] Fick, Maggie. "Trains Delayed: Ethiopia Debt Woes Curtail China Funding." (Reuters. September 01, 2018.)
[139] Ibid.
[140] Ibid.
[141] Ibid.

nations with much higher debt-to-GDP ratios. Prime Minister Abiy Ahmed, despite the concerns over the current Chinese debt amount, is courting additional Chinese money to support Ethiopia's agro-industrial and pharmaceutical businesses.[142]

Kenya, one major borrower of Chinese funds, is not only facing an increasing debt burden, but also the revival of racism in the country. As the third largest African borrower,[143] Kenya currently has over $50 billion in public debt, renewing concerns about the country's ability to repay lenders.[144] Public debt to China accounts for 72% of Kenya's bilateral debt, which is up 15% since 2015,[145] and which has grown tenfold over the past five years, as illustrated in the graph below.[146]



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142 Ibid.
143 Kangethe, Kennedy. "Kenya Holds Third Highest Chinese Debt in Africa." (Capital Campus. September 20, 2018)
144 Dahir, Abdi Latif. "China Now Owns More than 70% of Kenya's Bilateral Debt." (Quartz. September 10, 2018)
145 Ibid.
146 Dahir, Abdi Latif. "China Now Owns More than 70% of Kenya's Bilateral Debt." Quartz. September 10, 2018.

In light of this, Moody's downgraded Kenya's rating, citing "rise in debt levels and deterioration in debt affordability."[147] The IMF also indicated a loss in confidence by stopping access to a $1.5 billion credit facility due to Kenya's failure to comply with fiscal targets.[148]

However, the consequences go beyond finances and into social and political structures within Kenya. Many young Kenyans have not faced significant instances of racism before working on Chinese infrastructure projects, as many are from very racially homogeneous communities.[149] Recently, there have been multiple high profile instances of racism, many instances involving Chinese supervisors using racial slurs when speaking to Kenyan employees.[150] Additional cases include:

> "Kenyan workers explained how their office bathrooms were separated by race: one for Chinese employees, the other for Kenyans. Yet another Kenyan worker described how a Chinese manager directed his Kenyan employees to unclog a urinal of cigarette butts, even though only Chinese employees dared smoke inside."[151]

This blatant racism reintroduced to Kenya by the Chinese is just one example of the harmful effects of China's growing presence on the continent. China's investments in increased broadcast infrastructure come with a clear plan to expand Chinese culture and influence into Kenya.[152] StarTimes, a Beijing-based media and "telecommunications firm, has subsidiaries in 30 African countries, including Kenya, and "has substantial backing from the Chinese state — and an

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[147] Dahir, Abdi Latif. "China Now Owns More than 70% of Kenya's Bilateral Debt."
[148] Ibid.
[149] Goldstein, Joseph. "Kenyans Say Chinese Investment Brings Racism and Discrimination." (The New York Times. October 15, 2018)
[150] Ibid.
[151] Ibid.
[152] Kaiman, Jonathan. "'China Has Conquered Kenya': Inside Beijing's New Strategy to Win African Hearts and Minds." (Los Angeles Times. August 07, 2017.)

explicit political mandate."[153] When installing equipment, the company programs in Chinese state-run programs to Kenyans' homes, ensuring that Kenyans listen to Chinese propaganda.[154] With the extensive financial and cultural changes fueled by China, it is clear to see why analysts are concerned about China's influence in the country.

In addition to the three largest African lenders of Chinese funds, many additional nations face similar problems but show little sign of enacting true changes in their financial and political relationship with China.[155] With similar problems facing nations in many regions, and little evidence of meaningful reforms in China to realign with international lending best practices, it is clear that China's irresponsible lending practices will continue, fueling their increase in power in the global political economy, and exploitation of developing nations for their own gain.[156] In addition to the financial burdens limiting economic development in many emerging markets, China's support of illiberal regimes poses a true and present threat to the status of democracy and responsible governance globally.[157] Unless the international community provides true alternatives to China's investments, countries will likely continue to fall under their influence, causing political and economic power shifts on the global scale that the U.S. has not faced before, resulting in unestimatable consequences.[158]

[153] Ibid.
[154] Ibid.
[155] China in Africa." Quartz.
[156] Interview by author of U.S. Department of State Official October 3, 2018.
[157] Ibid.
[158] Ibid.

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