

## **China's Infrastructure Projects in South Asia under BRI: An Appraisal**

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### **Abstract**

The Belt and Road Initiative (BRI) is one of the most ambitious projects of China. Through it, as being argued by a few scholars, China may create a new world order dominating over the new trade routes and sea lanes which it is in the process of building. This project is spread across different regions and sub-regions of the world. In South Asia, except India and Bhutan, all other countries are party to the BRI. Under this, China has developed or engaged in developing infrastructures and water projects in the BRI deal signatory countries. Observing the character of the Chinese projects, some commentators argue that it may, gradually, push the BRI member countries into a “debt-trap”. This paper takes stock of the BRI projects in South Asia, notably water-related projects, and examines the “debt- trap” argument.

**Keywords:** *BRI, debt-trap, hydroelectric projects, infrastructure, South Asia*

## 1. Introduction

The Belt and Road Initiative (BRI) is an ambitious project adopted by the Chinese government under President Xi Jinping. It was conceived in 2013 when Xi Jinping visited the Central Asian state of Kazakhstan, and subsequently to Indonesia in Southeast Asia where he raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road (State Council, People's Republic of China, 2015). On his call many countries from different parts of the world have become party to the BRI. At present, under this initiative, China is developing infrastructures and making investments in about 152 countries. It is estimated that China has inked 173 deals on the BRI with 125 countries and 29 international organizations (*The Straits Times*, 25 April 2019). The total trade volume between China and the countries participating in BRI exceeded US\$6 trillion Dollars in 2018. So far, China has chalked up around US\$80 billion dollars in the form of direct foreign investment in the BRI partner countries (*ibid.*). From South Asia, Bangladesh, Nepal, Sri Lanka, Pakistan, Afghanistan and Maldives have signed Memorandum of Understanding (MoUs) with China on BRI.

In May 2017 China conducted the first BRI forum, and the second was held in April 2019. Opening the meeting in 2017, Xi Jinping termed the BRI as “a project of the century” (Xinhua, 14 May 2017). In that inaugural speech he said “We [China] will actively promote supply-side structural reform to achieve sustainable development, inject strong impetus into the Belt and Road Initiative and create new opportunities for global development” (*ibid.*). The target to complete the BRI projects is 2049, which will mark 100 years of the setting up of the People's Republic of China.

Despite the projected potentials, there are many fears about the BRI which the critics have highlighted. Politically, the opposition parties in the South Asian countries have opposed many of the BRI-related

projects because of their potential to push the country into a debt; however, the moment such parties come into power they start following the writings on the walls. Best example is Pakistan's Pakistan-Tehrik-i-Insaf (PTI) under Imran Khan. During its days in opposition, it was critical to many ongoing projects under the BRI in Pakistan. During the election rallies PTI made promises to the voters that once in power the party will review the BRI-related projects. However, except some initial noises, Prime Minister Imran Khan's government is following the trail.

Besides looking at other infrastructure projects, this paper highlights the hydroelectric and other water-related projects China has undertaken and developed or is in the process of building in the South Asia's BRI partner countries. In this paper, I argue that despite the corruption and "debt-trap" arguments, the BRI signatory countries from South Asia are inclined towards China and engaging with it to develop infrastructure projects in their respective countries. There are two reasons for this: first, they have a desire for economic growth and are ready to pay any price for it; second, some of them want to move away from their traditional overdependence on the regional power – India.

## **2. China's Engagement in South Asia under the BRI**

Since its inception, India has raised its objections on the BRI. India did not participate in the first BRI forum in Beijing which was held from 14-16 May 2017. On the issue of the participation in the first BRI forum the Ministry of External Affairs, Government of India spokesperson said:

We had received formal invitation to participate in the 6 separate forums that China is organizing as part of the Belt and Road Forum being held in Beijing on May 14-16, 2017.

We are of firm belief that connectivity initiatives must be based on universally recognized international norms, good governance, rule of law, openness, transparency and equality. Connectivity initiatives must follow principles of financial responsibility to avoid projects that would create unsustainable debt burden 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. Connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity.

(Ministry of External Affairs, Government of India, 2017)

Another reason for India's non-participation in the BRI forum is its political tussle and contest with China in Asia. However, as except India and Bhutan, all other South Asian countries are party to the BRI, it is obvious for India to keep an eye on the Beijing-led project.

In South Asia, the China-Pakistan Economic Corridor (CPEC) is one of the flagship projects under the BRI. Pakistan and China agreed on the CPEC in 2013. Under it, China agreed to collaborate with Pakistan in developing infrastructure projects, building industries, improving livelihood, providing socio-economic development, prosperity and bringing security in regions falling under CPEC (Ministry of Planning Development and Reforms, Government of Pakistan, 2017). On the future of the CPEC, in 2013, the Chinese Foreign Ministry spokesperson Hua Chunying said that "China is ready to work with Pakistan to step up the planning and building of the grand project of China-Pakistan economic corridor and make it a new highlight of bilateral cooperation. We believe that the success of the project will contribute to China-Pakistan cooperation and regional development." (Permanent Mission of the People's Republic of China to the UN, 2013). Explaining the

CPEC's role in the regional connectivity, Mushahid Hussain, chairman of the Pakistan-China Institute, told *China Daily* that the CPEC "will play a crucial role in regional integration of the "Greater South Asia", which includes China, Iran, Afghanistan and stretches all the way to Myanmar. These countries will connect through cooperation in energy and economy" (*China Daily*, 17 February 2014).

In May 2015, Xi Jinping, during his visit to Pakistan, pledged for an investment of around US\$46 billion. Of that, US\$11 billion was for infrastructure and US\$35 billion was to be spend on energy projects (Salman, 2015). Later in 2017, Pakistan and China signed an agreement in which they agreed on a common long-term plan for the development of the CPEC. The investment amount was increased to about US\$62 billion (Ministry of Planning Development and Reforms, Government of Pakistan, 2017).

In October 2019 during the visit of Imran Khan to Beijing Pakistan emphasised that the CPEC is a transformational project. China and Pakistan agreed to establish a CPEC authority to oversee the expeditious implementation of the projects under it. Pakistan and China maintained that the second phase of CPEC will promote industrial and socio-economic development in Pakistan (Ministry of Foreign Affairs, People's Republic of China, 2019). Pakistan also underlined that the facilities developed at Gwadar Port would turn it into a trade and logistical hub for the region (*ibid.*).

Some of the Chinese projects under CPEC in Gilgit Baltistan in northern Pakistan, which India considers as an "occupied" territory. Expressing objections to the spread of the BRI in that area, the spokesperson from India's Ministry of External Affairs said, "Regarding the so-called 'China-Pakistan Economic Corridor', which is being projected as the flagship project of the BRI/OBOR, the international community is aware of India's position. No country can accept a project

that ignores its core concerns on sovereignty and territorial integrity.” (Ministry of External Affairs, Government of India, 2017) This concern, as India thinks, is contrary to what Xi Jinping said in the inaugural speech of the BRI forum in 2017:

The pursuit of the Belt and Road Initiative requires a peaceful and stable environment. We should foster a new type of international relations featuring win-win cooperation; and we should forge partnerships of dialogue with no confrontation and of friendship rather than alliance. All countries should respect each other's sovereignty, dignity and territorial integrity, each other's development paths and social systems, and each other's core interests and major concerns.

(Xinhua, 14 May 2017)

Afghanistan joined the BRI in 2016. Since then it has shown interest in becoming a part of the CPEC. Soon after Afghanistan's entry into the BRI, the first Chinese cargo train carrying goods valued at \$20 million arrived in the northern Afghan port city of Hairatan (Zia, 2018). Subsequently, direct flight between Kabul and Urumqi, which was closed in 2012, was resumed. It was closed at the end of 2012. Now there is one flight in a week from Kabul to Urumqi, the capital of Xinjiang Uygur Autonomous Region, and vice versa (*ibid.*). As estimated and expected, through such connectivity project, Afghanistan would have opportunity to export goods such as rugs, dried fruits, vegetables and much more to Central Asia, West Asia, and China (Hussainy, 2019). However, unlike other BRI countries of the region, Chinese investments in Afghanistan is limited. The biggest Chinese investment in Afghanistan is in Aynak copper mines which has not gained speed yet (Pantucci, 2018). Another major project China has in the country is of refinery oil plant on Amu Darya oil field. Other than

them, China is also involved in developing infrastructures such as hostel, repairing roads and training people to develop human resources in Afghanistan.

In June 2019, Xi Jinping met his Afghanistan counterpart, Ashraf Ghani in Beijing where Xi said that “China is willing to deepen the mutually beneficial cooperation with Afghanistan in various sectors within the framework of the Belt and Road Initiative, steadily promote practical cooperation in economy and trade, and support the two countries’ enterprises to strengthen cooperation based on the principles of mutual benefit and win-win outcomes” (Xinhua, 14 June 2019). He added “China supports Afghanistan and Pakistan to improve relations, enhance mutual trust and carry out cooperation, and is ready to further promote the China-Afghanistan-Pakistan trilateral cooperation” (*ibid.*). To this, Ghani thanked China for its role in Afghanistan’s peace process and in safeguarding regional peace and stability (*ibid.*). He further said that “Afghanistan is committed to fighting, side by side with China, against the "three forces" including the ETIM (East Turkistan Islamic Movement)” (*ibid.*).

Bangladesh became a part of the BRI in 2016. Since then it has received enormous Chinese funds for various infrastructure projects in the country. In November 2016, Xi Jinping visited Bangladesh during which the two countries inked a total of 40 agreements and MoUs worth more than US\$25 billion, though the government of Bangladesh has not revealed the figure officially. Out of the total 40 agreements and MoUs, 27 involved the two governments. Of 27, 15 are agreements and MoUs and 12 are for loan and mutual agreements. Chinese state-owned and private entities signed 13 agreements mostly with Bangladeshi private enterprises.

It is estimated that under the BRI projects, Bangladesh has received about US\$26 billion for BRI projects and another US\$14 billion for joint

venture project. Bangladesh is one of the six economic corridors through which the BRI projects will pass. It also falls in the route of one of the two maritime corridors proposed under the BRI. The road project corridor, as projected, starts at Kunming passes through Myanmar, then enters Indian north-east and through Bangladesh, and terminates in Kolkata (*The Daily Star*, 2019). After signing the BRI bilateral trade between China and Bangladesh has jumped 16.8 percent year-on-year to US\$18.74 billion in 2018. China mainly exports diesel oil, cotton, chemicals, construction machinery, manufacturing equipment, steel, cement and household appliances to Bangladesh. Chinese-made passenger vehicles and trucks have gained popularity in Bangladesh (*China Daily*, 5 July 2019). On the other hand, Bangladesh exports jute and garment products, aquatic products, leather, tea, pottery and porcelain products. According to the Ministry of Commerce, Government of Bangladesh data Chinese companies had signed US\$45.9 billion worth of contracted projects in areas such as building bridges, power stations, hospitals and transportation facilities in Bangladesh by the end of 2018 and have completed projects worth US\$22.56 billion (*ibid.*).

In 2017, Nepal signed a MoU on the Belt and Road Initiative. The press release of the signing of the MoU said that Nepal “seeks to strengthen cooperation in connectivity sectors including in transit transport, logistics systems, transport networks and related infrastructure development such as railways, roads, civil aviation, power grids, information and communication” (Ministry of Foreign Affairs, Government of Nepal, 2017).

The signing of the MoU was followed by a large Chinese investment in the country. In 2018, Nepal and China signed eight cooperation deals worth US\$2.4 billion. In April 2019, Nepal and China signed the Transit Transport Agreement during Nepalese President



Vidya Bhandari's visit to Beijing. Under this agreement, China granted access to Nepal to four Chinese seaports in Shenzhen, Lianyungang, Zhanjiang and Tianjin and three dry ports in Lanzhou, Lhasa and Shigatse. At that time, China has also made a commitment to extend the Lahasa-Xigatse railway to the Gyirong Port in China by 2020 and assist in repairing Nepal's Araniko and Syabrubesi-Rasuwegadhi highways. Buoyed by the BRI and post-BRI agreements, at present, China is the second largest trading partner of Nepal and it is the largest source of foreign direct investment in Nepal.

Sri Lanka signed MoU for BRI in 2015. Since then, China's investment in the country has increased further. Under the BRI project, Sri Lanka has secured more than US\$8 billion of financing from China. The Colombo International Financial City which was earlier known as the Colombo Port City, is an instrumental part the BRI. This project aims at building a new city and financial centre along the existing Colombo coastline (Wijayasiri and Senaratne, 2018). Colombo port will be expanded and modernised.

Under BRI China has also funded the construction of airports in Sri Lanka such as the Mattila Rajapaksa International Airport (MRIA), 241 km south-east of Colombo. The MRIA is the second international airport in Sri Lanka (*ibid.*). Besides, in the war-ravaged northern areas of Sri Lanka Railway Beijing Engineering Group Co. Ltd. won a more than US\$300 million contract to build about 40,000 houses in Jaffna. Also, China is in the process of negotiations to make an investment of around US\$30-40 million in Sri Lanka's tea plantation sector (Ramachandran, 2018).

In 2014, Maldives became a party to the BRI. In 2016, to develop infrastructure facilities for tourism, the Feydhoo Finolhu Island near Malé was given on a lease to China by former president of the country Abdulla Yameen's (2014-2018) government for four years at a price of

US\$50 million. Later, in 2017, Beijing and Malé signed a free trade agreement that would allow zero tariffs on over 90 per cent of goods in bilateral trade. This in turn would improve the country's aquatic exports, which had been affected by the European Union's removal of the Maldives from the Generalized System of Preferences countries list in 2013 (*Nikkei Asian Review*, 8 December 2017). China has taken up many projects in Maldives (*Maldives Independent*, 14 July 2018). One of the projects is the China-Maldives Friendship Bridge. Another project is the upgrade and expansion of the Velena International Airport while a third is the Hulhumalé Phase II housing project currently under construction, where 16 buildings will be constructed. A fourth project is the development of a link road between the Hulhule and Hulhumalé (*ibid.*).

In 2018 Yameen lost the presidential elections to Ibrahim Mohammed Solih. The new government has been critical of the Chinese infrastructure projects in the Maldives. Such projects are cited as reasons for Maldives falling into debt trap. Since the coming of the new government works have been stopped on the Chinese-funded infrastructure projects in Maldives.

### **3. China's Investment in South Asian Water Infrastructures**

Besides roads and ports, China has effectively invested in the hydroelectricity power projects and water treatment plants in the BRI partner countries from South Asia. Such projects have better irrigation facilities and improved the drinking water problems in some of these countries.

In Pakistan, China is involved in building multipurpose hydroelectric projects under the CPEC. In 2017, Pakistan and China signed a MoU in which they agreed for "Indus Cascade" project (Gupta, 2017) which will generate hydroelectricity that will try to address

Pakistan's growing electricity demands. The two countries agreed on projects such as: Bunji Dam in Gilgit, Dasu Dam in Kohistan district in Khyber Pakhtunkhwa province, Patan Dam also in Kohistan in Khyber Pakhtunkhwa province, and Thakot Dam in tribal town in Khyber Pakhtunkhwa. The two sides also agreed on Diامر-Bhasha project but due to strings of conditions by China, Pakistan backtracked and withdrew from the agreement on this project. China wanted to own this project. Differences erupted between them over the operation and maintenance costs. China also expressed a desire to build another operational dam in the region. These conditions for the project as Water and Power Development Authority chairman Muzammil Hussain said were "not doable and against our interests" (*South China Morning Post*, 16 November 2017). Now, due to debt-ridden precarious economic situation, Pakistan is building this project through crowd funding seeking donations from its citizens and people working in foreign countries.

Not only in hydroelectricity sectors, China has also invested in the other water sectors of the country under the CPEC. With an agreement to carry out joint study to cooperate in agriculture sector between Pakistan and China, the latter has shown interest in improving irrigation system in Pakistan. In 2018, Pakistan and China talked about signing of a legal framework agreement under the CPEC with an aim to bring Chinese investment into the agriculture sector of Pakistan. Under the arrangement, Pakistan would keep the required quantity of the products and the surplus would be exported to China (*The Express Tribune*, 16 October 2018). During the visit of the Pakistani prime minister Imran Khan to Beijing in October 2019, the two countries agreed to carry out a joint study to find out feasibility of cooperation in some of the agricultural projects (Ministry of Foreign Affairs, People's Republic of China, 2019). In the agriculture sector the most important is of irrigation

which is a problem for Pakistan because of declining availability of waters. China is already assisting Pakistan in developing irrigation sector. The Chinese ambassador to Pakistan Yao Jing said that “China seeks to contribute to the overall development of Balochistan’s mining, agriculture, fisheries and water sectors.” (*Dawn*, 9 November 2019). Chinese companies are working to strengthen the irrigation sector of Balochistan (*ibid.*).

China is also helping Pakistan to develop sustainable water projects in its cities to address their drinking water problems. In July 2019, China handed over five ready-to-use solar-powered tube wells to Quetta’s Water and Sanitation Authority (WASA). Such tube well programmes have already been started in different parts of Balochistan, especially in southwest Gwadar city (*Xinhua*, 22 July 2019). China has also built two desalination plants and wastewater treatment plant in Gwadar to address water availability issues for the residents of the city.

Earlier, in June 2019 a Chinese company showed readiness to invest US\$3 billion in the clean drinking water and sanitation system in Lahore. The name of the company has not been disclosed, as negotiation is in the initial stages (*The Express Tribune*, 23 June 2019). The Asia Infrastructure Investment Bank which was set up in 2013 on the initiative from China with a headquarter in Beijing is considering a proposal to make an investment in Lahore Waste Water Management project and Karachi Water and Sewerage Service project (*Business Standard*, 2019).

Much before Afghanistan became a party to the BRI, in 2012 China has aided in the repair work for the Parwan Irrigation System. The contract to this project was given to Jiangxi Water and Hydropower Construction Company. This project has enhanced local energy supply and irrigation, and benefited around 100,000 people and 27,000 hectares of land. People were also rehabilitated under this project which was

started in December 2010 and finished in June 2012 (Embassy of China in Afghanistan, 30 September 2012).

In Bangladesh, China has built eight friendship bridges, including the US\$3.7 billion road and rail bridge across the Padma River (Ramachandran, 2019). In June 2014, the Bangladeshi government awarded a US\$1.55 billion contract to the China Major Bridge Engineering Company Limited to build the core structure of the Padma Bridge project (Xinhua, 10 May 2018). They are working on the ninth bridge. All these bridges will enhance trade and connectivity within the country.

Further, China Communications Constructions Company is helping to build Karnaphuli river tunnel in Bangladesh. This tunnel will be 3.5 kilometres long under the river connecting Chittagong city to the other side of Karnaphuli River, and indirectly connects the city with other parts of the country through the Dhaka-Chittagong-Cox's Bazar highways (*Dhaka Tribune*, 11 February 2019). Its foundation stone was laid by Bangladesh's prime minister Sheikh Hasina and Chinese president Xi Jinping on October 14, 2016. On 5 December 2017 the construction work commenced, and it is likely to be completed by 2022 (*ibid.*). However, one of the major problems of the tunnel is siltation on the bed of the river Karnaphuli which threatens proper operational activities at Chittagong port. To tackle this problem of siltation, there is a plan to construct a tunnel crossing the river Karnaphuli, instead of building another bridge over the river (*ibid.*).

Bangladesh does not have water availability problem; however, it has an issue of water quality. A large quantity of Bangladesh ground water and surface waters are polluted. To address this issue, China has ventured into the water treatment sector of Bangladesh. On April 12, 2019 China CAMC Engineering Co, a subsidiary of China National Machinery Industry Corporation (Sinomach), signed an agreement with

Gandharbpur Water Treatment SNC (Bangladesh Branch) to build a water treatment plant in Dhaka. It is estimated that this will produce 500,000 cubic meters of clean water daily (Sinomach, 2019). It will take about 42 months to get complete and cost around US\$66.42 million (*ibid.*). Other Chinese company, China Harbour Engineering Company Ltd. (CHEC), a subsidiary of China Communications Construction, is building surface water treatment plant in Khulna (*China Daily*, 5 April 2017).

Earlier in August 2015, Hydro China Corporation was given Engineering Procurement and Construction contract for the Dasherbandi Sewage Treatment Plant project with the Dhaka Water Supply & Sewerage Authority. Its value amounted to US\$280 million (*China Daily*, 12 December 2018). On November 21, 2016, the two parties signed a supplementary contract for the project. On May 8, 2017, the main contract and loan agreement came into effect (*ibid.*). The project officially started on August 1, 2017, with a contract period of 36 months. It is expected to eliminate pollution from Balu river and provide 50,000 cubic metres of clean waters every day (*ibid.*).

Nepal is one of the water-rich countries of the world with a potential to generate around 83,000 Mega Watts (MW) of hydroelectricity. India is the highest investor in the Nepal's hydropower sector, but China is making its way. Post-BRI signing, in November 2017, the Nepalese government under Sher Bhadur Deuba had cancelled US\$2.5 billion deal with China's Gezhouba Group to build Budhi Gandaki Hydroelectric Project (Swain, 2018). On this issue, the current Prime Minister of Nepal Khadga Prasad Sharma Oli then said: "Political prejudice or pressure from rival companies may have been instrumental in scrapping of the project. But for us, hydropower is a main focus and come what may, we will revive the Budhi Gandaki project." (Chowdhury, 2018) Keeping his words, seven months after coming back in power, in September 2018

K.P. Oli's government awarded this project to the same Chinese company to develop the 1200 MW project (*News18*, 4 September 2018). Nepal had also invited the Chinese state-run Three Gorges Corporation to build a dam on river Seti in Western Nepal. However, it did not materialise. The Chinese firm wanted 75% stake in this project (Chellaney, 2017). In 2018 the negotiations between the Chinese and Nepalese failed; as a result, China pulled out from this project.

In June 2018 during Oli's visit to China, China and Nepal expressed "willingness to speed up the development of the three North-South Economic Corridors in Nepal, namely Koshi Economic Corridor, Gandaki Economic Corridor and Karnali Economic Corridor in order to create jobs and improve local livelihood, and stimulate economic growth and development in those areas" (Ministry of Foreign Affairs, People's Republic of China, 2018). In 2019 during the visit of the Chinese President to Nepal, the two countries reiterated the MoU they signed in 2018 over further cooperation on hydropower sector.

In June 2019, Chinese company Sinohydro Corporation Limited was employed to complete the remaining works related to tunnel of Melamchi Water Supply Project, Nepal's largest water supply project. Earlier the project was with an Italian contractor Cooperativa Muratori e Cementisti di Ravenna. This project aims to supply 170 million litres of fresh water per day to capital Kathmandu. Once fully operationalised Melamchi project is expected to fulfill the existing water demands of Kathmandu. Melamchi project is one of the oldest under-construction projects whose implementation has been delayed due to a number of factors including local people's obstructions, massive earthquake in 2015 and dispute between the board and the previous contractors (*Xinhua*, 30 September 2019). Sinohydro has been involved in other Nepalese projects as well. It has jointly developed 50MW Upper Marsyangdi Hydropower Project with Nepali company Sagarmatha

Power Company. The Sinohydro is also a contractor for the under-construction 456MW Upper Tamakoshi hydroelectricity project, the largest domestically funded hydel project in Nepal and 140MW proposed Tanahu project (*ibid.*).

China is also building a tunnel for water diversion in Nepal under the BRI. This project will transfer water from the Bheri River to the Babai River and provide irrigation for 51,000 hectares of farmland in central and western Nepal (*China Daily*, 19 April 2019).

In Sri Lanka, the Power Construction Corporation of China (POWERCHINA) is building a “South-to-North Water Diversion Project”. The Moragahakanda (M) and Kaluganga (K) dams projects undertaken by POWERCHINA’s Sinohydro Bureau 14 Co are important to conserve water in Sri Lanka (*China Daily*, 14 November 2018). Engineering Procurement and Construction contract for this project was signed in June 2012 between Sinohydro Bureau 14 Company with Sri Lanka for the M Dam. It is funded by China Development Bank and the government of Sri Lanka. K dam that was founded in 2014 channels water to M dam and increase the irrigation capacity of the Mahaweli River in central Sri Lanka (*ibid.*).

Besides, in August 2019, Chinese firm Gezhouba Group Co Ltd won a tender to build the main civil works, which includes a dam, of the Moragolla Hydro Power Plant. It is a part of the Green Power Development and Energy Efficiency Improvement Investment Programme. This dam will be on the Mahaweli River, and is located in Ethgala, Kandy. For this project the Asian Development Bank will be providing US\$113.86 million – about US\$10 million is to be spent by the Sri Lankan government (*Steelguru*, 2019).

In Maldives, to alleviate water crisis in Malé, after the desalination plant was destroyed in fire in 2014, the Chinese government helped it. Soon after the news of fire spread, a Chinese Navy submarine rescue



ship named Changxing Island which could produce over 70 tons of desalted water every day arrived in Malé in December 2014. It was loaded with nearly 700 tons of fresh water and started to supply water to the Maldivian people through its own sea water desalination facilities. Later, two Ilyushin Il-76 aircrafts of the Chinese Air Force loaded with 40 tons of drinking water arrived in the Maldives. The Chinese government and China-funded enterprises in Sri Lanka and the Maldives airlifted another 65 tons of drinking water to the Maldives through civil aviation flights (*ReliefWeb*, 8 December 2014). Help also poured in from India and Bangladesh. Later, to repair the plant China donated US\$500,000.

All such Chinese investments in the hydel projects, water treatment plants, irrigation etc. are not necessarily a part of the BRI-led investments; however, most of such investments have come after the countries become a part of the BRI or expressed willingness to join it. Like other infrastructure projects, Chinese investments in the hydroelectric and other water projects also put burden on the borrowing countries, as they have to pay higher rate of interests. This opens a debate on “debt trap”.

#### **4. The “Debt Trap” Argument**

As Chinese investments under BRI is increasing, there is a fear that the receiving countries will find themselves in a debt problem. There is also argument that China is engaged in a debt diplomacy through which it is pushing the BRI member countries into debt to occupy politically predatory position. The case of Hambantota project, discussed below, and of Maldives say a lot about such intentions clearly. Besides, “debt-trap” corruption charges have also been levelled against the Chinese companies.

In Pakistan it is being argued by some scholars, mainly social scientists, that China is using similar tactics which were used centuries back by the East India Company to colonize India. There is also a fear expressed that Pakistan would be caught in the Chinese debt trap due to CPEC-related loans whose rate of interests are relatively higher than most of the other donating institutions such as the World Bank (Haq, 2017). For example, there is a likelihood that the construction cost of the “Indus cascade” projects is going to be around US\$98 billion which Pakistan has to borrow. The interest on this borrowing will accumulate at US\$5 billion per year. So, after 20 years, the taxpayers would have to pay around US\$200 billion (Abbas, 2017). However, the government of Pakistan does not buy such arguments.

When in opposition, the PTI had raised a number of objections against the projects under the CPEC. One such project is the 27.1 kilometres long China-funded Orange Line Metro Train project in Lahore (PTI, 4 March 2019). The PTI criticized it as a waste of public money with insinuation that corruption was rife in this and many other CPEC projects. After coming into power, the PTI government expressed a desire to review all CPEC projects; however, Beijing was ready to do so only for those which have not yet started.

On the development front, one of the early tests for Imran Khan was revamping of colonial-era rail line project linking Karachi to Peshawar. This is a US\$8.2 billion-dollar project which the government had to think over due to debt concerns and terms of financing (*The Straits Times*, 30 September 2018). Later, after a re-think, the amount for the Karachi-Peshawar project was slashed by US\$2 billion from US\$8.2 billion to US\$6.2 billion. Also, to revamp the 1,872 km rail line project, the government of Pakistan explored funding options that “depart from the traditional BRI lending model – whereby host nations take on Chinese debt to finance construction of infrastructure – and has invited

Saudi Arabia and other countries to invest" (*ibid.*).

In South Asia, Bangladesh is the second-biggest receiver of Chinese investment, after Pakistan. In April 2019 Speaking to the *South China Morning Post* ahead of the second Belt and Road Forum in Beijing, Bangladesh Minister of State for Foreign Affairs Mohammed Shahriar said that Bangladesh "never will" ask China for more loans. He said any amount of debt can be "dangerous" for countries not achieving high economic growth (*South China Morning Post*, 23 April 2019). Zahid Hussain, lead economist of the World Bank's Dhaka office, points that "The loans granted to Bangladesh by China so far account for just 6% of the total debt ... There is not enough information as to the grounds on which the loans have been granted" (*DW*, 11 July 2019). Chinese investments bring both risks and opportunities. However, there are some who remain worried due to China's growing economic influence over Bangladesh (*ibid.*).

As Sri Lanka has borrowed large amounts from China in recent years, to pay the debt, as being maintained by many political commentators, it gave Hambantota port and around 15,000 acres of land around the port to China on a 99-year lease on a debt-equity swap. While handing over the port, Sri Lanka made China accept a provision that Hambantota cannot be used for military purposes (Weerakoon and Jayasuriya, 2019). In this exercise, a Chinese company – China Merchants Port Holding – Sri Lanka received US\$292 million out of a US\$1.12 billion deal. The US\$1.5 billion Hambantota port was launched in 2010 but was incurring losses due to lack of commercial activity (Reuters, 10 December 2017).

After Mahinda Rajapaksa was elected president in 2005, there was renewed interest in the project. After many other countries such as India refused to be a part of this project, Rajapaksa lured the Chinese investment to complete the incipient stages of the project. The first phase

of the Hambantota Port project was built through a US\$307 million loan from the Export-Import Bank of China (Exim Bank) at 6.3% interest which was very high (*Ship Technology*, 2018). The Sri Lankan Ports Authority began devising what officials believed was a careful and economically sound plan in 2007. It called for a limited opening for business in 2010 (Abi-Habib, 2018). Over the years the Hambantota project was constructed and renegotiated with China Harbor Engineering Company, one of Beijing's largest state-owned enterprises. Although tens of thousands of ships pass by along this shipping lane, the port drew only 34 ships in 2012 (*ibid.*).

The Hambantota project is marked with corruption. *The New York Times* investigative story shows that large payments from the Chinese port construction fund flowed directly to campaign aides and activities for Rajapaksa, during the 2015 presidential elections (*ibid.*). In the final months of Sri Lanka's 2015 election, as the *NYT* report says, officials from the Chinese embassy in Colombo including the ambassador "broke with diplomatic norms and lobbied voters, even caddies at Colombo's premier golf course, to support Rajapaksa over the opposition, which was threatening to tear up economic agreements with the Chinese government" (*ibid.*). The report claims that at least US\$7.6 million was dispensed from China Harbor's account at Standard Chartered Bank to affiliates of Rajapaksa's campaign (*ibid.*). Also, as the report says, 10 days before the polls "around US \$3.7 million was distributed in checks [cheques]: US \$678,000 to print campaign T-shirts and other promotional material and US \$297,000 to buy supporters gifts, including women's saris. Another US \$38,000 was paid to a popular Buddhist monk who was supporting Mr. Rajapaksa's electoral bid, while two checks [cheques] totalling US \$1.7 million were delivered by volunteers to Temple Trees, his official residence. Most of the payments were from a subaccount controlled by China Harbor, named "HPDP Phase 2,"

shorthand for Hambantota Port Development Project.” (*ibid.*)

Despite all such efforts, Rajapaksa lost the elections, and President Maithripala Sirisena, assumed office with a mandate to scrutinize Sri Lanka's financial deals under BRI: “It also faced a daunting amount of debt: Under Mr. Rajapaksa, the country's debt had increased threefold, to US \$44.8 billion when he left office. And for 2015 alone, US \$4.68 billion payment was due at year's end.” (*ibid.*) Conversely, on this issue of debt-equity swap, Dushini Weerakoon and Sisira Jayasuriya write that it is not correct to say that the Hambantota port was ceded to China because Sri Lanka faced problems in paying back Chinese loans. They write:

Sri Lanka's debt repayment problems had very little to do with Chinese loans. Chinese loans comprise about 10 per cent of Sri Lanka's total foreign debt. Of this debt, over 60 per cent was lent to Sri Lanka on concessional terms that, while not as generous as those from Japan – Sri Lanka's largest bilateral source of loans – were not really excessive (typically at fixed rates of 2 per cent, with other fees of 0.5 per cent and average maturity of 15 to 20 years). The remaining 40 per cent of non-concessionary loans from China comprise only 20 per cent of Sri Lanka's total debt from such borrowings. The rest was borrowed from international capital markets in the form of sovereign bonds, term financing facilities and foreign holdings of gilt-edged securities.

(Weerakoon and Jayasuriya, 2019)

In the case of the Maldives, China is accused of putting the country into severe “debt-trap” by investing in the projects and lending money to the country on higher interest rates. Few days after Solih took over, former president and the speaker of the Maldivian parliament,

Mohammed Nasheed claimed that the Chinese Ambassador to the Maldives, Zhang Lizhong, handed the government an invoice of US\$3.2 billion (*News18*, 23 November 2018). This is being denied by China which, however, maintained that the amount of debt is nearer to US\$1.5 billion (*ibid.*). In July 2019, Chinese ambassador to Maldives Zhang Lizhong, citing figures from the Chinese central bank, said that the debt owed to China was US\$1.5 billion out of a total debt of US\$3.2 billion, and the bulk of the cost was grant aid from China (*Maldives Independent*, 22 July 2019). According to the Maldivian Central Bank, the Chinese debt includes “guaranteed debt” of US\$900 million. Abdulla Yameen provided sovereign guarantees for US\$1.36 billion worth of loans taken by 23 state-owned enterprises and one private company (*ibid.*). It was also reported that the Solih government would pull out from the Free Trade Agreement (FTA) with China which was signed by Yameen. Nasheed said: “The trade imbalance between China and the Maldives is so huge that nobody would think of an FTA between such parties ... China is not buying anything from us. It is a one-way treaty.” (Reuters, 19 November 2018)

However, after few months of assuming office, the Solih government began engagement with China on the issue of investments and infrastructure developments. In September 2019, Maldivian foreign minister Abdulla Shahid was in Beijing where he met the Chinese officials and talked about cooperation between China and Maldives on all fronts.

## 5. Conclusion

For the success of the BRI, China is making large investments in the infrastructures in South Asia. As mentioned in this paper, with the help of China, the South Asian BRI countries have developed several

infrastructures in their respective countries. Among others, one of the important sectors is water where China is making big investments. Some of these investments, as critics find, may lead these countries into “debt-trap”. However, despite such arguments the South Asian countries are actively participating in the BRI programme. They feel that the Chinese money is essential to develop infrastructure projects in their respective countries.

Besides debt trap, another criticism of this BRI-led infrastructure building in South Asia is massive corruption. The case of Hambantota port was exposed by *The New York Times*. This worries the Chinese leadership. In one of his speeches Xi Jinping said that: “We will also strengthen international cooperation on anticorruption in order to build the Belt and Road Initiative with integrity.” (Abi-Habib, 2018). Due to corruption charges, in 2018 a Chinese company – China Harbour Engineering – has been banned from any future contract in Bangladesh. This company was accused of attempting to pay bribe to an official at the ministry of roads, stuffing US\$100,000 into a box of tea. Earlier in 2009 China Harbour’s parent company, China Communications Construction Company, was banned for eight years from bidding on any World Bank projects because of corrupt practices in the Philippines (*ibid.*).

Finally, though it has not been touched in this paper, the growing presence of China and growing investment under the BRI is somehow related to the growing differences between India and its South Asian neighbouring countries. Due to political tensions with India, Pakistan depends a lot on China for political help. This makes the Chinese bargain their economic deals by providing political support. Also, debt-ridden Pakistan needs someone to overcome its financial crisis, and China is providing that much needed oxygen to it. Although Bangladesh has a good relationship with India, it also needs Chinese money to

develop infrastructure. Bangladesh is properly balancing both India and China. Nepal under the Oli government is inviting China to make investments in its infrastructure. The economic blockade of Nepal carried out by India in 2015-16, though the government of India denies, has made the Himalayan country get much closer to China. Under Abdulla Yameen, Maldives maintained distance from India and invited China to make huge investments in the country. After Solih came into power in September 2018, he vowed to review and renegotiate some deals; however, he has not.

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## Note

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# *Rivalry for Global Dominance*

