Cambodia, Sri Lanka and the China debt trap

The influx of Chinese economic assistance into Sri Lanka and Cambodia has raised questions regarding the intentions behind these massive loans.

While China may still be considered a developing economy, its current strategy of providing soft power loans and aid to its regional neighbors is reminiscent of the tributary system that the country employed back in its empire days.

Cambodia is one of China’s closest international partners and diplomatic allies, as well as being well and truly under the country’s economic and political influence. Cambodian Prime Minister Hun Sen recently described China as Cambodia’s “most trustworthy friend.”
Similarly, Chinese President Xi Jinping described Cambodia as “like a brother” when Cambodian King Norodom Sihamoni visited Beijing in June 2016. China is now Cambodia’s largest military benefactor and provider of development aid and foreign investment, having given about US$3 billion in concessional loans and grants to Cambodia since 1992.

A 2016 International Monetary Fund report showed that Cambodia’s external multilateral public debt is now at US$1.6 billion, while its bilateral public debt with China is US$3.9 billion – 80% of this is owned by China.

Looking further afield, Sri Lanka’s growing economic engagement with China has also generated concern among scholars and policymakers. One side of the argument posits that China has made a positive contribution to the economic growth of Sri Lanka.

China has provided Sri Lanka with over US$5 billion between 1971 and 2012. Most of this has gone into infrastructure development, with China investing US$1 billion into a deep-water port at Hambantota and billions into the Mattala airport, a new railway and the Colombo Port City project.

As a small country emerging from civil war, infrastructure is crucial in facilitating Sri Lanka’s trade and foreign investment sectors. The World Bank forecasts that Sri Lanka’s GDP is likely to grow around 5% in 2017 from 3.9% in 2016.

Yet opponents see flaws in the China-Sri Lanka bilateral relationship. First, Sri Lanka has borrowed billions of dollars from China to build domestic infrastructure. Sri Lanka’s estimated national debt is US$64.9 billion, of which US$8 billion is owed to China. This can be attributed to the high interest rate on Chinese loans.

For the Hambantota port project, Sri Lanka borrowed US$301 million from China with an interest rate of 6.3%, while the interest rates on soft loans from the World Bank and the Asian Development Bank are only 0.25% to 3%. Sri Lanka is very deep in a debt crisis or “debt trap” as some scholars describe it.

Second, Sri Lanka is currently unable to pay off its debt to China because of its slow economic growth. To resolve its debt crisis, the Sri Lankan government has agreed to convert its debt into equity. But the recent Sri Lankan decision allowing Chinese firms 80% of the total shares and a 99-year lease of Hambantota port caused public outrage and violent protests in Sri Lanka.

In addition, Chinese firms have been given operating and managing control of Mattala airport, built by Chinese loans of US$300 million to US$400 million, because the Sri Lankan government is unable to bear the annual expenses of US$100 million to US$200 million.

According to Brookings Institute visiting fellow Kadira Pethiyagoda, having access to the Hambantota port and Mattala airport provides Beijing with a strategic military position in the event of an Indian Ocean conflict and is also key for its One Belt, One Road (Obor) initiative. The growing Chinese influence may also compel Sri Lanka to...
support China’s position on the South China Sea dispute and the “one China” policy.

While Cambodia and Sri Lanka differ in terms of their geographic location, demography and pattern of strategic relations with China, there are some crucial lessons that Cambodia and other small countries can learn to avoid ending up in Sri Lanka’s position.

Cambodia needs to diversify its borrowing sources and critically consider taking loans from multinational donor agencies like the IMF, the World Bank, the Asian Development Bank as well as other major countries like the United States and Japan. While the approval process would be slower, the wait is beneficial because these loans are attached to strict conditions of accountability, transparency and rule of law.

Cambodia must be aware that China’s influence in the country will grow as the loans increase. This is already evident, with Cambodia’s recent decision to unilaterally delay the Angkor Sentinel with the United States for two years and to ban the Taiwanese flag from being raised in Cambodia. Cambodia’s foreign policy seems to largely serve China’s political and diplomatic interests in the region while Cambodia’s own international reputation and soft power are eroding.

When borrowing from China, Cambodia needs to initiate the legal contract and detail the terms and conditions of the loans and aid in accordance with international standards. Cambodia will also need to diversify its foreign policy to include other countries and regional initiatives like Association of Southeast Asian Nations and the Greater Mekong Sub-Region Economic Cooperation.

But none of this will be possible until Cambodia resolves its own domestic priorities. This includes the elimination of corruption, cronyism, forced evictions, land evictions and the protection of human rights and fair elections. This will bolster support from the international community and counterbalance China’s dominant presence in the country.

Veasna Var is a PhD candidate at the University of New South Wales, Canberra and Sovinda Po is a masters student at East China Normal University, Shanghai.

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fishing vessels appearing in its waters – or protested China’s role. (Peter J. Brown)

11-12-2017 13:52

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China’s transformation into...
partly down to the government’s willingness to hasten and embrace the digital age. (Kai-Fu Lee and Jonathan Woetzel)

Monster week for central banks with last rate rise of 2017; and four other big themes likely to dominate the thinking of investors and traders this week. (Marc Jones)

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Japan opens up to possibility of increasing renewable energy (Daniel Hurst)

Myanmar’s Ei Thu Hta internally displaced person camp faces foreign aid cuts that threaten the lives of its still vulnerable residents. (Leena Zieger and Clarisse Tistchenko)

Borrowing from ADB, IMS and other western or Japanese organisation have the pitfall of low effectiveness. First it is high consultant fees pay to lazy western consultants who can’t work well on the field unless it is air-conditioned, even that their working hour’s split between drinking hole and their posh apartment. Then the client has to pay exorbitant price for machinery, parts and services for the project. In the end you only get 3 dollar of project for every 10 dollar spent.

Borrowing from PRC has pitfall in corruption of CCP. Ask your buddy Najib, he’s an expert on corruption. Oh and why is it the PRC cares nothing for the treatment of ethnic Chinese in Malaysia, while UMNO worries about 10m local Chinese while it sells it’s soul to 1bn Chinese.

Yashad Rizvi

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Oh and why is it the PRC cares nothing for the treatment of ethnic Chinese in Malaysia, while UMNO worries about 10m local Chinese while it sells it’s soul to 1bn Chinese.

Good to see corruption is not a bigot.

Like · Reply · 1 · Mar 28, 2017 3:31am

Low Shen-Cheang

Yashad Rizvi corruption free India never work, and your colonial masters corrupt practice does not help either.

Like · Reply · 2 · Mar 28, 2017 5:15am

Yashad Rizvi

Low Shen-Cheang I’m not Indian, now about Najib…. any comments?

Like · Reply · Mar 29, 2017 8:50pm

Peter Seo

perhaps the authors can help Sri Lanka find the financing it needs.

Like · Reply · Mar 28, 2017 6:40am

Shami Perera

And expose stolen funds in Dubai accounts of Rajapaksas?

Like · Reply · Apr 2, 2017 6:32pm

Joe Wong

The provery caused by the lack of nation building infrastructures in Cambodia and Sri Lanka are the handy work of hundreds of years of British colonization and exploitation as well as the destructions caused by the American reckless wars on fabricated allegations. The whole cost of rebuilding the infrastructures in Cambodia and Sri Lanka need to be born by the British and the American, not the people of Cambodia and Sri Lanka.

The world need to set up an organization to force the ex colonial imperials and war criminals like the unrepentant war criminal Japanese to pay the destruction they caused in the past.

Like · Reply · 1 · Mar 29, 2017 1:06am

Yashad Rizvi

Cambodia wasn’t colonised by the British. Japs did alot for China, like increase the height of the locals, very comforting.

Like · Reply · Mar 29, 2017 8:52pm

Shami Perera

Better check history book about American bombing Sri Lanka?

Like · Reply · Apr 2, 2017 6:34pm

Joe Wong

It seems you have been brainwashed by the Western toxic democracy propaganda so deep that you can still see the same old same old and say...
How will Xi Jinping shake up the CPC

Major political changes are expected when the 19th National People’s Congress convenes over 10 to 12 days from this weekend
This year will see major change in the country’s political leadership as the Communist Party of China (CPC) convenes its 19th National Congress of the CPC in late 2017. Nomination of the 2,300 delegates from the CPC’s 89 million members began across the party’s 40 electorates nationwide in November 2016 and is expected to finish by the end of June 2017.

Delegates will assemble in Beijing on dates yet to be announced to endorse the new central leadership of the 19th Central Committee, the Politburo and the Politburo Standing Committee (PSC). New CPC leaders will be assigned key positions in major state and military organizations.

The 19th Party Congress is China’s most important political event since 2012, marking the beginning of President Xi’s second term. The new central party leadership will rule China over the next five years, a critical time for realizing the vision of China’s development that Xi set out to achieve.

The Chinese Dream has set two centenary goals. The first is to double China’s 2010 per capita income, making the country a “moderately well off” society by 2021, the centenary of the founding of the CPC. The second aims to make China a “strong, democratic, civilized, harmonious and modern socialist country by 2049,” the centenary of the founding of the People’s Republic.
China’s aid a matter of life and death for Laos

Four new organizations to set up after Party congress

Industry’s policy on new Indian pollution curbs: ignore them