

Forum: *Economic and Social Council (ECOSOC)*

Issue: *Preventing the problem of 'debt traps' in international infrastructure lending*

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Introduction: Debt trap diplomacy - a "Win-Win"?

In the era of increasing globalization, countries often find themselves interconnected through many layers of diplomatic ties. Although many of these relations are beneficial, many are also predatory, with an example being ambitious infrastructure loaning. Countries such as Pakistan, Sri Lanka, and Turkey have suddenly received transportation infrastructure from China, promising that the infrastructure will benefit domestic development and international trade.

With this, the question of "debt traps" arises. "Debt trap" is a term used to describe a situation in which a debt cannot be repaid, therefore granting the loaner significant leverage over the borrowing country. The IMF and the World Bank, for example, have been accused of debt trapping through their strict loaning conditions, such as forceful tax increases that could exacerbate poverty. However, the most recognized form of debt trap lies in the BRI (Belt and Road Initiative), which is a Chinese policy that seeks to expand the world trading network by implementing vast transportation routes across Asia.

The question of whether or not debt traps truly exist is still under debate. Although many of these infrastructure loans may be coercive, it was still the receiving country that accepted the loan offer. Therefore the line of accountability is often blurred, and the organizations that loaned the infrastructure can often get away with predatory lending habits without significant repercussions, based on the fact that it was an agreement.

Definition of Key Terms

Debt Trap Diplomacy

Debt trap diplomacy is loosely defined as a situation in which a powerful entity leverages a borrowing entity with debt. This can be applied to many situations, both in basic economic situations and political ones. In the context of infrastructure loaning, this often involves an offer to developing countries, and when these countries are unable to pay back the debt, political assets or the infrastructure may be taken away.

Belt and Road Initiative

The Belt and Road Initiative is a policy announced by the People's Republic of China in 2013 that aims to connect world trade and promote economic growth. It encompasses large amounts of infrastructure investment, such as ports, railways, and airports. In September 2013, President Xi proposed the concept of the "Silk Road Economic Belt" in a visit to Kazakhstan, suggesting that China and Central Asia make cooperations. In the following 3 months Xi has continued to present the ideas of this initiative, such as offering guidance to ASEAN on a "21st Century Maritime Silk Road". The Chinese government claims that this initiative is an open and inclusive development, and will be a real chorus comprising all countries along the routes".

As of 2020 the Belt and Road initiative has cost roughly 1 trillion USD, and this figure is expected to grow continuously in the future.

International Monetary Fund

The International Monetary Fund is an international financial organization of 190 countries to *"foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable growth, and reduce poverty around the world"* (articles of agreement). It was established as a result of the economic depression in 1944 and aimed for reconstructing the monetary system.

The resources of the International Monetary Fund are funded from quotas and loans - quotas being the amount of money each member nation must contribute to the IMF. This amount is calculated based on the wealth of the country—the wealthier the country, the higher their quota. Countries in financial trouble may then lend from this pool of funds. The IMF's impact is still debated, with some claiming that the IMF leads to a more stable currency, while others claiming that the IMF leads to long-term economic downfall.

The overall connection between the IMF and debt traps is the IMF's internal power imbalance. As wealthier countries have more money to fund the IMF, they have more leverage in IMF decisions, such as policies or conditions attached to loans.

World Bank

Similar to the IMF, the World Bank was also established in 1944 as part of the Bretton Woods Agreement. It aimed to establish a new post-World War II economic system, which focused on the reconstruction of western Europe as its first loan.

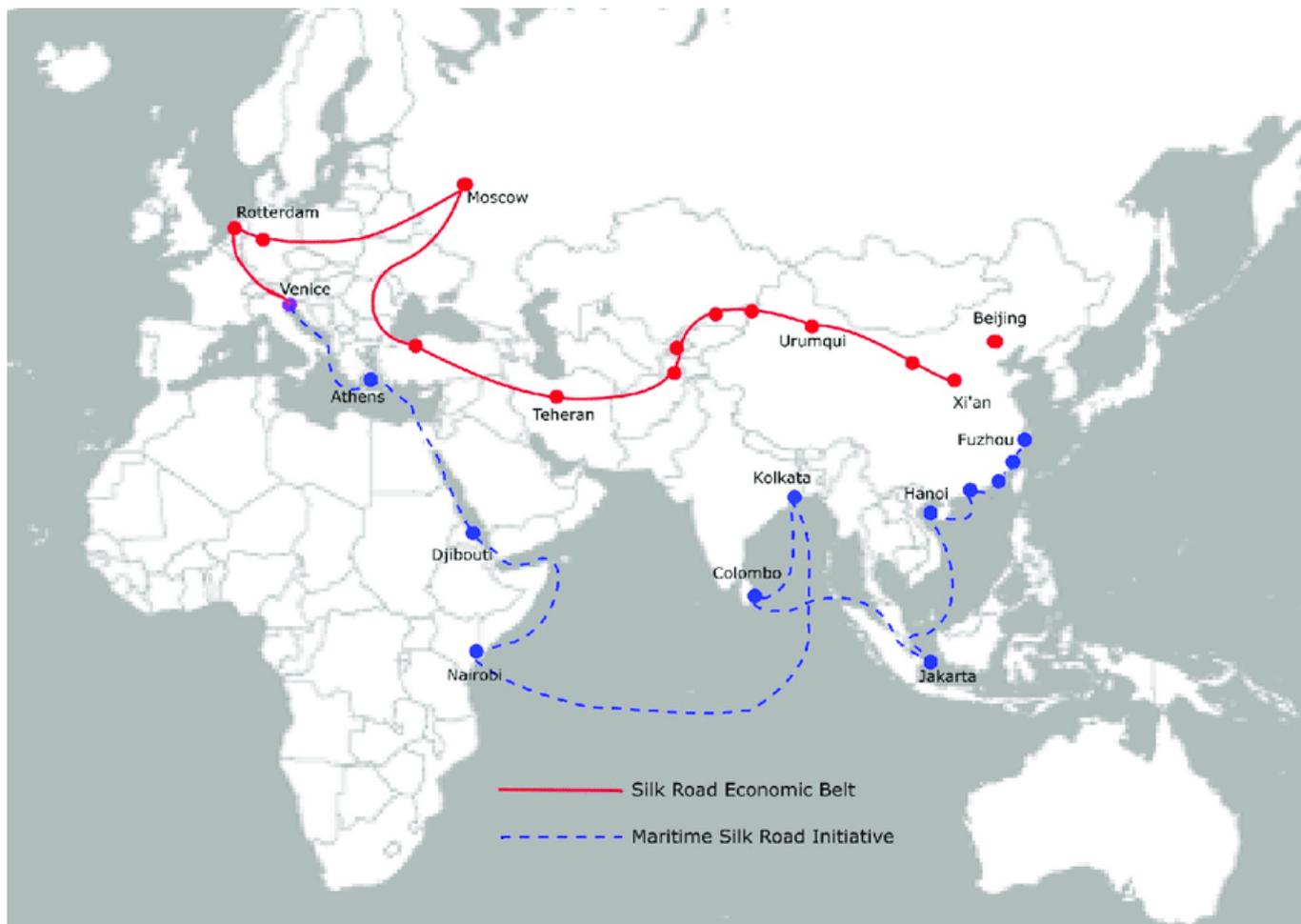
The World Bank is made up of five institutions - the International Bank for Reconstruction and Development (IBRD), The International Development Association (IDA), The International Finance Corporation (IFC), The Multilateral Investment Guarantee Agency (MIGA), and The International Centre for Settlement of Investment Disputes (ICSID). The world bank differs from the IMF in which the World Bank mainly reduces poverty by offering technical and financial support to build infrastructure. It is not as involved in internal policy changes as compared to the IMF. The World Bank also faces similar criticisms as the IMF with the structural adjustment policies often having adverse effects.

Background Information

China's Belt and Road Initiative

China's Belt and Road Initiative is the most economically significant project regarding possible debt traps; as of 2021, 140 countries and 32 international organizations have signed cooperation documents with China regarding the Belt and Road Initiative. The 'Belt' in the name indicates overland railways, and 'Roads' indicate naval routes. In many ways, this is seen as China's main move towards advancing as a world superpower in terms of trade, as almost all trade routes link towards China, allowing China to recenter trade activity. Furthermore, the Belt and Road Initiative is seen as a favorable investment in the eyes of LEDCs, as the loans of the Belt and Road initiative have extremely low interest rates even when compared with the IMF.

Most countries involved in this initiative are from Africa, mainly due to Africa's relatively low development. For China, Africa is also an important asset as Africa's large area provides more potential for energy.



#1 The extent of the Belt and Road initiative's routes

Impacts in Central Asia

Due to the massive size of Asia, the BRI's two objectives of overground and marine trade routes are both found in Asia. Central Asia is an important component of the overground route, with Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan, and Uzbekistan all having signed agreements with the BRI. Central Asia's close proximity to China furthers the importance of this area for Chinese control. The BRI has led to an increase in employment in Central Asia; however, the wages given to Chinese workers are still comparably higher. Studies have shown that Chinese investors attempt to employ the bare minimum amount of local labor legislation when China is not met with pressure. Despite this, many Central Asian nations still desire the BRI due to their inability to access natural resources. The BRI is seen as a favorable resort to generate domestic finances. Furthermore, due to Central Asia's landlocked position, the BRI is necessary to open up access to global trade.

World Bank estimates suggest that Kyrgyzstan and Tajikistan GDP could rise by 32%, while Kazakhstan GDP by 21%. This may explain Central Asia's eagerness to accept the initiative despite the risks of debt traps.

Impacts in South Asia

Similar to Central Asia, South Asia suffers from inadequate infrastructure financing, allowing China to have easy access to be involved. South Asia is another crucial region for China, as accessing the Indian Ocean could allow China to expand control and neutralize external threats.

One major example of existing infrastructure is the China-Pakistan Economic Corridor (CPEC), which connects the Arabian Sea to China's western provinces. Costing over US\$62 billion, it is a 3000-kilometer network of roads, railways, and pipelines. From a political perspective, this is China's method of replacing the US as Pakistan's major partner.

The Maritime Silk Road (MSR) is perceived as the "Road" within the BRI project, which aims to enhance connectivity in Southeast Asia, Africa, and the Indian Ocean. The MSR on average reduces carbon dioxide emission by 9.5% and decreases transit time between five to 14 days. To South Asian nations, the MSR offers economic opportunities that were previously unachievable due to a lack of foreign investment.

Impacts in Africa

In the 2018 forum for China-Africa Cooperation in Beijing, China granted Africa a US\$60 billion loan for infrastructure development, claiming that there are "no strings attached". China's BRI strategy has much fewer conditions (e.g. lower interest rates) that are appealing to African nations. Recent estimates suggest that Africa loans around US\$5 billion per year, with this figure making up a significant portion of African debt.

However, China's involvement with Africa has received skepticism of political involvement. An example of this is China's first military base establishment in Djibouti that suggests China's political objectives.

Criticisms

The Belt and Road initiative has been criticized for being a predatory scheme by China to expand its global control. Many have shown concerns over the BRI being neo-colonialism, with China's loaning patterns being largely coercive. An example of this is the way China obtained Sri Lanka's Hambantota port. China initially proposed light conditions for loans, but as time went on China began to demand the port rather than negotiate. This is one example of the debt traps China is imposing on other nations.

Furthermore, due to the BRI's rapid infrastructure development, many projects have poor quality and release massive amounts of pollution.

Key Issues

Hambantota International Port

The Hambantota International Port is a port located in Sri Lanka, being a notable example of debt-trap diplomacy. It was opened in 2010 but was met with initial failure, only generating 1.81 billion USD in 2016.

Political History

Sri Lanka's relationship with China had been mostly positive, as Sri Lanka was one of the earliest countries to recognize China's communist government after the revolution. Sri Lanka's civil war was also supported by China, with China providing economic resources, weapons, and manpower to support the government. After the war ended in 2009, China was able to make strategic negotiations as part of their return for supporting Sri Lanka.

Economic Deals

In 2007, President Rajapaksa began devising the plan for the Hambantota port opening, despite many sources of doubt from other experts. The main port in the capital of Sri Lanka was still developing, and developing another port in Hambantota seemed foolish. However, the president ignored many red flags and continued with development. The first loan for development was given by China, which included conditions such as intelligence sharing.

As borrowing grew greater, the port was still unable to attract many ships to equalize the cost of maintaining the port. The Sri Lankan government was still persistent in expanding the port and asked for further loans, with Rajapaksa asking China for \$757 million. This loan was different from previous ones, in which the interest rate charged was higher threefolds. As Sri Lanka grew

desperate to pay back national debt, it eventually signed off an agreement with China to deal with the port. This was by China taking control of the port.



Caption #2: Hambantota port in Sri Lanka

Lack of Alternatives

One of the main reasons why countries are falling into debt traps is due to a lack of suitable alternatives. Although the US has proposed another infrastructure funding mechanism known as “Build Back Better World” (B3W), this project is largely unclear and has no stated timeline, structure, and scope. Furthermore, this plan has recently been objected to by many senators, delaying the implementation even further. Additionally, due to the US president being occupied with reelections, such ventures are considered dangerous and may harm voting results. Another alternative that has been attempted is the “Global Gateway” created by the EU. This has largely been considered futile and cannot compete with the existing BRI project. This is due to the EU unable to cooperate and pass decisions as fast as China’s unitary government.

Additionally, many western nations are unable to provide a feasible alternative, due to fear of being associated with countries that have committed human rights violations. NATO is also unable to make a stride since it may be faced with aggression from Russia and China.

Military Endeavors

China's BRI initiative has also confirmed many geopolitical ambitions, with one notable example being the military base in Djibouti. In 2015, China had already begun making negotiations with Djibouti on economic infrastructure construction. Similar to the Hambantota port, construction is fueled by loans from China's government-run banks. China's eagerness to control Djibouti may be due to its strategic location - it is located on the Bab-el-Mandeb Strait, which divides the Gulf of Aden and the Red Sea, as well as being close to the Suez Canal. In 2016, the Chinese People's Liberation Army Support Base in Djibouti was established as an expansion of China's control of the above areas. China has also created the "People's Liberation Army Navy" (PLAN), operating in both Djibouti and the "second island chain" between Japan to Guam and to Indonesia.

Major Parties Involved and Their Views

China

China is undoubtedly one of the most important countries on this matter, as it is the country that created the Belt and Road Initiative (BRI), responsible for many debt traps around the world. The creation of this initiative is part of China's main national interests of economic development, state sovereignty, and national security. The Chinese Communist Party's (CCP) increasing pressure of providing jobs and economic growth has become a concern due to a gradual slow-down in GDP growth. The BRI is an effective counter-plan to solve these issues.

National Security

The BRI has also expanded to address many national security issues, finding that developing many peripheral insecurities in Southern Asia can eventually benefit China. It is worth noting that China's BRI investments are the most significant in China's immediate neighbors, such as Kazakhstan and Vietnam. Investments in Africa are likely not attributed to national security issues.

Economic Advantages

The BRI has brought significant economic advantages to China. Such an example is China's increase in Foreign Direct Investment, increasing by roughly 4% each year. BRI has also increased net trade between China and nearby countries in Southern Asia.

United States of America

The United States of America has largely expressed disapproval towards debt traps. However, the United State's withdrawal from economic control in international areas may have led to the uprising of Chinese powers. Despite the US being a leading member of the World Bank, no significant infrastructure projects have been made to counter the BRI and stop debt traps.

The US has shown clear interests in creating an alternative that pressures China to change BRI practices; one that provides more sustainable infrastructure, high working standards, and environmental protection. During the Obama administration, the US has made negotiations for the Trans-Pacific Partnership (TPP), which would include 40 percent of global GDP, becoming a strong pressure to the BRI. This project has been abandoned by the Trump Administration, with the US drawing back from its previous roles of creating international allies. The Trump Administration's contradictory views on China's exports also indicate the US's insufficient responses towards the BRI.

India

India has refused many offers from China to join the BRI, claiming that it skews the playing ground of Indian business and increases the chances of Chinese disruption. With its main enemy, Pakistan, being a large investment of the BRI, this furthers India's disapproval of the BRI. Combined with the Hambantota Port, China is effectively able to surround India with navy troops.

India has attempted to create bilateral cooperation known as the Asia-Africa Growth Corridor (AAGC). This was established by India and Japan, which aims to develop quality infrastructure in Africa. This corridor would be linking Africa with countries of South East Asia and Oceania by connecting ports of different nations across various continents. However, this concept has been deemed as vague and relatively useless, similar to the US's alternative of the TPP.

Russia

Russia has received various allegations for committing debt traps and attaching several strings to infrastructure loans. On April 23, 2020, Russia granted Moldova a loan of 200 million euros, which was proposed for infrastructure projects and government budget. However, this loan allowed Russia to access Moldovan businesses and force them to repay debt to Russian banks.

Russia's view towards the BRI is generally positive. With historical political alliance and economic partnership, Russia has been happy to use the BRI for attracting foreign investments. China is Russia's largest trading partner, and bilateral trade volume has reached 100 billion for the first time in 2018. Russia has no interest in providing alternatives to the BRI since it does not view the BRI as investment

competition. This does not mean Russia is fully submissive to the initiative; Russia simply wishes to create a productive relationship with China while not becoming dependent on it. In an event of China gaining too much power through the BRI, Russia will not be tolerant.

Timeline of Relevant Resolutions, Treaties and Events

Date	Description of event
September 7th, 2013	<p data-bbox="432 613 1278 638">Xi Jinping holds talks in Astana with Kazakhstan's president</p> <p data-bbox="432 680 1469 813">Xi Jinping discusses China-Kazakhstan relations and brings up the idea of the Silk Road Economic belt. Xi encourages Central Asia to cooperate with China in order to support infrastructure building.</p>
October 2013	<p data-bbox="432 853 804 878">China and ASEAN meeting</p> <p data-bbox="432 920 1461 999">China meets with ASEAN to propose the Maritime Silkroad - the marine section of the BRI</p>
November 2014	<p data-bbox="432 1039 810 1064">Chinese investment begins</p> <p data-bbox="432 1106 1461 1184">Xi Jinping announces that China will invest 40 billion USD dedicated to the Belt and Road projects. This number will continue to increase as time goes on</p>
December 25, 2015	<p data-bbox="432 1225 1126 1249">Asian Infrastructure Investment Bank Established</p> <p data-bbox="432 1292 1422 1424">China launches the Asia Infrastructure Investment Bank (AIIB). It's startup capital was 100 billion USD, rivaling those of the World Bank and IMF. It has been an important factor in BRI loaning.</p>
March 2016	<p data-bbox="432 1464 903 1489">Djibouti Military Base Established</p> <p data-bbox="432 1532 1445 1664">China Establishes a military base operated by the Chinese People's Liberation Army Navy. This marks one example of China's usage of debt trap tactics and raised speculations regarding China's growing urge to pressure the US.</p>
July 2017	<p data-bbox="432 1695 943 1720">Hambantota International Port rights</p> <p data-bbox="432 1762 1469 1895">The Hambantota International Port was given to China with a 99-year lease, with the China Merchants Port getting a 70% stake. This marks the first example of debt trapping known to people.</p>

Relevant UN Treaties and Events

- Round-table discussion 2: The Belt and Road Initiative: what is in it for the Arab region? **(E/ESCWA/C.5/2019/CRP.2)**
- Belt and Road Initiative: What Is in It for the Arab Region?: Economic and Social Commission for Western Asia (Escwa). Sixth Special Session, Amman, 21-22 December 2019 **(E/ESCWA/S-6/7)**

Evaluation of Previous Attempts to Resolve the Issue

Previous attempts generally revolve around creating new alternatives that phase out the BRI, as it is incredibly difficult to end current BRI practices. With many countries desperately needing infrastructure, the BRI is still the best option for starting up a sustainable economy, regardless of the risks the BRI might bring. Given that many countries cannot succeed without foreign investment, China reaching out to poor nations is still positive in a sense. However, it is incredibly difficult for other countries to replicate viable alternatives since many capable states are powerful western nations that fear engaging with certain countries. These countries generally have a poor human rights track record and undemocratic practices. China's lack of national image allows it to uniquely approach any country in the world.

China has also addressed debt trap accusations by releasing official statements, with the vice-chairman of China's International Development Cooperation Agency claiming that the accusations' intention is to "drive a wedge between China and Africa's friendly relationships. China has also pledged to establish greater transparency within the BRI, calling for zero tolerance towards corruption.

Possible Solutions

Establishing Transparency

Many debt traps are caused by contract loopholes that exploit the vagueness of loans. One way the UN may influence this is by establishing regular checks on BRI activities, and enforcing strict protection measures to prevent debt traps from being created. An example of this could be to monitor or regulate the loans that poor countries can take, such as creating a certain ceiling on the value of loans a country may take at once. Another may be to establish UN bases within areas that have received BRI

funding, in order to monitor the activities of foreign investors. While this does slightly infringe on sovereignty, it is a necessary step for the UN to take in order to ensure transparent infrastructure loaning.

Sustainable Alternatives

Current alternatives provided by the US or EU have been largely unsuccessful since it doesn't provide as much coverage as the BRI. With the UN being composed of many powerful countries, it is possible to gather resources to create a sustainable alternative that is comparable to the BRI. With another alternative in place, China will likely decrease its predatory loaning habits in order to maintain trade with poor nations. These alternatives that are directly under the UN can also be much more easily monitored and held accountable.

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Appendix or Appendices

Please include any materials that you may wish to Appendix in this section. Also, Roman numerals must be used in labelling the different appendices. It is highly recommended that any useful links be placed in this section.

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