Is China bribing its way to superpower status?

In a throwback to the golden days of the Middle Kingdom when foreign rulers brought with them tributes for the Chinese emperor, French President Emmanuel Macron on his recent visit presented Chinese President Xi Jinping with an eight-year-old gelding. Macron hopes that a charm offensive directed at Xi can help his task of reinvigorating the French economy and industries. Airbus, for instance, is betting its future on large orders from China. The French president has, so far, only offered up a horse and has expressed his admiration for Chinese civilization. David Cameron, the former British prime minister—who was announced last month to be taking over a leadership role in a joint UK-China investment fund—went further.

Before Macron, it was Cameron who championed the rise of China, and closer UK-China and Europe-China ties. Among other deals, Cameron approved massive Chinese investments in a nuclear power project at Hinkley Point in Somerset. Controversial on both security and commercial grounds, the deal was deemed not to be in Britain's interests by many critics. Theresa May, Cameron's successor, even shelved the project temporarily after taking charge. So, is there a smoking gun to link the Hinkley Point deal with Cameron's latest job? Not really. But it was reported (*goo.gl/ufg2Zn*) that the former British prime minister lobbied for this fund to be set up on behalf of Peter Gummer, an old associate of Cameron and donor of the Conservative Party—enough to raise eyebrows.

As the news of Cameron taking over a fund meant to project Chinese influence across Europe and Asia came out, many were quick to draw parallels with Gerhard Schröder, former German chancellor. After losing his office in 2005, Schröeder bagged a job with Gazprom, the Russian energy giant. During his tenure, Schröder had staunchly backed the contentious Nord Stream pipeline that was a joint project of Gazprom with two German companies.

These instances might be from developed European countries—but leaders of smaller, poorer countries are much more vulnerable to the ambitions of a country with deep pockets like China. After being thrown out of power, leaders in a number of countries have been investigated for accepting bribes from Chinese companies. The former president of Sri Lanka, Mahinda Rajapaksa, has been accused of accepting bribes from China Harbour Engineering Company, a subsidiary of state-owned China Communications Construction Company. Rajapaksa's tenure saw several high-profile Chinese investments in Sri Lanka. Many of those, including an airport and a seaport in Hambantota—the home base of Rajapaksa—have proven to be commercial non-starters. In Nigeria, just three days before exiting office, former president Goodluck Jonathan approved an out-of-court settlement—now being probed by US agencies—between Addax Petroleum (owned by Chinese oil giant Sinopec) and the Nigerian National Petroleum Corp., saving the former millions of dollars.

In 2012, the husband of former Philippine president Gloria Macapagal-Arroyo was arrested on charges of accepting bribes to push a deal between the Philippine government and the Chinese telecom company ZTE. Mohammad Nasheed, the leader-in-exile of Maldivian opposition, has accused President Abdulla Yameen of corruption in leasing out islands to foreign countries. India, too, was concerned about the Yameen government leasing out the Feydhoo Finolhu island to a Chinese company at a throwaway price without competitive bidding. Known for his proximity to China, Yameen again surprised New Delhi in November last year by passing a free trade agreement with China through the Maldivian parliament in an emergency session called at short notice with most of the opposition members unavailable to attend.

As China pushes its ambitious trillion-dollar Belt and Road Initiative, such sweetheart deals can be expected in greater numbers. India's smaller neighbours are especially vulnerable, but New Delhi can do little as it cannot match Beijing’s largesse. India can indeed partner with other countries like Japan and the US to take up infrastructure projects in these countries. But even so, it is difficult to match Chinese state-controlled firms with excess capacity and a bounty of cash to throw at projects and leaders. It is not, in any case, a replacement for the citizens of the host countries realizing that Chinese money unaccompanied by domestic institutional reforms and local capacity development cannot make them rich. Conversely, it can exacerbate local political economy problems by encouraging venality and corruption.

As economist William Easterly has argued, foreign aid discourages the development of the right market institutions that would be required for higher investment flows unmediated by corrupt political practices. China’s support is not even in the form of aid, but through more distortionary high-interest loans. Often, the labour and the input materials in these projects are also sourced from China. Moreover, the investment flow is dictated by political rather than market choices. The result is a host country saddled with white elephants not generating enough capital to pay back the loans. Sri Lanka has already seen these fears come true.

Other countries too make strategic use of foreign aid. The US, most prominently, deploys aid (goo.gl/MSfeh9) to win votes in the UN. Israel does this (*goo.gl/oTzyM2*) as well. But the scale at which China is using its capital for securing political influence is unprecedented—and the consequences could be deeply felt across the globe.

Will Chinese loans help poor countries build infrastructure and prosper? Tell us at views@livemint.com

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