

CHINA'S GROWING THREAT VIA DEBT TRAP DIPLOMACY

Relevant for: International Relations | Topic: India - China

China has been using the financial tool of debt to gain influence across the world and grab considerable power in India's neighbouring countries, thereby increasing the amount of political and security threats the nation is exposed to. Mint takes a deep dive.

How does China's debt trap diplomacy work?

In a push to gain rapid political and economic ascendancy across the globe, China is dispensing billions of dollars in the form of concessional loans to developing countries, mostly for their large-scale infrastructure projects. Often, developing nations are lured by China's offer of cheap loans for transformative infra projects, which involve a substantial investment. These developing nations, which are primarily low- or middle-income countries, are unable to keep up with the repayments, and Beijing then gets a chance to demand concessions or advantages in exchange for debt relief.

What concessions are demanded by China?

There are several advantages or concessions that China asks for in exchange for debt relief. Sri Lanka, for instance, was forced to hand over control of the Hambantota port project to China for 99 years, after it found itself under massive debt owed to Beijing. This allowed China control over a key port positioned at the doorstep of its regional rival India, and a strategic foothold along a key commercial and military waterway. Similarly, in exchange for relief, China constructed its first military base in Djibouti. Whereas Angola is repaying multibillion-dollar debt to China with crude oil, creating major problems for its economy.

What are these concessional loans granted by China?

These are loans extended to low- and middle-income countries on terms that are significantly more generous than market loans. The 'concessional' factor is achieved either by offering interest rates that are below the market rates or leniency in the grace period, and often with a combination of both. These loans generally have long grace periods.

Has India taken any loans from China?

India has not entered into any loan agreement directly with China. However, it has been the top borrower of Asian Infrastructure Investment Bank (AIIB), a multilateral bank wherein China is the largest shareholder (26.6% voting rights) and India the second (7.6% voting rights) among other countries. China's vote share allows it veto power over decisions requiring super-majority. Loans provided to India could also pave the way for Chinese firms to enter and gain experience in the promising Indian infra market.

How is the debt trap affecting India, then?

Most of India's neighbours have fallen prey to China's debt trap, and ceded to China's \$8 tn project – One Belt One Road Initiative (OBOR) which seeks to improve connectivity among countries in Asia, Africa and Europe. The initiative requires India to accept that the Kashmir-controlled Pakistan region, is Pakistan, because that's where some of the projects are. China

through OBOR can hence increase India's political cost of dealing with its neighbours.

Jhoomar Mehta is a Delhi-based development finance consultant.

[Click here](#) to read the Mint ePaperLivemint.com is now on Telegram. [Join Livemint channel](#) in your Telegram and stay updated

Log in to our website to save your bookmarks. It'll just take a moment.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com