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RESEARCH PAPER

Navigating the Global Debt Trap: China's Role and the Dynamics of Creditor-Debtor Relations

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ABSTRACT

The objective of this study is to investigate the following question: How legitimate are accusations that China is practicing debt-trap diplomacy? Many people have accused China of engaging in debt trap diplomacy, a claim China contests. The research project is qualitative in nature. As different aspects of the phenomenon are examined, critical and comparative methodologies are also employed. The primary concerns pertaining to the Chinese debt are its economic feasibility, the prevalence of Chinese labour, China's increasing geopolitical sway, the excessive dependence on China, and the potential for Chinese intervention that could compromise sovereignty. Sino-optimists argue that Chinese investments in BRI route states are advantageous and a driver of economic expansion. While taking out large loans, the people and governments of the debtor nations must exercise greater caution.

KEYWORDS Belt and Road Initiative, China, Chinese "Debt Trap", Debt-Trap Diplomacy

Introduction

Financial assistance is needed by emerging nations for a variety of reasons, including the construction of their infrastructure, which is crucial for both economic expansion and societal advancement. But at what price? It is not advised if debt sustainability is jeopardised. An unmanageable debt load puts a country's sovereignty in jeopardy. A nation cannot be free and dignified without sovereignty. Development of infrastructure may not be incompatible with national sovereignty. Foreign aid can be grants or loans. The limited supply cannot keep up with the demand for them. Even fewer grants are available than loans. Conditions attached to loans and grants are a source of discouragement. China has emerged as a leading lender, owing to its substantial foreign exchange reserves. States are taking more and more loans from China, particularly since the Belt and Road Initiative (BRI) was introduced in 2013. The birth of the terms "Chinese debt trap" and "Chinese debt trap diplomacy" can be attributed, at least in part, to the fears and alarms it has caused for China's rival states in the East and the West. The aforementioned "debt trap" warrants a thorough investigation into its numerous facets and scope in light of this issue. The purpose of this paper is to accomplish this.

A debt trap is characterised as an unsustainable state of government finances wherein an increase in the ratio of government taxation to GDP or a decrease in discretionary government spending (total spending less interest payments) relative to GDP can no longer stop the government debt ratio from blowing up (Merwe 1993, 2). It can also refer to a scenario in which a nation's debt grows to the point that all fresh borrowing is utilised to pay off the interest on existing debt. A nation finds it difficult to escape such a debt trap, which signifies the start of bankruptcy (Cauvery et al. 1995, 203). Debt risk is the possibility that a borrower would not be able to pay back loans, which would force the lender to seize assets (Ananda and Fahreza 2024).

A debt trap arises when a nation's debt payments surpass its GDP due to excessively high debt levels. Economic growth is hampered by high debt-to-GDP ratios, and a large portion of output is needed to pay off debt that is becoming unmanageable (Camba et al.

2024, 115). In this scenario, the creditor nation is said to have given a debtor nation excessive credit with the goal of obtaining political or economic concessions in the event that the debtor nation is unable to fulfil its repayment commitments. In international finance, the practice of a creditor country or organisation partially or entirely extending debt to a borrowing nation in order to improve the lender's political influence is known as "debt-trap diplomacy" (San 2024, 49).

Literature Review

Peng and Cheng (2024, 3) acknowledge the presence of debt-related obstacles in the execution of Belt and Road Initiative projects. According to them, one issue that all states in the globe are dealing with is growing levels of internal and external debt, especially in developing and less developed countries. When foreign countries—whether from China or the West—finance construction projects, the host nation's debt usually increases. Thus, they contend that it would be unjust to only link projects involving Chinese companies' investments in the BRI route states to high levels of debt. According to Kc and Chand (2024, 185, 201), Nepal should proceed with BRI projects in accordance with its top priorities and national interests, as the "debt trap" narrative in the country is mainly a myth rather than a reality. They claim that unless China has not influenced internal politics in Nepal by sponsoring BRI projects, the debt-trap argument will not apply to the country.

According to some observers, China's debt trap is a myth (San 2024, 53, n. 16). It is described by Kou and Peng (2024, 18) as a fabrication employed by Western politicians and media to disparage BRI. According to Chandarith and Sothearak (2024, 68), there is discrimination against China in the fear that Cambodia will fall into a Chinese debt trap. They believe it is ludicrous and politically motivated to highlight Chinese financial support above that of other nations (Chandarith and Sothearak 2024, 84). The debt trap narrative, according to Anzetse Were (2018, 1), undervalues the decision-making capacity of African countries. The impact of China's Belt and Road Initiative (BRI) on African development objectives, the potential effects of ballooning debt on African sovereignty, and the complicated effects of corruption are just a few of the significant warnings that the author notes for African countries.

In testing the debt-trap diplomacy approach's requirements, Himmer and Rod (2022, 264–65) found no evidence of China's aim to encumber borrowing nations with debt in order to get strategic assets in any event. The concept of debt-trap diplomacy, according to Carmody (2020, 6), is misguided and partially motivated by racialised anxieties of Western displacement, but it also has some basis in fact given Africa's growing reliance on China and its growing global "commodity power." It is untrue to state that Sri Lanka's inability to repay the debt incurred in building the port led to China acquiring Hambantota Port (Moramudali 2020). Among the most enlightening and well-balanced research studies are two. First, there is Kazi Mahmood ur Rehman's "Bangladesh's Debt Management and BRI" (2024), and Himmer and Rod's "Chinese Debt Trap Diplomacy: Reality or Myth?" (2022).

Material and Methods

The research project is qualitative in nature. As different aspects of the phenomenon are examined, critical and comparative methodologies are also employed. A review of the relevant literature was conducted. Different aspects of the topic are looked at. Arguments against China are compared and contrasted with counterarguments. There are quotes of pertinent facts and numbers and a discussion of scientific evidence. Academic papers, books, and articles are just a few of the many resources that go through this review and analysis. This paper examines the many frameworks that are now in use for assessing debt loads, debt management, and debt traps, with a particular emphasis on China's debt relationships with the borrowing states.

Results and Discussion

China disputes accusations that it is practicing debt trap diplomacy. This study investigates the phenomena by examining international loan patterns, concerns expressed about the Chinese debt trap, and arguments and counterarguments related to the debt trap. Two different worldviews are represented by the two sides of the split. While one sees China as a threat and a challenge, the other views it as a model of rapid economic expansion and as a friend and supporter of the developing nations. Some, on the other hand, sit astride the divide and regard Chinese loans as both a risk for the debtor nations and a chance to implement development projects.

What kind of problem is this, exactly? China has faced numerous obstacles as a result of the power dynamics and rivalry around the construction and infrastructure development with the West. One of the most serious accusations China is currently facing is that it engages in "debt trap diplomacy," which refers to its lending practices to developing countries and the repercussions that follow if those countries are unable to repay their loans (Rahman 2024, 165). The "debt trap" theory assumes that China is using the BRI to acquire strategically significant assets, which amounts to predatory lending (Camba et al. 2024, 110). The procedures around the world for loans, grants, interest rates, debt forgiveness, and repayment are covered in the section that follows.

Norms and practices exercised by creditor and debtor countries

Understanding the nature of the issue can be gained by taking a brief glance at the international practices used by the debtor and creditor nations. The Paris Club is a group of 22 nations that function as independent creditors and are committed to providing poorer borrower nations with sustainable payment options. Offers of debt relief are also on the table, provided that a debtor initiates reforms to improve its macroeconomic and financial situation (Rahman 2024, 167). Debt relief by delay or, in the case of concessional rescheduling, a reduction in debt payment obligations during a specified term or as of a specific date, is what debtor countries receive from Paris Club creditors in the form of debt treatments known as rescheduling (San 2024, 63).

Trade and financial liberalisation, monetarism, exchange decontrol, currency devaluation, removal of government subsidies, price restrictions, decreased social spending, and privatisation of state assets are some of the main features of the structural adjustment programs (SAPs) of the World Bank and IMF. The development achievements of the 1960s and 1970s were undone by SAPs, which caused millions of people to fall into poverty annually. The failure of SAPs to help the poor, especially women and children, has also pushed the World Bank to admit this. In Kenya, SAPs were deemed responsible for deteriorating living conditions and increasing unemployment and inequality. Furthermore, governments' power to raise revenue through import tariffs was constrained since SAPs promoted trade liberalisation. Governments responded by drastically cutting public spending on social services and education, which infuriated the populace and further slowed down development. As a result, in many African countries, the state was no longer legitimate. It can also be claimed that the programs fuelled a rising suspicion about the development solutions offered by long-standing allies like the Bretton Woods institutions and a deterioration in trust between the West and Africa (Were 2018, 5).

Careless borrowing practices can result in illicit debt, which can increase the weight of unmanageable debt. African nations have become dependent on wealthy nations, feeling compelled to borrow from them. The majority of loans are used for inefficient industries, which makes it more difficult for the economy to recover and thrive when internally generated money is used to pay off debt. Several difficulties have been recognised as aggravating public debt, including as government noncompliance with borrowing legislation, embezzlement of public loans, and a disjointed institutional structure for public debt.

The majority of Zimbabwe's previous government debts were taken on without careful consideration of their potential long-term effects on the nation. As a result, the nation's investment plans, tax reforms, and national savings are all strongly impacted by past debt dynamics. In certain cases, budget deficits are even financed with the help of borrowed funds. This is demonstrated by the fact that the projects for which the money was borrowed are not progressing. Furthermore, the government has been unable to collect money from program participants over time, which has made the nation's debt situation worse.

Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS) was adopted in 2010 as a result of internal and external consultations conducted in 2009 and 2010. The Lima Strategy is an additional initiative that was created in October 2015 to monitor the creditor re-engagement process that the ZAADDS had planned. In order to pay off the country's external arrears to the World Bank Group, the African Development Bank, and the International Monetary Fund, the plan called for combining national resources with bridging financing from a regional bank and a long-term loan from a bilateral creditor. However, because the disjointed institutional architecture is unable to specify who, what, when, or how, the amount of government debt is unmanageable.

Zimbabwe has struggled to draw in much-needed foreign direct investment due to its debt and arrears. Over the years, Zimbabwe's extremely unmanageable state debt has also slowed economic growth by discouraging private sector investment and encouraging significant capital flight. The government's opacity also contributes to a lack of public debt information (Tashu and Moyo 2023, 188–89, 190–93, 195).

Cambodia's public debt management framework was outlined in the Strategic Document on Public Debt Management 2011–2018, and the Ministry of Economy and Finance is the only authority responsible for carrying it out. In addition to outlining corrective measures, the text outlined important guidelines and rules for managing public debt (Chandarith and Sothearak 2024, 76–77). Ensuring that the government's funding needs and payment responsibilities are satisfied at the lowest feasible cost and, crucially, that projects undertaken may yield returns is the primary goal of public debt management (Tashu and Moyo 2023, 192–93).

Concerns and arguments holding China responsible for debt-trap

Regarding the Chinese debt, there are many distinct concerns expressed from various sources. These worries are mostly about the Chinese loans' economic viability, the labour dominance of the Chinese, China's growing geopolitical influence, the over-reliance on China, the risk of giving China control over crucial infrastructure, the possibility of default, and the possibility of opening the door for Chinese meddling that could jeopardise sovereignty. Numerous states, including Bangladesh, the Philippines, Laos, Malaysia, Nigeria, Indonesia, Nepal, Myanmar, and the Maldives, have expressed similar concerns.

Public discourse in Indonesia is currently debating issues pertaining to the prevalence of Chinese labour in BRI projects (Ananda and Fahreza 2024, 157). Another contentious issue in Nepal is the "debt trap" argument against China's Belt and Road Initiative. Some intellectuals in Nepal argue that China intended to use BRI projects to trap Nepal in her "debt trap." Some evidence, such as China's reactive diplomacy towards US-sponsored projects in Nepal, casts doubt on her foreign policy based on Panchasheel and longstanding noninterference towards a country like Nepal (Kc and Chand 2024, 199, 201).

Concerns over Cambodia's debt to China have developed among many Cambodians in recent years. Given that China is Cambodia's largest creditor, concerns have been raised about the country's economic sustainability. Critics of China's debt claim that Cambodia is becoming unduly dependent on China. They claim that China would try to influence politics in Cambodia by using its economic might. Some observers speculate that China might persuade Cambodia to accept its geopolitical goals, including its claims in the South China Sea, by using its economic might. They fear China will try to seize control of Cambodia's essential infrastructure by using its economic might. China's position as the country's largest creditor has raised concerns about Cambodia's sovereignty (Chandarith and Sothearak 2024, 74–75).

Critics point to a number of features of Chinese loans, including "inflated" quotations, exorbitant interest rates, a lack of transparency, a disdain for global best practices, and unmanageable debt agreements. Through the BRI, "Sinopessimists" perceive China as exploitative, snatching up Africa's resources to drive its fast industrialisation. Some claim that China is entangling Africa in unmanageable loan agreements (Cheng and Fok 2024, 221). China refrains from adopting such globally accepted sustainable and transparent lending procedures, even in cases when the Paris Club provides transparency and economic sustainability. China does not adhere to the standards for transparency that the World Bank and International Monetary Fund generally support. Transparency promotes policy-making, prevents debt crises, and discourages corruption. Nondisclosure clauses are found in the majority of Chinese contracts, and the country does not disclose information about its foreign loans (Rahman 2024, 167–68).

As part of its financial obligations to BRI projects, China has used debt in place of grants and aid, collateralization has been used, the loan negotiation process has been opaque, and inadequate governance has occurred (Cheng and Fok 2024, 123). Important lessons can be drawn from cautionary tales in Africa, where nations like Zimbabwe, Cameroon, and Djibouti struggle to repay debts tied to the Belt and Road Initiative (BRI) (Ananda and Fahreza 2024, 158). Criticisms based on statistics and empirical evidence draw attention to China's significant increase in foreign loans, as well as its reduced amount of official development assistance (ODA) and less advantageous loan conditions. China's foreign loans experienced a significant rise from 2013 to 2017, covering the first five years of the Belt and Road Initiative (BRI), totalling 425 billion US dollars, more than twice the amount given by the United States during the same period. China's foreign development finance program included only about 12 percent ODA, compared to 73 percent in the USA, over 40 percent in Japan, and about 100 percent in the UK and Canada (Cheng and Fok 2024, 130–31). Prior to the 2008 financial crisis, Chinese policy banks once charged six percent interest on loans to Sri Lanka (Camba et al. 2024, 112).

Rivals of China and the ruling regimes in the debtor nations are among those who criticise Chinese debt. According to a recent analysis by the Centre for Global Development, eight countries that received loans from the Belt and Road Initiative (BRI)—Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan—are very vulnerable to a debt crisis as a result of the loans (San 2024, 50). When the United States unveiled its new Africa policy in 2018, John Bolton, the National Security Advisor at the time, made the case that Beijing utilises debt, bribery, and opaque agreements to control governments in Africa. Its investment endeavours are devoid of ethics and environmental norms, and they are rife with corruption compared to U.S. developmental projects. China's alleged "rogue aid" was the source of an earlier moral panic in the US (Carmody 2020, 2). U.S. Secretary of State Mike Pompeo charged China with employing debt-trap diplomacy in May 2019 (Himmer and Rod 2022, 251). The Zambian government refuted US Vice-President Pence's assertion that Zambia might have to cede control of its principal international airport in Lusaka (Carmody 2020, 3). Though some of the complaints are entirely polemical, many of the political competitors of the current administrations in the debtor countries also point the blame at the "debt trap."

An Indian academic coined the phrase “Chinese debt trap” in 2017 to describe China’s investment in Hambantota Port, which left the Sri Lankan government with a high-risk debt. Subsequently, the BRI was vilified as a “debt trap” in an increasing number of scholarly publications and media stories (Kou and Peng 2024, 9). The contemporary “debt trap theory” is mostly promoted and influenced by people in Sri Lanka, Pakistan, the Maldives, and Nepal because of Indian influence in the region (Yang and Jiang 2024, 42).

China’s first-ever overseas military facility was created in Djibouti, whose external public debt grew from 50% of GDP in 2015 to 91% in 2017. Moreover, it has been reported that 77% of the nation’s debt is attributed to Chinese money, and in 2018, the country removed Dubai Ports (DP) World from operating the port adjacent to its military installation due to pressure from China. The state-owned China Merchants Company is being sued by DP World for obtaining an indirect ownership stake in the Doraleh facility by circumventing its concession agreement with Djibouti. There are others who argue that this is a component of the geopolitical and economic struggle to control trade over the Red Sea. Military outposts are now being constructed by the United Arab Emirates in Somaliland and Eritrea (Carmody 2020, 5).

According to Canadian Pacific Consulting Services’ 2009 East African Railways Master Plan Study, Kenya’s Standard Gauge Railway (SGR) is rife with issues. The results of the second feasibility study indicated that the assumption of high profitability is not supported by cash flow estimates. Chinese raised concerns about the SGR and Keyna’s ability to repay the Chinese loans when they demanded a whole new feasibility assessment. Kenya borrowed USD 6.3 billion (about 2.5 percent of its GDP) in semi-concessional and commercial loans from China between 2010 and 2015. A total of 3.6 billion USD, or about 90% of the total, came from Chinese Exim Bank loans to fund the Mombasa-Nairobi SGR. The railway was launched in 2017 and the construction work was overseen by the state-owned China Road and Bridge Corporation (Himmer and Rod 2022, 255).

Since there had been obvious signs that SGR was not able to generate the anticipated annual revenue, SGR has been unable to turn a profit. SGR was decided primarily on political, not economic, grounds. Despite the fact that China has taken a number of actions to lessen Kenya’s debt load, analysts are worried that China may offer to buy Mombasa Port as part of a debt-for-equity exchange. Some contend that because of a contract waiver, Kenya is not protected by sovereign immunity because the conditions of the loans between China and Kenya state that the port’s assets are collateral. Some clarify that the income, not the port itself, is what is meant to be included in the collateral assets. Debt-trap diplomacy in Kenya has already been acknowledged by some analysts (Himmer and Rod 2022, 255–56).

China is the majority shareholder of Electricite du Laos Transmission Company (EDL-T) and has purchased several parcels of land in Laos. It has a prominent place in EDL-T’s decision-making process and has actively participated in a number of other infrastructure initiatives. But there’s no indication of any deliberate demands made on the Laotian administration. There was a possible debt-for-equity transfer recorded. Since ‘complete’ control of EDL-T is often achieved by holding a 90% stake of its assets, the so-called partial debt-trap diplomacy took place. The information cannot be sufficiently validated to determine whether or not the analysed equities for a land issue may be regarded as debt-trap diplomacy because many of the analysed equities remain ambiguous, particularly because of the lack of pertinent facts (Himmer and Rod 2022, 259). When the nation was unable to pay back its massive Chinese debt from loans totalling billions of dollars, Sri Lanka turned over control of its Hambantota Port to Chinese corporations in December 2017 for a 99-year lease. Zambia is probably going to follow suit when it comes to paying off its debt to China by giving over control of its international airport (Var and Heng 2019).

There are many who contend that other African nations, including Ethiopia, Mozambique, South Sudan, Eritrea, Ethiopia, and Chad, are also facing financial difficulties. Consequently, there's good cause to think that China's debt trap is real (Var and Heng 2019). There have also been concerns raised about China allegedly creating "debt colonies" throughout the Pacific to expand its military presence (Carmody 2020, 3).

Counterarguments

The arguments and worries raised by the debtor nations—those that owe money to China—might be more pertinent and genuine than those raised by outside parties. It is possible for domestic political players to have untrue motivations for arguments that fall under the second group. Statistically supported empirical arguments make more sense and are more persuasive than rhetorically and polemically driven ones. "Sino-optimists" vigorously dispute and counter the arguments made against the debt trap. They contend that the Chinese debt trap is a myth created by China's adversaries, a theory that is discriminatory, and a narrative that is biassed. Furthermore, they see the theory as the product of distorted argumentation and data manipulation. Sino-optimists think that there is no empirical support for the critics' claims. They claim that the percentage of Chinese loans is low in many of the debtor nations, that the BRI is primarily motivated by economic concerns, that China respects international norms and practices, that the IMF and World Bank are also involved in the BRI projects, and that there is no historical precedent of China acquiring the assets of debtor nations. They consider the debt-trap theory to be the product of media and think tanks that have received funding. An ideologically driven campaign to disparage China and its different approach to international debt, bilateral and multilateral trade, and infrastructure development initiatives is known as the "Chinese debt trap" (Nayak 2023, 5). It is simplistic to blame China alone for Africa's growing debt problems (Were 2018, 8).

Furthermore, proponents of Sino-optimism cite certain data and statistics to back up their debunking of the debt trap theory. They portray Chinese investments in BRI member states as advantageous, favourable, engines of economic expansion, and mutually beneficial partnerships. As a result, they view China as their only hope and a trustworthy ally that does not impose conditions on its loans or meddle in the domestic affairs of the host countries. In addition, China offers a variety of debt relief programs, however it has occasionally been observed to be reluctant to fund unsuccessful ventures.

According to others, Cambodians who support the notion of the Chinese debt trap lack a thorough understanding of the administration, evaluation, and application of public loans (Chandarith and Sothearak 2024, 68). Likewise, certain Filipino and foreign experts have misconceptions about the characteristics of Chinese funding in the Global South (Camba et al. 2024, 114). Furthermore, it demonstrates their ignorance of the fact that certain nations that had borrowed money from China failed on their debts only as a result of their own poor management (Chandarith and Sothearak 2024, 68) Recipient governments frequently started contentious Belt and Road Initiative (BRI) projects, and the reported debt issues were primarily caused by the misbehaviour of the local elites. Calling the Belt and Road Initiative (BRI) a "debt trap" ignores the debt problem's domestic origins (San 2024, 52, 54). Recipient nations should also be held accountable for maintaining governance and accountability to guarantee that the projects serve their national interests and are both economically and financially sustainable, rather than blaming China alone for luring nations into the "debt trap" (Cheng and Fok 2024, 130).

Compared to Western enterprises, Chinese companies face intense rivalry in the global market (Kou and Peng 2024, 18). In addition, China was reluctant to provide funding for the Philippine projects in the absence of appropriate government protocols for land reform and reclamation. Thus, the fallacies of the "debt trap" story are demonstrated by China's unwillingness to fund the projects and interest rates that make sense for Chinese financing elsewhere (Camba et al. 2024, 118). On November 28, 2018, it was reported by the Japanese media that India would lend the Maldives one billion US dollars, which is three times the amount needed by the Maldives to pay off its debt with China. An interpretation is that India intended to allow the Maldives to transition from one "debt trap" to another. When Maldives' new president Saleh travelled to India from December 16 to 18, 2018, Modi personally declared that he would provide the country 1.4 billion US dollars (Yang and Jiang 2024, 41).

The "infrastructure war" between China and the West is said to be also a source of the "debt-trap diplomacy" narrative against China. Chinese companies currently make up 27 out of the top 100 global contractors, up from just 9 in 2000. Comparatively, the number of U.S. corporations on the list has dropped dramatically to seven from its prior tally of 19 firms since 2000, while Europe now has 37 firms on the list, down from 41 in 2000 (Rahman 2024, 167).

Advocates of "debt-trap diplomacy" have frequently neglected to mention the recipient governments' roles in obtaining BRI funding as well as the processes that steer and carry out China's development finance system. The Ministry of Foreign Affairs (MFA), the Ministry of Commerce (MOFCOM), and the National Development and Reform Committee (NDRC) of China share joint responsibility for policy formulation and promotion of the Belt and Road Initiative (BRI) due to the economic nature and commercial orientation of BRI activities; however, the MFA has the least role to play in BRI financing (Cheng and Fok 2024, 130).

China has been actively involved in the G-20 proposal to allow the world's least developed nations to defer their debt repayments. When it came to the quantity of debt deferred, the nation led the G-20 (San 2024, 53). With respect to the real state of affairs in Africa, the Chinese government has pledged nine times since 2000 to erase the debts of the countries that have borrowed money. Instead of seizing assets and employing other tactics to force debtors to repay their debts, the Chinese government has provided a range of debt restructuring options to help African countries that are struggling to overcome their financial obligations. Between 2000 and 2019, China refinanced or restructured debt owed by Africa to the tune of almost 15 billion US dollars. There is no proof that China has really turned to court enforcement of payments or the use of penalty rates, despite some contractual provisions calling for arbitration against the borrowing nations in the event of nonpayment of the loan (Cheng and Fok 2024, 223).

The World Bank and the IMF pushed the G20 to create the Debt Service Standstill Initiative (DSSI) when the COVID-19 pandemic broke out. The percentage of DSSI countries that borrow from China increased from two to eighteen percent in 2020. With 18% of the total amount of external debt, China emerged as the country most involved in debt alleviation under this program. It put a halt to debt payments totalling 5.7 billion US dollars, which accounts for almost half of the worldwide debt moratorium. By this measure, loans owed to China by the poorest countries were suspended to the tune of 45%. In contrast, the UK collected US$3.2 billion in debt from countries who requested for the debt standstill program (Cheng and Fok 2024, 223–24).

Aid Data's report "How China Lends" examines 100 Chinese contracts with numerous nations. According to the study, regions or maritime boundaries have never been the subject of the utilisation of patrimonial assets acquired by Chinese or Western entities (Camba et al. 2024, 112). Furthermore, there is no need to fabricate a conspiracy theory in order to explain how China's national plan and the agency of commercial organisations like the Asian Infrastructure Investment Bank are related. When companies realise that they require connectivity in order to maximise earnings, geopolitical consequences follow. In particular, US hegemony will decline relative to China's rise to prominence in Asia as a result of regional integration (Carmody 2020, 6). Additionally, debt-trap diplomacy may occur accidentally (Himmer and Rod 2022, 252).

There are speculations about China's malign intentions for investments abroad. Western reports of Chinese loans to Africa have often been characterised as "Sino-phobic. Among these are allegations that China is strengthening its geopolitical hegemony over the African continent by accruing excessive debt there. Many people in Africa have taken note of this story (Were 2018, 8).

The fact that Cambodia has a well-regarded debt management framework with particular requirements, benchmarks, and ceilings means that the country's external public debt is not as risky. The nation has a very low and very concessional external public debt (Chandarith and Sothearak 2024, 67). It has been noted that Cambodia has benefited economically more from BRI thus far than it has faced risks. Cambodia's economy has grown greatly as a result of China's expanding economic influence in the country (Var and Heng 2019). The Indonesian government is currently in a strong financial position, able to handle various economic scenarios and prudently manage debt in order to accomplish development objectives. Thus, it appears more improbable than true that Indonesia may face a debt risk as a result of China's Belt and Road Initiative projects (Ananda and Fahreza 2024, 147).

Contrary to popular belief, Malaysia's relatively low debt exposure to China does not indicate that its involvement in BRI initiatives is the cause of the country's current debt issue. Three-quarters of overall debt is accounted for by domestic debt, according to official figures from the Malaysian government. Since more than one-third of Malaysia's external debt is expressed in Ringgit Malaysia, the IMF argues that the country's external debt is manageable (Cheng and Fok 2024, 12, 134). Razak approached the Chinese for assistance in paying off the loans, offering them contracts for a number of infrastructure projects. The development of the East Coast Rail Link (ECRL), which received approval in 2016, was the biggest project. A 50:50 joint venture between Malaysian and Chinese investors would run the ECRL. However, the Malaysian side would be the ones in possession of the railway. In this instance, there is no evidence of a debt-for-equity swap (Himmer and Rod 2022, 262–63).

According to data from the Philippine government, the majority of the country's commercial debt was obtained from local or foreign lenders. Chinese lenders rank fifth when it comes to commercial loans. After Japanese and international development banks, China is the third-largest donor of development funding. Out of 148 projects undertaken during the Duterte administration, only five are Chinese-related in the Philippines, demonstrating the extreme rarity of a "debt trap" with China (Camba et al. 2024, 110). Japan is the second-largest bilateral creditor to the Philippines, with nearly four times as much debt as the US. China has over 2.3 billion US dollars' worth of Philippine debt, making it the sixth-largest state holder, and less than one-sixth of Japan's total debt volume. In summary, worries regarding China's involvement in the national debt of the Philippines have been exaggerated. Even with the Duterte administration's efforts to integrate Chinese funding through the Belt and Road Initiative with the country's "Build Build Build" program, China still ranks ninth in the world in terms of total debt held among states and multilateral institutions (Camba et al. 2024, 114–15).

China provides 15% of all loans to Nepal that come from big nations. China did not adopt a debt trap attitude when providing support to Nepal following the devastating earthquake and during the 2015 Delhi blockade. China provided three billion yuan in help for twenty-five reconstructions. China's "debt trap" instrument in Nepal does not include the fifteen completed projects and the twenty other projects that China has financed (Kc and Chand 2024, 188–200).

When the government requested a second loan to build more phases of the same project, the six percent interest rate that Chinese policy banks had imposed on Sri Lanka was reduced to two percent (Camba et al. 2024, 112–13). Furthermore, it is untrue to state that Sri Lanka's inability to repay the debt incurred in building the port is the reason China acquired Hambantota Port. As of the end of 2016, right before the port was leased to CM Port, the total losses incurred by Hambantota Port amounted to 47 billion Sri Lankan rupees, or almost $300 million. The "port deal," which is frequently cited, was really a 99-year lease arrangement worth 1.12 billion USD (Moramudali 2020), which transferred 70% of the Hambantota Port's interest to CMPort, a Chinese corporation, in 2017. (Himmer and Rod 2022, 260–61). A debt-to-equity swap is when debt is cancelled in return for an asset's equity. It is incorrect to see the Hambantota port agreement as a debt-for-equity swap or as the Chinese wiping off debt in return for port management. There was no debt elimination in this instance (Moramudali 2020).

Though CMPort owns the lion's share, Sri Lanka is still the owner. It is forbidden for Chinese naval vessels to utilise the harbour. Sri Lanka continues to be the sovereign state of Hambantota. CMPort exclusively guarantees the port's internal security through its companies. One cannot use the Sri Lankan situation as an illustration of debt-trap diplomacy. It should be noted that China bears some of the blame for Sri Lanka's problems due to its lack of inquiry and financial support without conducting a thorough analysis of the circumstances. Some claim that 99 years is an extraordinarily long time (Himmer and Rod 2022, 261–62). If the Sri Lankan case offers any lessons, it is that debt repayment plans must evaluate and enforce strict criteria for the effective completion of these development projects, giving priority to those with greater likelihood of being completed on time and producing revenue more quickly (Rahman 2024, 181).

Yamen's administration (2013–2018) saw a massive 1.4 billion USD inflow of Chinese finance into the Maldives, which was used for infrastructure projects, the largest of which being the construction of the new China–Maldives Friendship Bridge as part of the BRI. When Salih took office in 2018, the Maldives owed China 600 million USD directly and were also responsible for 935 million USD in guaranteed loans, totalling 1.5 billion USD in debt. Furthermore, Salih's principal advisor Mohammed Nasheed cautioned that the Maldives might have to sell their "debt for equity" if undeclared guarantees increased the whole exposure to as much as $3 billion USD. Neither the debt-for-equity swap nor the deliberate raising of demands by Chinese counterparts to acquire strategic assets in the Maldives are supported by any evidence. Thus, although the Maldives still face a large debt load from China, the current state of affairs goes much beyond the notions of debt-trap diplomacy (Himmer and Rod 2022, 256–57).

As of October 2020, China ranked first out of 32 nations and regions that had made investments in Laos, with a total of 793 projects approved worth a total of over 12 billion USD (Chanthavong 2024, 93–94). Over forty percent of Laotian governmental debt is owned by China (Himmer and Rod 2022, 257). The Chinese government and Chinese businessmen created and funded a number of infrastructure projects in Laos, including motorways, railroads, hydropower dams, and special economic zones. The government of Laos renegotiated the funding terms for Laos-China High-Speed Rail (Chandarith and Sothearak 2024, 82). The construction of this railway, which connects China to the capital of Laos, would cost 5.9 billion USD. The economic integration of Laos with its neighbours is greatly aided by this railway. China has also made investments in special economic zones that have received approval for 463 projects totalling more than 3.1 billion USD in approved value (Chanthavong 2024, 91–92, 94). According to a recent Centre for Global Development analysis, Laos is one of the nations most vulnerable to debt crises brought on by the BRI loans (San 2024, 50). China's Silk Road policy and Laos policy are combined (Chanthavong 2024, 94).

The debt held by Djibouti in 2013 amounted to about 39% of its gross national income. After that, the value increased to 79 percent in six years. The amount of Djibouti's debt to China is almost equivalent to 75% of its GDP. China has started a number of projects in Djibouti, including the building of the Djibouti Free Trade Zone, a railway connecting Djibouti with Ethiopia, and the Doraleh Multipurpose Port. There are a lot of unsubstantiated rumours and opinions floating about regarding prospective debt-for-equity swaps and the possibility of a Chinese acquisition of the Doraleh Container Terminal (DCT). Chinese intentions regarding the acquisition of strategic assets are also not malicious. Despite being in financial difficulties, Djibouti's government still owns the built infrastructure, and there is no proof that any assets have been seized or ownership transferred as a result of the country's financial predicament. It is possible to say that China has not utilised debt-trap diplomacy in Djibouti (Himmer and Rod 2022, 263–64).

In summary, there is currently no evidence that China intends to burden borrowing nations in order to get strategic assets. This notion is reinforced by many Chinese measures that went straight against a potential strategic gain. For instance, China lowered Malaysian debt by a third, somewhat reduced Maldivian debt, and delayed Kenyan debt payments by six months as a result of the COVID-19 outbreak. China could have asked for the repayment of its debt in any of those situations by giving up a strategic asset (port, airport, mining rights, etc.), but the opposite occurred. Furthermore, there was no indication of growing Chinese involvement on the borrowing states' internal affairs. Like any other nation, China merely took advantage of the political ties it already had with other states. This theory is further supported by the borrowing states' actions. In every instance, the authorities of the state that borrowed the money did so solely for political or personal gain. Though it does not show debt-trap diplomacy, China usually controls a sizable amount of the state's debt (21 percent in Kenya, 40 percent in Laos), which poses a serious threat to the borrowing nation (Himmer and Rod 2022, 263–65).

Conclusion

China denies engaging in debt trap diplomacy, a charge levelled at it by numerous politicians and commentators. In order to analyse the phenomena, this study looks at international loan practices, worries about the Chinese debt trap, and arguments and counterarguments about the debt trap. There are two opposed worldviews represented by the two sides of the split. China is perceived as a threat and a challenge by one of them, while it is supported as beneficial to the poor world and an example of rapid economic expansion by the other. On the other hand, there are many who stand on opposite sides of the dispute and view Chinese loans as both a chance for developing nations to undertake projects and a risk. China's adversaries and the adversaries of the governments in power in the debtor nations are among those who criticise Chinese debt. The phrase "Chinese debt trap" was coined in 2017 by an Indian academic to describe China's involvement in Hambantota Port, which left the Sri Lankan government with a high-risk debt.

Regarding the Chinese debt, many different people have expressed a range of worries. Concerns about China's economic viability, labour dominance, growing geopolitical influence, over-reliance on China, risk of losing important infrastructure to China, default risk, and opening the door for Chinese meddling that could jeopardise sovereignty are the main causes of these worries. A number of other features of Chinese loans are also emphasised by the opponents, including "inflated" quotations, excessive interest rates, a lack of transparency, a disdain for global best practices, and unmanageable debt agreements. "Sino-pessimists" view China as predatory, using Africa's resources to finance its fast industrialisation, as seen through the prism of the Belt and Road Initiative. Others claim China has forced Africa into unmanageable debt agreements. China has made financial commitments to BRI projects that involve the use of debt rather than grants or aid, the use of collateralization, opaque loan negotiating procedures, and subpar governance.

Concerns over Chinese labor's hegemony in BRI projects are being discussed in Indonesian public discourse. In Nepal, there is also a lot of discussion about the "debt trap" argument made against China's Belt and Road Initiative. Through its BRI projects, some academics in Nepal contend that China aims to ensnare Nepal in her "debt trap." The debt that Cambodia owes China has caused a great deal of concern among Cambodians in recent years. China is Cambodia's largest creditor, which has raised concerns about the country's economic sustainability. China's first military installation outside of its borders, Djibouti, had a rise in its external public debt from 50% of GDP in 2015 to 91% in 2017. Experts are worried that China would offer to buy the Mombasa Port as part of a debt-for-equity swap, despite the fact that China has taken a number of actions to lessen Kenya's debt load. Given that owning 90% of the assets of Electricite du Laos Transmission Company typically translates into "total" control of the business, partial debt-trap diplomacy was used in the Laotian context. Due to its inability to pay back its massive Chinese debt from loans totalling billions of dollars, Sri Lanka gave its 99-year lease on the Hambantota Port to Chinese corporations in December 2017.

With equal fervour, "Sino-optimists" deny and counter the arguments against the debt trap. According to them, the Chinese debt trap is a hoax created by China's adversaries, a prejudiced hypothesis, and a skewed story. Furthermore, they believe that distorted arguments and data manipulation led to the theory. Sino-optimists think that the detractors lack any empirical support or evidence. It is believed that the "infrastructure war" that broke out between China and the West is what gave rise to the narrative of "debt-trap diplomacy" against China. In 2000 there were just nine Chinese enterprises among the 100 top worldwide contractors; today there are twenty-seven. The proportion of Chinese loans is low in many of the debtor nations; the Belt and Road Initiative (BRI) is primarily motivated by economic concerns; China respects international conventions and practices; the IMF and World Bank are also involved in the BRI projects; and there is no prior history of China acquiring the assets of debtor nations.

Sino-optimists also use statistics and facts to back up their debunking of the debt trap theory. They portray Chinese investments along the BRI as advantageous, favourable, a driver of economic expansion, and a win-win partnership. Because China does not impose conditions on its loans or meddle in the domestic affairs of its host countries, they view China as their ultimate saviour and a trustworthy partner. China also offers debt relief in a variety of ways, however it has occasionally been observed to be reluctant to engage in projects that are unlikely to succeed. China has been actively involved in the G-20 program to extend the grace period for the world's least developed nations to settle their debts. When it came to the amount of debt deferred, the nation topped the G-20. With respect to the real state of affairs in Africa, the Chinese government has pledged nine times since 2000 to erase the debts of the countries that have borrowed money. Instead of seizing assets and employing other tactics to force debtors to repay their debts, the Chinese government has provided a range of debt restructuring options to help African countries that are struggling to overcome their financial obligations. Between 2000 and 2019, China refinanced or restructured debt owed by Africa to the tune of almost 15 billion US dollars.

The World Bank and the IMF pushed the G20 to launch the Debt Service Standstill Initiative in the wake of the COVID-19 pandemic. From two to eighteen percent of DSSI countries borrowed from China in 2020. China emerged as the most important debt relief country in this endeavour, accounting for 18% of the total share of external debt. It contributed to over half of the worldwide debt moratorium by stopping the payment of 5.7 billion US dollars in debt. This resulted in the suspension of 45% of the debt owed to China by the world's poorest countries. The United Kingdom, on the other hand, collected US$3.2 billion in debt from countries who asked for the debt standstill program despite not having a payment suspension on its commercial loans.

There are many who argue that Cambodians who support the Chinese debt trap lack a thorough understanding of the administration, evaluation, and application of public loans. Because it has a well-respected debt management structure with precise requirements, benchmarks, and ceilings, Cambodia's foreign public debt is not as risky. The general belief that Malaysia is experiencing a debt crisis as a result of its participation in BRI activities is refuted by Malaysia's very modest debt exposure to China. The majority of Philippine commercial debt, according to government data, was obtained from local or foreign lenders. China has given Nepal 15% of all the loans that the country has received from major nations. Sri Lanka is still the owner, even though CM Port has the lion's share of the company. It is forbidden for Chinese naval vessels to utilise the harbour. Not a single rumour or opinion regarding the possibility of a debt-for-equity swap or the possibility of a Chinese acquisition of Djibouti's Doraleh Container Terminal is backed up by facts. In summary, there is currently no evidence that China intends to burden borrowing nations in order to get strategic assets.

Recommendations

In order to prevent unfavourable consequences, debtor and creditor states may follow international best practices. The former might not be in danger of falling victim to debt traps, while the latter might not encounter harsh criticism. Nonetheless, while taking out large loans, the people and governments of the debtor nations must exercise greater caution. Loans may be obtained for investments in order to provide employment, enable debt servicing, and enable timely loan repayment.

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