Don't take the bait: Say No to China's Debt Trap Diplomacy
Dr. Richard L. Benkin
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Debt Trap Diplomacy and Regional Threat
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Good morning.

It's an open secret that your government has been flirting with the idea of taking Chinese Belt & Road money, I assume, for the purpose of improving infrastructure in your country. Having spent a great deal of time on your roads and ferries both inside and outside of the cities, I understand the goal and appreciate it. My back is particularly appreciative of the goal. But it's the means I question; or even the need for Bangladesh to take on that kind of debt to get the job done, which is after all the goal. Let me be blunt. ***Taking the Chinese money would be a mistake—a big one!*** And I don't say this in terms of American interests. It would be a major error for the interests of the Bangladeshi people, and there are several reasons why. Let's start with the economic.

Even without the help of a *dada*, the Bangladeshi economy has outperformed its fastest growing neighbors and others around the world. It's a remarkable story that, if told, would be a refreshing reality check against the false image that so many people have of Bangladesh as a perennially depressed country and permanently distressed people. Personally, I'm extremely impressed. Just last month, your Finance Minister, AHM Mustafa Kamal, announced that Bangladesh's GDP will grow at a record-setting 8.13 percent this fiscal year; and that's after last year's jaw-dropping 7.86 percent. In fact, things are so good that Bangladesh soon will graduate from Least Developed Country (LDC) status and the free trade protection the South Asian Free Trade Agreement provides LDCs. It was thereby easy enough to predict when not more than six months ago, Bangladesh signed a new *bi-lateral* free trade agreement (FTA) with India, its third largest trading partner—and lets' be clear, it is an agreement initiated by India. Now other countries are jumping all over one another to do the same. Like my President, Donald Trump, I prefer bi-lateral agreements to multi-lateral ones that do not consider critical variations among the signatories or the special assets that each party brings.

That's great news, but the quickest way to undo all of it and kill an economy's growth is to inject it with massive amounts of debt, which is what Belt & Road would do. No economy is immune to that, not even the largest. The US economy was booming in the late 1990s and early 2000's, but there were storm clouds on the horizon. Consumer debt was way out of balance, capital requirements for home purchases were ignored, and you could make more on the process of opening and closing a business than in actually producing something. Even so, we enjoyed the ride as long as we could until things got too much to stand. By 2007, it was time to pay the piper, and we saw what happened. While a phenomenon of that magnitude has multiple causes, too much debt was a major factor in killing growth.

And yes, there are numerous economic theories about credit, monetary supply, and their impact on an economy; however, they all do seem to agree that too much debt is not a good thing. Their disagreements tend to fall more on degree and what it means for policy-making. I'm not sure if those who support taking on the massive Belt & Road debt are Keynesian economists, but that seems to be the only model that supports it—sort of. Put simply, Keynesian theory holds that government should be the driver of increased consumer demand, which will then stimulate the economy. US President Franklin Delano Roosevelt's administration used this model in an attempt to dig the US out of the Great Depression; particularly through the Works Progress Administration (WPA) that put almost 9 million Americans to work on—wait for it: infrastructure projects. Sounding more like an argument *for* Belt & Road? The idea, of course, is that with the money they earned in the WPA, workers and their families would start buying a bunch of consumer goods—from basics like milk and butter to luxury items like radios. (They weren't buying PC's or IPhones back then.) Of course, we now know that while the WPA helped a lot of people—gave a lot of people jobs and hope and helped the people who owned the grocery and appliance stores where they shopped—it took the Second World War to get the US out of the Depression. Keynesian economics was not the answer.

Let's also recall that Keynesian economics was built to get economies out of trouble, and the US economy was never in greater trouble than when the Roosevelt Administration adopted it. A more germane comparison to the idea of Bangladesh using that Chinese Belt & Road money would be what President George W. Bush's administration did in 2006 and 2007. The economy slowed after the 9/11 attacks but had come back to a large extent. A lot of people were making money, and people had jobs. But by 2006, it was getting sluggish again, and Bush wanted to stimulate it. So in true Keynesian fashion, his administration embarked on a program of increased government spending; and it worked—in the short term. There was indeed a financial boom, but that boom (or bubble, which is what we called it for its hollow center) was another factor contributing to the 2007 financial crisis. Because you know what happens to bubbles? Eventually they burst, which will be the likely outcome if you take on the Chinese debt.

Nor are the WPA's positive accomplishments applicable here. When the WPA and the rest of Roosevelt's package of Keynesian goodies were instituted, US unemployment had risen from about three percent to around 25 percent in only six years. It actually hit that high mark (or low point if you will) after only four years. That does not fit Bangladesh, which if not at full employment, is awfully close. Unemployment has risen slightly from 3.6 to 4.2 percent today, but so has the labor force participation number.

And with all this Keynesian talk, keep in mind that the current debate in my country over who is responsible for "fixing" our economy, Presidents Trump or Obama, is a false one and a purely political one. *Government doesn't fix economies; it only breaks them.* And for most of the people, it doesn't matter anyway. What matters is jobs, prosperity, and security; and those are things that taking the Chinese bait will destroy.

Recently, some countries have started seeing that their governments, hand and hand with the Chinese, are doing just that to their people. Last year, the Washington-based, multi-national and multi-cultural think tank, Center for Global

Development, undertook the first comprehensive study of Belt & Road's impact on the indebtedness of participating sovereign nations. Utilizing World Bank and other credentialed data, it reviewed the 68 countries participating in Belt & Road, from those with nominal participation to some, like Montenegro whose public indebtedness due to Belt & Road has exceeded 80 percent of its GDP. (The 68 total is a bit misleading, as it includes countries like Brunei that never has to worry about cash flow, Israel whose participation is nominal, Syria and Yemen that are in the midst of active armed conflicts, and China itself among others whose participation is not comparable to those nations who have taken on significant Chinese debt.) The analysis, however, did find 23 countries at risk of significant debt distress due to Belt & Road: Cambodia, Mongolia, and Laos in East and Southeast Asia; Afghanistan, Bhutan, Maldives, Pakistan, Sri Lanka in this neighborhood, Kyrgyzstan and Tajikistan in Central Asia; Iraq, Jordan, and Lebanon in the Middle East; Djibouti, Egypt, Ethiopia, and Kenya in Africa; Albania, Armenia, Belarus, Bosnia and Herzegovina, Montenegro, and Ukraine in Europe/Eurasia. Imagine: 23 sovereign countries defaulting on their debt! And of them, they identified eight as "most vulnerable." They are Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan. Let's take them one at a time.

Djibouti: The most recent International Monetary Fund (IMF) assessment stresses the "extremely risky" nature of Djibouti's borrowing program. In only two years, public external debt has increased from 50 to 90 percent of GDP, much of it government-guaranteed and owed to China Exim Bank. And there's more borrowing in the pipeline for new airports (that's plural), a new port, an oil terminal, a toll road. Have you seen Djibouti's size? I know there are people in this room who could write a check for its entire national debt. Why it needs all of that is beyond me, and most importantly, they tend to be income eaters not income producers, which Djibouti must develop in order to repay the loans. China already has one military base there. No doubt, it has more in mind each time the tiny country can't pay its bills.

Kyrgyz Republic ("Kyrgyzstan"): One lender, China's Exim Bank, is Kyrgyzstan's single largest creditor, owning about 40 percent of the country's total external debt. Yet, despite the fact that the country is poor with a small GDP, Kyrgyz and Chinese authorities are reportedly discussing more construction and more loans, including hydropower plants, an international railway, highways, and completing a gas pipeline. What does China want?

Lao People's Democratic Republic ("Laos"): The IMF has been raising doubts about the ability of Laos to service its debts if it moves ahead with plans to build the China-Laos railway and other projects. Although the Laotian government insists that it will not guarantee the China Exim Bank financing, you can bet it will be under irresistible pressure to cover any losses—one way or another. And I say one way or another because there is no transparency here.

The Maldives: The Maldives' projects hope to promote tourism, and although that would produce income for what I hear is some beautiful real estate, the Maldives' location likely will keep that income modest. It also plans to use the money to upgrade urban infrastructure and adapt to climate change. Most of its debt has been accrued for non-income producing projects like an $830 million international airport that I wager will be something of a ghost town eventually. Maldives' indebtedness is thought to have exceeded its GDP last year. Both the World Bank and IMF consider the Maldives a very bad risk, but China keeps loaning it money. Hmm.

Mongolia: According to the Center for Global Development study, "Mongolia is in a particularly difficult position because its future economic prosperity depends… on large infrastructure investments" to increase productivity and facilitate exports. Locals, however, say that the projects have stalled, making the prospect of default "extremely high." Debt to GDP has gone from 62 to 89 percent in only three years.

Montenegro: I'm glad to include Montenegro here because the Chinese debt trap horror stories tend to focus on Asia and Africa. Europe is far from immune and according to French President Emmanuel Macron, it better start acting in unison or face even more troubles from China. [Added at the time of the address: I want to digress from my prepared remarks because there has been a recent development. Italy has signed onto Belt & Road. Italy is the first G7 nation to do so, and the press is making a huge deal out of it. But I'm sure we can agree that Italy's position in the G7 is pretty much a legacy position at this point. Its economy is in the toilet—doing really bad, which is why it took on the Belt & Road debt. Didn't it almost need to be bailed out few years ago? Anyway, it does underscore Macron's warning about Chinese expansion into Europe if Europe does not act in unison.]

Back to the address.] As I reported in the *Daily Asian Age* this week, Montenegro is already in serious trouble. Indebtedness to GDP hit somewhere around 83 percent in 2018, due in large part to a Belt & Road boondoggle that people call "a highway to nowhere." It was supposed to connect the seacoast with neighboring Serbia and make transport and commerce easy; but it was structured in three phases, and debt became unsustainable after the first. Government's attempted fix was to raise taxes, partially freeze public sector wages, and end other benefits. Though they did not work, officials are determined to push on with phases two and three—and more borrowing—even though major misuse of funds was finally uncovered (after—by most accounts—being suppressed by journalists and officials friendly to China). Oh, that's right, corruption is also a problem with these large loans; but I'm sure that won't be a problem here.

Tajikistan: The IMF and World Bank rate Tajikistan as having a "high risk" of debt distress. Debt to GDP has gone from a modest 33 percent to 57 percent in only three years. The country already has had to issue $500 million in Eurobonds to pay for a new hydropower generating facility, but I've not seen projections that show how it can produce sufficient power that will provide the income needed to repay the loans. Tajikistan's single largest creditor is China, which has caused 80 percent of that debt; and Tajikistan's critical geographic location in Central Asia could provide a veritable *smorgas board* of targets for Chinese acquisition.

Pakistan: Through the China-Pakistan Economic Corridor or CPEC, Pakistan is the Belt & Road centerpiece, with a total value estimated at $62 billion. And while

China has lent money to other countries at 2-2.5 percent, Pakistan is paying as much as 5 percent. Pakistan's massive borrowing from China raises concerns that it will return *again* to other creditors for relief. It is significant, however, to note that after Sri Lanka was forced to cede the critical port of Hambantota, Pakistan cancelled three Belt & Road projects; however, that likely is too little too late. Chinese military vessels already have been spotted at Pakistan's (or more accurately, Balochistan's) Gwadar port.

Let's look a bit further at Pakistan since CPEC is such a critical element to Belt & Road, the nation is so close to Bangladesh; and Pakistan's CPEC involvement goes beyond its leaders' desires for infrastructure improvement. My sources in Pakistan tell me that the army and ISI (Inter-Services Intelligence) have planned for some time to move away from the US orbit; certainly ever since the jig was up on Pakistan's safe haven for Osama bin Laden. CEPC was established two years after US troops took him out, and if you look at negotiation time, initial overtures, and so forth, the timing works. That is, CPEC was more of an undisguised geo-political decision than one for infrastructure improvement. In that regard, CPEC also was supposed to help Pakistan control its various nationalities and extinguish national identity among Pashtun, Baloch, Sindhi, and others. But it has not turned out that way. Pakistan's problems with its restive peoples are growing, and CPEC has become a rallying point for them. Leaders of all three peoples mentioned have told me that far from easing tensions, CPEC highlights Pakistan's policy of stealing their natural resources and flooding their territories with Punjabis to "make us minorities in our own land." Last year in two separate incidents, Pashtuns attacked Pakistan's Taliban allies and tore down a Pakistani flag marking the division of their territory.

That geopolitical failure, coupled with CPEC's economic failure, made it easier for Pakistan to cancel some Belt & Road contracts; although those cancellations did little to ease Pakistani dependence on China. And, in fact, given US President Donald Trump's clear preference for India and its Prime Minister Narendra Modi, and the likelihood of both leaders being returned to office; we might ask if Pakistan has burned its bridges with its former patron through CPEC.

A statement last month by Pakistan's Ambassador to the United States, Asad Majeed Khan, was most revealing. In answer to a question about whether or not Pakistan has "joined the China camp," he said that "China came to Pakistan, frankly, when no one else was willing to do so." I find that fascinating. Not only was Pakistan stigmatized as an international terror patron, report after report also assessed its economy to be a bad risk for foreign companies. Why would China jump into such an economically failed environment if not for geopolitical advantage?

I was educated at one of the world's premier business schools—the same one Donald Trump attended, the Wharton School, and I was in the United States corporate world for decades. I know that there is easily obtainable software that companies use to determine the credit worthiness of both businesses and individuals. You plug in the numbers and run the data to determine how large a loan they can repay. Businesses also must provide *pro formas* that project the timing and rate of income generation. These documents are scrutinized, and in the end loans are approved or not for amounts *expected to be repaid according to schedule.* I cannot fathom the Chinese not having access to this or comparable software. (They've stolen so much valuable software from us!) And if they do, it begs the question of why they make loans to countries they know will not be able to repay them on time—unless that is their real intention.

Sri Lanka is a great example that there are things more valuable than loan repayment. When it was unable to repay the $8 billion it owed, China offered debt relief but at a price: relief in exchange for the strategic Hambantota port, which gave China control of an important waterway adjacent to rival India. Then when the Sri Lankans looked at what they got in return, they found that the relief was only $1 billion, leaving them with $7 billion that they're still unsure how to repay. Their biggest question now is what China's next demand will be.

Perhaps Malaysia had it right when it canceled the East Coast Rail Link and Sabah gas pipeline before it was crushed under Chinese debt.

For those of you who have not been involved in international lending, things can get rather tricky—different jurisdictional issues, which jurisdiction has standing, international bribery laws and local "expectations" that would violate them, and enforceable dispute resolution. And I'm currently working with a group here, Bangladesh International Mediation Society that would be an excellent asset for that. There's also real potential for predatory behavior; which is why 22 creditor nations, including the US, UK, Russia, Germany, France, and Israel have signed onto something called the Paris Club. These nations have agreed to work together when debtor nations, especially poorer ones, run into trouble repaying loans. They look for alternate ways to reduce the principle that all agree to follow (for example, by hitting certain carbon emission goals) and to provide some predictability to how a nation can handle things when debt gets too high to service. It should not be lost on any of us that China is **not** a member of the Paris Group. Rather, China has said it will handle matters of repayment difficulties "on a case by case basis," on in other words, in whatever way it wants with each country. And we saw that in Sri Lanka.

But even if the numbers worked in Bangladesh's favor, there still would be a countervailing argument for not giving China dominance here. As we read in Brahma Chellaney's brilliant editorial in yesterday's *Daily Asian Age*, for the past two years, "China has waged a campaign of unparalleled repression against its Islamic minorities." Let me repeat, *unparalleled,* from force feeding Muslims pork to mass incarceration in high tech concentration camps. This is not a player that a country whose constitution begins with *"Bismillah,"* or any decent people, wants to climb into bed with! It is beyond me how Bangladesh, despite the facts of the matter, can remain one of only eight Muslim majority countries who refuse any relations with Israel, hurting only the people of Bangladesh not Israel. Yet is considering tying its people's future to a country that has made anti-Muslim suppression a matter of top priority; whose anti-Muslim suppression program is now under the all-powerful Politburo. And just so there is no doubt, that country is China, *not Israel*.

Let's add one more reason to be cautious. Bangladesh is a democracy; so are 21 of the 22 members of the Paris Club. China is not. Press freedom is a basic value in democracies, but not in China. In fact, strict media control has been a core element for the Chinese government since its inception; such that China ranks 176 out of 180 nations on Reporters without Borders' World Press Freedom Index. Its problem is that it does not control information almost everywhere else; information that is often unflattering in what it reveals about China. Reporters without Borders just issued a scathing report entitled, "China's Pursuit of a New World Media Order," which alleges that China is trying to control international media through the influence it gets from these projects. And we saw that result in Montenegro. Cedric Alviani, the report's author, recently said that China wants to "reshape the very concept of journalism."

Doing business with that kind of predator is a bad idea. Bangladesh should look for other funding sources to accomplish its infrastructure goals; and there are other sources that are more in line with Bangladesh's core values. (I actually would be happy to get into a more granular discussion about that in the appropriate setting.) But there are always people who believe they can, as we say in the US, "out con a con man."

I have observed over a long time that you have a very bright and clever Prime Minister, someone who is smart enough and accomplished enough to perhaps believe she can outfox the Chinese. Don't count on it. Donald Trump believes he can out negotiate anyone and always get the best deal possible. Barack Obama believed he could just walk into a room and everyone would love whatever he said. George Bush believed his winning and disarming personality could overcome any dislike or obstacle. Bill Clinton, well when he spoke, everyone in the room felt as if he was talking to them personally; and he believed he could get anything done with that special gift. All of them were right. All of them have tremendous skills and attributes that enabled them to achieve things others could not. *And all of them made mistakes, too*; all of them failed now and again. None of them were successful at everything they did. It doesn't mean they weren't successful people and presidents; but it does mean that even the best of us are not perfect and can make serious miscalculations. The Chinese have been at this for at least seven years, and it would be a mistake to think that anyone could beat them at their own game. As the people of Sri Lanka, Montenegro, and other places learned, the stakes for making that particular mistake are too high to risk.

Bangladesh might want to take away one thing Pakistani Ambassador Khan said last month, that we're no longer dealing with "either/or relationships." That is, China *and* the United States are important to the Bangladeshi economy. The US is your largest customer for exports, buying about a fifth of your products. China is your largest trading partner, accounting for about a fifth of all import and export dollars. Approach the US *and* China as an equal—not a vassal, debtor, or beggar! Set that fluidity in relationships as the context for future talks, and don't let Belt & Road undermine it. I think it's time for the rest of the world to know what we know: *That Bangladesh has arrived.*

Thank you.