

“Debt Trap by China and its Impact on India”

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MEANING OF DEBT TRAP

Debt trap is a kind of trick wherein the borrower is completely confined in the loan which he has borrowed. Basically, there are two main elements of a debt. One is the Principal amount and the other is the interest on the principal amount. The borrower is required to repay the principal amount within the stipulated time period along with the interest. At times, there are circumstances wherein the borrower is unable to repay the loan but is in a position to pay the interest. This does not mean that there is fall or a reduce in the principal amount. In exchange of the interest paid the person or the institution who has granted the loan may further expand the time period to repay, wherein he has to pay further interest. This is may not be same in all the scenario.

It can be observed that there is a pattern. When a person with bad credit score takes a loan sometimes there is a situation wherein, he is trapped. It is like a mouse trapped in a wheel. Which means that it keeps running and running but is at the same place.

WHAT IS THE PURPOSE?

China wants to become a super power in future. To develop the Ancient known Silk-Route between Europe and Asian countries. One Belt One Road (OBOR) is the dream project announced Xi Jinping the president of China in September 2013 which focuses on connectivity and co-operation between European and Asian Countries. There are two projects under this initiative. First the Silk Road Economic Belt which is over land One and the other is Maritime Silk Road which is through the Sea.

The Silk Road Economic Belt begins from the city Xi'an in China passes through Central Asia and then reaches to Europe. The Maritime Silk Road begins from South China Sea passes through Malaysia Bay of Bengal Indian Ocean and Africa Red and finally reach Europe. This includes Highways, Railways, Ports, Gas Pipelines and more other infrastructure.

HOW IS CHINA USING DEBT TRAP CONCEPT?

It is a fact that when a person is in need of money, generally, he approaches the bank. The bank on his credit score grants loan with its procedure. When a State is in need of money, International Monetary Fund (IMF) lends loans to a State. For the former to grant loans, the latter must fulfil certain criteria or requirements. These criteria include economic policies, investment policies and various other categories. One more aspect is that IMF keeps in view the commercial viability which means the ability of the State to make profits by using the loan amount and repay the loan.

There may be a situation where some States cannot afford to take loan from IMF. It is a fact that the China has the World's largest Economy in terms of Purchasing Power Parity. As

stated above China does not look into the Commercial viability of the State but makes Long-term strategic plan. Most importantly, China lends money to those States where, it feels that investing in those would serve a purpose in long-term. They mainly concentrate on long-term value. China identifies these States and projects and lends its support by granting loans. It is China and therefore, grant of loan is on conditional basis.

WHERE DOES CHINA MOSTLY INVEST?

There are about 196 Countries in the World and these are classified as First world, Second World and Third World countries. First World countries include USA, Japan, Western European Countries. Second World countries includes China, Cuba etc. Third world Countries include India, Pakistan, Africa etc. In recent past the term Developing Countries is in use rather Third World.

In most of the situations the developing countries might not have sufficient funds to invest in the infrastructure and developmental activities. This is the crucial situation where China Plays a major role by lending loans of huge amount which becomes impossible for the country to repay it. It is also a fun fact that, when the country invests the loan amount in the developmental projects most its tenders are given to the Chinese companies. Obviously, when the projects are in the hands of Chinese companies, the materials required in constructing the projects are also imported from China. When the country fails to repay the loan China gradually it forfeiture's the asset after it being constructed and takes Control. These areas are further used to set up a military camp which would be helpful for China if there are any Warfare.

COUNTRIES IN WHICH CHINA HAS INVESTED OR HAS PROVIDED LOAN

China has invested in African and in Asian countries. In Africa china has provided loan to Djibouti, Niger and the Republic of Congo and in Asia to Kyrgyzstan, Laos, Cambodia and the Maldives. It is stated that Asian countries debt to China is greater than 25% of the nation's GDP.

1. SRILANKA

Port of Hambantota was an ambitious project dreamed and developed by the Government of Srilanka. The main aim of this project was to enhance the and boost the economy and also to get revenue for the country. This was a dream project which included international airports, oil refinery highways etc. The interesting aspect about this project is that, a loan was granted to Srilanka to develop this region of Hambantota which was underdeveloped. The area of the port is 4.000 acres.

The government of Srilanka calculated that at least thousands of ships would halt in this region and that it can generate revenue and repay the loan to China. There was a big disaster as the Port could not generate the revenue and this was a result of miscalculation. Under these dire circumstances the Government of Srilanka decided to lease the port to Chinese Government for a period of 99 years.

Another interesting fact is, that this Hambantota Port which is located in the Southern Region of Sri Lanka is completely in the captivity of China. It has full control over the port and can utilize in any manner. The strategy is to deploy a military base in the said region. This lease has given China the access to Indian Ocean Sea Lane causing anxiety to the Indian Government.

2. **PAKISTAN**

China has invested in making roads in the region of Pakistan acquired Kashmir (POK) which is known as China Pakistan Economic Corridor (CPEC) which was announced in the year 2013. CPEC is an initiative under the Chinese project of OBOR to encourage socio-economic development in Pakistan. This is not a small initiative but is a collection of projects which is under construction throughout Pakistan. These included construction of Highways, Railways, oil refineries, special economic zones etc. Therefore, this is a billion-dollar projects which is largely funded by China. It is estimated to be valued at \$87 billion.

This is also the fact that the special economic zones which are constructed under this initiative remain mostly empty the situation is actually worsened. As a result, the Pakistan economy is definitely backpedalling. This is a serious concern to India because if there arises a situation where Pakistan is unable to repay the loan amount to China, then Chinese would have a greater control over the said area.

The project as mentioned above runs through entire Pakistan, Pakistan occupied Kashmir and Southern Part of Baluchistan. It is also a fact that, including Pakistan even China is unhappy with the abrogation of Article 370. This was the biggest decision of the Indian Government in the recent past. China has taken a strategic control over the Port of Gwadar in Pakistan. Pakistan highly owes Pakistan along with large interest rates and this gives the Chinese a leverage.

3. **MONTENEGRO**

Montenegro is a country situated in the South-east region of Europe. This country is famous for tourism activities. This region is mostly covered with mountains. This country has more of Mediterranean energy and is independent since 2006. This is the seventh smallest country in the European Union. This country has very beautiful nature and creates full of positive energy.

Interestingly, the Government of Montenegro had entered into a contract with the Chinese owned Company China Road and Bridge Corporation (CRBC) with an object to construct highway. As the Sri Lankan Government expected that through the Port they would generate income and pay off the debt which did not result as expected the same situation arose for the Government of Montenegro. The Government expected that this highway would enhance trade and tourism which would in turn generate revenue.

The cost of this project was estimated to be at 1.3 billion euros. Surprisingly, this estimate is almost one-quarter of the Country's GDP. Subsequently Montenegro has taken loan from the

Export-Import Bank of China worth 85% of the estimated amount. This is a great concern to the Government of Montenegro.

4. **DJIBOUTI**

Like Montenegro, Djibouti is also a small dry East African country which has less importance in the world. This country is small and poor and underdeveloped. Even though this region has less importance US and European Union are acquainted with the fact that this area is perfect for Naval base.

In 2015 Beijing has funded Djibouti in Doraleh Multipurpose Project and Hassan Gouled Aptidon International Airport. This is the biggest investment by China in the said Country. Interestingly this is one of those places in the One Road One Belt project of China. It has invested twice as much money in these African countries between 2014-2018.

5. **MALDIVES**

Maldives is a country located in the South-west of Srilanka and in the Indian ocean. Most of the economy generated in this country is through fishing and tourism. It is interesting to know that most of the goods used by the households in Maldives are imported from other countries. Hulhule is an island located in Maldives which has an International Airport. China built a bridge which links the Capital Male with the island Hulhule. This is a 2-kilometre-long bridge built by a Chinese company. This bridge is recognised as China-Maldives Friendship Bridge and was inaugurated by the President Abdulla Yameen.

The new Government of the Maldives claims that the Chinese has always inflated the costs while constructing the bridge. Maldives is currently not in a position to repay the loan sanctioned by China for the construction of the bridge. It has already seized 16-17 islands in Maldives. This is a great threat to Maldives and to India

6. **MYANMAR**

Myanmar is a country which is located towards north-west of India and is also known as Burma. India shares border with Myanmar and definitely this country is best suited to become a partner to China in their OBOR Project. This country also shares borders to China and they have already invested in the CMEC which is the China Myanmar Economic corridor. This is the same kind of project with which China has with that of Pakistan.

Interestingly this initiative is 1700km and an integral part of their ambitious OBOR initiative. Myanmar has 40 percent of its total debt to China with high interest rates. China has also funding the Myanmar government to develop a port in Kyaukpyu. This port is located on the coast of Bay of Bengal. This project was scaled down from \$7.3 billion to \$1.3 billion as the economists in Myanmar had warned the government regarding the debt trap policies by China.

Furthermore, this port is close to the submarine base which is being developed by India on Vishakhapatnam Coast. When the port is fully developed China can easily have access to

Indian territory. This port also gives access to China to bring in its Military base whenever there arises conflict.

CONCLUSION

Boycotting Chinese products is a great initiative undertaken and every citizen of India shall actively participate in this campaign. Economy is the biggest weapon which needs to focus on in the present situation. Restricting the goods from China, boycotting the goods are some of the measures. When these steps are taken, we given an opportunity to the Indian market to develop and create new ideas.