

China-led Belt and Road Initiative (BRI) and the Least Developed Countries (LDCs)

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When Belt and Road Forum (BRF) was held on May 14-15, 2017 in Beijing, four Least Developed Countries (LDCs), namely Cambodia, Ethiopia, Laos and Myanmar, sent their highest level of delegation as their support to the Belt and Road Initiative (BRI) envisioned by China. Afghanistan, Bangladesh and Nepal had ministerial level of representation in the forum. Other LDCs that have signed up for the BRI include Djibouti, Tanzania, Timor-Leste and Yemen. So, 11 out of 47 LDCs have become a part of the China-led initiative.

China's BRI provides considerable opportunities for LDCs to build and improve their infrastructure and connectivity, and ultimately enhance their economy through their active participation in global trade. Some of the notable projects currently planned under the BRI framework that are of significance to the LDCs include Bangladesh, China, India and Myanmar (BCIM) Economic Corridor; an industrial park in Cambodia; a high-speed Southern China - Laos railway line; Addis Ababa - Djibouti railway line; and a deep-sea port and an industrial park in Myanmar.

Risk of External Debt Crisis

China has advanced the Public Private Partnership (PPP) model for the execution of OBOR projects. But, the public coffers of the LDCs are inadequate to invest in the proposed large scale projects, and also the private sectors in most of the LDCs do not have the capacity to invest and carry out such projects. This leaves the partner countries to take loans through Chinese banks and China-led multilateral financing institutions such as Asian Infrastructure and Investment Bank (AIIB), New Development Bank under the BRICS, China Development Bank and Exim Bank of China.

Needless to mention, the loans received are to be paid back in a definite period of time. If the BRI projects result in higher trade volume, there will be a win-win situation. Otherwise, it will add financial burden to the LDCs pushing them into external debt crisis. It is also to be taken into account that the LDC economies are typically prone to various risks such as foreign exchange risk, risk of recession and risk of commodity price volatility; and are plagued by structural and institutional inefficiencies including lack of pre-existing infrastructure, corruption and red tapism.

Several China-led projects under BRI are going through financial problem in some developing countries such as Sri Lanka. The country's cabinet has recently approved a deal to sell 70 per cent of

its Hambantota port for \$1.2 billion to state-owned China Merchants Port Holdings in order to pay off its \$8 billion debt to China. The port has been a commercial failure since it could not generate revenue even to pay staff salaries. It is feared that Cambodia, one of the LDCs and a close ally of China, could also meet the Sri Lankan fate. In Cambodia, China is investing in an industrial park which will have over 100 companies. However, if, by any chance, such investments do not yield commercially, then Cambodia will have much difficulty in paying off its \$3.9 billion bilateral debt with China.

Similarly, a high speed railway connecting Southern China to Laos would be the most expensive infrastructure project in Laos requiring \$6 billion, which would be jointly financed by the Government of Laos and concessionary loan from China keeping mineral wealth of Laos as collateral. Laos, with already 317 per cent debt to export ratio and 11 per cent debt service ratio as of 2015 according to International Debt Statistics, has high chance of falling into a trap of external debt crisis. Among the LDCs signing the BRI, Afghanistan, Djibouti and Laos are in high risk of debt distress (International Monetary Fund, 2017). So the financial model of BRI, which encourages the partner nations to access loans to fund its infrastructural project, has chances of landing these vulnerable countries into further debt crises.

Geopolitical Complexities

LDCs should also consider their geopolitical complexities while accepting project proposals. Nepal, for example, is situated between two Asian giants China and India. Diplomatic relationship between the two has soured due to the recent Doklam standoff and the refusal by India to be a part of BRI. It is now a challenge for Nepal to show diplomatic acumen while designing and implementing any BRI projects, not harming its relationship with any of the two neighbours. Likewise, China is building a deep sea port in Kyaukpyu town of Myanmar and also seeking similar approval from Bangladesh, giving it vital access to the Indian Ocean. This will bring some challenging response from India and the United States who cannot accept the Chinese hegemony over the region. Similarly, ASEAN LDCs Cambodia and Laos have also been dragged into the territorial disputes over South China Sea. In the midst of possible escalation of tensions, it is likely that the interests of the vulnerable LDCs will be disregarded while war among the big guns continues, and these powerless countries may simply be playfields.

Other concerns

Even when countries are provided with cheap, concessional and unconditional loans as proposed, low income countries will have low bargaining power and little say over the construction modalities of the projects under the BRI. It is highly likely that Chinese construction companies will be preferred without competitive bidding preventing the possibility of any skill transfer to the host countries. LDCs may be bound to agree to unfavourable operational conditions in terms of labour, environment and material sourcing standards. Sceptics also argue that with loans taken from China being used to pay Chinese contractors and Chinese labourers, infrastructures are being built simply to extract raw materials and mineral resources from Asia and Africa to ultimately transfer it to China.

Conclusion

BRI provides enormous opportunities for the least developed countries to scale up their

infrastructure stock and address the supply-side constraints to trade. This can supplement LDCs' efforts towards graduating into the status of developing country and also support meeting the internationally agreed development goals (IADGs) including the 2030 Agenda for Sustainable Development. However, LDCs need to be cautious regarding the sustainability of debts and the commercial viability of the projects financed by such debts during project selection and planning. They should also be robust in their diplomatic efforts to negotiate their interests while making any deal under the BRI. LDCs also need to address their bottlenecks, including the problems of political instability, corruption and lack of absorptive capacity, to largely benefit from this China-led global initiative.

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P.S.

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<http://www.cadtm.org/Belt-and-Road-Initiative-BRI-and>