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When Do BRI Participants Fall into Debt Traps? Case Studies of Six Developing Countries

何時「一帶一路」的參與國會落入債務陷阱? 六個開發中國家的個案研究

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Abstract

Why do certain BRI participants end up in debt traps while others do not? Throughout the years, many discussions emerged on the topic of Chinese debt traps. So far, there is no consensus among the scholarly community on what precondition may determine the situation of particular BRI members. This thesis contributes to the BRI discourse by proposing the following research question – Among the picked BRI-participating countries with similar political and economic conditions and close degrees of BRI investments over their GDP, why do some countries fall into debt traps, while others do not? The author selected six developing countries and divided them into two groups to answer this question. The first consisted of three nations that reached high debt exposure to China as a percentage of their GDP. Those countries are Laos, Djibouti, and Angola. In the second group, the author placed countries with minor debt distress issues: Cambodia, Sri Lanka, and Mauritania. The analysis of economic and political measurements shows a critical precondition that BRI members with significantly lower levels of political freedom and government efficiency are more likely to fall into Chinese debt traps. Furthermore, the author determined two case-specific prerequisites. In the examples of Laos and Djibouti, the nations ended up in a debt trap primarily due to large infrastructural projects that turned out to be not profitable and exacerbated the amount of hidden debt. In the instance of Angola, the main determinant was the oil-for-infrastructure loan scheme. The thesis concludes with implications for policymakers and suggestions for future research.

Keywords: Belt and Road Initiative, Debt-Trap Diplomacy, China, Developing Countries

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摘要

為何某些「一帶一路」參與者最終會陷入債務陷阱，然而其他卻不會呢？多年來，關於中國債務陷阱的話題出現了許多討論。目前為止，究竟何種先決條件會決定一帶一路特定參與國的情況，學界並不存在共識。本文透過提出以下研究問題為「一帶一路」的討論做出貢獻——在政治與經濟條件相似，且一帶一路投資佔其 GDP 比重接近的情況下，為何有些國家會陷入債務陷阱，而有些國家卻不會?作者選取了六個發展中國家，將其分為兩組來回答該問題。第一組由三個國家組成，中國債務占這些國家 GDP 的比例很高，包含了寮國、吉布地以及安哥拉。第二組則是債務問題較小的國家，包含柬埔寨、斯里蘭卡和茅利塔尼亞。根據本研究的經濟與政治指標，政治自由度和政府效率明顯較低的一帶一路參與國更容易陷入中國債務陷阱。此外，作者確定了兩個具體案例的先決條件，寮國和吉布地最終陷入債務陷阱，主要因為大型基礎設施項目最終證明是無利可圖的，並加劇了隱藏債務的數量，而於安哥拉的例子中，其落入債務陷阱的主要決定因素是石油換基礎設施貸款計劃。本研究最後為政策制定者提供了一些研究意義，並為未來的研究者提供研究建議。

關鍵字： 一帶一路，中國，開發中國家

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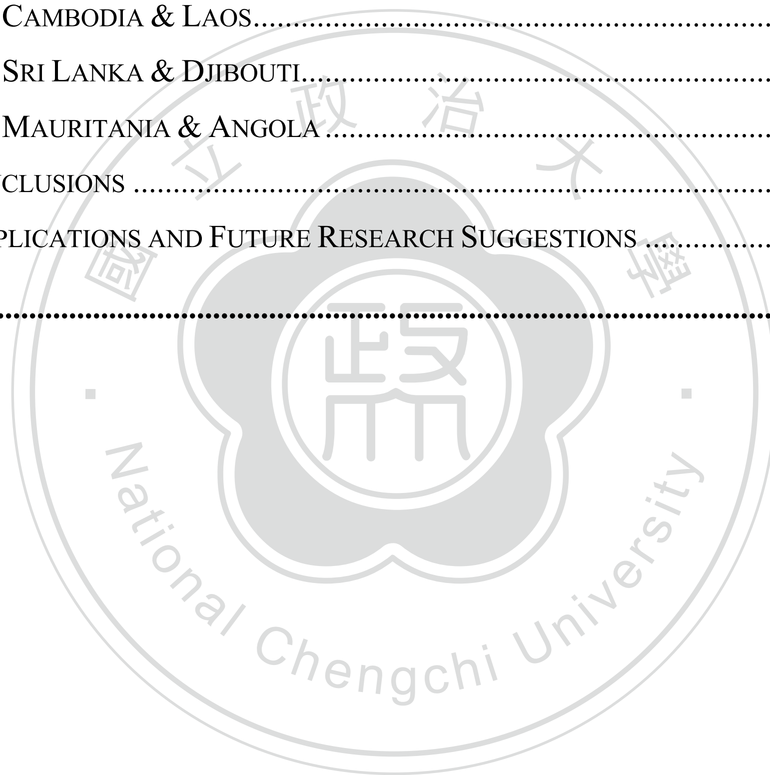

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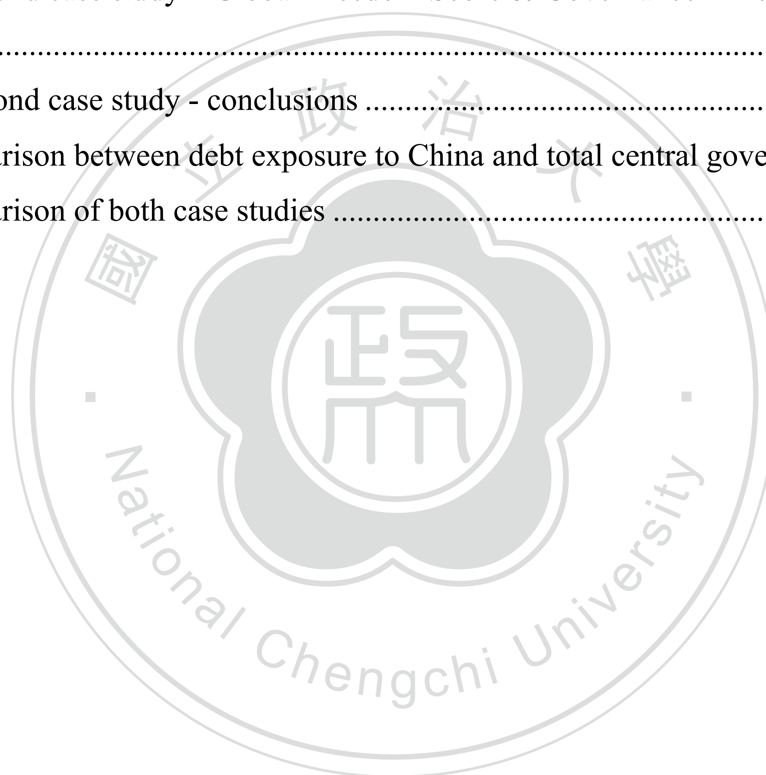

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List of Abbreviations

ADB – Asian Development Bank

ADBC – Agricultural Development Bank of China

AIIB – Asian Infrastructure Investment Bank

BOT – Build-Operate-Transfer

BRI – Belt and Road Initiative

BWIs – Bretton Woods Institutions

CCP – Chinese Communist Party

CDB – China Development Bank

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

ICBC – Industrial and Commercial Bank of China

IMF – International Monetary Fund

IR – International Relations

km – Kilometer

LCRC – Laos-China Railway Company Limited

LNG – Liquefied Natural Gas

MIC – Middle-Income Country

MSR – Twenty-First Century Maritime Silk Road

NGO – Non-governmental Organization

OCIC – Overseas Cambodian Investment Corporation

ODA – Official Development Assistance

OECD – Organization for Economic Co-operation and Development

OOF – Other Official Flows

PLA – People's Liberation Army

PPP – Public-Private Partnership

PRC – People's Republic of China

RMB – Renminbi

SREB – Silk Road Economic Belt

WBG – World Bank Group

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Chapter 1: Research Background and Motivation

1.1 The Origin of the Belt and Road Initiative & The Rise of China as a Global Lender

The visits of the Chinese leader Xi Jinping to Kazakhstan and Indonesia in 2013 began one of the most remarkable ventures in the modern history of the People's Republic of China (PRC) – the Belt and Road Initiative (BRI). In its complexity, the BRI includes the Silk Road Economic Belt (SREB) and the Twenty-First Maritime Silk Road (MSR), and as of recently, even more. The Chinese Communist Party (CCP), under the keyword BRI, includes all sorts of projects that are related to economic development, foreign aid, foreign direct investment (FDI), and even humanitarian aid. Additionally, the BRI has no geographical borders. That is to say, it does not follow the routes of the original Silk Road. Quite the contrary, the BRI incorporates all continents, even including Antarctica (Silk Road Briefing, 2018). Furthermore, in recent times, the Chinese government, in its strategies, has also begun to cover issues like space and cyberspace (Chase, 2019). It should not be doubted that in the future, the BRI may embrace an even more comprehensive range of the world's economy and politics and thus significantly undermine the authority of other global powers and financial institutions historically dominated by American, European, Indian, and Japanese interests (Jiang, 2019; Luft, 2017; Mohan, 2018; B. P. Sharma & Khatri, 2019).

China managed to create a myriad of bilateral and multilateral financial schemes that allowed it to compete with the influence of other regional powers. Since the ceremonial inauguration of the BRI in 2013, the PRC's role as a global investment and development assistant has been considerably increasing. Most importantly, in 2016, the PRC established the Asian Infrastructure Investment Bank (AIIB), the first major Chinese multilateral development bank. In just five years, the bank quickly expanded from 57 founding members to 103 (Asian Infrastructure Investment Bank, 2021). The AIIB can be seen as a direct competitor to the Asian Development Bank (ADB) that the Japanese and American influence has dominated (Huang et al., 2016). AIIB's goals are much more focused than those of other financial institutions. The bank can be characterized by South-South cooperation, depoliticization, and focus on developing countries (Huang et al., 2016). Some scholars argue that the two banks can coexist and cooperate, but tensions between them are inevitable (Sims, 2020). Having said that, many infrastructural projects included in the BRI are not financed by the AIIB but by

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other Chinese investment banks. As a result, classifying which projects are part of the BRI is a difficult task by itself.

Notably, a BRI project does not need to be directly carried out by the multilateral AIIB, but any of the Chinese policy banks – the China Development Bank (CDB), the Export-Import Bank of China (China Exim Bank), the Industrial and Commercial Bank of China (ICBC), the Agricultural Development Bank of China (ADBC).

BRI is a genuinely global megaproject. As of December 2021, the initiative connects 142 countries from all regions around the world (Nedopil, 2021). The vast majority of participants are the lower-middle-income countries, and those who refrained from joining the initiative tend to be more democratic, politically stable, and economically developed. Most of the states participating in the initiative are located in Sub-Saharan Africa. Chinese media predict that the BRI will boost the world's gross domestic product (GDP) by 7.1 trillion USD annually for the next twenty years (Hooi, 2019). Moreover, already 63% of the world's population is currently located in regions that have already joined the BRI (The World Bank Group, 2018). Interestingly, despite the project being a genuinely global initiative, not all member states have yet hosted Chinese investments (Lew et al., 2021; Nedopil, 2021).

Looking at the previous growth of the BRI, it seems quite evident that the Chinese government will continue the expansion into the remaining countries that have yet to join the initiative. The main argument used by those in charge of China to persuade others to become members is the promise of mutual benefits. However, despite much initial enthusiasm, many express their skepticism toward the initiative and the intentions of the CCP (Brautigam, 2020; Chellaney, 2017b, 2021; Greer, 2018; Hurley et al., 2018).

The rise of China as a global lender and investor has been controversial among the scholarly community. This is exacerbated by the fact that a few BRI participants have been struggling with the issue of debt distress caused by a large number of Chinese investments. So far, there is no scholarly consensus on the PRC's intentions to conduct a massive number of infrastructural projects in foreign countries. Scholars still have not agreed on which countries

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have fallen into a Chinese debt trap and if any projects can be described as white elephants.[1] Subsequent to the initial introduction of the BRI, a discussion emerged on whether or not practices used by the Chinese government in a myriad of foreign countries may be dangerous to the recipient countries. Neither the global community knows the reasons why the issue of debt distress is much more significant in specific countries. Scholars and political commentators started to consider if specific projects within the framework can be characterized as a part of China's debt-trap diplomacy.

1.2 Purpose of the Research

This thesis aims to explore the situation of the current BRI participants and determine the preconditions that can lead to certain countries falling into a debt trap. Moreover, this research attempts to contribute to the discourse by analyzing cases of countries with a high degree of Chinese investments over their GDP. **The author expects to find one or two critical preconditions that may cause countries to fall into a debt trap. In case such critical preconditions do not exist, the author will analyze the cases of each country one by one and determine the causes specific to those countries.** There are at least two possible outcomes for this research. The author will find the common causes that are shared between all countries picked for the case studies or different causes for each country that fell into a debt trap.

Despite the reasonably common and rising presence of the topic in the academic literature, the situation of China's debt-trap diplomacy in many regions, and especially the reason why certain countries fall into debt traps and others do not, have not yet been fully understood. For the most part, the scholarly community has focused on the countries where the issue of debt distress was already observed and can be characterized as significant. Among the most prominent examples are Sri Lanka, Pakistan, and Djibouti (Ameyaw-Brobbey, 2018). Moreover, the majority of scholars concentrated on the consequences of Chinese infrastructural projects and did not define the possible preconditions of debt traps.

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[1] In this instance, the phrase "white elephant" describes an investment that does not provide enough utility to justify its costs. Political commentators argue that the BRI-financed Hambantota port in Sir Lanka is an example of such a project (Marlow, 2018).

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The issue of China's debt-trap diplomacy is of high importance not only for scholars around the world but for the whole international community and particularly the citizens of developing countries that are part of the BRI or intend to join the framework in the future. As previously discovered in the research about China's influence, the escalated Chinese activity in a country can lead to many long-term negative consequences (Chellaney, 2017b). The impact of the study on why certain countries fall into debt traps and others do not, could potentially bring essential information to the current BRI collaborators and provide guidance on what steps to avoid in a potentially dangerous relationship with China. The author expects to contribute to the debt-trap discourse by proposing the following research question - **Among the picked BRI-participating countries that have similar political and economic conditions and similar degrees of BRI investments over their GDP, why do some countries fall into debt traps, while others do not?**

As described in the literature review, credit itself is a valuable tool that can be used by developing states in order to enhance the development process. The issue starts when the debt increases to the point when a country is not capable of paying it off. This has been the case for certain BRI participants.

Based on the review of scholarly work, many reasons may provide a logical explanation as to why certain countries fall into debt traps and others do not. China is a mighty country. In some aspects, its influence can be comparable to the International Monetary Fund's (IMF) in the 1970s. Such capacity means that China, in asymmetrical relations, can pressure other states to accept deals that may not bring as many benefits as initially promised. Under pressure from China, certain states could consent to high-rate loans regardless of the long-term consequences.

Another plausible reason might be the fact that the institutions surrounding the BRI infrastructure projects are not strong enough. This results in an opportunity for corrupted elites to profit off funds that were supposed to be benefiting the general public. Many of the BRI participants are not free countries. Thus, the quality of domestic institutions determines how likely it is for a nation's leader to be corrupted (Pryke, 2020).

It is possible that domestic factors can be just as significant as the influence of China when it comes to the issue of debt distress. Some scholars note that debt might originate from domestic inequality (Bajo & Roelants, 2011). The problem is amplified if the intervention of a

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government is reduced. Therefore, it is crucial to investigate the domestic conditions in all countries included in the case studies. The author theorizes that in addition to economic factors of domestic origin, the political environment of a host country plays a significant role in determining if a particular country will experience a consequential issue of debt distress to China. To put it more simply, if a host country experiences issues related to corruption, government inefficiency, lack of political freedom, and problems with accountability among elites, it should be more likely to end up in debt. When the political and economic factors add up together, a host country's situation can further deteriorate.

Furthermore, other scholars argue that transparency is a crucial factor in minimizing the issue of debt traps (Bajo & Roelants, 2011; Horn et al., 2020). The quality of information flow varies from country to country. Therefore, it is plausible that countries with better access to information regarding their loans would be less likely to fall into debt traps. Such information has to be articulated (Bajo & Roelants, 2011). In other words, the consequences could be significant if elites are not willing to act when notified of a possible problem of debt distress or if the process is detained. In the case of the BRI, the creditor could be blamed for the delayed access to data.

Another reason that could determine whether a country falls into a debt trap is the initial debt before joining the BRI (Sims & Cook, 2020). Such debt does not have to be owed to China; it could result from unpaid loans taken from other financial institutions. Some studies suggest that it is significant what was the debt situation of a country before its leader decided to join the initiative.

Finally, there is also an issue of hidden debt (Horn et al., 2020). China and Chinese financial institutions work on many levels, not just government to government. The deals are often made with private companies in host countries. Such debt would be much more difficult to trace, and elites' reactions would be delayed. In order to check how likely is this to be an essential factor, it is critical to check the difference between hidden and sovereign debt in each researched country.

To conclude, China's debt-trap diplomacy discourse leaves questions that remain unanswered. Determining the preconditions that may cause a country to fall into a debt trap is one that certainly has to be worked on. Analyzing the scholarly work focused on the IMF shows

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a historical example of a robust financial institution and its ability to influence other nations. There are many plausible explanations for why countries fall into debt traps, ranging from domestic conditions and corrupted leaders to information flow and lack of transparency. By analyzing the cases of six developing countries, the author expects to specify which conditions may be crucial and contribute to the existing discourse.

1.3 Key Concepts

According to the Routledge Dictionary of Economics (2002, p. 152), **"debt trap"** is defined as "the consequence for a government, or an individual, of borrowing at a rate of interest greater than the rate of growth of its income causing its current expenditure on items other than debt servicing to be increasingly reduced." Consequently, based on that definition, debt-trap diplomacy can be determined as a relation between two countries, where the more powerful one is looking to put the borrowing country in debt by implementing disadvantageous loans and eventually gaining a substantial influence over it. Most international relations (IR) scholars and political commentators exploring the issue of debt traps concerning China and other countries derive their work from this or a similar definition (Xu & Li, 2020).

The model developed by Padoan et al. (2012, p. 157) suggests that a debt trap incorporates three feedback mechanisms those are: between the debt ratio and growth, between the debt ratio and the interest rate, and between growth and the interest rate. It means that a high debt ratio depresses growth which at the same time boosts the debt ratio. At the same time, a high interest rate pushes up debt which gives a higher interest rate, and a higher interest rate depresses growth eventually exacerbating the debt ratio and the interest rate. To put it more simply, the model included in that study corresponds with the definition of a debt trap presented above. Just because a country finds itself in a debt trap does not mean it has to default. After certain changes are made, a nation experiencing a high level of debt distress may be able to repay the debt it owes. However, until that happens, its growth is negatively affected, the debt will keep accumulating, and the interest rates will keep getting higher. Thus, a state will be considered as to be dealing with the issue of debt trap if its level of debt distress is high and its growth is negatively affected by it.

Furthermore, regarding the BRI, it is essential to highlight that a BRI participant finds itself in a debt trap due to infrastructural projects that fail to generate enough revenues to

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service their debts (Chang, 2022). Such a turn of events exacerbates the spiral of growing debt and interests. This requirement is fulfilled by three countries in the case studies included in this thesis.

To summarize, a BRI participant should be considered as one in a debt trap when the following criteria are fulfilled. First, it has to have a debt to China that is equal to a high percentage of its GDP. Second, its growth is negatively affected by the debt it owes to China. Finally, it hosts large Chinese infrastructural projects that fail to generate enough revenues to service the loans taken to construct them.

Another important concept when debating the issue of debt traps is a **"commercial-rate loan."** Scholars often attribute the debt of recipient countries to the rate at which China issues the loans (Bräutigam, 2011). In opposition to concessional foreign aid loans, commercial-rate loans are proven more likely to lead to the issue of debt distress (Hurley et al., 2018). The exact terms of Chinese loans, for the most part, remain unknown, and a vast majority of them are not transparent to the public due to their commercial nature. Additionally, it is worth mentioning that generally, the borrowing countries are not likely to publish conclusive information regarding their financial relations with China. Pursuing this further, it has already been discovered that most of China's official finance is provided at rates similar to those charged by worldwide export credit agencies (Bräutigam, 2011)

1.4 Main Argument

To the author's knowledge, the reason why certain BRI participants end up in debt traps while others do not, remains largely unexplored. **Considering the preliminary findings, it appears that the state of the political environment in the host country affects the likeliness of that country falling into a debt trap.**

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Figure 1.

Main argument of the thesis

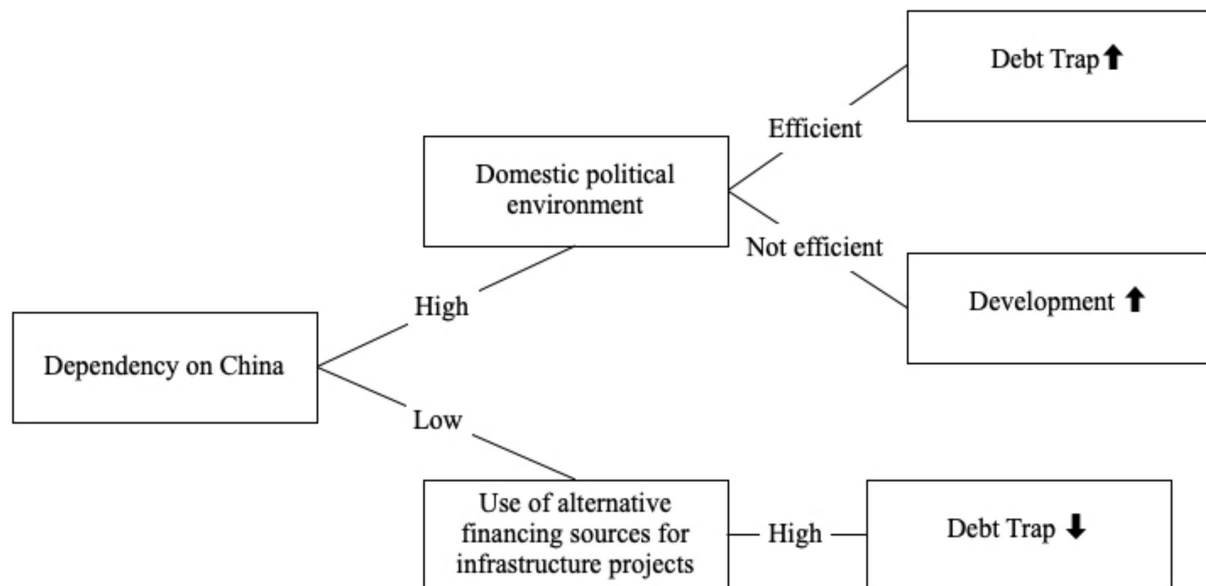

Figure 1 (above) explains the author's logic behind the answer to the research question. Countries that are highly dependent on China usually lack alternative ways of financing. Many different historical rationales can cause this situation. For instance, in the cases of many African nations, countries refuse the engage with Western power in large infrastructural projects due to their colonial legacy (Philling, 2022). Having alternative ways of financing infrastructure makes developing countries less likely to fall into Chinese debt traps. On the other hand, if a host country lacks funds from sources other than the PRC government or Chinese financial institutions and its political environment is underperforming, it is highly possible that such a country will end up in debt. Some nations can use this situation to their advantage. If their political environment is positive, they can use the Chinese funds to their advantage and aggravate their development process.

1.5 Structure of the Thesis

The thesis will consist of five chapters. In the introductory chapter, the author will provide a brief introduction of the BRI and the origin of China as a global lender. In addition, the motivation and the background of the study will also be included in this chapter. Following, concepts that are crucial to the thesis will also be explained. Moreover, the author will also discuss the purpose of the research, its objectives, and highlight the research question. In the

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end, possible reasons explaining why countries included in this research fall into deep debt will be described.

The second chapter will consist mainly of a literature review. The author will begin this chapter by describing the genesis of the debt-trap discourse dating back to the 1970s, as well as a myriad of findings regarding the advantages and drawbacks of debt, development, and dependency. The author will present two main sides of the debt-trap discourse and outline the gap in the existing literature. The author will propose a research question based on the literature review outcomes. The methodology section will provide a complex explanation of why the comparative case study methodology is the most optimal for this research. Furthermore, the author will also additionally explain the choice of countries for case studies in chapters three and four. The final section of the second chapter will include possible research limitations.

Since the BRI is a megaproject connecting 142 nations, it is not possible to discuss the situation of each country in a single master's thesis. Therefore, in the following two chapters, the author will focus on case studies of particular BRI participants with similar political and economic conditions, as well as the degree of BRI investments over their GDP.

The third chapter will include a case study of selected countries that are important BRI participants and fell into a debt trap. The established threshold of total debt to China as a percentage of a country's GDP for these cases is 45%. Picked countries are Lao People's Democratic Republic (Laos), Djibouti, and Angola. The author will look for a common reason behind the three countries falling into a large debt or a different reason for each of them. The author will utilize qualitative and quantitative data for this part of the research.

In the fourth chapter, the author will include a case study of selected countries taking part in the Chinese megaproject that did not fall into a debt trap. Countries crucial for this section are Cambodia, Sri Lanka, and Mauritania. Those countries have similar political and economic conditions to countries in the first group, but their hidden and sovereign debt to China as a percentage of GDP did not exceed 20%. Similarly, the author will also use qualitative and quantitative data for this chapter.

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Finally, the fifth chapter will offer a summary of the earlier mentioned findings. The author will look into the cases of six countries and determine what lead them to fall or avoid a debt trap. Moreover, the answer to the research question will be provided. This section will also include recommendations for further research on China's debt-trap diplomacy.

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Chapter 2: Literature Review and Methodology

2.1 The Origin of the Debt-Trap Discourse

In the past, publications focusing on the issue of debt traps have mainly explored the loans provided by the International Monetary Fund or the World Bank Group (WBG) (Altamura, 2015). For that reason, the majority of reports have been paying special attention to Africa. That was the region where the Bretton Woods Institutions (BWIs) allocated most of their resources (Pettifor, 2000). In this section the author addresses the scholarly critique of BWIs and explores the general consequences of debt.

Many scholars have expressed their negative views of how the IMF model evolved in African nations throughout the years. The phenomenon of debt traps, in general, is so diversified that its origins and effects can be seen all over the world, and therefore it should be further investigated. In addition, many scholars have expressed their views on the potential benefits of debt and when it becomes dangerous to developing countries and their citizens.

The discourse about debt traps goes back to the 1970s when the scholarly community expressed its skepticism about the IMF. Payer (1975) characterized the IMF as an incredibly powerful institution that could influence the internal affairs of the borrowing nations through its assets. Such power is a foreign concept even to most international organizations. Moreover, Payer argues that the IMF's assets are only one of the factors which contributed to its unique position in the international system. More importantly, the IMF's success was an outcome of how it functioned as an international credit agency. In other words, throughout its loans and debt traps, the IMF possessed a substantial influence on the borrowing countries. Consequently, Payer (1975) argues that at that time, the IMF had the ability to control the markets of the whole capitalist world.

Payer (1975) critiques the IMF based on its relations with the developing and underdeveloped nations. Interestingly, the scholar highlights a crucial linkage between the economic situation in a country and its political structure. Nevertheless, it is quite clear that the PRC government currently does not have a strong influence over political and economic affairs in developing countries. It can be argued that the pressure of China on foreign governments has been increasing, and if the trend continues, it may one day reach a level of dominance

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similar to the one of the IMF in the 1970s. Similar to the IMF, China provides enormous loans to developing nations which often lead to an issue of debt distress. The most striking difference between those two is the fact that the relations between the IMF and borrowing countries are multilateral. However, China works mainly on a bilateral level.

Parfitt and Riley (1986), in their overview of the debt traps in Africa, point out the issue of conditionality when it comes to IMF's loans. States that agreed to cooperate with the institution are obligated to implement a program of public-spending cuts, devaluation, liberalization of exchange controls, and welcome FDI. Critics of the IMF argue that such regulations are put into practice to open up countries for foreign capital, eventually leading to deteriorating economic conditions.

Tandon (2008) argues that the whole structure of development aid has to be revised. In his opinion, countries should first focus on development, not aid. He also claims that the most critical aspects of development are political economy and history. Those two factors cannot be ignored by those providing aid to the developing world. The scholar accuses developed countries of keeping the less developed in an asymmetrical relationship with the former colonialist powers that use the institutions of global governance to fulfill their goals. Tandon sees aid dependence as a core issue that stops nations from developing. He urges developing nations to establish South-South cooperation, which is a concept that has been explored by Chinese policymakers (Zhu, 2010). Nevertheless, it seems like South-South partnerships might not bring positive results unless strong institutions are established to fight corruption among political leaders in developing countries. In the case of the BRI, strong institutions are not a priority.

Lombardi (1985), besides criticizing the way multinational financial institutions engage with developing and underdeveloped nations, addresses the disparities between the rich and the poor states. In his view, development objectives should be viewed as political, not economical. When it comes to the issue of debt traps, they do indeed increase the disparities between the poor and the rich states. China, which is described as an economic powerhouse by many, fits most criteria that would classify it as a rich state (Abeysinghe & Lu, 2003). It can be argued that the implementation of disadvantageous loans benefits the CCP government both politically and economically by exacerbating the disparities between China and developing nations.

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Bajo and Roelants (2011) provide myriad findings regarding the relationship between inequality and debt traps. The authors view inequality as the background to debt. Interestingly, the scholars also look at the domestic perspective and analyze how the consumption trap might cause systemic risk and eventually result in a debt trap. Thus, it is relevant to note that the origin of a debt trap may come not only from the outside but also be a result of domestic inequality and reduced government intervention.

Furthermore, Bajo and Roelants (2011) highlight that a domestic case of a debt trap can influence the whole international system. This was proven by analyzing the situation of the United States before the 2008 financial crisis and its impact on the whole world. The authors also explain how easily debt traps spread from one actor to another. Unsurprisingly, the first targets are usually the small and the peripheral.

Bajo and Roelants (2011) emphasize that credit itself is not harmful. It is certainly something many scholars focused on economic development and inequality would agree with. Instead, it is indebtedness that causes the majority of the issues borrowing parties must deal with. In addition, the researchers also provide the criteria that could prevent borrowers from being trapped in debt. These are timely access to information flows about the loan and the articulation of the information. Both are equally important. Therefore, it can be argued that similar conditions should be applied when analyzing the situation of countries currently in financial hardships due to the debt they owe to China.

It is crucial to determine at what point debt can go from beneficial to detrimental. Cecchetti et al. (2011) emphasize that a moderate debt can improve welfare and enhance growth. Furthermore, the researchers establish a threshold, which helps to specify when debt becomes a drag on growth. According to their findings, in the case of government debt, the situation may become problematic once the debt is more significant than 85% of the country's GDP.

Cecchetti et al. (2011) show different short- and long-term consequences of a high level of debt. Most prominently, excessive debt can damage a country's ability to grow and even impair the government's ability to deliver essential services to its citizens. Moreover, a country must work towards reducing its debt in order to secure sustainable growth and protect the

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economy from extraordinary events. It is worth mentioning that many BRI participants have crossed the mentioned then the debt only enlarged.

The discussion that emerged in the 1970s regarding BWIs actions in developing countries provides significant findings on what mistakes have been made by financial institutions and what parts of the development process should be improved. The scholars state that there is such thing as a healthy amount of debt, which can benefit a country's growth. The issue becomes serious once a state has to restructure its debt. Furthermore, the scholarly work shows many positive and negative sides of debt, as well as suggestions for lenders and borrowers. Those can be applied to the newest and increasingly important worldwide lender – China, as there are undoubtedly many aspects in which infrastructure projects can be improved.

2.2 China's Debt-Trap Diplomacy

The phrase "debt-trap diplomacy" in the context of China's BRI originated in January 2017 in India, where it was used for the first time by the political commentator Brahma Chellaney (2017b). It has been periodically gaining popularity among scholars of IR and the international media from that point on. Chellaney is a part of the group that believes the China's debt-trap diplomacy exists and hurts the developing world.

The first half of this section outlines the views of scholars that agree with his argument. Later on, the author explores perspectives of academics that dispute the debt-trap diplomacy argument.

Chellaney (2017b), in a simple way, describes the situation of the Chinese infrastructural investments in Sri Lanka. Although his explanation is based on the experience of Sri Lanka, it can be applied to many developing nations. The process he outlines consists of three steps. Firstly, the PRC decides to support infrastructure projects in a developing country. Secondly, China issues enormous loans to the country's government, which are designed to cause debt distress, according to the author. Finally, the country gets stuck in a debt trap, and its vulnerability to China's influence significantly enlarges. The Indian scholar agrees that infrastructural projects and development loans are needed. However, he questions the intentions of the PRC government. In his view, the BRI projects are designed not to support the local economy. Instead, they facilitate Chinese access to natural resources, open the market

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for low-cost Chinese goods, and minimize jobs created for the local population by hiring Chinese workers. According to Chellaney, once a country's government realizes the true intentions of Chinese loans, it is too late to stop the growth of the debt distress, and the government is forced to take more radical steps to deal with the debt.

Brahma Chellaney (2017a) once again revisited the topic of China's debt traps at the end of 2017. This time Chellaney focused on the differences between the International Monetary Fund or the World Bank and the Chinese loaning practices. He used the phrase "China's predatory approach" to describe the situation in which China uses practices that were initially used against China during the "century of humiliation." The author draws comparisons between the British setting governing rules in ports in Southern China and the Chinese acquisition of the Hambantota Port in Sri Lanka. In addition to the arguments provided in his first article on this topic, the Indian political commentator also argues that the BRI's investments are created to advance PRC's strategic interest abroad, e.g., expand diplomatic influence and promote the international use of the Chinese currency – renminbi (RMB).

Sims and Cook (2020) look at the financial situation of Laos. The COVID-19 pandemic further exacerbated the country's poor financial condition. The authors argue that the reason behind enlarging debt is poor policy decisions regarding high-risk loans, which made the country especially vulnerable to the economic effects of the pandemic. They also highlight the willingness of China to finance BRI projects despite knowing the financial position of Laos. Even though, in most cases, it is the developing country that seeks funds, in the end, all loans are approved by China. Therefore, local governments and Chinese officials should be more careful when distributing infrastructure loans.

Intentions and lending practices aside, it is worth considering the actual benefits of the BRI for China itself. Greer (2018), in his analysis from the foreign-policy perspective, calls the initiative a mistake. He goes as far as to say that for the CCP, the BRI became "a strategic blunder." Based on financial records, the scholar views the overall perspective of the initiative as not promising – both financially and politically. This is due to the fact that most decisions made by the Chinese government are based on geopolitical needs and not financial calculations. The economic corridors, which are one of the critical types of infrastructural investments, are supposed to facilitate cumulative infrastructure improvements. Greer (2018) claims that due to

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the ineptitude of provincial and local governments, the results remain unsatisfactory, bringing no returns to the Chinese foreign investments.

If the BRI does not bring any financial benefits to the PRC government, it should at least expedite the fulfillment of political goals. Greer (2018) disputes that as well. Based on the examples from Burma, Malaysia, the Maldives, and others, the scholar suggests that failed infrastructural investments and the growing level of debt distress hurt the image of China abroad, cause chaos, as well as destabilize the region. Such actions may bring severe consequences to ordinary citizens of developing countries who cannot stop their leaders from bribery and even stronger dependence on China.

Greer (2018) views this turn of events simply as a policymaking failure of the CCP. However, the reality is a lot more complex. The PRC could benefit from such a devastating turn of events. Assuming that corrupted leaders in autocracies or flawed democracies will not suddenly turn to western powers asking for help, they will only become more dependent on China. In this situation, political dependency may bring considerable benefits to the Chinese government.

The development of political dependency is, to a large extent, facilitated by economic dependency. Often when economic ties between two countries expand rapidly, the weaker state may easily fail to recognize the political changes. In other words, economic changes foster political changes, and at the same time, economic dependency may lead to political dependency (Matsuda, 2015). In a bilateral relationship, the acceleration of economic and political dependency provides no benefits to the weaker state.

It is alleged that through the implementation of debt traps, China takes the opportunity to acquire strategic assets as well as rights and interests under the circumstances that the borrowing countries are not able to repay the debt. As a consequence, China successfully archives its strategic goals. The most concerning is the fact that the number of debt trap cases involving China is higher than all other cases combined. In theory, to cope with the nontransparent debt, countries are required to "open the trap," which is extraordinarily difficult since debt interlinks the system. Thus, solutions to debt traps are always painful and losses extensive. When a country owes money to China, it is even more challenging to cope with the issue since, most of the time, the PRC government will insist on implementing more projects

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that require even more outstanding loans. Moreover, the issue is particularly complex since nontransparent lending leads the debt to public and private entities. As proven before, such a process's outcomes can cause a buildup of bubbles in asset prices (Bajo & Roelants, 2011).

Pryke (2020) from the Lowy institute is a researcher who stays very active in China's debt-trap discourse. Pryke focuses on the Pacific, which is the most aid-dependent region in the world. According to his analysis, there are no instances of debt-trap diplomacy in the Pacific. Having said that, the scholar outlined many major concerns regarding China's lending practices and expressed apprehension for the future of island nations if those practices remain unchanged. The risk of debt distress in this region is mainly caused by the lack of institutional mechanisms to protect the sustainability of borrowing countries. This is especially meaningful since the region is often impacted by severe natural disasters, which lead to economic shocks.

Pryke (2020) highlights four critical areas in which China's lending practices may pose a severe danger to developing nations. Firstly, the volume of lending from China has been increasing, and at the same time, the amount of credit from other major countries has been decreasing. Secondly, the quality of Chinese projects is often questionable. Many infrastructural investments are failed or received mixed report cards. Thirdly, a vast majority of Chinese loans have been in the form of concessional loans from the Exim Bank of China. The terms of these loans are considered quite favorable. However, as the researcher emphasizes, the natural vulnerabilities of the Pacific may lead to debt distress even at favorable terms. Finally, China has been known to offer loans to countries already at a high risk of debt distress. It is worth noting that highlighted difficulties are not exclusive to the Pacific and developing countries in other parts of the world need to deal with them as well.

The situation of the Pacific and other regions consisting of mainly developing nations needs to be carefully monitored. There are significant issues with China's lending practices. Moreover, China continues to undermine the influence of other developed nations in the regions where their influence historically has been powerful. For example, Australia in the Pacific and India in Southern Asia. To minimize the possibility of developing countries falling into debt with China, other powerful actors should pressure the PRC government to develop satisfactory institutional frameworks.

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Another problem surrounding the BRI investments and loans is "hidden debt."[2] In a short time, the Chinese state and its subsidiaries have provided funds worth about 1.5 trillion USD to more than 150 countries (Horn et al., 2020). As a result, the PRC exceeded the IMF, the World Bank, and all Organization for Economic Co-operation and Development (OECD) creditors and became the world's largest official creditor (S. D. Sharma, 2010). At the same time, China does not provide official data on the resulting debt flows and stocks. Therefore, many traditional institutions are unable to collect data on Chinese state-sponsored lending and provide it to the public. This enlarges the risk for borrowing countries in many ways, such as the inability to conduct official surveillance work, mispricing debt contracts by the private sector, and misleading forecasters of global economic activity (Horn et al., 2020).

It is worth noting that a considerable amount of discourse criticizing the BRI is successfully silenced by the PRC government. Not only do Chinese scholars not have the opportunity to voice their opinion on this issue, but also, scholars from the countries battling the problem of China's debt traps are unable to raise a proper level of awareness. Over the years, the loudest voice in this discussion has been the CCP (Arifon et al., 2019).

Hillman (2020) mentions that the BRI is a lot more than just a policy, "it is a brand." Moreover, it is a brand fully controlled by the biggest political party in the world, which arguably has in its possession the most advanced propaganda machine ever created and vast resources to support it.

A contrasting and significantly more China-friendly perspective is found in *The Emergence and Fallacy of "China's Debt-Trap Diplomacy" Narrative* by Shaomin Xu and Jiang Li. They are research fellows at the Institute of Public Policy, South China University of Technology. Xu and Li (2020) go directly against the arguments of Brahma Chellaney and defend the actions of the Chinese government. The authors present three main arguments on why they disagree with the current state of discourse on China's debt-trap diplomacy. To begin, they dispute the fact that China unfairly exploits the natural resources of developing countries. This is due to the fact that the agreement signed by both sides regulates the exploitation of

[2] The hidden debt is caused by the fact that a lot of Chinese loans are not distributed between governments, but other kinds of arrangements between many different financial institutions. For that reason, debt is unexposed to research institutions, credit rating agencies, and other surveillance bodies (The Economic Times, 2021).

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natural resources. In addition to that, the Chinese loans are not entirely concentrated on natural resource development. After that, Xu and Li argue that China is helping countries exchange their resources for wealth and eliminate poverty. The authors name the process of Chinese expansion “Globalization with Chinese characteristics.”

Most importantly, they report that debt in developing countries existed long before China stepped into the developing nations with its infrastructural projects. Thus, China should not be considered the origin of the issue of debt distress. Additionally, the two Chinese scholars argue that China’s investment and financing in developing countries do not carry any political purposes.

Despite all of it, Xu and Li (2020) fail to address why China keeps “renting” properties of countries that fight the issue of debt distress and why it constantly acquires its resources in situations when they are unable to pay off its loans. Moreover, the scholars are unsuccessful in explaining why China engages in risky debt practices with countries already in debt, primarily since the PRC government had known the risk all along.

Carmody (2020), on the other hand, debates the issue of China’s debt traps in Africa and the intentionality of the actions of the PRC government when it comes to the BRI. In his view, the essential part of the debt-trap diplomacy discourse is whether or not China put the borrowing nations in debt on purpose. He argues that the whole debate is mainly driven by Western scholars’ fear of rising China. Nevertheless, it is a fact that Africa has been becoming more and more economically and politically dependent on China. Moreover, the scholar defends the actions of China and Chinese companies in Africa. He claims that attacking China just because they use different norms when it comes to financing and aid than Western nations is wrong. In reality, due to the autocratic nature of China and its lack of transparency, it is almost impossible to determine the true intentions of the PRC government. Furthermore, claiming that Western scholars should not criticize China and Chinese companies because Western counterparts are guilty of wrongdoings in Africa is not a valid argument. The unethical behavior of any country should be disclosed.

Rahman (2021) argues that when determining the risk of debt distress to China, there is a strong correlation between the debt ratio to nominal GDP. In his analysis of the case of Bangladesh, since the country’s debt to China is equal to about 22% of its GDP. Therefore, it

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is not at substantial risk of falling into a debt trap. Moreover, based on the historical analysis, the author also claims that Bangladesh has a history of efficiently managing external debt, and it is another reason why the issue of the debt owed to China should not be a significant concern. Interestingly, none of the BRI projects conducted in Bangladesh have strategic implications. In the past, the country's government has done a great job deciding which BRI projects can bring tangible benefits to the economic progress. Finally, the author stresses that Bangladesh is strategically more important to the United States than Pakistan or Sri Lanka. As a result, president Abdul Hamid is capable of balancing between China and the US.

To conclude, there is no consensus in the debt-trap discourse. Many voices highlight the benefits of Chinese aid, loans, and investments. Those supporting the BRI often see China as a savior for nations that cannot acquire financial help from the West. On the other hand, many see the PRC as the only beneficiary of the BRI. They argue that participating countries do not receive any gains by joining the initiative, and China is using the BRI as a tool to gain political and economic influence in the developing world. Previous discussions provide a myriad of arguments supporting both sides. However, there is still no proper explanation for why certain countries fall into such a large debt after joining the initiative and the preconditions that lead countries into debt traps.

In order to contribute to China's debt-trap diplomacy discourse, the author proposes the following research question – **Among the picked BRI-participating countries that have similar political and economic conditions and similar degrees of BRI investments over their GDP, why do some countries fall into debt traps, while others do not?**

2.3 Methodology

The methodological approach implemented for this research is the comparative case study. Owing to the fact that the issue of China's debt-trap diplomacy is considerably complex, it is best to investigate it case by case. This approach will allow us to extract the most crucial factors from the large phenomenon and implement them into the analysis of more minor cases. The analysis will be conducted with much greater attention to detail using the comparative case study methodology.

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It is essential to clarify what a case study is and what the term case study methods stand for. According to Bennett (2004, p. 21), “A case study is thus a well-defined aspect of historical happening that the investigator selects for analysis, rather than a historical happening itself.” To put it more simply, scholars in a case study should only investigate a particular aspect of it instead of focusing on the whole phenomenon. Information gathered about this part of the phenomenon may lead to a better understanding of it as a whole. The term case study methods is most widely understood as combining a within-case analysis of single cases and comparisons among a small number of cases (Bennett, 2004).

It has been proved that case study methods fit the field of IR exceptionally well. In contrast to research in domestic politics, which is mainly dominated by quantitative methodology, IR research constantly needs to deal with complex phenomena. Complicated events like wars can be divided into cases, which by using process tracing and typological theorizing, would allow scholars to gain a much deeper understanding. The most common areas of IR research involve the analysis of interactions between many actors, such as states, international organizations, and other social entities, which influence international politics. In addition to that, the analysis in IR can be done on three different levels: individual, state, and the international system. It is widely understood that the structure of the international system is anarchical, and therefore research in this discipline is prone to constant changes and alterations (Bennett & Elman, 2007). All of these factors add up to create the incredible complexity of IR research, which, when divided into smaller parts, can be quickly investigated and understood.

Simply implementing the case study methodology would not provide satisfactory results for this research. Thus, it is necessary to utilize comparative case studies. Therefore, it is necessary to cover two cases within the same phenomenon and produce a piece of more generalizable knowledge. As Goodrick (2014) highlights, it is essential to note that the data collection is similar for both methodologies. However, comparative case studies require more extensive conceptual, analytic, and synthesizing work. Collecting and analyzing related data will further explain the occurrence of debt traps and possibly provide reasons why the situation in some countries is much more significant than in others.

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2.4 Case Study Selection

Keeping in mind the size of the project and the ambitions of the Chinese government towards the BRI, it is necessary first to break down cases of countries with a high degree of BRI investment, as well as high debt exposure to China over their GDP. Second, examine cases of countries with similar political and economic conditions and the degree of BRI investments over their GDP but do not experience high debt exposure. Finally, compare the two outlined groups of countries.

The first group of countries will consist of three states whose sovereign and hidden debt exposure to China as a percent of GDP is higher than 45%. Implementing such a threshold allows the author to focus on countries where the issue of debt distress is the most considerable. According to the previous section, at a certain level, debt brings adverse outcomes. Such a high amount of debt can influence how the domestic economy operates and may endanger a host country's budget assigned for citizen-related expenditures. At the same time, this threshold simplifies successfully matching those countries with others in similar conditions for a necessary comparison. The selected countries are Laos, Djibouti, and Angola. Since the preliminary findings show that the Chinese infrastructural projects generate an immense amount of debt, the main focus of the study will be on those projects and loans distributed to develop infrastructure. Non-infrastructural projects that are significant to the phenomenon of debt traps will also be considered in this study.

The second group will consist of three countries with similar economic and political preconditions to those included in the first group. Those countries are Cambodia, Sri Lanka, and Mauritania. In this group of three countries, the sovereign and hidden debt exposure to China does not exceed 20%, despite having a significant amount of BRI projects. Picking 20% as a threshold is motivated by the findings included in the previous section saying that a low amount of debt can bring a country positive end results.

Table 1 (on page 35) shows the countries included in the case studies and their similarities. The author determines that GDP per capita, population size, land area, sovereign and hidden debt exposure to China, total BRI projects, underway BRI infrastructure projects, total natural resource rents, and presence of a Chinese military base, provide the most optimal point for comparisons.

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Table 1.

Countries included in case studies and essential statistics

Country	Laos	Cambodia	Djibouti	Sri Lanka	Angola	Mauritania
GDP per capita (USD)	2,630.2	1,512.7	3,425.5	3,682.0	1,895.8	1,672.9
Population	7,275,556	16,718,971	988,002	21,919,000	32,866,268	4,649,660
Land area (sq. km)	230,800	176,520	23,180	65,610	1,246,700	1,030,700
Sovereign and hidden debt exposure to China (% of GDP)	64.8	19.7	48.5	12.1	49.5	11
Total BRI projects	240	308	96	174	350	99
Underway BRI infrastructure projects	20	82	3	25	25	6
Total natural resources rents (% of GDP)	2.8	0.7	0.3	0.1	26.2	12.8
Chinese military base	NO	NO	YES	NO (Possible)	NO	NO

Note. Adapted from "World Bank Open Data," by The World Bank Group, 2021 (https://data.worldbank.org/). Copyright 2021 by The World Bank Group. "Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects" by AidData at William & Mary, 2021 (https://www.aiddata.org/publications/banking-on-the-belt-and-road). Copyright 2021 by AidData at William & Mary.

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Cambodia is a country that is comparable to Laos. The two nations have a close GDP per capita. As of 2021, it was estimated to be over 2,630 USD in Cambodia and 1,513 USD in Laos. Land area is another similarity between the two nations. It is approximately 230,800 sq. km in Laos, and in Cambodia, 176,520 sq. km. Both countries also have a significant amount of BRI projects and underway BRI infrastructure projects. Another similarity is the Global Freedom Score, and neither country is characterized as free.[3] Total natural resources rents as a percentage of GDP are not considerable for either nation. Moreover, both countries are included in the Pan-Asia railway network, one of Asia's most critical BRI projects. Despite all similarities, the total debt exposure to China as a percentage of the country's GDP is three times higher in Laos than in Cambodia.

As for Djibouti, the country is compared with Sri Lanka. Those two nations have a similar GDP per capita, accounting for 3,425 USD in Djibouti and 3,682 USD in Sri Lanka. In the same way, both countries have a high level of BRI projects. However, the number of underway BRI infrastructure projects is much smaller in Djibouti. A Chinese military base has already been constructed in Djibouti, and the PRC government is considering building one in Sri Lanka (Office of the Secretary of Defense, 2021). It is worth noting that Sri Lanka has a much higher land area, and unlike Djibouti, it is an island. Additionally, Sri Lanka appears to be a much freer country. The total debt exposure to China as a percentage of the country's GDP in Djibouti is four times higher than in Sri Lanka.

The final pair are the African states of Angola and Mauritania. In the same way, those countries have comparable levels of GDP per capita. The land area of both countries exceeds 1 million sq. km. Notably, the most crucial linkage between these two nations is the natural resources rents. It is over 26% for Angola and for Mauritania, almost 13%. Countries score alike in the Freedom House index. Mauritania has a smaller number of BRI investments and underway infrastructure projects. As a percentage of Mauritania's GDP, the total debt to China is over four times smaller than Angola's.

[3] Global Freedom Score measures peoples' access to political rights and civil liberties in many countries around the world. The ranking includes the right to vote, freedom of expression, and equality before law. Those variables can be affected by both state and nonstate actors.

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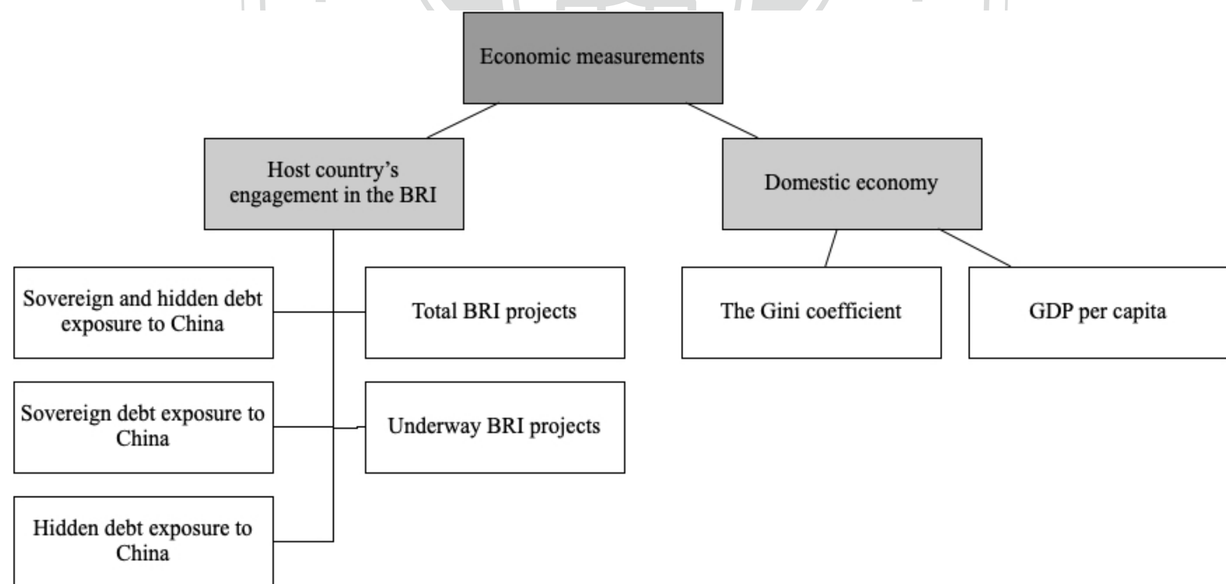
2.5 Economic Measurements

To distinguish how the economic environment differs between countries in the first and second groups, the author crafted a set of economic quantifications. The list of economic measurements picked by the author goes as follows: **total debt exposure to China, sovereign debt exposure to China, hidden debt exposure to China, the number of total BRI projects, the undergoing infrastructure BRI projects, GDP per capita, and the Gini coefficient**. Furthermore, the author will simultaneously look for similarities between countries in the first group and differences between countries in the first and second groups.

Figure 2 (below) shows how the seven economic measurements are divided into two sub-groups. Those in the first set describe how deep is the host country's engagement with China and the extent of its participation in the BRI. The second set mainly accumulates the indicators of economic development.

Figure 2.

Economic measurements



In the first selection of economic measurements, the author placed sovereign and hidden debt exposure to China, corresponding to the total amount of debt a country owes to China represented as a percentage of the host country's GDP. Next, sovereign debt exposure symbolizes debt issued by a country's government to another country's government. In this

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case, the debt issued by the Chinese government (or Chinese state-owned bank) to the host country's government. This type of debt should be less dangerous to the host country as it has much-increased transparency. Following, the author will analyze the host country's hidden debt exposure to China. The term refers to the debt issued by a private/state-owned financial actor to a private actor in another country. In this case, a loan issued by a Chinese bank indirectly to the host country classifies as hidden debt. This type of debt is usually harder to estimate by international organizations and thus lacks transparency. It is vastly more dangerous to the host country's economy.

Furthermore, the total number of BRI projects a nation hosts helps us determine the level of the host country's engagement in the initiative. For this study, the author picked only countries with a high level of engagement in the BRI. The number of BRI projects (completed and underway) does not correlate with the total debt a country owes to China. The quantity of underway infrastructure BRI projects could help the author predict host countries' future in relation to their debt to China. The more underway project, the bigger the country's engagement with China. Even if those projects are not finished, they may still serve as a source of future debt. Thus, it should be easier for countries with fewer underway infrastructure projects to pay off the debt they owe to China.

In the second sub-group, the author incorporated GDP per capita, which is the most prominently used measurement of economic growth. In this study, it is mainly used to determine which countries fit the case study selection and to estimate their level of development. In addition, the Gini coefficient is a measure of statistical dispersion intended to represent income inequality or wealth inequality within a nation. In this study, it will serve as a tool to reassess the quality of host countries' domestic economies.

2.6 Political Measurements

Similar to the economic measurements, the author proposes a set of political measurements that will be used to determine the political environment of each country picked for the two case studies. Figure 3 (on page 39) illustrates the three different data sources that will be utilized to accomplish that goal. Those are **the Worldwide Governance Indicators, the Global Freedom Score, and the Governance Efficiency Ranking.** For this part of the

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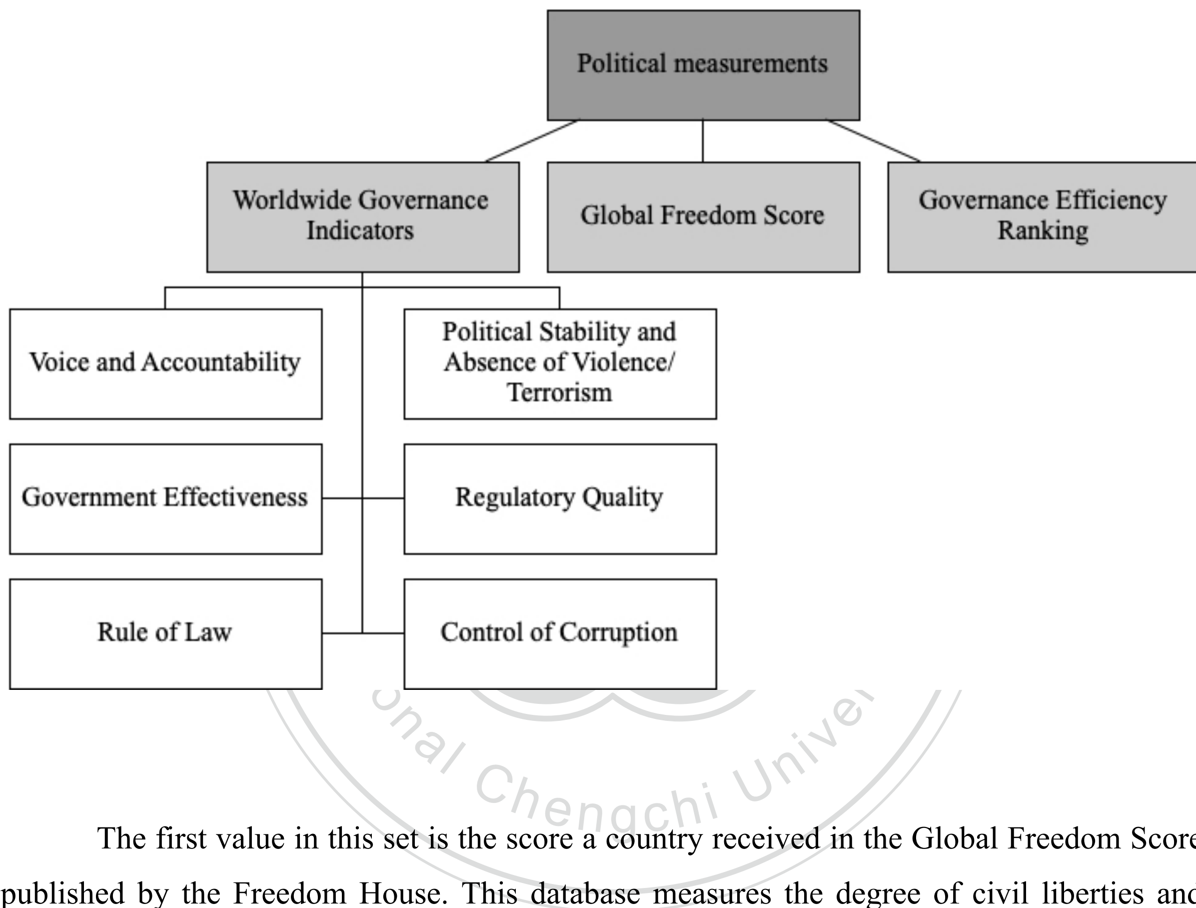
thesis, the author will also look for similar characteristics that occur in the first group of countries that possibly tell them apart from the countries in the second group. To reiterate, the study focuses on finding a common reason that works for all three pairs of countries or different reasons for each pair.

Figure 3.

Political measurements



The first value in this set is the score a country received in the Global Freedom Score published by the Freedom House. This database measures the degree of civil liberties and political rights in every nation, as well as significant related and disputed territories around the world.

Next, the author will utilize the Worldwide Governance Indicators (WGI) issued by the World Bank. The ranking includes the process by which governments are selected, monitored, and replaced; the government's capacity to effectively formulate and implement sound policies; the respect of citizens and the state for the institutions that govern economic and social interactions among them. The WGI use surveys of households and firms, commercial business

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information providers, non-governmental organizations (NGOs), and public sector organizations as the main data sources (Kaufmann & Kraay, 2022).

The complete dataset offered by the World Bank offers six different dimensions of governance, and the author will utilize all of them for this study (Kaufmann et al., 2010). The first category is "Voice and Accountability," which captures the degree of freedom of expression, association, media, and the ability of citizens to participate in elections. Second, "Political Stability and Absence of Violence/Terrorism" quantifies the likelihood of political instabilities, politically-motivated violence, and terrorism. Third, "Government Effectiveness" measures the quality of public services, civil society, policy formulation and interpretation, and other related factors. Fourth, "Regulatory Quality" represents the ability of the government to formulate and implement policies that promote private sector development. Fifth, "Rule of Law" expresses the extent to which agents have confidence in and abide by the rules of society. Finally, "Control of Corruption" encapsulates the degree to which public power is exercised for private gain (Kaufmann & Kraay, 2022).

The third dataset the author incorporates into this research is the Governance Efficiency Ranking created by a Swiss-Korean think-tank. It accumulates statistics in five different clusters. These are government cohesion, infrastructure, business environment, corruption, and financial stability (Solability, 2021).

Altogether, the economic and political measurements should allow the author to distinguish which quantifiers influence the chance of a host country falling into a large debt with China. As stated before, there could be a common reason for all three pairs of countries or a particular reason for each of them.

2.7 Research Limitations

As mentioned above, there are always certain limitations to foreign researchers that pick up any topic related to the current economic relations between Beijing and the developing countries. More often than not, the CCP government successfully suppressed many scholars, even those from top research institutions in the world, to influence the BRI discourse. Recently, this has been true, not only with respect to Chinese scholars but also for many international

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scholars. Thus, the amount of scholarly work can be limited and influenced by the CCP propaganda.

Moreover, as mentioned earlier, by providing the instance of the "hidden debt" problem, the BRI is not a transparent project. Thus, much data concerning Chinese commercial loans are difficult to access. In order to omit the existing research limitations, the author will focus on international data sources providing complex datasets on the BRI investments in foreign countries. Those sources include AidData at William & Mary, the World Bank Debtor Reporting System, and the IMF. Especially essential is the newly published by AidData policy report *Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects*. It is essential to add that the creators of the AidData dataset are aware that some debt flows for a few nations remain underreported. These include two countries that are a part of this research project – Angola and Mauritania, which will be primarily compared with each other. In addition to that dataset, the author will also use qualitative data from China and countries affected by the issue of debt traps.

The discussion regarding why China agrees to lend money to countries already in debt is puzzling to scholars worldwide. It is unclear what are the true intentions of politicians in Beijing. Some political commentators argue that China is a "loan shark" that hopes to put developing countries in debt in order to gain considerable influence (Hatton, 2021). In contrast, others believe that Beijing has good intentions and hopes to foster the development process among nations that need that boost and do not want to deal with western financial institutions (Brautingam & Rithmire, 2021). Determining the intentions of the CCP government is outside of the scope of this study, as the author chooses to focus on the BRI members rather than the motives of Beijing. No matter if the intentions are good or bad, it is true that some BRI participants end up in debt traps, and some do not. The consequence of those BRI members falling into debt traps is the increased political and economic influence of China in those countries. Increased leverage over those developing nations can, in the future, bring China severe political and economic benefits. Having said that, the author acknowledges that determining the valid rationale of China is vital for the future of the BRI-research and encourages that discourse.

Considering the fact that the field of international affairs and especially its aspects having to do with economics and trade is constantly evolving, the author will limit this research

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project to developments that occurred up to January 2022. Thus, the author will not include developments that took place after that date in this thesis. Most analyzed events have taken place after the inauguration of the BRI in 2013, however, the crucial ventures that began prior to the CCP establishing the initiative will be included.

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Chapter 3: Laos, Djibouti, and Angola: Countries That Fell into the Chinese Debt Traps

To recap, in Section 2.4, the author outlined specific thresholds that allowed to distinguish from the large group of BRI participants those that suffer from the issue of debt distress in the most consequential way. Variables used for the case study selection represent similar values for certain participants from both groups—those that did fall into the Chinese debt trap and those that did not. Measurements used for that purpose are GDP per capita, land area, sovereign and hidden debt exposure to China's total BRI projects, underway infrastructure BRI projects, total natural resources rents, and a presence of a Chinese military base. Those values are comparable for countries in the first group (Laos, Djibouti, and Angola) and the countries in the second group (Cambodia, Mauritania, and Sri Lanka). The economic and political measurements of Laos are similar to those of Cambodia. Those represented by Angola are comparable with Mauritania. Lastly, the amounts highlighted for Djibouti are analogous to Sri Lanka.

In this chapter, I focus on a different set of economic and political quantifications. Following, I mark those that position countries from the first group far from those in the second group. In the end, I break down qualitative data in the form of press articles and reports to further explain the situation of countries in the first group. Those differences will confirm why countries in the first group ended up in Chinese debt traps and the countries in the second group did not.

The structure of Chapter 3 includes the following content: Section 3.1 focuses on the economic measurements, Section 3.2 includes the analysis of political measurements, Section 3.3 provides further analysis on the examples of Laos, Section 3.4 goes in depth on the instance of Djibouti, and Section 3.5 concentrates on Angola, the final Section 3.6 concludes this chapter.

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3.1 Economic Measurements — Laos, Djibouti, and Angola

Table 2 (on page 45) illustrates vital statistics of countries in the first group regarding their participation in the BRI and the debt that arose due to joining the Chinese megaproject. Laos is by far the country with the most remarkable amount of debt to China in relation to its GDP. Another aspect that stands out compared to other countries in this case study is the significant percentage of hidden debt exposure. Over half of the nation's debt to China is classified as hidden debt. This makes Laos especially prone to debt restructuring as hidden debt in its nature does not allow for as much transparency as sovereign debt. The total debt for both Djibouti and Angola equals approximately 50% of each country's GDP. When looking at the hidden-sovereign debt exposure ratio, Djibouti is currently in the best situation as the country's debt statistics can be easily accessed by international organizations and other non-Chinese entities.

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Table 2.

The first case study – host countries' engagement in the BRI

Country	Laos	Djibouti	Angola
Sovereign and hidden debt exposure to China (% of GDP)	64.8	48.5	49.5
Hidden debt exposure to China (% of GDP)	35.4	1.8	11.8
Sovereign debt exposure to China (% of GDP)	29.4	46.8	37.8
Total BRI projects	240	96	350
Underway BRI infrastructure projects	20	3	25
Total BRI investments & contracts (billions USD)	29.81	2.6	25
BRI investments & contracts to GDP ratio	1.56	0.78	0.43

Note. Adapted from "Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects" by AidData at William & Mary, 2021 (https://www.aiddata.org/publications/banking-on-the-belt-and-road). Copyright 2021 by AidData at William & Mary. "China Global Investment Tracker" by American Enterprise Institute, 2022 (https://www.aei.org/china-global-investment-tracker/). Copyright 2021 by American Enterprise Institute. "GDP (Current US$)" by The World Bank Group, 2020 (https://data.worldbank.org/indicator/NY.GDP.MKTP.CD). Copyright 2020 by The World Bank Group.

When it comes to the total number of BRI projects, Angola is the country with the most conducted ventures—350. Out of the selected countries, Laos is the second one with 240, and Djibouti is the third one with just under 100 operations. Interestingly, when sorted by underway BRI infrastructure projects, Angola is the country with the most considerable amount of them. Considering that the amount of debt the country currently has to fight is already substantial, the nation's leaders should be prudent in regards to the underway projects. In comparison, Djibouti has only three underway ongoing BRI projects. This means further debt restructuring for this country should be relatively easy compared to other states in this case study. A reason

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for concern could be the presence of a Chinese military base in Djibouti, which suggest much stronger ties to China.

To conclude, when it comes to the first sub-set of economic measurements, it is clear that Laos is in the worst situation out of the three selected countries. It has the highest hidden-sovereign debt ratio, and in the future, it will host 20 more Chinese infrastructural projects. Djibouti appears to be in the best position out of the three countries, primarily due to the low amount of hidden debt and a small number of underway BRI projects. Angola occupies the middle ground between the two countries. Its hidden-sovereign debt ratio may be a problem for the country's financial prosperity. The same can be said about the relatively large number of underway BRI projects. If new issues arose with those investments, the nation's situation might change notably.

The second sub-group of economic measurements focuses on the state of host countries' domestic economy and includes two quantifications – GDP per capita and the Gini coefficient. Table 3 (below) indicates that there are pretty substantial differences between the three countries in this case study.

Table 3.

The first case study – host countries' domestic economy

Country	GDP per capita (USD)	Gini coefficient
Laos	2,630.2	38.8
Djibouti	3,425.5	41.6
Angola	1,895.8	51.3

Note. Adapted from "World Bank Open Data," by The World Bank Group, 2022 (https://data.worldbank.org/). Copyright 2022 by The World Bank Group.

According to the World Bank (2022c), all countries in this case study can be characterized as middle-income countries (MICs). Djibouti has the highest GDP per capita among the three participants. Laos places second with almost a thousand USD less, and Angola third with a GDP capita over 700 USD lower than Laos. The three countries place slightly

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differently when it comes to the Gini coefficient. It is worth pointing out that all countries included in this case study have a relatively high Gini coefficient, which means their citizens' share of financial resources is highly unequal.[4] Angola, the country with the lowest GDP per capita, also scored the worst for the second measurement.

Nevertheless, as indicated previously in Table 1, Angola has the highest total natural resources rents out of all the countries in both case studies. This fact cannot be disregarded as it may suggest that the country's economy is relatively more capable when those resources are used wisely. Furthermore, Djibouti has a ranking almost 10 points lower than Angola. The highest level of economic equality among the three nations was achieved in Laos.

To conclude, the countries in the first case study are all highly engaged in the initiative, but their economic circumstances vary quite a bit. All nations managed to host a significant number of BRI projects, which resulted in a high level of debt they owe to China. The most extensive and, at the same time, most considerable variation between the three states is the hidden-sovereign debt ratio. For Laos, the hidden debt is much higher than sovereign debt. For Angola, it ranges over 10% of the country's GDP, which depending on circumstances, can be notable. When it comes to Djibouti, hidden debt is equivalent to less than 2% of the country's GDP. Furthermore, in the matter of the domestic economy, the two variables picked by the author suggest that even though Angola is a resource-abundant state, its economy may be in the most problematic situation out of the three states. Laos appears to be somewhat more equal than Djibouti, but its GDP per capita is not as high.

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3.2 Political Measurements — Laos, Djibouti, and Angola

The previous section discussed the variances in economic measurements between the three countries in this case study. The challenge for this segment will be analyzing the earlier outlined political variables. Findings from this and previous sections will be further utilized to determine possible reasons for the three countries falling into the Chinese debt trap.

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[4] The Gini coefficient (or index) ranges from 0 to 100. Values closer to 0 indicate perfect equality, and those closer to 100 perfect inequality. It measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household (The World Bank, 2022b).

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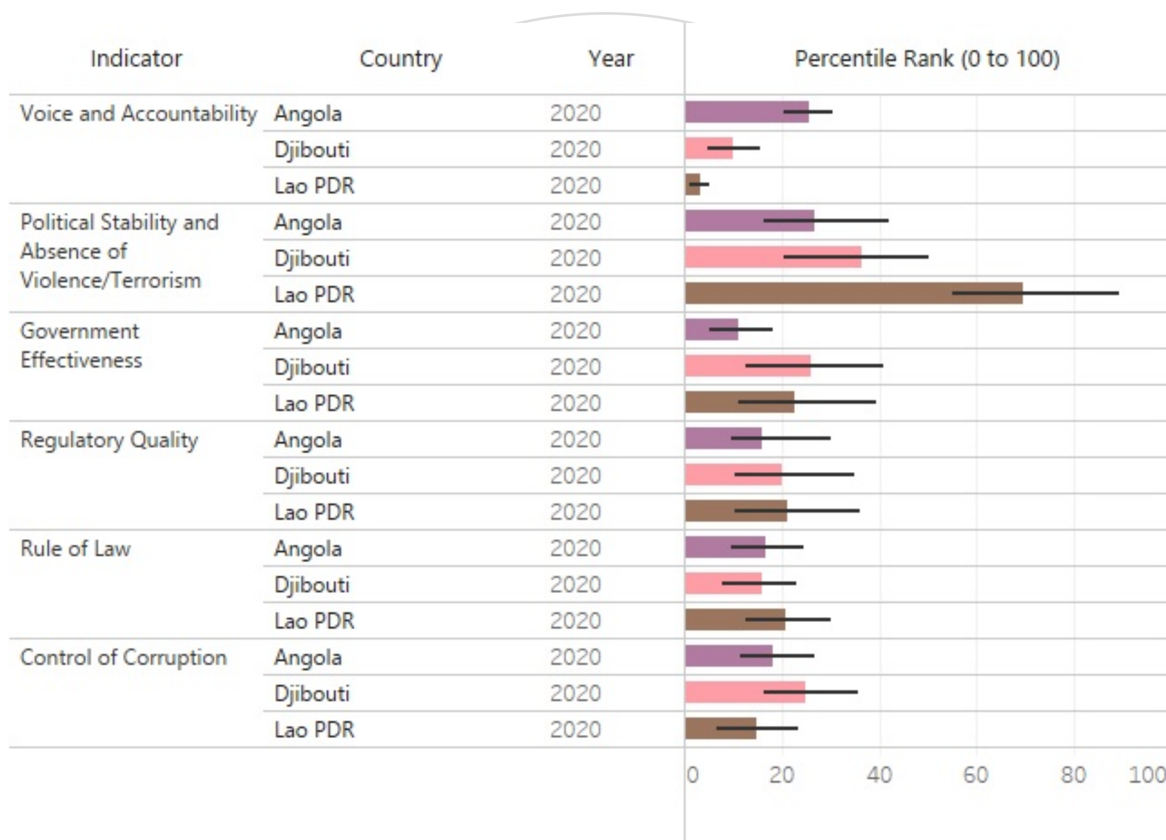
The crucial and most advanced sub-set of quantifiers present in this case study is the Worldwide Governance Indicators. Figure 4 (below) shows each participating country's score among the six different indicators. Overall, the results are pretty homogeneous among all three nations. The most marked differences can be seen in the "Voice and Accountability" and "Political Stability and Absence of Violence/Terrorism" categories, where the position of Laos is surprisingly different from Djibouti and Angola.

Figure 4.

The first case study – Worldwide Governance Indicators



Note. Reprinted from "The Worldwide Governance Indicators" by Kaufmann D., A. Kraay, and M. Mastruzzi, (2020). Retrieved from http://info.worldbank.org/governance/wgi/Home/Reports. Copyright 2022 by The World Bank Group.

The first categorization, "Voice and Accountability," shows mixed results for the three countries. The percentile rank for Laos equals only 3.38; for Djibouti, it is 10.14; and for Angola, 25.60. The most unforeseen is the enormous disparity, especially between Laos and Djibouti. We can observe quite a reverse situation concerning the second category – "Political

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Stability and Absence of Violence/Terrorism," we can observe quite a reverse situation. Laos received the highest rating, equivalent to a 69.34 percentile rank, Djibouti was second with 36.32, and Angola the last with 26.89. For this statistic, Laos scored considerably better than the other two states. There are no notable variations between how each country was rated for the subsequent indicators. In regards to "Government Effectiveness," Angola scored 11.06, Djibouti 25.96, and Laos 22.60. Next, in the "Regulatory Quality" classification, Angola received a result equal to 15.87, Djibouti 20.19, and Laos 21.15. Concerning the "Rule of Law" indicator, Angola achieved 16.83, Djibouti 15.87, and Laos 20.67. Finally, for the last category, "Control of Corruption," Djibouti attained the highest result – 25.00, Angola 18.27 points, and Laos 14.90.

The critical finding for the WGI is that among most indicators, all three countries received very similar scores. Moreover, those results place them among countries with poor levels of governance. This suggests that one of the possible outcomes of this study would be exposure to the correlation between the level of governance in the host country and that country falling into debt with China. This will further be verified later on during the second case study.

Table 4 (on page 50) shows the comparisons regarding the Global Freedom Score. As expected, neither country can be characterized as free, and the Freedom House judged the level of the citizens' freedom rather poorly. Laos, the country with the highest debt to China, scored only 13 points out of the total 100 – the lowest result in the Global Freedom Score out of the three countries. The difference between Djibouti and Angola is not meaningful, the first country attained 24 points, and the second one was 30 points.

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Table 4.

The first case study – Global Freedom Score & Governance Efficiency Ranking

Country	Global Freedom Score (2022)	2021 Governance Efficiency Ranking
Laos	13	43.9
Djibouti	24	40.4
Angola	30	35.7

Note. Adapted from "Countries and Territories" by Freedom House, 2022 (https://freedomhouse.org/countries/freedom-world/scores). Copyright 2022 by FreedomHouse. "2021 Governance Efficiency Ranking" by Solability, 2021 (https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital). Copyright 2021 by Solability.

The performance of countries in the 2021 Governance Efficiency Ranking, a measurement comparable to the WGIs, is also incorporated in Table 4 (above). The findings are comparable to the results of the WGIs. All three countries ranked very close to each other, with Angola scoring the lowest in the ranking – 35.7 and Laos scoring the highest – 43.9. Djibouti was in the middle of the group with 40.4 points. The most important discovery facilitated by the Governance Efficiency Ranking is that the level of governance in all the nations is relatively low. Thus, it corresponds with the states' low scores in the WGIs.

The political measurements used by the author show that the political situation in all three countries is pretty alike. It is a different result from what was outlined by the economic measurements. All three nations encounter the problem with the effectiveness of their governments and freedom. The two most significant differences were presented in the two WGI indicators – "Voice and Accountability" and "Political Stability and Absence of Terrorism/Violence." Other than that, all three states received poor ratings among the WGIs, the Freedom Score, and the Government Efficiency Ranking. It is a clear indication of poor governance in those countries that could lead to a higher likeliness of the three host states falling into debt with China.

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3.3 Why Laos Fell into the Chinese Debt Trap

Laos joined the BRI at the end of 2017 (Sacks, 2021). The Chinese government managed to sustain close ties with the country's leaders and promote many infrastructural projects from that point on. Since both Laos and China are led by communist parties, socially-oriented nations, in theory, the relationship between them should quickly flourish, especially considering the billions of dollars the CCP promised to invest. On numerous occasions, Xi Jinping highlighted the importance of Laos for the BRI as well as showed interest in deepening high-level exchanges, strategic communication, economic exchanges, and the partnership between the two communist parties (Xinhua, 2021b).

As discovered earlier, Laos is the country with the most considerable amount of debt and also hidden debt owed to China among all of the BRI participants. A vast majority of both sovereign and hidden debts are projects related to constructing the China-Laos Railway. The China-Laos high-speed railway is also known as the Boten-Vientiane railway since it runs between the capital Vientiane in the south and a town bordering China in the north – Boten. The total length of the railway is 414 kilometers (km) (Medina, 2021). In Boten, the line heads north and in 595 km reaches the Chinese city of Kunming, the capital of Yunnan province. The railway is promised to be filled with bullet trains traveling at a speed of 160 km per hour and lower the time of travel between the two cities to about 10 hours (Xinhua, 2021a). As mentioned earlier during the case study selection, this is just a small part of a vastly more ambitious Chinese multi-country rail network often called the Pan-Asia Railway (Morris, 2019). Figure 5 (on page 52) marks the entire transport route, which is planned to continue from Vientiane further south all the way to Bangkok and eventually reach Singapore.

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Figure 5.

The Pan-Asia Railway

Note. Reprinted from "The-Pan-Asian-Rail-Network" by Falak A., (2021). Retrieved from https://www.aseanbriefing.com/news/the-completed-china-laos-railway/the-pan-asian-rail-network/. Copyright 2021 by ASEAN Briefing.

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The China-Laos railway's financial details show that the project's total cost was estimated to equal 5.9 billion USD (Malik et al., 2021). That amount is equivalent to about one-third of Laos' GDP (Carminati, 2022). The investment was a public-private partnership (PPP) between many Lao and Chinese financial actors. To conduct this operation, a joint-venture business entity has been established. The institution is called the Laos-China Railway Company Limited (LCRC) and connects three Chinese state-owned companies and a Leo state-owned enterprise. Three of the Chinese business together own 70% of the LCRC (Malik et al., 2021). The co-owners of the LCRC provided equity that would cover 40% of the total cost of the railway, and the rest was financed with a 3.54 billion USD loan from the China Exim Bank. It is important to note that the government of Laos did not provide a sovereign guarantee for the Chinese loan. Furthermore, those in charge of Laos contributed 730 million USD, and the government of China 1.63 billion USD of equity financing to build the railway (Malik et al., 2021).

For two reasons, the China-Laos railway investment is being financed with hidden debt (Malik et al., 2021). First, the loan provided to the government of Laos by China Exim Bank is supposed to cover its equity stake in the LCRC – such a process is considered "double-gearing." This procedure may suggest the project's financial problems or its lower-than-expected value. Second, if the LCRC is not profitable, the debt repayment issued to the LCRC could be an obligation for the Lao government (Malik et al., 2021). Either way, the actual size of the liability is not fully known.

Gathering the above points together, it is clear that the China-Laos railway and its irresponsible financing of it are the main reasons behind the nation falling into such a large debt and developing a high ratio of hidden debt. The Lao government should not have welcomed such a large Chinese project, especially during the period when its economy has still been developing. This correlates with the data expressed by the political measurements. WGIs suggest that the Lao government lacks severely in the "Voice and Accountability" and "Regulatory Quality" indicators. A higher, more efficient level of governance could have saved Laos from falling into a debt trap.

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3.4 Why Djibouti Fell into the Chinese Debt Trap

Djibouti officially joined the BRI even later than Laos in 2018 (Sacks, 2021). The partnership between this East African nation and China is unlike those with most BRI members. The African country has very special relations with Beijing since it is the only place so far that hosts a support base of the Chinese People's Liberation Army (PLA). After China established its military base, many Western powers also showed their interest in that part of the world. Djibouti currently hosts the American, British, Saudi Arabian, German, French, and Italian military bases (Yimer, 2021). The difference is that Western nations tend only to pay rent for their military facilities and do not invest in the country the way Beijing does (Çalışkan, 2021).

Djibouti is also a geopolitically and economically important country. It is located on one of the busiest maritime routes in the world, which means it is a destination for a lot of Chinese goods. Concurrently, in the same way, lots of African energy resources are shipped to China (Çalışkan, 2021). Djibouti is a crucial transport center that allows the products and resources to pass to North Africa and the Middle East. The presence of the PLA military base in the country can assure that natural resource shipments to China are adequately secured (Çalışkan, 2021).

The BRI projects in Djibouti began in 2013 before the nation officially joined the initiative. The country quickly became a logistic center for China on the African continent. Its significance grew exponentially, and thus the CCP started to expand its political and economic influence there. Beijing proposed to fund a railway line from Addis Ababa, the capital of Ethiopia, to Djibouti. The entire investment cost was estimated to add up to 3.4 billion USD (Malik et al., 2021). Both governments participating in the Djibouti-Addis Ababa railway encountered issues paying back the debt they owed to China (Olingo, 2021). In the case of Djibouti, the maturity of the loan was extended from 15 years to 25, and the grace period was lengthened from 5 years to 10. The interest rate was also slightly reduced (Malik et al., 2021). It is crucial to highlight that just because China the credit agreement terms are promised to improve does not mean that the investment will become profitable. The commercial viability of infrastructural projects is exceptionally high to achieve, and it remains a task for the two African governments to solve the issue of the railway's poor financial performance (United States Agency for International Development, 2011).

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The case of Djibouti is very reminiscent of the way Laos fell into the Chinese debt trap. Both countries are not free, and their governments are highly inefficient. Moreover, they agreed to conduct a large multinational Chinese infrastructural project. The most notable difference is indeed the hidden-sovereign debt ratio, which is not as significant for Djibouti as it is for Laos. From this and the previous example, we can see that the combination of poor governance, lack of freedom, and large Chinese infrastructural projects may lead to serious financial problems.

3.5 Why Angola Fell into the Chinese Debt Trap

The relationship between China and Angola has always been about oil. Safe and regular oil shipments are crucial for China's energy security, which is one of the essential issues the twenty-first-century economic giant has to deal with. However, securing those shipments is not an easy task as all great powers are in the market for oil imports. Angola is the third-largest oil exporter in Africa (Goodrich, 2021). Throughout the years, the country developed a pretty intense relationship with Beijing. The PRC facilitated development in Angola in areas such as infrastructure, education, science and technology, agriculture, and many more (He, 2018). Ever since the country joined the BRI in 2018, the CCP promised the Angolan government to help diversify its economy so the country does not need to depend solely on oil export (Malik et al., 2021). In return, China gained stable access to one of the most valuable energy resources in the world.

Not long after joining the initiative, the economy of Angola experienced a striking slowdown, which was further exacerbated by the COVID-19 pandemic (International Monetary Fund, 2020). The most prominent characteristic of the Angolan economy that separates it from other BRI participants is the high total natural resource rents as a percentage of GDP. The slowdown of the African economy and the COVID-19 pandemic caused the elites to fear default payments, including those in Angola. Nations decided to rapidly re-negotiate long-term loans made with a Chinese bank and tried to suspend many infrastructural projects (Chaudhury, 2021). The situation with Angolan oil exports to China has been problematic since 2015. The repayment of loans to the PRC was supposed to be made in oil. However, the number of oil Angolans had to send to China was so enormous that the country was left with little resources to export to other countries. In 2020 the situation got so severe that the government of Angola decided to cut oil shipments to China in order to seek debt relief from its biggest creditor (Payne & Zhdannikov, 2020).

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The situation in Angola can be a prime example of how dangerous the oil-for-infrastructure loan model can be. Any kind of economic slowdown leaves the host country's economy extremely vulnerable. This type of loan is much riskier than traditional loans. The fact that Angola had to re-negotiate its debt shows how little consideration those in the nation's rule put into the initial discussions with the CCP (Vines, 2020).

In the case of Angola, it looks like the recipe for the debt trap was poor governance, lack of freedom, and the massive oil-for-infrastructure loans instead of a large infrastructural project. This example varies from the previous two, primarily due to the abundance of oil the nation has in its possession.

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3.6 Conclusion

In Chapter 3, the author analyzed the situation of three countries that fell into the Chinese debt trap – Laos, Djibouti, and Angola. A complex set of measurements was utilized to verify those states' economic and political environments. When it comes to the economic variables, all three countries are highly engaged in the initiative. The best evidence of this is the number of projects those countries host. Furthermore, the chief differentiating factor between Laos, Djibouti, and Angola is the ratio of hidden-sovereign debt. The country with the most significant percentage of its GDP owed to China is Laos, and at the same time, the country also has the highest share of hidden debt. For Djibouti, that metric is a lot less notable, and for Angola, not meaningful at all.

Political measurements show us striking similarities shared by all countries in this case study. The three participating states are governed inefficiently and lack freedom. According to the data, the nations have severe issues that can affect their economic development and, at the same time, make them more prone to accepting risky investments and eventually falling into debt.

Examination of the key BRI projects in Laos and Djibouti outlines essential findings regarding the outcome of Chinese infrastructural investments. China funded railways connecting the host country with other BRI participants in both states. Those ventures have

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proven more costly and less profitable than promised by the Chinese government. Regarding Angola, the main difficulties that arose with borrowing significant Chinese capital come from the oil-for-resources loans. The country's financial problems were further exacerbated by the fluctuations in oil prices and the outbreak of the COVID-19 virus (International Monetary Fund, 2020).

To sum up, Table 5 (on page 58) highlights that all three countries share similar political conditions, which aggravate their likeliness of falling into debt to China. Laos and Djibouti agreed to conduct large rail projects that did not bring expected financial benefits, and their consequences severely impacted national budgets. The failure of Angola was primarily located in the disadvantageous oil-backed loans.

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Table 5.

The first case study - conclusions

Country	Laos	Djibouti	Angola
Large percentage of hidden debt exposure to China	YES	Present, but not consequential	NO
Oil-for-resource loans	NO	NO	YES
Chinese military base	NO	YES	NO
WGI - Voice and Accountability	3.38	10.14	25.60
WGI - Government Effectiveness	22.60	25.96	11.06
WGI - Rule of Law	20.67	15.87	16.83
WGI - Political Stability and Absence of Violence/Terrorism	69.34	36.32	26.89
WGI - Regulatory Quality	21.15	20.19	15.87
WGI - Control of Corruption	14.90	25.00	18.27
Governance Efficiency Ranking	43.90	40.40	35.7
Global Freedom Score	13	24	30
Debt trap	YES	YES	YES

Note. Adapted from "Countries and Territories" by Freedom House, 2022 (https://freedomhouse.org/countries/freedom-world/scores). Copyright 2022 by FreedomHouse. "2021 Governance Efficiency Ranking" by Solability, 2021 (https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital). Copyright 2021 by Solability. "The Worldwide Governance Indicators" by Kaufmann D., A. Kraay, and M. Mastruzzi, 2020. http://info.worldbank.org/governance/wgi/Home/Reports. Copyright 2022 by The World Bank Group.

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Chapter 4: Cambodia, Sri Lanka, and Mauritania: Countries That Did Not Fall into the Chinese Debt Traps

The previous chapter discussed the situation of three developing countries and the circumstances that made them fall into debt with China. In this chapter, the author will look at three different countries in the opposite situation. Cambodia, Sri Lanka, and Mauritania are countries whose sovereign and hidden debt to China does not cross the 20% of the host country's GDP threshold. Nations included in this study are similarly pretty active BRI participants with a high number of finished and underway projects, sometimes even higher than in the countries that did fall into debt.

The author demonstrates that the two sets of variables, first – economic and second – political, will indicate critical differences between countries in the first and second case studies. After analyzing those measurements, it will be possible to reach a conclusion and answer the most critical question for this research project – why do some countries fall into debt traps while others do not? Chapter 4 consists of six sections. These include: Section 4.1 that focuses on economic measurements, Section 4.2 analyzes political measurements, Section 4.3 shows why Cambodia did not fall into the Chinese debt trap, Section 4.4 breaks down the example of Sri Lanka, Section 4.5 addresses the situation in Mauritania, and lastly, Section 4.6 closes this chapter.

4.1 Economic Measurements — Cambodia, Sri Lanka, and Mauritania

Table 6 (on page 60) incorporates the most important measurements that characterize the host courtiers' level of participation in the Chinese imitative. In a similar manner to the first case study, all three countries in the second case study are also active BRI members with hundreds of already finished projects. There is a certain degree of variation between the number of incorporated projects and the amount of debt the country owes to China. Those disparities are present in both groups of nations.

When it comes to the total debt exposure to China, all three nations are placed in the 10-20% threshold. With its 19.7%, Cambodia has the highest debt exposure to China and Mauritania, with 11% the lowest. Sri Lanka is placed between the two counties with 12.1%

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debt exposure to China as a percentage of its GDP. Vastly different from countries in the first case study, no state in this group has a notable hidden debt exposure to China. The highest percentage of hidden debt has Cambodia, which equals 0.5%. In Sri Lanka, it is 0.4%, and Mauritania has no hidden debt exposure at all. Among the three states, most of the debt exposure to China is characterized as sovereign debt, which means they are less likely to fall into a debt trap.

Table 6.

The second case study – host countries' engagement in the BRI

Country	Cambodia	Sri Lanka	Mauritania
Sovereign and hidden debt exposure to China (% of GDP)	19.7	12.1	11
Hidden debt exposure to China (% of GDP)	0.5	0.4	0
Sovereign debt exposure to China (% of GDP)	19.2	11.7	11
Total BRI projects	308	174	25
Underway BRI infrastructure projects	82	99	6
Total BRI investments & contracts (billions USD)	18.22	14.37	1.01
BRI investments & contracts to GDP ratio	0.71	0.18	0.13

Note. Adapted from "Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects" by AidData at William & Mary, 2021 (https://www.aiddata.org/publications/banking-on-the-belt-and-road). Copyright 2021 by AidData at William & Mary. "China Global Investment Tracker" by American Enterprise Institute, 2022 (https://www.aei.org/china-global-investment-tracker/). Copyright 2021 by American Enterprise Institute. "GDP (Current US$)" by The World Bank Group, 2020 (https://data.worldbank.org/indicator/NY.GDP.MKTP.CD). Copyright 2020 by The World Bank Group.

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Table 6 (on page 60) also highlights the number of Chinese projects implemented in each country. There is quite a divide between the nations as Cambodia hosts a vastly higher number of BRI ventures. The number for Cambodia is almost three times higher than for Mauritania. Sri Lanka is placed in between the two countries with 174 BRI operations. Furthermore, there is also a noteworthy divergence regarding the underway BRI infrastructure projects. Just as in the previous measurement, Cambodia hosts a considerably higher number of ventures than the other two nations. The 82 ongoing infrastructure projects in Cambodia could dramatically change the debt situation of the whole country if the government is not careful. Touching on the situation in Sri Lanka and Mauritania, they should be in a less dangerous situation as each country hosts 25 and 6 advancing BRI projects. Needless to say, every country should be careful when dealing with such an essential matter as debt. As outlined in the first case study, even a few careless loans can lead to serious financial problems.

Table 7 (on page 62) illustrates how the countries from the second case study score in regards to GDP per capita and the Gini coefficient. There are specific differences when it comes to the three nations, but they are not as prominent as for the first group of countries. The statistics mainly show the significant difference between Sri Lanka and two other states concerning GDP per capita, which is over two times higher for Sri Lanka than the rest and equals 3,682 USD. The difference between Cambodia and Mauritania is relatively negligible, and the quantity for both of them ranges between 1500 and 1600 USD. Nevertheless, all three nations can be classified as MICs.

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Table 7.

The second case study – host countries' domestic economy

Country	GDP per capita (USD)	Gini coefficient
Cambodia	1,512.7	No data
Sri Lanka	3,682.0	39.3
Mauritania	1,672.9	32.6

Note. Adapted from "World Bank Open Data," by The World Bank Group, 2022 (https://data.worldbank.org/). Copyright 2022 by The World Bank Group.

Regarding the Gini coefficient, some variation can be observed for the countries in this case study. Unfortunately, no source provides recent data on the state of quality in Cambodia. Thus, the Gini coefficient for that country is not included. Out of the two nations for which the data is available, Mauritania received a better score – 32.6, and Sri Lanka had a slightly worse result, equal to 39.3.

It is apparent that all three nations are important BRI participants and the economic measurements outline some differences between them. Overall, Cambodia, Sri Lanka, and Mauritania seem more economically prosperous than the countries in the first case study. Cambodia is the country with the highest number of BRI projects and, at the same time, the highest debt exposure to China. Sri Lanka and Mauritania host fewer BRI ventures, and their debt is less prominent. All three countries are categorized as MICs despite Sri Lanka having a higher GDP per capita. Furthermore, Mauritania is the most equal out of the three, followed by Sri Lanka. No data were reported for Cambodia since 2012, and for this research project figures, this obsolete would be considered irrelevant since they were issued long before the initiative's launch.

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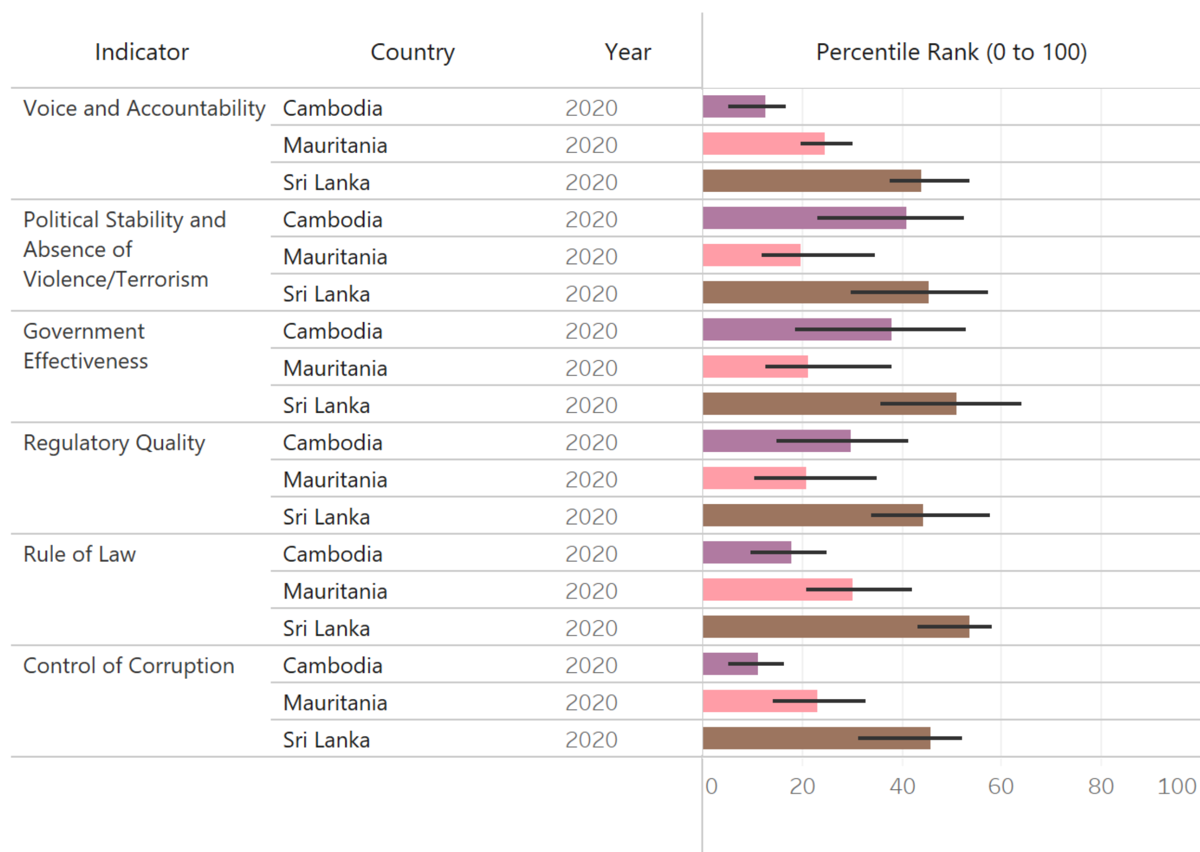
4.2 Political Measurements — Cambodia, Sri Lanka, and Mauritania

Parallel to Section 3.3, in this section, the author will analyze the political measurements for the countries in the second case study. Most importantly, the author will seek similarities between the three developing countries. Figure 6 (below) displays all of the WGI statistics for Cambodia, Mauritania, and Sri Lanka. The disparities between states in the third case study are somewhat more prominent than they were for the countries in the previous chapter.

Figure 6.

The second case study – Worldwide Governance Indicators



Note. Reprinted from "The Worldwide Governance Indicators" by Kaufmann D., A. Kraay, and M. Mastruzzi, (2020). Retrieved from http://info.worldbank.org/governance/wgi/Home/Reports. Copyright 2022 by The World Bank Group.

The examination of Figure 6 immediately shows that Sri Lanka scores strikingly higher in most categories than the other two nations. Mauritania tends to place second among most indicators, and Cambodia is the country that lacks the most when it comes to political efficiency.

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Investing in particular categories allows us to understand better the differences and similarities between the three nations participating in this case study. Sri Lanka achieved the highest result for the "Voice and Accountability" quantifier – 43.96. Following it, Mauritania attained 24.64 points. The lowest total for this measurement received in Cambodia – was 12.56. The differences between each country in this indicator are pretty substantial. Thus, it is safe to assume the state of political freedom does vary substantially between the three subjects.

Secondly, the results do not correspond with those from the first category for the "Political Stability and Absence of Violence/Terrorism" variable. Here, Sri Lanka also scored the highest – 45.28, but Cambodia achieved second place with 41.04 points, not much less than Sri Lanka. Mauritania ranked third with less than half of what the other nations received – 19.81 points.

Next, the "Government Effectiveness" category shows similar results to the previous indicator, with Sri Lanka achieving the highest result – 50.96, Cambodia the second highest – 37.98, and Mauritania at 21.15, a considerably lower score than the other two subjects. For the subsequent "Regulatory Quality" indicator, the placement of the three nations does not change. Again, Sri Lanka ranked the highest with 44.32 points, Cambodia was second with 29.81 points, and Mauritania was the last with 20.67 points.

Finally, in the last two categories, Sri Lanka kept the position of the leader, but Mauritania ranked second and Cambodia third. In the "Rule of Law" quantifier, Sri Lanka achieved 53.37 points, Mauritania 30.29, and Cambodia 17.79. For the last indicator – "Control of Corruption," a high-value category for this research project, Sri Lanka received 45.67 points, Mauritania 23.08 points, and Cambodia only 11.06 points.

Overall, regarding the WGIs, countries in this case study have more variety than those in the first group. Sri Lanka almost constantly scores the highest among the three subjects and Mauritania the lowest. Having said that, the general scores countries received for each indicator are higher than those discussed in Chapter 3.

Table 8 (on page 65) presents each subject's results in the Global Freedom Score, a ranking conducted by the Freedom House. The variations for this measurement correspond

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with most results observed in the WGI indicators. In like manner, Sri Lanka received the highest score – 55. Mauritania achieved a substantially lower result – 35, and Cambodia scored the lowest of the three nations – 24 points. The results are not surprising and serve as a further indicator of the consistency of the state of governance among the three subject countries.

Table 8.

The second case study – Global Freedom Score & Governance Efficiency Ranking

Country	Global Freedom Score (2022)	2021 Governance Efficiency Ranking
Cambodia	24	53.9
Sri Lanka	55	60.0
Mauritania	35	42.1

Note. Adapted from "Countries and Territories" by Freedom House, 2022 (https://freedomhouse.org/countries/freedom-world/scores). Copyright 2022 by FreedomHouse. "2021 Governance Efficiency Ranking" by Solability, 2021 (https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital). Copyright 2021 by Solability.

Furthermore, Table 8 (above) demonstrates the results of the data gathered by Solability. The results are almost identical to earlier discussed WGIs and the Global Freedom Score. As expected, Sri Lanka scored the highest out of the second group of states. The difference between Sri Lanka and Cambodia is almost the same as between Cambodia and Mauritania. All three countries are below 10 points apart from each other. In this ranking, Cambodia was awarded 53.9 points. Mauritania scored the lowest out of the three countries, only 42.1 points.

To sum up, the data used by the author outlines many differences and similarities in the state of political affairs among the three developing economies. Most importantly, in the majority of the categories, this group of countries scored higher than the countries examined in Chapter 3. The findings are relatively constant. It means that for a large number of indicators, Sri Lanka received the best results, and depending on specific measurements, Mauritania and Cambodia scored second and third place. Further comparisons with the countries in the first

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case study will elaborate on those findings and clarify why those countries managed not to fall into the Chinese debt trap.

4.3 Why Cambodia Did Not Fall into the Chinese Debt Trap

Cambodia can be considered one of the original members of the BRI as it joined the initiative in 2013 (Sacks, 2021). Since the beginning, the Chinese leaders have considered the country a crucial BRI participant. It should not come as a surprise since the geographical position of Cambodia is of high importance to the Chinese trade routes. Prior to Malaysia and Vietnam joining the BRI in 2017, Cambodia played an essential role in Chinese maritime trade primarily due to its proximity to the Melaka Gateway (Song, 2020).

Historically, the PRC and Cambodia's relations have been relatively prosperous, and in modern history, China was always seen as a critical financial partner for Cambodia. The friendship between the leaders of both states has been deepening, and the perception of China among the Cambodian elites is overwhelmingly positive (Sokvy, 2020). This started as early as 1999 when the PRC offered an interest-free loan of 200 million USD and 118.3 million USD in grants for the development of Cambodia (Chheang, 2017). Gifting such a vast sum of money was unparalleled for still developing and industrializing China. Furthermore, in 2010, the two nations agreed to sign a "Comprehensive Strategic Partnership of Cooperation," which allowed for more frequent meetings between high-ranking officials, increased investment capital, promoted Cambodia among Chinese tourists, and more (Chheang, 2017).

The close economic and political integration with the PRC has been a concern for the scholarly community, especially as the debt owed to China has been increasing (Chinyong Liow et al., 2021). As mentioned before, Cambodia has the highest number of underway BRI projects out of all six countries analyzed in this research project. Therefore, it is crucial for the government and international organizations to closely monitor the financial situation in Cambodia. Just because the nation is not in the Chinese debt trap right now does not mean it cannot be trapped in one in the future. It is entirely possible that under Beijing's patronage, Cambodia will keep developing the key areas such as infrastructure, energy security, and water sanitation, and eventually, the country will become a BRI success story. Nevertheless, efficient

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governance will determine whether or not the relationship between China and Cambodia can stay prosperous for both sides.

It is essential to highlight that other than loans, Cambodia has received massive grants from the Chinese government. To be more precise, the country has received the 6th most significant number of Chinese grants out of all the BRI participants from 2000 to 2017. The total equals 0.54 billion USD (Malik et al., 2021, p. 123). Compared to the sum of money loaned from China – 9.75 billion USD this number may not seem as important. However, it could be one of the reasons why the country did not end up in severe debt.

Looking at the data concerning the ownership of the BRI-funded infrastructure, we can learn that in several cases, Cambodian identities have majority ownership in those projects. This is not the case for multiple nations participating in the initiative, as the Chinese enterprises often demand ownership in the BRI ventures. The example of the international airport in Kandal Province illustrates that clearly. A joint conducted the project between a local conglomerate Overseas Cambodian Investment Corporation (OCIC), owned by Pung Kheiv Se, a Cambodian entrepreneur, and Cambodia's government's State Secretariat of Civil Aviation. Despite Chinese banks investing 1.1 out of 1.5 billion USD needed to finish the undertaking, the State Secretariat of Civil Aviation has a 90% stake in the project (Chinyong Liow et al., 2021). This instance highlights the contrast in the ownership between this and some projects carried out in Laos, where the Lao stakeholders do not possess the majority of the ownership of ventures conducted in the country.

Furthermore, some infrastructure projects in Cambodia are developed by Chinese companies based on the build-operate-transfer (BOT) principle. According to the World Bank (2022a), "in a BOT project, the project company or operator generally obtains its revenues through a fee charged to the utility/government rather than tariffs charged to consumers." In the case of expressways developed in Cambodia by the China Road and Bridge Corporation, it means that those projects do not add to the country's external debt distress (Chheang, 2021). From the perspective of a host country, this is a much safer financing option than standard infrastructure loans or oil-for-infrastructure loans. Worth highlighting is also the fact that infrastructure projects in Cambodia do not seem to suffer from substantial delays caused by the COVID-19 pandemic (Chheang, 2021).

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When it comes to the Cambodian segment of the Pan-Asian railway, it was primarily financed by the ADB as early as 2010. The financial institution provided 84 million USD to support the reconstruction and repair of rail tracks all the way from Cambodia's border with Thailand to the country's main seaport in Sihanoukville (Asian Development Bank, 2010). Figure 5 (on page 52) mainly highlights the railroad from the Thai border to Phnom Penh, which is outlined in the ADB documents. Moreover, other than the ADB, the government of Australia also provided additional financing equal to 21.5 million USD to support the project. The total sum spent by the Cambodians was equivalent to 20.3 million USD (Asian Development Bank, 2010). Therefore, the railroad should not be considered a major factor when discussing the issue of debt distress in Cambodia as the project does not notably harm the nation's budget. Possible expenses financed by Chinese financial institutions would mostly cover maintenance or expansion fees as the railway has been operating properly since 2013. That being so, calling the Cambodian part of the Pan-Asian railway a BRI project may be a stretch and mainly a soft power move facilitated by the two governments.

The weight of the evidence suggests that BRI debt distress in Cambodia is not severe due to a myriad of reasons. First, the earlier analyzed political measurements show that the country's political climate is much healthier than in countries that fell into the Chinese debt trap. Cambodia scores exceptionally high in the "Government Effectiveness" category. Second, the country has received an outstanding amount of grants from the PRC and is not only focused on loans. Third, a lot of Chinese investments hosted in Cambodia were developed according to the BOT principle. Fourth, there is no single project whose cost could put the country's economy in debt if gone wrong. Finally, the Cambodian entities kept ownership of many ventures implemented in the country. All these reasons account for the fact that Cambodia has become more prosperous using Chinese capital. Having said that, as argued earlier, it is crucial for the country's government to closely monitor the situation of Chinese investments because, due to their large number, the risk of becoming financially dependent on the PRC is always present.

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4.4 Why Sri Lanka Did Not Fall into the Chinese Debt Trap

Officially, Sri Lanka began its journey with the BRI in 2017, which is when many nations decided to join the Chinese megaproject (Sacks, 2021). It can be said with confidence that no other country gained more media attention regarding its BRI debt than Sri Lanka. Examples included in Chapter 2 of this thesis show the arguments of many international and Chinese scholars as to why Sri Lanka did or did not fall into the Chinese debt trap (Chellaney, 2017b, 2021). The island's economic situation has been in an unhealthy state even prior to the country joining the initiative. The same can be said about Chinese influence over Sri Lanka, which has been prominent even during the first ten years of Mahinda Rajapaksa's rule over the country. Because the island is a tourist paradise and a big part of its income comes from foreign tourists, the impact of the COVID-19 pandemic on the state of the nation's economy has been immense (Kataria, 2022). Overall, the financial situation of Sir Lanka and the enlarging Chinse influence over the island are vastly complex and require a careful investigation.

Even though the issue of China's debt-trap diplomacy became famous among the scholarly community in 2017, the debt traps in Sri Lanka can be traced a few years prior to the publication of the first articles blaming China for the island's financial struggles. Since 2005, China has emerged as the Official Development Assistance (ODA) and Foreign Direct Investment leader (Bhatia et al., 2016). As a result, during Rajapaksa's presidency, the Chinese fund distributed to the country reached 14 billion USD. Moreover, ODA accounted for 12 billion USD of that amount and was primarily placed in sectors like energy, infrastructure as well as services (Bhatia et al., 2016). The principal projects carried out in the years 2005-2015 that quickly gained media attention were the Hambantota Port Development and the Colombo Port Project. However, it is a fact that the issue goes far beyond these two infrastructural projects.

Looking at the funding of certain Chinese ventures in Sri Lanka, we can learn that they originate prior to establishing the BRI. For instance, the Norochcholai Coal Power Plant received 1.3 billion USD funding from the China Machinery Engineering Corporation. Moreover, the famous among journalists and scholars Hambantota Port received 1 billion USD from the China Harbour Engineering Company Ltd. and Sino-Hydro Corp. (Bhatia et al., 2016). In addition, Sri Lanka was one of the top destinations of Chinese other official flows (OOF),

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which in the years 2000-2017 accounted for almost 8 billion USD. Those investments were carried out long before Xi Jinping announced the BRI. Thus, the circumstances of Sri Lankan debt distress began way earlier than those of most countries discussed in this research project (Bhatia et al., 2016).

A severe complication arose with distributing the money after it reached Sri Lanka. During the final months of Rajapaksa's first time in the office, the Chinese funds were handed out to people in his closest circle. The money was used for the president's reelection campaign and provided to those willing to support the regime. That capital was taken from the budget allocated to the developments of the Hambantota Port (Abi-Habib, 2018).

The issue of the Chinese military base in Sri Lanka is undoubtedly a convoluted one. From a geopolitical perspective, Sri Lanka is one of the crucial parts of the Indo-Pacific. Thus, in the past, both Beijing and Washington have shown interest in expanding their military presence on the island (Jaipragas, 2019). Nevertheless, so far, no actual foreign military facility has been built on the Sri Lankan soil, and even the Sri Lankan prime minister rejected the claim that China might set up one (The Economic Times, 2018). The country had been under the influence of both powers, as well as India, and it seems like during Rajapaksa's presidency, it has been shifting quite drastically toward the side of China (Hussain, 2020). Some argue that since the PRC has rented the Hambantota Port for 99 years, it will be sooner or later turned into a Chinese military base (Ramiah, 2021). Even if that happens, the Chinese military base will most likely be the only one in the country. The Chinese economic and political influence will be so vast that it will not allow any other nation to construct its military base, which is very different from the case of Djibouti. To put it more simply, considering the current state of affairs, most likely, Sri Lanka will solely host a Chinese military facility or no military facilities at all.

Whether ultimately siding with Beijing would bring positive results to the Sri Lankan economy is hard to determine. Based on the evidence from Djibouti and Myanmar, one is sure that China wants to expand its military. The Hambantota Port may be turned into a military facility in the future, but that has not taken place yet. In the worst-case scenario, when Beijing proposes establishing a military presence on the island, the Sri Lankan economy, the issue of debt distress will be so severe that those in the rule of the nation simply will not be able to say no.

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At present, the best evidence suggests that the strong relationship between president Rajapaksa and Beijing is the core of Sino-Sri Lankan relations. Both economically and politically. It is in Beijing's interest for Rajapaksa to stay in power as he will allow the relationship to foster more BRI projects to develop. The case of Sri Lanka and the Chinese takeover of the Hambantota Port gained considerable media attention as it is the first situation of this sort following the establishment of the BRI. That being said, the financing of the Chinese projects on the island has been considerably unalike compared to other BRI participants, which could have resulted in different financial conditions in the country.

4.5 Why Mauritania Did Not Fall into the Chinese Debt Trap

Mauritania officially joined the BRI in 2018, among many other African nations (Sacks, 2021). The cooperation between Beijing and the Northwest African country is characterized as one of mutual commercial interest. Mauritania sees China as a valid investor and trade partner, and China indeed views the country as an essential source of natural resources, mainly iron, copper ore, and gold. Moreover, since 2014 Mauritania has gained the attention of international energy companies as abundant liquefied natural gas (LNG) reserves have been discovered on its territory (Ouki, 2020). The buyers of those resources are often Western entities, which brings additional financing to the country. Especially when it comes to LNG, the buyers can be found all around the world, and Mauritania is not pressured to depend on China for its income solely.

Other than trade and natural resources, Mauritania is also a geopolitically noteworthy country. So far, most Chinese trade routes in Africa have been centered in the eastern part of the continent. As Beijing emphasizes diversification and expanding its trade routes, the continent's western side could serve as an alternative path for Chinese imports and exports to the Middle East and Europe (Chaziza, 2021). Having this alternative means of entry to the Mediterranean Sea would indeed be a valuable asset in the hands of Chinese leaders.

China has been perceived as a precious partner primarily due to its lack of colonial history when it comes to business ventures in the Maghreb. In addition, many in the region believe that since China managed to escape the cycle of poverty, it could help African nations

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do the same, so they can eventually reach the level of development equal to China. This shared history and perception of economic affairs is a crucial link between China and the Maghreb countries (Chaziza, 2021). Thus, Beijing gets a lot more priority and freedom with its investments in the region.

Other than infrastructural projects, which are a crucial component of the BRI, in Mauritania, China has also implemented many programs related to agriculture. The majority of citizens in the country obtain their income through agriculture, which for a country that is by a large part covered by deserts is not ideal. Improvements in the agricultural sector are crucial for Mauritania to improve the financial situation of its citizens and improve the nation's food security (International Federation of Red Cross And Red Crescent Societies, 2022). According to the Chinese officials, the north-western part of Africa is geographically similar to the Ningxia autonomous region in north-central China. Hence, China wants to use its experience from that region to help the Maghreb country refine its agricultural sector (Hong, 2021).

All in all, the analysis suggests that participation in the BRI has been primarily beneficial to Mauritania. For myriad reasons, the nation does not have much trust in neo-liberal financial institutions and investments. China not carrying the same legacy as many Western European nations is an obvious choice for politicians in the regions regarding economic collaboration. Moreover, Beijing sharing its valuable experience of overcoming poverty can be a crucial lesson to the population of western Africa.

4.6 Conclusion

In Chapter 4, the author examined the case study of three BRI participants that did not fall into the Chinese debt trap. The two sets of economic and political variables showed many differences and similarities between the three nations.

As in the first case study, Cambodia, Sri Lanka, and Mauritania are deeply engaged in the Chinese megaproject. All three states host a significant amount of BRI projects. However, neither country's debt distress level crossed the 20% threshold. The debt as a percentage of the host county's GDP for Sri Lanka and Mauritania amounted to 11% and 11.7%; it was notably

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higher at 19.2% for Cambodia. Cambodia was also the country with the highest amount of hidden debt out of the three participants, which for the most part, should not be considered as notable as it only accounted for 0.5%. Furthermore, Sri Lanka is the richest and the most equal economy out of these three. Cambodia appears to be on a lower level of development in comparison to the other subjects.

The political measurements are more diversified than for the states discussed in the first chapter. Nevertheless, the overall GWI score overlaps with the Governance Efficiency Ranking. For the most part, in the majority of categories, Sri Lanka scored higher than the rest. Depending on a particular indicator, either Cambodia or Mauritania scored second place, but in a more significant number of subcategories, it was Mauritania that received lesser scores. The main point learned from the economic set of measurements is that the general results were better than among the countries in the first case study.

The particular factors that would distinguish the way projects in Cambodia were financed from other countries are the use of the BOT principle, a large number of Chinese grants prior to and after the country joined the initiative, the fact that the country remained in the ownership of the ventures it hosts, and the alternative sources of financing, such as the ADB. In terms of Sri Lanka, the most extensive variation between it and other BRI members is the close support Beijing provides to the Rajapaksa regime. The author argues that it is beneficial for China to keep the current ruler of the island in power. Moreover, the financing China provided was shared among ODA, FDA, as well as OOF, and the aid supply of aid has often begun prior to the launch of the initiative. Overall, the instance of Sri Lanka received disproportionate attention from media outlets. Finally, Mauritania is a country abundant in natural resources, which are sold not only to China. The nation has access to additional financing. However, it often chooses not to use them due to colonial history. The relationship between China and Mauritania strikes as the most beneficial to the host country out of all discussed in this case study.

In closing, the common reason why the countries in this case study did not fall into debt is their higher level of economic development, as well as political efficiency and freedom, which is outlined in Table 9 (on page 74). There are specific reasons for each country drawn mainly from the qualitative analysis. For Cambodia, it is the more complex financing scheme;

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for Sri Lanka, it is the special relationship between the leader and Beijing; and for Mauritania is the abundance of resources.

Table 9.

The second case study - conclusions

Country	Cambodia	Sri Lanka	Mauritania
Large percentage of hidden debt exposure to China	NO	NO	NO
Oil-for-resource loans	NO	NO	NO
Chinese military base	NO	NO (Possible)	NO
WGI - Voice and Accountability	12.56	43.96	24.64
WGI - Government Effectiveness	37.98	50.96	21.15
WGI - Rule of Law	17.79	53.37	30.29
WGI - Political Stability and Absence of Violence/Terrorism	41.04	45.28	19.81
WGI - Regulatory Quality	29.81	44.32	20.67
WGI - Control of Corruption	11.06	45.67	23.08
Governance Efficiency Ranking	53.90	60	42.10
Global Freedom Score	24	55	35
Debt trap	NO	NO	NO

Note. Adapted from "Countries and Territories" by Freedom House, 2022 (https://freedomhouse.org/countries/freedom-world/scores). Copyright 2022 by FreedomHouse. "2021 Governance Efficiency Ranking" by Solability, 2021 (https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital). Copyright 2021 by Solability. "The Worldwide Governance Indicators" by Kaufmann D., A. Kraay, and M. Mastruzzi, 2020. http://info.worldbank.org/governance/wgi/Home/Reports. Copyright 2022 by The World Bank Group.

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Chapter 5: Conclusion

5.1 Results – Cambodia & Laos

Although Cambodia and Laos are situated in the same region and have a prosperous relationship with China dating back centuries, the outcome of the BRI investments each country hosts have been drastically different. Laos is among the countries with the highest debt exposure to China, a large percentage of which has been characterized as hidden debt. At the same time, the situation in Cambodia is nowhere near as unsatisfactory. The nation indeed suffers from the relatively significant debt it owes to China. However, their issue is not further exacerbated by hidden debt.

Both states are essential transportation links leading to China, often referred to as being a part of the Pan-Asia railway. The implementation of big infrastructural projects hoping to connect the host country with nearby nations also differs between Cambodia and Laos. First and foremost, the railroad venture in Laos has been strikingly more costly than in Cambodia, adding up to about one-third of Laos's GDP. In addition, Chinese and Lao enterprises collaborated based on the PPP principles and created many joint-venture operations. The Chinese loans for this project were distributed between private entities, which created a severe amount of hidden debt. Moreover, the ownership of the infrastructure is mainly shared among Chinese corporations and not Lao actors.

In comparison, to found the projects hosted in Cambodia, the country's government used not only Chinese loans but also managed to gain a substantial quantity of grants. Cambodia has also collaborated with non-Chinese financial institutions like the ADB to subsidize infrastructural projects. Besides, the state managed to keep the ownership of the undertakings it hosts. Cambodia created minimal hidden debt when working with Chinese enterprises, as the majority of loans were done between governmental entities. Lastly, the Cambodian regime never agreed to implement a project the size of the railways constructed in Laos, which, if gone wrong, could put the country's economy into serious financial troubles.

By analyzing the state of governance in both countries, we can learn that they vary tremendously. Laos has scored low among almost all of the Worldwide Governance Indicators.

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Even though Cambodia has not received a rating that would be generally considered very high, they have been higher than Laos' among the majority of indicators. The only indicator in which Laos significantly outmatched Cambodia was the "Political Stability and Absence of Violence/Terrorism." Furthermore, Cambodia received much higher results in the Global Freedom Score and the Government Efficiency Ranking. In both categories, Laos received marks that would indicate its citizens enjoy less freedom. There is no doubt that Cambodia vastly outperforms Laos when it comes to the level of governance.

To recapitulate, the main reasons why Laos fell into the Chinese debt trap and Cambodia did not is the way of financing large infrastructural projects and the state of the host country's governance. Citizens of Cambodia can enjoy a higher level of political freedom. Thus, it is likely that their government receives more pressure to act with the benefit of the taxpayers in mind. The population of Laos is primarily unable to put as much pressure on those in the rule of the country. In consequence, the politicians will not always put the well-being of citizens first place. Two governments also have very different approaches to acquiring foreign financing. Cambodia used less risky methods and assured that the BRI would facilitate the country's economic development and not put it at risk.

5.2 Results – Sri Lanka & Djibouti

Besides the economic variables and high level of participation in the BRI, the other indicator distinguishing Sri Lanka and Djibouti from other BRI participators was the presence of the Chinese military base in those countries. The Chinese military has been stationed in Djibouti for years. However, despite ongoing speculations related to the possibility of establishing a military base in Sri Lanka or transforming the Hambantota Port into one, Beijing has decided not to develop a military presence on the island yet. Regardless, both nations are significant geopolitically for China. Therefore, it is safe to assume that the collaboration between them and China will continue to flourish.

As for the reason why one of the countries fell into the Chinese debt trap while the other one did not, it is related to the level of governance, just like in the instance of Cambodia and Laos, as well as the specifics of the relationship between the host countries and China. Despite the case of Sri Lanka being widely popular among journalists and political commentators, the

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data indicates that country's debt is not as notable as often portrayed in newspapers and online publications.

The analysis of the Worldwide Governance Indicators shows that Sri Lanka exceeds Djibouti in all categories researched by the World Bank. Sri Lankan citizens can enjoy higher levels of political stability, accountability of the governance, the rule of law, and more. This does not demonstrate that there are no issues with the quality of governance in Sri Lanka. Undoubtedly many can be found. The report simply serves as evidence that the Sri Lankan government is more efficient than its counterparts in Djibouti. On top of that, the Global Freedom Score proves that the residents of Sri Lanka are more unrestrained as the country received almost double the score of Djibouti. The Government Efficiency Ranking further validates the findings since Sri Lanka achieved almost 20 points more than Djibouti. Finally, the economic measurements imply that the wealth is better distributed in Sri Lanka than in Djibouti.

Djibouti ended up in a similar condition as Laos, whose debt has been primarily accumulated due to a sizeable infrastructural investment. By agreeing to China funding the railroad from Djibouti to Ethiopia, the country's government consented to an increase in debt distress to China. The amount loaned from China significantly exceeds the threshold where debt would be considered beneficial and negatively impact the country's development. In the past, there were even voices suggesting that Djibouti may be in high risk of default, however, as the country renegotiated its terms of loans with China, the possibility is less likely (Hurley et al., 2018).

Even though the issue of debt distress in Sri Lanka is not as significant does not mean that the country is not under a severe Chinese influence. The close relationship between both governments and the CCP's support for Rajapaksa's regime shows that both nations have very close ties. Besides, geopolitically Sri Lanka is located on an important trade route leading to Africa.

Even though this event is outside of the scope of this thesis, it is important to bring to attention the situation of Sri Lanka falling into default in May 2022. The country missed several payments and bond coupons, including some owed to China (Karunungan & Pollard, 2022). The debt Sri Lanka owes to China accounts for about 10% of the country's whole debt.

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Therefore, it is possible that even though the country did not fall into the Chinese debt trap, it still has to default. This situation is caused by the large amount of outstanding debt the country had had even before it joined the BRI.

To put it concisely, the reasons Sri Lanka did not fall into the Chinese debt trap and Djibouti did are the more efficient governance and a different type of relationship between the host country's government and China. Sri Lanka greatly exceeded Djibouti in all economic and political indicators. Therefore, it is safe to assume that the lack of political freedom and accountability lead to Djibouti's government making too risky decisions when it comes to Chinese investments.

5.3 Results – Mauritania & Angola

Mauritania and Angola are the two African nations that met very different consequences of participating in the BRI. Both nations are abundant in natural resources, which are highly important for the PRC government. However, only Angola ended up with a high level of debt distress to China. At the same time, Mauritania took advantage of the Chinese incentives and further facilitated its economic development.

Just like in the instances of the other two pairs of countries, there is a vast difference in the level of governance between Mauritania and Angola. The country in Southern Africa scored higher than Mauritania, only in one of the Worldwide Governance Indicators. Thus, Mauritania represents a higher level of government efficiency and political freedom. Similar findings have been indicated throughout the Global Freedom Score and the Governance Efficiency Ranking. Angola received higher scores in those two, which means its government is more accountable. Furthermore, the economic indicators investigated by the author show that Mauritania is a lot more economically equal than Angola.

The Angolan government's biggest mistake in approaching the Chinese initiative was agreeing to the oil-for-infrastructure loans. As the nation is abundant in this energy resource, the government assumed it might guarantee them better terms than typical loans. In reality, the prices started to fluctuate, which led to the government having issues paying China back. The amount of oil requested by the PRC was so huge that Angola could not sell it to other countries

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and thus make enough income. Most likely, if the government did not agree to the initial Chinese offer and did not implement the oil-for-infrastructure model to facilitate the growth of the country's infrastructure, Angola would not have ended up in such a large debt. Implementation of this type of loan left Angola insanely vulnerable to any fluctuations in the oil market and put the country's whole economy at considerable risk.

On the other hand, Mauritania mostly used Chinese interest in its natural resources to the nation's advantage. The country trades with China, but its loans are mostly standard development loans, which do not put its well-being at risk. Mauritania also utilized Chinese expertise in agriculture and development to further guarantee the prosperity of its citizens. At the same time, the country kept its ability to trade the natural resources with other partners and did not solely rely on China. Having said that, as the Mauritanian government has rejected most of the aid from the West, it should be careful not to entirely rely on China for its development as not having alternatives never leads to anything good.

To sum up, just like the other two pairs of countries, the cause why Angola fell into the Chinese debt trap, and Mauritania did not primarily focus on the efficiency of the host country's government. Additionally, a weighty drag on the situation of Angola was the implementation of the oil-for-infrastructure model, which has been classified as high-risk. Mauritania is a country with better regulatory quality, higher standards of political and economic freedom, and more respect for the rule of law. It managed to avoid falling into the Chinese debt trap and successfully utilized Chinese development loans for those reasons.

5.4 Final Conclusions

To answer why certain BRI participants fall into debt traps while others do not, the author of this research project outlines one common reason and a few additional case-specific reasons that explain the situation of particular countries. **This study shows that whether or not a BRI participant will fall into a debt trap highly depends on the host country's political environment, such as political freedom, the rule of law, control of corruption, and more.**

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The higher a host country scores in those categories, the less likely it will experience severe debt distress to the initiative's organizer. Countries whose governments can be characterized as repressive are more likely to fall into high debt. This is true for all three pairs of countries included in this thesis. Laos, a country considered less politically free than Cambodia, experienced over triple the debt (represented as a percentage of the host country's GDP), for Djibouti, the exact measurement is over four times higher than for Sri Lanka, and finally, for the debt Angola has accumulated is over 4.5 times higher than that of Mauritania. In all three examples, the country with a more hostile political environment ended up in strikingly higher debt.

Regarding case-specific reasons, for the first pair of countries–Laos and Cambodia, the determining factor of Laos falling into a debt trap was the large infrastructural project, which ended up costing over 60% of Laos' GDP. A venture this big should require multiple alternative ways of financing. However, to build the railway connecting Boten with the Chinese city of Kunming, the Lao government primarily used funds from Chinese financial institutions. This investment should have been seen as highly risky, and the government should not have agreed to implement it. At the exact time, Cambodia used multiple financing sources to improve its rail transit, and the venture's prosperity was never endangering the country's economy in a significant way.

The same reason was discovered for the second pair of countries—Djibouti and Angola. The railway project connecting Djibouti with Ethiopia turned out to be too costly for the nation's still developing economy. The expenses of the infrastructure venture were higher than the GDP of Djibouti. An investment of such a high cost puts the country's prosperity at an extraordinary risk if gone wrong. In the case of Djibouti, the country's financial situation will need at least a decade to fully recover from this irresponsible Chinese investment.

The final pair of countries—Angola and Mauritania, show a different reason for one of the countries experiencing a high level of debt distress. Both countries are abundant in natural resources. However, only one of them agreed to the Chinese oil-for-infrastructure model. Angola consented to pay for its infrastructure in oil, which turned out to be a significant hit to the country's economic prosperity. The situation got much worse as the oil prices began to fluctuate. On the other hand, Mauritania continued to trade its resources with other actors in addition to China and did not encounter the issue of high debt distress.

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Table 10.

Comparison between debt exposure to China and total central government debt

Country	Laos	Cambodia	Djibouti	Sri Lanka	Angola	Mauritania
Sovereign debt exposure to China 2021 (% of GDP)	29.4	19.2	46.8	11.7	37.8	11
Sovereign and hidden debt exposure to China 2021 (% of GDP)	64.8	19.7	48.5	12.1	49.5	11
Total central government debt 2020 (% of GDP)[5]	68.18	No data	40.88[6]	101.24	136.54	59.19

Note. Adapted from "Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects" by AidData at William & Mary, 2021 (https://www.aiddata.org/publications/banking-on-the-belt-and-road). Copyright 2021 by AidData at William & Mary. "Global Debt Database" by International Monetary Fund, 2020 (https://www.imf.org/external/datamapper/datasets/GDD). Copyright 2020 by International Monetary Fund.

Table 10 (above) shows the relation between debt exposure to China and total central government debt among the countries outlined in the case studies. It is worth noting that for many nations, the debt they owe to China is only a small percentage of their total debt. That is certainly true for Sri Lanka and Mauritania. For instance, the total central government debt for Sri Lanka is higher than the country's GDP, but the total debt to China equals only about 12%. The same is correct for Mauritania, where total debt to China is 11%, but the nation's central government debt is almost 60% of its GDP. In the case of Angola, the total central government debt is equivalent to over 130% of the country's GDP, but obligations to China account for less

[5] Central government debt-to-GDP ratio represents the gross debt of the government as a percentage of GDP. It includes the following liabilities: currency and deposits; debt securities; loans; insurance, pensions and standardized guarantee schemes, and other account payable (Organization for Economic Co-operation and Development, 2021). Hidden debt owed to any country is not included in this measurement.

[6] As of July 2022, no data from International Monetary Fund regarding the total government debt is available for 2021. The author had to utilize the latest available data for the year 2020. Therefore, the values for specific countries are lower than sovereign and hidden debt exposure to China, a statistic for the year 2021.

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than half of the country's GDP. It is a fact that developing countries have liabilities to many creditors, including western financial institutions. Some of those were present before China established the BRI and those nations decided to join the initiative. The issue of debt distress in those states goes much further than just the BRI.

For states like Laos and Djibouti, the debt owed to China represents almost all of the central government's debt. For that reason, it can be assumed that the poor financial situation of those countries is mainly attributed to failed Chinese infrastructure projects. Nevertheless, as Table 10 (on page 81), highlights the amount of debt the country needs to repay China in relation to its total dues varies case by case.

This is not to say that the debt to China could not further deteriorate the financial environment of those BRI members. That is certainly a possibility and a valid critique of the PRC government, as China should have paid more attention to the debt situation of BRI participants prior to inviting them to join the initiative. The officials in Beijing should be aware that engaging with countries that are already in debt requires extreme awareness of the domestic situation in those nations, and it looks like, in some cases, those were disregarded by China.

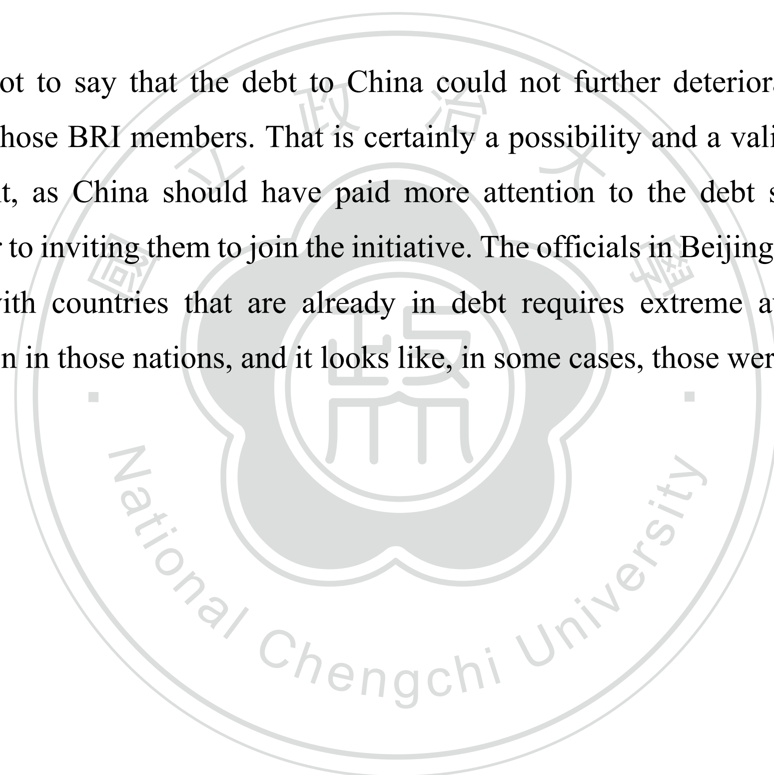
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Table 11.

Comparison of both case studies

Country	Laos	Cambodia	Djibouti	Sri Lanka	Angola	Mauritania
Large percentage of hidden debt exposure to China	YES	NO	Present, but not consequential	NO	NO	NO
Oil-for-resource loans	NO	NO	NO	NO	YES	NO
Chinese military base	NO	NO	YES	NO (Possible)	NO	NO
WGI - Voice and Accountability	3.38	12.56	10.14	43.96	25.60	24.64
WGI - Government Effectiveness	22.60	37.98	25.96	50.96	11.06	21.15
WGI - Rule of Law	20.67	17.79	15.87	53.37	16.83	30.29
WGI - Political Stability and Absence of Violence/Terrorism	69.34	41.04	36.32	45.28	26.89	19.81
WGI - Regulatory Quality	21.15	29.81	20.19	44.32	15.87	20.67
WGI - Control of Corruption	14.90	11.06	25.00	45.67	18.27	23.08
Governance Efficiency Ranking	43.90	53.90	40.40	60	35.7	42.10
Global Freedom Score	13	24	24	55	30	35
Debt trap	YES	NO	YES	NO	YES	NO

Note. Adapted from "Countries and Territories" by Freedom House, 2022 (https://freedomhouse.org/countries/freedom-world/scores). Copyright 2022 by FreedomHouse. "2021 Governance Efficiency Ranking" by Solability, 2021 (https://solability.com/the-global-sustainable-competitiveness-index/the-index/governance-capital). Copyright 2021 by Solability. "The Worldwide Governance Indicators" by Kaufmann D., A. Kraay, and M. Mastruzzi, 2020. http://info.worldbank.org/governance/wgi/Home/Reports. Copyright 2022 by The World Bank Group.

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Ultimately, the state of the host country's political affairs was the deciding factor when determining the reason why such a country ended up in the Chinese debt trap for all nations in both case studies. The difference in political conditions among all subjects, as well as other conditions determining why countries fell into Chinese debt traps, are incorporated in Table 11 (on page 83). The author also outlined two case-specific causes to further elaborate on the topic. In the instances of Djibouti and Laos, those were the large infrastructural projects, which amplified hidden debt and the oil-for-infrastructure model in the case of Angola.

5.5 Policy Implications and Future Research Suggestions

This research proves that countries with limited government efficiency levels should be cautious when joining the BRI and negotiating with China the terms and conditions of infrastructural projects. Governments are encouraged to create policies that would provide additional protection from creating hidden debt; as in the case of Laos, the effect of hidden debt on the nation's economy has been immense. Elites in developing countries should pay more attention to the actual cost of large infrastructural projects and prepare for the scenario when those ventures do not bring expected profits. Furthermore, based on the instance of Angola, countries should avoid the oil-for-infrastructure frameworks when dealing with China and any financial partners. This type of loan makes a host country's economy highly vulnerable to fluctuations. Policymakers in developed countries and Western financial institutions should be incentivized to provide better terms of loans capable of competing with what China offers. In addition, they should continue working on enhancing the political environment in developing countries.

The author encourages further research on the topic of Chinese debt traps. Looking at cases of more developing countries that are members of the BRI could provide essential details that could save new BRI members from ending up in debt traps. Cases of countries that have already received many infrastructural loans from China and host multiple Chinese infrastructural projects are especially important for the development of this discourse. Scholars and policymakers should establish a dialogue with elites in developing countries to further facilitate data collection and spread awareness of the possible outcomes of Chinese infrastructure loans.

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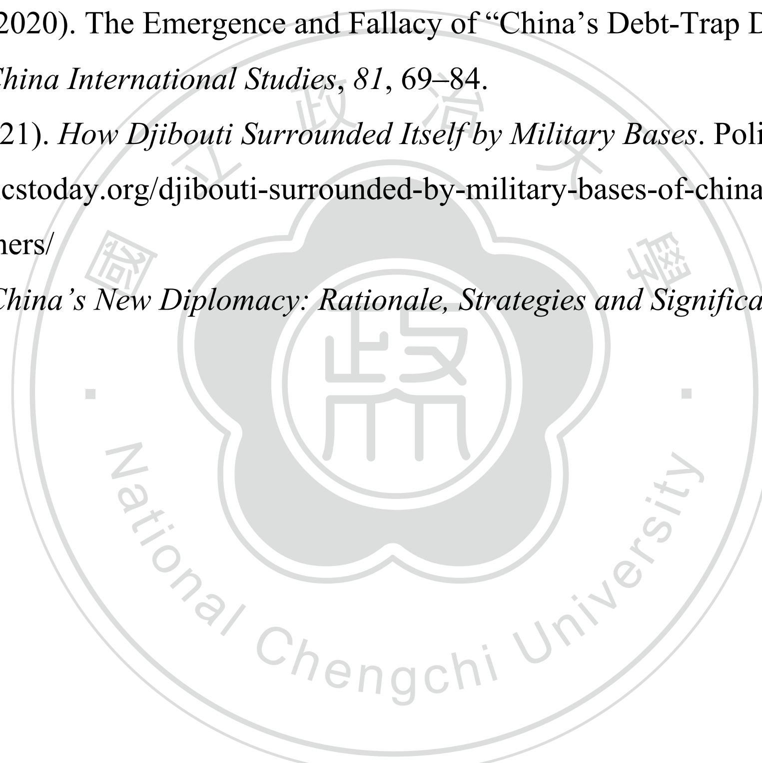

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