



# Impact Assessment on BRI on Partner Nations

(Special reference to Zambia, Pakistan, Angola,  
Laos and Sri Lanka)

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(This research was initiated and organized by the South South Research initiative group, which spear headed the project. Key contributions were received from experts who has extensive knowledge of law, economics and geopolitics.)

**ADDRESS - SOUTH-SOUTHRESEARCH INITIATIVE**

Level 26, East Tower,World Trade Center,  
Echelon Square, 00100 Colombo, Sri Lanka

**EMAIL -** [southsouthresearchinitiative@gmail.com](mailto:southsouthresearchinitiative@gmail.com)

**WEB -** [www.ssrinitiative.org](http://www.ssrinitiative.org)

**FACEBOOK -** [facebook.com/ssrinitiative](https://facebook.com/ssrinitiative)

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# Executive Summary

It has been nearly nine years since Chinese President Xi Jinping launched the Belt and Road Initiative (BRI) in the autumn of 2013. A lot of progress has been made thus far. BRI has the potential to be the world's largest development project, which already covers more than 60% of global population. Over the coming decade, it is expected to grow its scope and application. Mutual benefit is a feature of this global programme which will also help develop markets for Chinese products in the long run, and to alleviate industrial excess capacity in the short term.

Despite these successes and advancements, it shouldn't be ignored the challenges encountered throughout the BRI's implementation. For instance, some initiatives were implemented too quickly and without enough thought given to the long-term financial advantages. The initiatives frequently rely too heavily on the backing of governments and policies. Another extreme is when the BRI's implementation agencies overemphasize China's own advantages, especially when they simply take into account their own limited corporate interests and disregard the concerns of local populations, governments and enterprises. Additionally, several nations support this, but are hesitant to contribute on their own. They assume that because China is so eager in pushing the project, it should cover the majority of the costs. They also assume that China should cover the majority of the expenses because it is actively supporting the BRI and must stand to gain much from it. Last but not least, there is no shortage of skepticism, opposition and even open condemnation of the BRI in the face of the international community, including certain regional powers and those nations along the One Belt, One Road (OBOR).

There might be a number of causes for those suspicions. The BRI has multiple meanings and understandings, which are exceedingly bewildering to the world community, much as there are a thousand different versions of Hamlet in a thousand different hearts. There are many parties involved in the execution of it, but China has mostly focused on interacting with the government institutions without giving enough consideration to the worries of corporations, civil society groups and local residents. This issue was best illustrated by China's engagement with Zambia, Pakistan, Angola, Laos and Sri Lanka.

Report has been going through each and every country's economic, social and political changes by evident and tries to evaluate BRI in real term. The Zambian government has not put in place any strategies to benefit the manufacturing sector from Chinese investments. Instead, they continue to turn a blind eye on what the Chinese investors continue to do which is destroying the industrial sector. Simultaneously, Pakistan's fears have become reality, with many now unable to sustain themselves and compete with the large Chinese fishing vessels. Accordingly, it is clear that China's BRI project has triggered social unrest in Pakistan and has also led to economic instability. The more Laos is indebted to China; the latter can use its power to influence the policy-making process in that country. Inevitably, Angola's reluctance in providing its own financing avoided investing in real estate due to lack of legislative reforms to create a functional real estate market. These government measures have increased the dissatisfaction of the population that cannot benefit from the outcome of the Chinese investments.

The research extensively studies on Sri Lanka, mainly The Colombo International Financial City, Hambantota Port, Colombo port expansion, Mattala Airport and other infrastructure development such as Noraichcholai power plant. BRI may boost employment within Sri Lanka. Colombo port city has been forecast to provide new jobs. However, Sri Lanka sacrifices a level of autonomy around how to manage these infrastructures. With a significant portion of investment in BRI coming from Chinese public entities, there is concern of Sri Lanka's growing debt burden and loss of sovereignty. BRI projects in Sri Lanka showed lack of transparency and corruption. There are some environmental impacts as well.

Subsequently, the research identified number of positive and negative impacts of BRI on partner countries through analyzing the status and facts of Zambia, Pakistan, Laos, Angola and Sri Lanka. Moreover, it finds some loopholes of positive impacts of the programme on partner countries. Overall, the research provide an overview on existing status of BRI and the issues and challenges, which could emerge from BRI mainly on partner countries.

# 1. Introduction

The Belt and Road Initiative (BRI), often known as China's New Silk Road Project, is now a reality. In 2012, the freight train line from Chongqing, China, to Duisburg, Germany, went into service. In 2018, the Western Europe-Western China Highway from Lianyungang, China, to St. Petersburg, Russia, was completed. Since decades, there has been an increase in the amount of marine cargo traded between China and Europe. And this infrastructural system, which is now functional, will continue to prosper in the future. There is still room for discussion over the BRI's future scope and its eventual routes. But the foundation for this century project has already been laid, as have the necessary circumstances in the areas of politics, economics, and security.

Need of investigation on the BRI's multi-national views in order to challenge how the Chinese government portrays it as a symbol of "peace, collaboration, growth, and mutual benefit." concentrating on how geopolitics, infrastructure spending and urban regional development are interconnected.

The disparity between the BRI's rhetoric and its actual practices has become more and more apparent to academics. According to the "String of Pearls" idea, which is widely held among developing countries, BRI serves as a cover for China's "debt-trap diplomacy" and efforts to gain a military presence in the Indo-Pacific region and beyond. Additionally, contends that despite its fast economic development, China's loan and investment policies have remained secret.

The research reflects on much related and represented five countries experiences in depth, including those of Zambia and Angola from Africa, Pakistan, Laos and Sri Lanka from Asia. Sri Lanka is studied more deeply due to being the home country of the research. However, the research always keeps same weight on all selected countries with the specification of their economic development levels, political systems, power dynamics and socio-environmental issues. The research clarifies and contributes new knowledge on the nature of BRI concerning its relationship to globalism, neo-colonialism, the notion of developed vs. developing countries and their institutions and micro-macro benefits and impacts. In doing so, the study offers a balanced account of the antagonistic geo-political narrative of socio-political conflict and the collaborative framework of real socio-economic flows and development.

A conceptual framework is developed for implication of BRI initiative for future global development through an extensive review of the literature. The research is descriptive in nature based on some indicators of global economic development. The study mainly focuses on context of origin, strategy, opportunities and challenges of BRI initiatives on the basis of business, economic, political, social and environmental aspects. Secondary sources have been extensively used related to implication of BRI initiative, challenges and opportunities in the process of implementation of its strategy and future global economic development. The latest information has been included for a better recommendation for implication on BRI initiative.

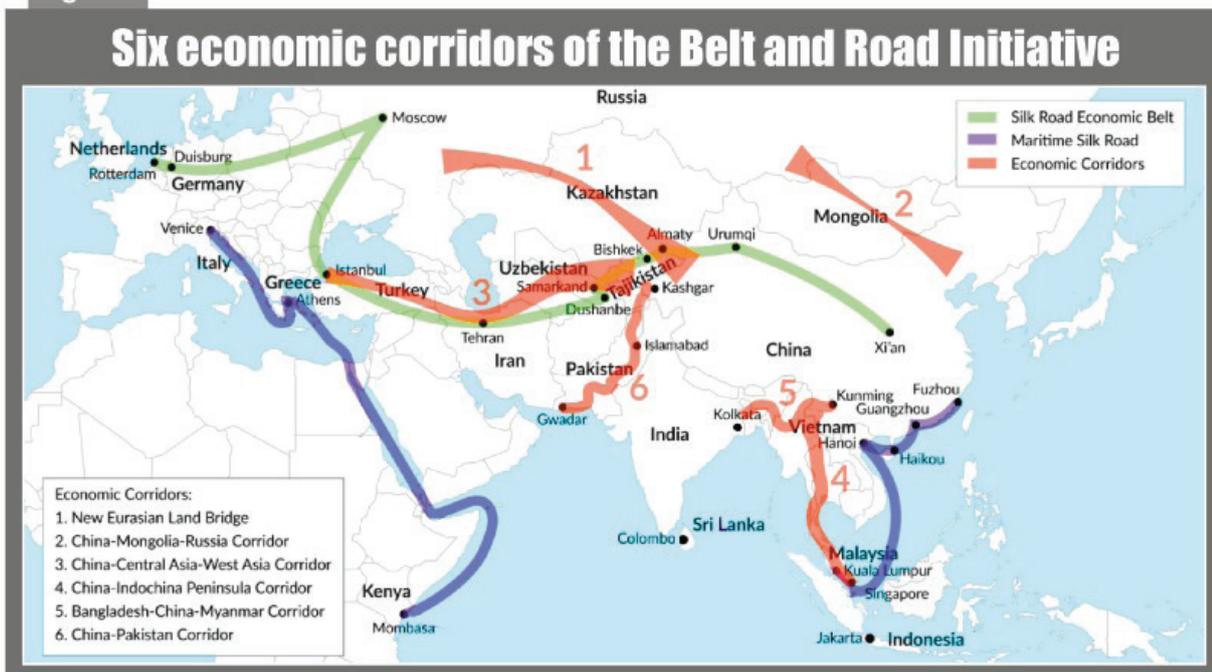
Data have been extensively searched from some renowned databases via google scholar, a web of science, science direct, and Springer link website using important keywords such as "one belt one road, economic belt, maritime silk road, BRI, economic development, policy, strategy, regional development, global economic development, challenges, opportunities, security, geopolitics, and China" for securing authentic information. The data collection and analysis for this study has been done during November to December 2022. Data are analyzed from different perspectives of One Belt-One Road, challenges and opportunities for implementation, funding sources, involvement of partner countries, suitability of economic corridors, strategy for implementation and future global economic development.

## 2. What is China's Belt Road Initiative?

China's Belt and Road Initiative (BRI) is a strategy initiated by the People's Republic of China that seeks to connect Asia with Africa and Europe via land and maritime networks with the aim to build connectivity and co-operation across six main economic corridors encompassing China.<sup>1</sup> They are,

1. New Eurasia Land Bridge
2. China-Mongolia-Russia Economic Corridor
3. China-Central Asia-West Asia Economic Corridor
4. China-Indo-China Peninsula Economic Corridor
5. China-Pakistan Economic Corridor
6. China-Bangladesh-India-Myanmar Economic Corridor<sup>2</sup>

Figure 1



BRI's Chinese name is 一带一路 (yi dai yi lu). It was announced by Chinese President Xi Jinping in Kazakhstan in October 2013.<sup>3</sup> The BRI comprises of a Silk Road Economic Belt which was an ancient network of trade routes that connected China with South East Asia, South Asia, Central Asia, Russia and Europe by land. It can also be addressed as a 21st century Maritime Silk Road, a sea route connecting China's coastal regions with South East Asia and South Asia, the South Pacific, the Middle East and Eastern Africa, all the way to Europe<sup>4</sup>. Infrastructure, trade, financial, and people-

1. OECD Business and Financial Outlook, (2018)

2. [Online-Web] available at URL: <https://www.brookings.edu/blog/future-development/2019/06/21/winners-and-losers-along-chinas-belt-and-road/#:~:text=The%20BRI%20has%20six%20main,the%20China%20Indochina%20Peninsula%20Corridor>. (last visited Sep. 27, 2022)

3. [Online-Web] available at URL: <https://green-bri.org/belt-and-road-initiative-quick-info/> (last visited Nov. 24, 2022)

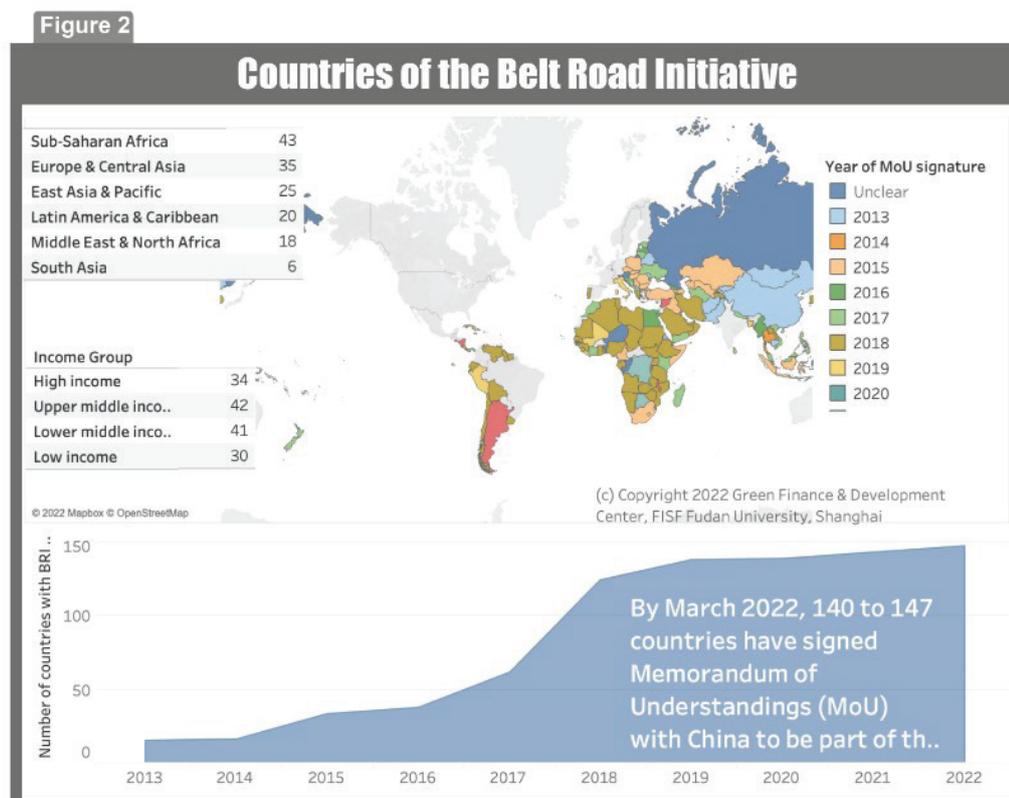
4. [Online-Web], available at URL: <https://www.ebrd.com/what-we-do/belt-and-road/overview.html> (last visited Nov. 24, 2022)

to-people connectivity and thus build a new platform for international co-operation to create new drivers of shared development”<sup>5</sup>

BRI project defines five major priorities. They are policy coordination, infrastructure connectivity, unimpeded trade, financial integration and connecting people<sup>6</sup>. The objectives of BRI are clearly set out in the Chinese president Xi Jinping’s keynote speech at the Opening Ceremony of the Second Belt and Road Forum for International Cooperation and other parts of the 13th Five-Year Plan<sup>7</sup>. They include,

- To increase trade and investment in the BRI;
- Free trade zones along the Silk Road;
- To enhance financial co-operation in the region to fund infrastructure;
- To gain access to natural resources;
- To strengthen transport infrastructure in the BRI corridors;
- To deepen cultural exchanges in the region;

According to China’s official information, by March 2022, 146 countries and 32 international organizations had signed cooperation agreements for the BRI.<sup>8</sup> In order to join BRI, countries and organizations need to sign a Memorandum of Understanding (MoU) with China. There are a number of countries listed in the official Chinese media, which did not confirm having signed a full MoU for cooperating under the Belt and Road Initiative framework.<sup>9</sup>



5. World Bank Group, (2019), “Belt and Road Economics – Opportunities and Risks of Transport Corridors”

6. Supra note 04

7. Article IV of the IMF’s Articles of Agreement, (2018), People’s Republic of China

8. [Online Web], Available at URL: [https://greenfdc.org/belt-and-road-initiative-about/#:~:text=According%20to%20official%20information%2C%20in,Memorandum%20of%20Understanding%20\(MoU\).](https://greenfdc.org/belt-and-road-initiative-about/#:~:text=According%20to%20official%20information%2C%20in,Memorandum%20of%20Understanding%20(MoU).) (last visited Nov. 24, 2022)

9. Supra Note 8

Based on above information, it could be argued that BRI has the potential to be the world's largest development project, which already covers more than 60% of global population. Over the coming decade, it would grow its scope and application. Mutual benefit is a feature of the BRI which will also help to develop markets for Chinese products in the long term and to alleviate industrial excess capacity in the short term. However, it is not yet clear if China's leadership intended to follow economic and trade opportunities through its foreign policy, or if this is a geo-economic strategy where shorter term commercial goals will feed into China's long-term strategic imperatives. Some analysts perceive the BRI project as a disturbing expansion of China's power, and the United States has struggled to offer a competing vision<sup>10</sup>.

China has started implementing BRI "reforms" in response to mounting concern over the BRI's detrimental environmental effects. China's National Development and Reform Commission, Ministry of Foreign Affairs, Department of Ecology and Environment, and Ministry of Commerce released a joint statement on the BRI's sustainability on March 28, 2022. The statement focuses on protecting biodiversity in BRI countries, while reducing emissions and pollution.<sup>11</sup> The United Arab Emirates, Kazakhstan, Thailand, Morocco, Singapore, Pakistan, and Mongolia are just a few of the state-owned banks from BRI nations that have signed the Green Investment Principles for BRI, which were introduced by the Green Finance Committee of China and the City of London in 2018.<sup>12</sup>

Analysts have identified positive and negative impacts on the BRI project. There is no clear conclusion to state whether it is always an opportunity or a risk. Its advantages and disadvantages should be analyzed, to identify whether BRI is a risk or an opportunity.

This research explores and quantifies parts of the BRI strategies and the impact on some of selected BRI-participating economies that are Zambia, Angola, Pakistan Laos and Sri Lanka.

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10. [Online – Web], Available at URL:<https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative> (last visited Nov. 24, 2022).

11. Boer, Dimitri, Christoph Nedopil, and Danting Fan. (2022) "China Clarifies Its Vision for a Green Belt and Road Initiative."

12. Supra Note 11

# 3. Analysis of selected countries

As mentioned, this research explores, quantifies and analyzes strategies and impact of BRI on five countries from African and Asian continents which are Zambia, Angola, Pakistan, Laos and Sri Lanka mainly in a comparative manner.

## A. Zambia

Zambia is a landlocked country in South Central Africa. Zambia shares its border with the Democratic Republic of Congo, Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia and Angola. From the 19th century until 1964, Zambia was a British colony.<sup>13</sup> The nation has since remained a largely peaceful and politically stable country and it has rich copper reserves. Therefore, Zambia achieved much of its growth through foreign investment in mining and copper exports. It maintained a relatively high growth rate averaging 6.7% a year between 2005 and 2014.<sup>14</sup>

However, it is vulnerable to fluctuations in the world commodity market, as seen in years 2015–2017. By this time, Zambia was suffering with widespread rural poverty and high level of unemployment. Also, those significant issues were heightened by a high birth rate, a relatively high HIV/AIDS burden and growing state debt.<sup>15</sup> Zambia privatized the mining industry in the late 1990s<sup>16</sup> due to the pressure from structural adjustment programs imposed by the International Monetary Fund (IMF) and the World Bank to boost production. Despite a surge in production and new jobs, privatization put the brakes on the provision of social services to residents in mining communities, including medical services, schools, recreational facilities, water and electricity, as new private mine owners did not oblige to continue providing these services under the terms of privatization.<sup>17</sup> Zambia's new Industrial Policy set out in year 2018, calls for increasing growth and diversification of the manufacturing sector from 8% to 15% of Zambia's gross domestic product (GDP) by 2027.<sup>18</sup>

The Zambia-China diplomatic ties were established in 1964, shortly after its independence. According to Jalloh and Wan, a large number of Chinese nationals live in Zambia, with estimate ranging from 20,000 to 100,000.<sup>19</sup> In past two decades, Zambia-China trade has surged.<sup>20</sup> In 2018, bilateral trade reached US\$5 billion for the first time, with Zambia enjoying a trade surplus of more than US\$3 billion.<sup>21</sup> More than 90% of Zambia's exports to China are intense on a few commodity products like copper.<sup>22</sup> Chinese investments in the Zambia reach agriculture, manufacturing and tourism.

Two major milestones in Chinese investment in the Zambia namely;

01. Acquisition of the Chambishi copper mine by the China Non-Ferrous Metals Corporation (CNMC) in 1998,
02. Establishment of the Zambia-China Economic and Trade Cooperation Zone (ZCCZ) in 2007, Zambia's first multi-facility economic zone.

13. [Online Web] Available at: <https://www.nationsonline.org/oneworld/zambia.htm> (last visited Sep. 30, 2022)

14. Government of the Republic of Zambia,(2015), "Harnessing The Demographic Dividend: The Future We Want for Zambia"

15. [Online Web] Available at: [https://theodora.com/wfbcurent/zambia/zambia\\_economy.html](https://theodora.com/wfbcurent/zambia/zambia_economy.html) (last visited Sep. 30, 2022)

16. Sikamo et al. (2016)

17. Simutanyi,(2008), "Election Processes, Liberation Movements and Democratic Change in Africa"

18. Ministry of Commerce, Trade and Industry (2018)

19. Jalloh and Wan,(2019), "Contradiction and restructuring in the Belt and Road Initiative: reflections on China's pause in the 'Go world' "

20. Haggai, (2016; 2017) , "One Belt One Road Strategy in China and Economic Development in the Concerning Countries"

21. Li (2019), "The belt and road initiative, cultural friction and ethnicity: Their effects on the export performance of SMEs in China."

22. [Online Web] Available at: [http://www.trademap.org/Bilateral\\_TS.aspx](http://www.trademap.org/Bilateral_TS.aspx) (last visited Oct. 04, 2022)

Figure 4



During the Covid-19 pandemic outbreak in 2020, China's President Xi Jinping spoke to Zambian President Edgar Lungu to reiterate China's commitment to strong bilateral relations, including cooperating and providing assistance in the fight against the pandemic and economic recovery and development.<sup>23</sup> However, Zambia's debt burden, which was already high before the pandemic, has worsened during Covid outbreak due to a decline in copper exports.<sup>24</sup> In November 2020, Zambia became the first African country to default on one of its foreign loans, and it has been involved in negotiations with China over debt relief. After, October 2021, Zambia reached an agreement with the China Development Bank to defer debt repayments, but details are unclear on the size of the loan in question, or the debt repayments due.<sup>25</sup> Other international lending agencies have been reluctant to extend relief, citing concerns regarding Zambia's unsustainable borrowing practices and lack of transparency on its debts, particularly to Chinese lenders.<sup>26</sup>

The major concern for Chinese companies in Zambia was corruption. Particularly in infrastructure projects and Chinese business entities mentioned making payments to ensure that projects could move ahead, but without considering whether doing so would increase corruption risks and erode the rule of law. Zambia is estimated to be losing between 713 and 1,426 billion kwachas (ZMK) (US\$143 to 285 million), or 10–20% of the value of construction contracts, to corruption and related corrupt practices in the construction industry in Zambia<sup>27</sup> One Zambian trade union has accused Chinese companies of 'gratifying' labour inspectors.<sup>28</sup>

23. [Online Web] Available at: [http://lagos.china-consulate.gov.cn/eng/zgyw/202007/t20200721\\_7148767.htm](http://lagos.china-consulate.gov.cn/eng/zgyw/202007/t20200721_7148767.htm) (last visited Oct. 05, 2022)

24. [Online Web] Available at: [http://www.xinhuanet.com/english/2020-07/21/c\\_139227323.htm](http://www.xinhuanet.com/english/2020-07/21/c_139227323.htm) (last visited Oct. 05, 2022)

25. Mfula, (2020), "China invites Zambia's private creditors for debt restructuring talks"

26. Olander (2020). The report Debt Relief for a Green and Inclusive Recovery, published by Heinrich Böll. Foundation, SOAS Centre for Sustainable.

27. Koyi (2018: 11). "Framing Analysis of Belt and Road Initiative Coverage in Major Nigerian, Malaysian, and Vietnamese Newspapers".

28. Interview with leaders of a mine workers' union, Kitwe, Zambia, 17 April 2019.

Chinese companies generally pay very moderate attention towards the governance, social and environmental risks posed by their investment. Their view was that these risks could largely be managed by trying to acquire good relations with the government and complying with local tax, immigration, labour and environmental laws.<sup>29</sup> Chinese companies, unlike other firms, tended to adopt a short-term policy. The minimalist approach to compliance without considering how Chinese companies' actions might negatively affect sustainable development in the Zambia in the medium or long term. A number of civil society representatives, government officials, and researchers in Zambia were critical of the lack of transparency in MoUs and contracts signed between Chinese companies and Zambian national and local governments.<sup>30</sup>

This lack of transparency has led to a widespread perception among local populations that Chinese companies are enabling crony-capitalism in BRI countries, many of which have weak regulatory institutions.<sup>31</sup> Brautigam noted the link between crony capitalism and unsustainable financing of BRI projects. There is a narrow transparency in Chinese lending and financial flows to Zambia with little accurate data on loan conditions. Even if Zambian government denies the hidden debt, it cannot be ignored.<sup>32</sup>

Over the last few years, anti-Chinese provocations in Zambia have become increasingly common. Former Zambian President Michael Sata, campaigned on an anti-Chinese platform, calling Zambia a province of China, and Sata also drew the ire of the China for friendly ties with Taiwan.<sup>33</sup> In 2018, there were two anti-Chinese riots in Zambia's second city Kitwe, one sparked by the accidental shooting of a Zambian by a Chinese store-owner. And the other one is prompted by a rumour spread by an opposition politician that the government had sold the state-run timber company to Chinese interests. Several Chinese businesses were looted in the protests, and some protesters were arrested.<sup>34</sup>

Africa's biggest creditor is China. It is a component of the G20 Debt Service Suspension Initiative (DSSI), which has halted debt payments to several of the world's poorest nations and is sponsored by the World Bank and the IMF. 18 large and small Chinese banks or institutions had given loans totaling US\$7.77 billion to Zambia and its state-owned industries between 2000 and August 2021.<sup>35</sup> Zambia has already paid back at least US\$1.2 billion of those. According to the researchers, the estimate does not alter Zambia's US\$14.3 billion overall debt burden, but it does demonstrate that the Lungu administration "was not forthright about the substantial weight of Chinese financiers among its numerous external debtors."

To stimulate industrial development, the Zambian government approved the establishment of several multi-facility economic zones (MFEZs) in the Zambia. However, a 2018 study by the Centre for Trade Policy and Development found that Lusaka South's development has been slower than expected due largely to the withdrawal of tax incentives, which were the zones' major attraction.<sup>36</sup> In Lusaka South, over 40 companies had pledged investments. But only a handful has become operational, and they just only created around 1,000 jobs. The Chinese-managed MFEZs have done better. It operated 36 companies with 7,600 workers. But the problem is most of these companies are Chinese. Very few Zambian companies operate in any of the MFEZs due to the high price of entry.

29. Ofstad and Tjonneland (2019)

30. Supra note 48

31. Deborah Brautigam, (2021), "How Zambia and China Co-Created a Debt "Tragedy of the Commons""

32. Supra note 50

33. Reed, (2006), "Green BRI and 2030 Agenda for Sustainable Development"

34. Interview with a District Commissioner, Kitwe, Zambia, (2019)

35. [Online Web] Available at: <https://www.reuters.com/world/africa/zambias-chinese-debt-nearly-twice-official-estimate-study-finds-2021-09-28/>, (Last visited 15<sup>th</sup> October 2022)

36. Mwiinga et al. (2018).

Lusaka South has several local firms, while there is only one local firm in the Chinese-run MFEZs. The head of a Zambian business association stated that Chinese investment in Zambia had done more harm than good for Zambia's local development.<sup>37</sup> She pointed that large-scale Chinese firms such as the Aviation Industry Corporation of China (AVIC) make up only 5% of the National Construction Council, yet command around 95% of construction contracts, to the detriment of smaller Chinese firms and local firms in the construction sector.<sup>38</sup>

The Zambian government has not put in place any strategies to benefit the manufacturing sector from Chinese investments. Instead, they continue to turn a blind eye on what the Chinese investors continue to do that is destroying the industrial sector. As example, one Chinese firm was caught counterfeiting locally manufactured footwear. Instead of Zambian government taking a strong stance to ensure an example is set to deter other would-be offenders, the company was taken to court and simply fined KMZ10, 000. That fine was not enough for the damage done by Chinese firms. Koyi noted to the disadvantages small and medium-sized local construction contractors in Zambia face when competing against Chinese construction companies for projects.<sup>39</sup> Chinese companies have greater experience and greater technical capacity, economies of scale and access to low interest financing than local companies. Concern about the negative impact of Chinese firms on local Zambian livelihoods is very real in Zambia, and perhaps in other countries in Africa. Chinese workers are present in numbers disproportionate to Chinese financing, and to migrant workers from other countries.<sup>40</sup> These Chinese workers are bringing in an entrepreneurial culture and skills, but it is not clear that these skills are being effectively transferred to Zambian culture. And also, the problem is the large number of Chinese workers limited the African workers' opportunities for training and decent jobs. Thus, it is clear that the BRI project in Zambia will have imbalanced impact to China and Zambia.

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37. Interview with president, Zambia Association of Manufacturers, Lusaka, Zambia, 12 April 2019.

38. *Supra* note 56

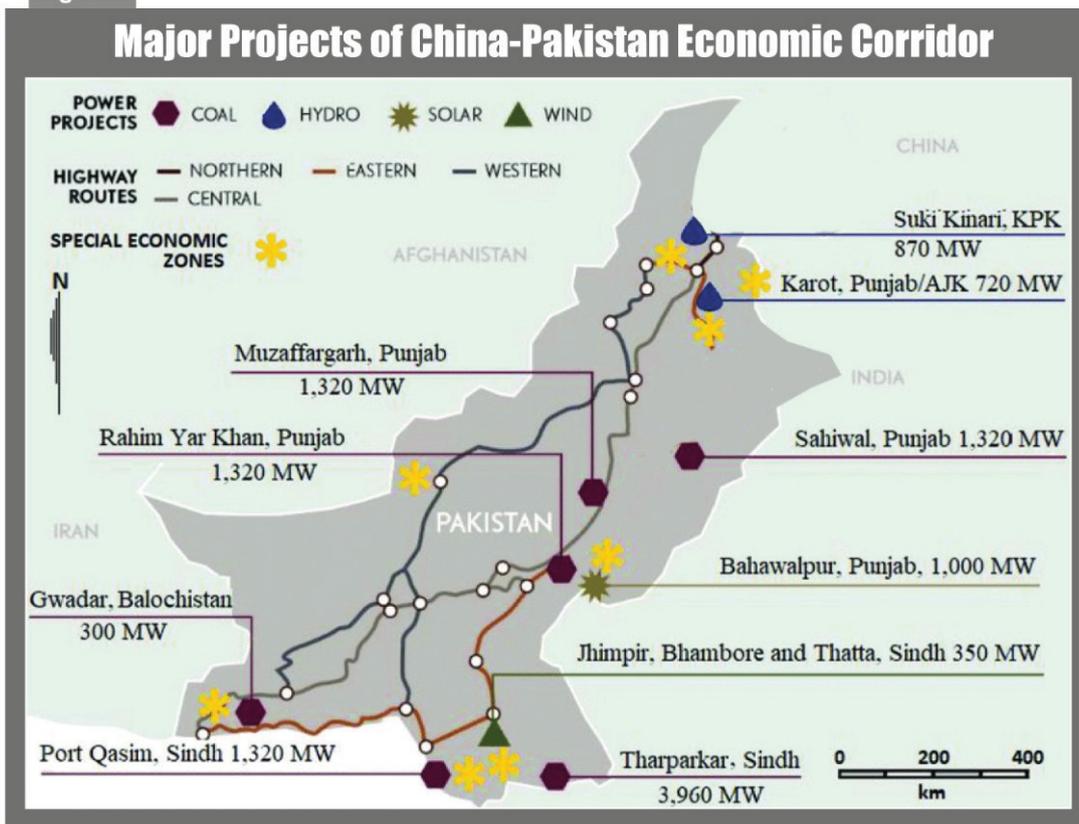
39. Koyi, (2018), "Concerns about Chinese construction companies crowding out African ones"

40. Dollar (2016).

## B. Pakistan

Pakistan is a South Asian country boarded by Iran to the west, Afghanistan to the northwest and north, China to the northeast, and India to the east and southeast. The coast of the Arabian Sea forms its southern border.<sup>41</sup> Since Pakistan and India achieved their independence in 1947, Pakistan has struggled throughout its existence to attain political stability and sustained social development. After several experiments in economic restructuring, Pakistan currently operates a mixed economy in which state-owned enterprises account for a large portion of gross domestic product (GDP).

Figure 5



Pakistan and China mainly established their diplomatic relations on May 21, 1951.<sup>42</sup> Since 9/11 attack on the twin towers in the US, Pakistan has become a terrorism stuck state, resulting in the loss of political and economic stability, reducing the infrastructure development and Foreign Direct Investment (FDI). For that reason, China has become a strong alliance of Pakistan. Moreover, Pakistan is a special partner for China as it links China to the Central Asia, Southern Asian region and Middle East and its major deep-sea port Gwadar offers direct access to the Indian Ocean and beyond. China has gradually emerged as Pakistan's major trading partner both in terms of exports and imports.<sup>43</sup> Bilateral trade and commercial links between the two countries were established in January 1963, when both signed the first bilateral long-term trade agreement. CPEC is a mega-project for achieve the political and economic objectives through trade and development and it helps to strengthen the economic and trade cooperation between the China and Pakistan. According to Chinese official report, the China-Pakistan Economic Corridor is a 3,000 km network

41. [Online Web] Available at: <http://countrystudies.us/pakistan/23.htm>, (Last visited 15<sup>th</sup> October 2022)

42. [Online web] Available at: <https://mofa.gov.pk/celebrations-of-65th-anniversary-of-pakistan-china-diplomatic-relations/#:-:text=Dip-lomatic%20relations%20between%20the%20two,over%20the%20last%20six%20decades.> (last visited Oct. 05, 2022)

43. [Online Web] Available at: <https://www.tandfonline.com/doi/abs/10.1080/09733159.2017.1317123?journalCode=rnmf20> (Last visited October 5<sup>th</sup> 2022)

of roads, railways and pipelines intended to transport oil and gas from southern Pakistan's port of Gwadar to the city of Kashgar in northwest China's Xinjiang Uygur autonomous region. First, discuss some benefits which Pakistan will enjoy after the completion of CPEC.<sup>44</sup>

Power blackouts are common in every area around Pakistan especially the major cities. CPEC is the ideal project to help the country to get rid of the energy crises. Planning, Development and Reforms Minister Ahsan Iqbal said CPEC framework covers four major areas and energy zone is one of them. In the energy sector, there are projects totaling 10,400 megawatts.<sup>45</sup> In all, Chinese firms put up US\$35 to US\$37 billion in the foreign direct investment for independent power production (IPP) under an investment policy that was available to all investors.<sup>46</sup> These projects mainly based on wind, solar, coal and hydropower generation of 16,400 MW as well as the transmission system. Infrastructure development, including the development of roads, ports and highways is another important segment of CPEC.

CPEC basically improve Pakistan's infrastructure connection with all sub regions in Asia, and between Europe Asia and Africa. The infrastructure of transport and road significantly endorse eminent measure over the tourism which supports in CPEC context through billion-dollar projects. The overambitious details of CPEC have enlisted benefits to the economies of various countries.<sup>47</sup> China Pakistan Economic Corridor helps to build a robust and stable economy in Pakistan and creates a significant opportunity for Pakistan to revive its industry and advance its economic interests. It also helps in overcoming the psychological barriers to flows of foreign investment from other sources. The CPEC project embraces the construction of textile garment, industrial park projects, construction of reservoirs, the installation of nuclear reactors and creating networks of road, railway which generate employment and people also take ownership of these projects.<sup>48</sup>

Despite all these opportunities, China's CPEC carries quantifiable substantial economic risks for Pakistan. High level officials and prominent voices in Pakistani business are concerned about the failure to protect local economic interests. The CPEC project creates risks inflaming longstanding tensions between the center and smaller federal units within provinces over inequitable economic development and resource distribution.

Pakistan was one of the ten fastest-growing nations in the world from year 1960 to 1990. However, the country spiraled into a dire situation where in 2022 Pakistani rupee (PKR) hit a record low in the month of June when it touched 224 against the US dollar a steep fall from 150 in April 2021.<sup>49</sup> This is because, after the 1971 war and Bangladesh's independence, the country fell into a series of economic crises caused owing to various reasons. Pakistan's net reserves decreased from US\$17.2 billion in 2021 to US\$8 billion in 2022, and the nation is currently trapped in a vicious cycle of perpetual borrowing.<sup>50</sup> Pakistan has found itself in a difficult situation where no country is prepared to lend any monetary aid because of a profound reason that Pakistan plunging into a Chinese debt trap.<sup>51</sup>

According to Pakistan's Economic Survey for 2021–2022, the country owes China US\$87 billion in outstanding debt. Pakistan has also been returning the loans it received from China for a

44. [Online web] Available at: [https://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content\\_20503693.htm](https://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm), (last visited October 5, 2022)

45. Moonis Ahmar, (2014), "Strategic Meaning of the China-Pakistan Economic Corridor"

46. Supra note 64

47. [Online web] Available at: <https://cpec.gov.pk/introduction/1> (last visited October 13<sup>th</sup> 2022)

48. Supra note 66

49. [Online Web] Available at <https://diplomatist.com/2022/08/18/pakistans-economic-freefall-and-its-implications/> (Last visited 29<sup>th</sup> October 2022)

50. Supra note 68

51. Supra note 68

considerable amount of time with staggering high-interest rates. Pakistan paid China an interest of US\$150 million on a US\$ 4.5 billion loan, in the years 2021–2022.<sup>52</sup> China has been friendly enough to offer another loan when asked to restructure debt.

China has demanded repayment of loans it has given to Pakistan over the past couple of years, including the Lahore Orange Line Project, for which Pakistan is required to pay back US\$ 55.6 million by November 2023. Meanwhile, China-Railway North Industries Corporation (CR-NORINCO), which completed the Lahore Orange Line Project, has requested a payment of US\$10 million in advance. Many of Pakistan's electrical power facilities are heavily indebted, ranging up to an amount of about US\$14 billion.<sup>53</sup> This has caused challenges for the country more difficult Pakistan's Chinese debt crisis gets for the nation and the world as a whole, the deeper it sinks. Pakistan has received so many loans from China, and as a result, the nation is currently mired in a never-ending debt cycle.

Fishing has been the main source of income for people in Gwadar. The Pakistani government was hoping that investments from CPEC would bring new jobs and economic growth to Gwadar. However, the economic benefits have yet to be seen. Instead, anger is growing among the locals because of natural resource extraction and a lack of basic necessities like water and energy. Gwadar's fisherfolk have long feared that the encroachment of the bigger and more sophisticated Chinese fishing trawlers off the coast of Gwadar will result in all of the stock being depleted and exported to China.

However, there is a more physical challenge that CPEC must deal with right away. On April 26, 2022, a suicide attack took place close to the Confucius Institute of the University of Karachi, killing three Chinese teachers. The Baloch Liberation Army, a separatist group, claimed responsibility for the attack. It was a Baloch woman's first suicide attack. Since the start of CPEC, Baloch militant organizations have launched numerous attacks against Chinese employees, including this killing of the trio. Baluchistan contributes a disproportionate amount of land to the CPEC projects, especially the coastline in Gwadar, but it also gets the least from the initiative. Only 4.5% of the US\$62 billion in projects are allocated to Baluchistan.<sup>54</sup> In contrast, the countries relatively developed eastern rim, the provinces of Sindh and Punjab; get the most lucrative highways and projects through CPEC.

Baloch societal discontent is being fueled by the unfair distribution of burdens and rewards. They have long fought against the federal government's allegedly exploitative policies, which they claim harm the people of Baluchistan while benefiting other regions. For instance, out of the US\$21 billion in "important energy projects," only one project in K-P [Khyber Pakhtunkhwa] (worth US\$1.8 billion) and two in Baluchistan (worth US\$1.3 billion) are present, according to Rafiullah Khan's article for 'The Express Tribune'. Political groups from Baluchistan and Khyber-Pakhtunkhwa claim that although their resources are being utilized, the gains from this multibillion-dollar project mostly favour the other two provinces.<sup>55</sup> Their fears have become reality, with many, now unable to sustain themselves and compete with the large Chinese fishing vessels.

Accordingly, it is clear that China's BRI project has developed social unrest in Pakistan and has also led to economic instability.

52. Supra note 68

53. Supra note 68

54. [Online Web] Available at URL: <https://thedi diplomat.com/2022/05/chinas-bri-is-aggravating-ethnic-tensions-in-the-global-south/> (Last visited 16<sup>th</sup> November 2022)

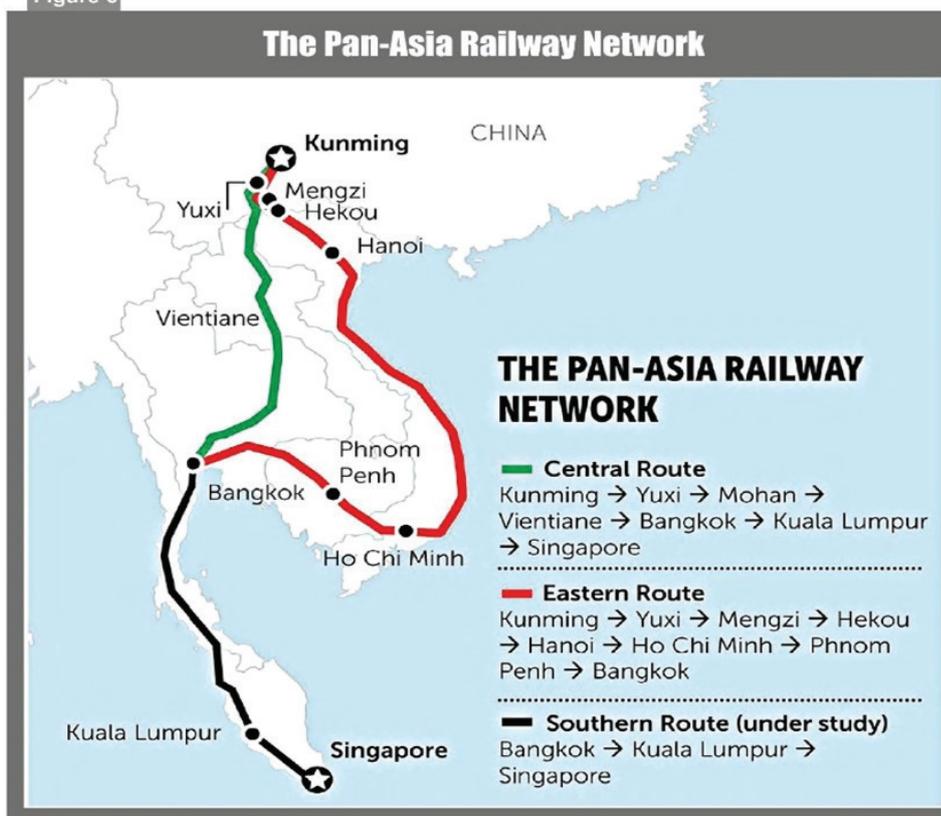
55. Supra note 73

## Laos

Laos is an independent republic, and the only landlocked nation in Southeast Asia. It covers 236,800 sq. km in the centre of the Southeast Asian peninsula and it is surrounded by Myanmar, Cambodia, the People's Republic of China, Thailand, and Vietnam.<sup>56</sup>

Laos Minister of Foreign Affairs Saleumxay Kommasith has stressed the importance of advancing high-quality Belt and Road cooperation. Scholar Kuik Cheng-Chwee argues that Laos needs to be on board in order to leverage the railway's operations to diversify growth and expanding business sectors. The rail project promises to bring transformative benefits by strengthening the ecosystem for national development, expanding market access to the region, and transforming Laos into a regional logistic hub. According to the Minister of Planning and Investment, Khamjane Vongphosy, China continues to be the largest investor in Laos, with cumulative investment of about US\$16.4 billion in 833 projects.<sup>57</sup> Areas of Chinese investment are diverse thus ploughing money into small, medium and large enterprises, state-owned enterprises, and private companies. Furthermore, he said, a large chunk of investment money has funded the Laos-China railway, the Vientiane-Vangvieng expressway, the Saysettha Development Zone, the Boten-Bohan Special Economic Zone, power transmission lines and hydropower plants, which have delivered significant benefits to both Laos and China.

Figure 6



The governments of the two countries set up a joint venture company known as “Lao-China Railway Company” with China holding a 70% share and Laos holding remaining 30%.<sup>58</sup> The financial

56. [Online Web] Available at URL: <https://kids.nationalgeographic.com/geography/countries/article/laos> (Last visited 15<sup>th</sup> November 2022)

57. [Online Web] Available at URL: [https://www.vientianetimes.org.la/freeContent/FreeContent137\\_Chinese\\_y22.php](https://www.vientianetimes.org.la/freeContent/FreeContent137_Chinese_y22.php) (Last visited on 15<sup>th</sup> November 2022)

58. SCMP, 2019

background was not clear until the Railway Company shared some news about it. Based on Nikkei Asian Review, the project requires contributions of 715 million US\$ from Laos and US\$1.67 billion from China. Laos will finance US\$250 million of its share from the national budget and borrow the remaining US\$465 million from the Export-Import (EXIM) Bank of China at 2.3% interest with a five-year grace period.<sup>59</sup> The paper also highlights that the report is not clear about the remaining 60% of the costs. The China-Laos railroad connects and continues with the future railway in Thailand.

However, on closer analysis it could be argued that Laos risks falling into a vicious debt cycle, closely related to infrastructure lending from Chinese financial institutions. There is a concern that the rail project might lead to a “debt trap” since the project is worth about one-third of the country’s GDP, and China funds 70% of the total costs. As a result, Laos has incurred an estimated US\$1.5 billion in external debt to China. It is a considerable amount for a country with a nominal GDP of around US\$20 billion and official foreign exchange reserves of around US\$1.1 billion. China has reportedly started delaying or writing off some of the debt Laos is building up to pay for the railway.<sup>60</sup>

Further, the construction of Vientiane-Kunming rail line requires over 4,400 families in 167 villages of 13 districts to leave their homes to make way for construction. More than 3,830 hectares of land and 3,346 buildings along with crops, fruit trees, fences and forestry are affected by the rail line.<sup>61</sup> Many locals fear that compensation offered by the government will be lower than the actual value of their properties. The total value of the project compensation is estimated to cost about US\$ 297.73 million, but due to financial difficulties, as of the summer of 2020, many villagers have yet to receive any compensation.<sup>62</sup>

With regards to the labour force employed for the railway, the Laos government struggles to ensure that the project will generate as many jobs as possible for locals. But China employs its own labour force, claiming that the people of Laos are unskilled, hence, and the necessity for the railway construction companies to import Chinese manpower.

Laos also struggles to develop a skilled labor force to respond to the needs of train operation and services. There is a concern that the railway will put greater economic pressure on domestic industries by opening up the local market to Chinese imports. However, if local producers are not prepared well enough to compete with those of wider Asian region, the railway will only bring tougher competition into the domestic market. The main problem in Laos PDR is that the downsides and risks regarding the railway have not been explicitly discussed, particularly issues relating to governance, corruption, pollution and adverse social impacts.

A further threat is connected to the financial aspects of such projects. According to an IMF report, almost 65% of the total external debt in Laos is owed to bilateral lenders, particularly China. Despite rising public debt, Laos continues to borrow more money from development partners to finance its large infrastructure projects. For instance, the total investment cost of the China-Laos railway project is more than 30% of the country’s annual GDP. The International Monetary Fund has warned that the railway project ramps up pressures on Laos’ external debt, forcing the country to further seek for more loans to repay interest and principals as well as to fund other infrastructure projects.<sup>63</sup>

59. Nikkei, 2017

60. [Online Web] Available at URL: <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-99-bri-projects-in-cambodia-and-laos-roll-on-despite-covid-19-by-vannarith-chheang/> (Last visited 15<sup>th</sup> November 2022)

61. ANN, (2018)

62. Supra note 80

63. [Online Web] Available at URL: <https://www.worldbank.org/en/news/press-release/2022/05/12/lao-pdr-economic-recovery-challenged-by-debt-and-rising-prices> (Last visited 15<sup>th</sup> November 2022).

Due to debts inflation of the country reaches sky high. According to the most recent data from the Lao Statistics Bureau, Laos had the highest year-over-year inflation rate at 36.75% in October, up from 34% in September. These numbers show a sharp increase since the beginning of 2022, and individuals who are already struggling to make ends meet continue to suffer as a result of increased costs. Due to the growing cost of rice and other staple foods including pork, chicken, fish, shellfish, eggs, vegetable oil, fruit, and vegetables, the price of food and non-alcoholic drinks has increased by 38.8% year over year.<sup>64</sup> Looming in the background is the question of debt. Laos currently owes US\$13.3 billion in sovereign debt, much of which has financed the construction of large-scale infrastructure projects.

The Mekong River begins in the Chinese Tibetan Plateau and travels almost 5,000 km through Myanmar, Thailand, Laos, Cambodia, and Vietnam. Nearly 65 million people in the Lower Mekong Basin depend on the Mekong River for their livelihood, making it one of the world's most ecologically varied rivers (LMB). The basin is significant for resource development in the form of hydropower, even if the river is an ecological wonder and a pillar for those who live along its banks.<sup>65</sup>

China has a wealth of experience in the creation of hydropower. China has built approximately 22,000 major (15 metres or more) reservoirs since the 1950s, including the Three Gorges Dam, the biggest reservoir in the world. The Mekong River is one of the main foreign areas for Chinese dam building, which has been made possible by China's competence in dam construction. Around 55% of all Chinese overseas dams are in Asia, and of that, about 73% are situated in Southeast Asia, according to the Mekong Region Futures Institute and the International Rivers Hydro Scorecard. Laos is home to 81% of all overseas Chinese dams in the Mekong Basin.

As a percentage of GDP, Laos' total public and publicly guaranteed (PPG) debt climbed from 68% in 2019 to 88% in 2021 (US\$14.5 billion). Forecasts indicate that debt will reach 100% of GDP this year and continue to rise in the years to come. In 2021, China owed 66% of the total external governmental debt, which was 66% of GDP.<sup>66</sup>

The more Laos is indebted to China; China can use its power to influence the policy making process in Laos. Although in this case, both sides are refusing to talk about possible financial difficulties, it could take decades for the Laos government to make a profit from the railway project and it is unclear whether the calculation of the railway's future profits is accurate based on the verified data and whether the railway can generate sufficient income to repay China's loan or not. Laos needs to have another plan to respond to economic shocks if the country wants to avoid defaulting on its debt repayment.<sup>67</sup>

In Malaysia, when Dr. Mahathir Mohamed became the Prime Minister in 2018, he cancelled the Chinese-funded East Coast Rail Link Project which was approved by the Najib Razak regime. He told China that the value of the project was too high, and Malaysia was unable to repay it and asked to renegotiate the deals with China. As a result of Malaysia's renegotiation, China agreed to reduce the costs of the first two phases of the railway by over 30%.<sup>68</sup> However, Laos has not challenged or asked for a renegotiation of the deals with China.

Accordingly, Laos does not have the ability to renegotiate these Chinese projects because of the power imbalance between Laos and China. Like many countries involved in the BRI project, Laos has not been able to obtain the actual benefits for its country from BRI project.

64. [Online Web] Available at URL: <https://thediplomat.com/2022/07/inflation-in-laos-reaches-22-year-high-as-economic-crisis-worsens/>, (Last visited 15<sup>th</sup> November 2022).

65. Online Web Available at URL: <https://www.thestar.com.my/aseanplus/aseanplus-news/2022/10/21/spiraling-inflation-in-laos-forces-people-to-cut-expenses>, (Last visited 15<sup>th</sup> November 2022)

66. Supra note 84

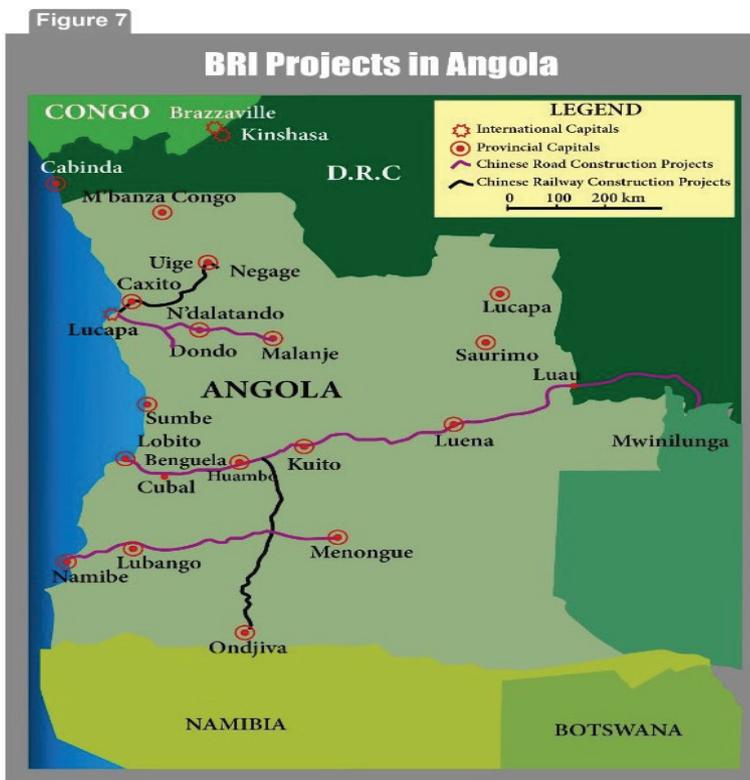
67. Online Web Available at URL: <https://www.voanews.com/a/laos-faces-debt-crisis-after-borrowing-billions-from-china-/6641633.html> (Last visited 15<sup>th</sup> November 2022)

68. ASEAN Today, (2019)

## D. Angola

Angola is located on the western Atlantic Coast of Southern Africa between Republic of the Congo and Namibia. It also is bordered by the Democratic Republic of the Congo and Zambia to the east.<sup>69</sup> In 2002, as Angola lay in ruins after a 27-year long civil war, its government desperately sought western help to rebuild the country.<sup>70</sup> International financial institutions and the Paris Club of creditor countries were wary about working with Angola which country was well-known propensity for corruption and a glaring lack of transparency.<sup>71</sup> As the calls for democratic reform, accountability, and the embrace of rule of law, Angola decided to look eastward. Accordingly, Angola began to maintain contact with China.<sup>72</sup>

China-Angola diplomatic ties officially began in 2004, when China's trade ministry and Angola's finance ministry signed a deal with China's Exim Bank to provide a US\$2 bn loan to aid with Angola's reconstruction.<sup>73</sup> Over the next six years, China's Exim Bank alone loaned the Angolan government a total of US\$10 bn. By 2021,<sup>74</sup> Chinese state-owned corporations had financed Angola to the tune of US\$60 bn, according to diplomatic sources. The majority of these loans were backed by oil, so much so that for a period at the turn of the last decade, Angola became China's main oil supplier. Not only did Chinese banks finance country's infrastructure projects with cheap, oil-backed credit, but the Angola was also obliged to award 70% of their construction projects to Chinese companies chosen by Beijing.<sup>75</sup>



69. [Online Web] Available at URL: <https://www.nationsonline.org/oneworld/angola.htm> (Last visited 10th January 2023)

70. [Online Web] Available at URL: <https://www.britannica.com/place/Angola> (Last visited 15th January 2023)

71. [Online Web] Available at URL: <https://www.theafricareport.com/202465/how-angolas-honeymoon-with-china-came-to-an-end/> (Last visited 10th January 2023)

72. [Online Web] Available at URL: <https://www.scmp.com/news/china/diplomacy/article/3099807/debt-laden-angola-gets-relief-creditor-nations-paris-club> (Last visited 15th January 2023)

73. Supra note 90

74. Tristan Reed and Trubetsko,(2021), "Assessing the Value of Market Access from Belt and Road Projects International Finance Corporation"

75. Supra note 90

Chinese companies deal with the Angola's largest infrastructure projects, building hundreds of miles of roads, revamping the national railway system and building four new stadiums. They've also erected the massive US\$3.5 bn Kilamba New City outside of Luanda and have begun construction on the new Luanda International Airport.<sup>76</sup> The Chinese have even dabbled in operating oil blocks, partnering with some of the world's largest international oil companies through an opaque entity called China Sonangol, a joint venture between Chinese state-owned Sinopec and Angolan national oil company Sonangol.<sup>77</sup>

However, faith in Chinese engineering proved to be short-lived. The new built roads soon needed repairs and the Angolan government had to spend millions of dollars to rehabilitate them. The stadia also fell into disrepair. Less than 10 years after they were built, three of the four could no longer host football matches, while the Luanda stadium was never actually completed.<sup>78</sup> The Kilamba project was also initially mired in controversy. Because prospective buyers sleeping in the streets waiting for a chance to sign up for a house. And billions of dollars have been spent on the airport with little to show for it. The fund hired to finance it was replaced by other Chinese enterprises after considerable delay. Also, Sinopec's oil concessions haven't fared much better. Outclassed by more experienced western countries, Chinese investment in Angola's oil blocks faded away after an initial profitable period.<sup>79</sup>

According to experts, they believe that this trade linkage, on the contrary, prevents the industrialization process, does not include other branches of the economy and does not create jobs for the Angolans. As an example, stresses the huge increase in the workforce from China in Africa, especially in Algeria and Angola. Experts mentioned that they reached record-breaking numbers for the past 15 years and intensive growth is also expected for the future. Schmitz also speaks about an estimate of 250,000 Chinese migrants in Angola.<sup>80</sup>

However, specialists mentioned that Chinese investment did not lead to significant social development, and among the main criticisms is the lack of adaptability to local needs. An interesting example is the so-called "ghost towns" built by the Chinese from scratch. These are not just residential districts but whole cities where schools, hospitals, and other such institutions have been built and where access to drinking water is ensured.<sup>81</sup> An example of this is the city of Kilamba, located near Luanda, built in a record time of only three years.<sup>82</sup> Although the initial prices were subsequently reduced, an extremely small percentage of the local population can afford to purchase an apartment in Kilamba for US\$70,000–US\$190,000, with most of the population living below poverty line with an earning of as low as US\$1.25 per day.<sup>83</sup>

High impact concerns exist for more than 2,000 [sq. km] of maritime ecosystems in Angola and Mozambique, the study discovered. However, China's state-run newspaper, the *Global Times*, recently praised Chinese enhancements to a port in Angola, noting that the project is intended to assist the community in a number of ways, including addressing "local demand for merchandise imports and exports."<sup>84</sup> Although environmental dangers can also be posed by infrastructure like power plants and bridges, port projects provide the biggest threats to maritime systems.

76. Supra note 90

77. Online Web Available at URL <https://www.china-briefing.com/news/the-china-angola-partnership-a-case-study-of-chinas-oil-relationships-with-african-nations/> (Last visited 10th January 2023)

78. Cláudio Silva, (2022), "How Angola's honeymoon with China came to an end"

79. Supra note 90

80. [Online Web] available at URL: <https://www.mdpi.com/2071-1050/10/8/2936> (last visited on December 12<sup>th</sup> 2022)

81. Supra note 99

82. [Online Web] available at URL: <https://www.bbc.com/news/world-africa-18646243> (last visited on December 12<sup>th</sup> 2022)

83. Schmitz, (2018), "Performing "China in Africa" for the West: Chinese migrant discourses in Angola"

84. Supra note 04

The ‘Belt and Road Initiative’ partners were given instructions by China’s Ministry of Foreign Affairs in 2021 to “promote economic, social, and environmental growth in a balanced and coordinated way.” Promote “environmentally friendly and resilient infrastructure via, among other things, improving climate and environmental risk assessment on projects,” according to the advice.<sup>85</sup>

The private sector involved in these projects, however, has been reluctant to provide its own financing. It avoided investing in real estate due to lack of legislative reforms to create a functional real estate market. These government measures have increased the dissatisfaction of the population that cannot benefit from the outcomes of the Chinese investments and who see the efforts made to pay for these investments through huge petroleum exports.

Angola has borrowed US\$42.6 billion from Chinese lenders – around a third of China’s total lending to African countries between 2000 and 2020.<sup>86</sup> With oil prices rising, Angola is accelerating its debt-reduction efforts and easing off on payments to China, its biggest creditor. Next year, repayments will be increased, according to Finance Minister Vera Daves. After paying off loans totaling US\$1.32 billion this year, Africa’s second-largest crude producer now owes China US\$18 billion, or almost 40% of its entire external debt. The expected decrease of Angola’s debt as a percentage of GDP from 66% this year and more than 100% in 2020 is to roughly 61% in 2023.<sup>87</sup>

However, it can be observed that Angola has not gained some advantages comparing to other countries. But unnecessary issues which have been generated by BRI. An assessment of developments related to the BRI in Angola reveals that economic factors weigh significantly in China’s decision-making regarding investments. The country is primarily driven by its need to find new emerging markets for its industrial overcapacity amidst a slowing domestic economy. However, there is also a growing concern amongst China’s strategic competitors and some host African countries that China is using the BRI to mask its geopolitical and geo-strategic objectives.

In 2015, Reuters reported that Angola’s people have expressed discontent with their country’s ties with China, in particular, oil repayments by Angola for loans from China leaves it with little crude in world markets, one of the reasons for the country’s liquidity crisis.<sup>88</sup> Angola’s debt to China, at US\$ 21.5 billion in 2017, is half of its external debt. In conclusion, it is very clear that Angola, as a country, is also a victim of Chinese BRI.<sup>89</sup>

85. Campbell, H., & Chaulia,(2009), “Unequal Equals: Angola And China. World Affairs: The Journal of International Issues”

86. [Online Web] Available at URL: <https://english.news.cn/20221107/8a4bd60cac8d4924b729d9258f6c6e03/c.html>, (Last visited 15<sup>th</sup> November 2022)

87. [Online Web] Available at URL: <https://macaonews.org/portuguese-speaking-countries/angola-accelerates-plan-to-repay-us18-billion-debt-to-china/>, (Last visited 15<sup>th</sup> November 2022)

88. [Online Web] Available at URL: <https://www.reuters.com/article/angola-oil-finance-idUSL5N16H3EV> (Last visited 10<sup>th</sup> November 2022)

89. [Online Web] Available at URL:<https://www.clbrief.com/angolas-debt-to-china-drops-to-usd-21-4-billion/> (Last visited 10<sup>th</sup> November 2022)

## E. Sri Lanka

Sri Lanka is an island lying in the Indian Ocean and separated from peninsular India by the Palk Strait and Sri Lanka is a developing country, ranking 73<sup>rd</sup> on the Human rights development index.<sup>90</sup> It is the highest-ranked South Asian nation in terms of development and has the second-highest per capita income in South Asia. However, the ongoing economic crisis has resulted in the collapse of its currency, humanitarian crisis and inflation. It has also led to an eruption of street protests. Which led to the country's former president has announced that he was quitting after violent protesters stormed his official residence and set the then prime minister's house ablaze.

Sri Lanka-China diplomatic relationship is centuries old. The great traveler Monk from China, Fa Hsien visited Sri Lanka in 411 and stayed on for two years in the Island.<sup>91</sup> Embassies often laden with gifts from the king of Sri Lanka visited China in the first and second centuries and such visits grew even more frequent after the fourth century.<sup>92</sup>

Accordingly, Sri Lanka-China relationship is stronger with cultural values and trade and commerce. Main reason for the development of diplomatic relations between the two nations was the island's location in the centre of the historical Silk Road connecting China and Europe.

After Sri Lanka got rid of colonialism, the rubber-rice trade pact was signed by China and Sri Lanka called as 'China-Ceylon Rice Rubber pact in 1952' can be pointed out as a significant milestone in the bilateral relationship between the two countries. In fact, it was signed five years before the two countries established formal diplomatic relations.<sup>93</sup> At that time, Sri Lanka was economically challenged in the early 1950s by an economic crisis due to a lack of foreign exchange, shortage of rice, and reduced exports of commodities. 'China-Ceylon Rice Rubber pact' increased formal diplomatic relations between the countries during the post-colonial rule.<sup>94</sup>

The Sri Lanka-China relationship reached another significant milestone under the post-2005 administration. It was the same case during Sri Lanka's armed conflict mainly with Sri Lankan military force and a separatist organization known as the Liberation Tigers of Tamil Ealam (LTTE). When many countries were reluctant citing human rights concerns, China supplied weapons, diplomatic support and aid to war. In 2005, under the presidency of Mahinda Rajapaksa, bilateral relations further strengthened. In a landmark state visit to China in 2007 on the occasion of the golden jubilee celebrations of diplomatic relations, President Rajapaksa signed the eight bilateral agreements and MOUs with China.<sup>95</sup> They are;

1. Agreement on Economic and Technical Cooperation between China and Sri Lanka
2. MOU between the Ministry of Construction of China and the Ministry of Urban Development and Sacred Area Development of Sri Lanka
3. Agreement between the city of Guangzhou of China and District of Hambantota of Sri Lanka on the establishment of Friendship City Relationship
4. MOU on two-way investment promotion cooperation between the Investment Promotion Agency of the Ministry of Commerce of China and the Board of Investment of Sri Lanka
5. MOU on Cooperation in the Film Industry between the Film Bureau of the State Administration of Radio, Film and Television of China and the National Film Corporation of Sri Lanka

90. [Online Web] Available at URL: <http://www.issp.ac.ru/jao/2018/srilanka.html> (Last 15<sup>th</sup> November 2022)

91. H. C. Ray, K. M. De Silva, (1959-1990), "History of Ceylon"

92. John M. Senaveratne, (1916), "China-Sinhalese Relations in the Early and Middle Ages"

93. Li, Li, 2017

94. [Online Web] Available at URL: <https://www.ft.lk/columns/Commemorating-70-years-of-China-Ceylon-Rice-Rubber-Pact-A-landmark-agreement-in-1952/4-728843> (Last visited 15<sup>th</sup> November 2022)

95. Janaka Wijayasiri & Nuwanthi Senaratne,(2018), "China's Belt and Road Initiative and Sri Lanka"

6. MOU for the Donation of Eye Corneas and Promotion and Cooperation, exchanges, Technical and Technology Transfer between the Red Cross Society of China and the Eye Donation Society of Sri Lanka
7. MOU between the Chinese Academy of Agriculture Mechanization Sciences and Department of Agriculture of the Ministry of Agriculture of Sri Lanka
8. MOU of Academic Exchange between the Beijing Foreign Studies University of China and University of Kelaniya of Sri Lanka

Sri Lanka became one of the first countries to openly support the BRI since it was aligned to the country's national development strategy. By 2010, China became the largest foreign finance partner of Sri Lanka.

In addition to the above-mentioned agreements and programs aimed at strengthening bilateral ties, China has also been a major provider of aid, technical assistance and has contributed towards numerous large-scale projects in Sri Lanka.

Mainly China's energy imports and mineral imports pass through Sri Lankan maritime area.<sup>96</sup> Based on this, the majority of BRI investments in Sri Lanka have been to facilitate this maritime effort and a number of major infrastructure projects have got underway.<sup>97</sup> Accordingly, some of the main BRI projects initiated by China in Sri Lanka can be listed as follows: -

## E.I. Colombo International Financial City (CIFC)

Construction of the Colombo Port City project was launched on September 17, 2014 by Former President of Sri Lanka Mahinda Rajapaksa and Chinese President Xi Jinping. Colombo Port City is constructed by reclaiming several hectares of land from the Indian Ocean to give China a strategic edge as part of its much-talked about Maritime Silk Road.<sup>98</sup> This project is an instrumental part of China's BRI and aims to build a new city and financial center along the existing Colombo coastline that will serve as Sri Lanka's financial and business district by 2030. This development is meant to support the main port and provide the ancillary services that support the shipping industry including insurance, financial and logistical services.<sup>99</sup> However, the Port City is a costly fantasy, even if it does go on to generate a sixth of Sri Lanka's current economic output by 2041, as predicted by an independent study.<sup>100</sup> Although Colombo Port City is a hub of residential, retail, commercial and financial activity that produces little revenue for the debt-ridden nation, cannot possibly be the best use of its coastline or real estate.

According to the prepared environmental report in Colombo Port City under the National Environment Protection Act had only looked into the aspect of the landfill area. According to the environmental assessment's stands, report should look at several aspects.<sup>101</sup> In the Colombo port city project, more weight has been given to the economic development. Generally, this kind of economic development project must be considered in par with sustainable development. Therefore, a contradiction has befallen as no prominence is given since the inception of the project,

96. Pallit, Spittel, (2013), "South Asia in the New Decade: Challenges and Prospects", World Scientific.

97. Hillman, J. (2018). China's Belt and Road Initiative: Five Years Later. CSIS (Center for Strategic and International Studies) Report. Available at <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later> (Last visited November 15<sup>th</sup> 2022)

98. [Online Web] available at URL: <https://www.portcitycolombo.lk/press/2019/12/08/colombo-port-city-opens.html> (Last visited November 15<sup>th</sup> 2022)

99. Ministry of National Policies and Economic Affairs, (2017)

100. [Online Web] available at URL: <https://timesofindia.indiatimes.com/world/south-asia/china-building-another-enclave-in-sri-lanka-colombo-port-city/articleshow/84429976.cms> (Last visited November 15<sup>th</sup> 2022)

101. SU De Silva, DMTM Sachindrani, HACD Hatharasinghe and I Bogahawatte, "The Contradiction between Sustainable Development and Economic Development: Special Reference to the Colombo Port City Project of Sri Lanka"

to the concept of sustainable development which can be considered as an important element in here. That is the cause that the CPC's EIA hasn't accurately prepared.<sup>102</sup>

## E.II. Hambantota Port

Hambantota Port was inaugurated on November 18, 2010, and is Sri Lanka's second largest port, after the Port of Colombo. It is indispensable for China's energy security because the country imports two-thirds of its oil through shipping lanes south of the port.<sup>103</sup> This initiative aimed to build a secondary port at the coastal town of Hambantota, to alleviate capacity and crowding concerns with the primary port in Colombo. The project was initially kicked off in 2008 by Sri Lanka on the basis on Chinese finance with the intention that Sri Lanka would operate the facility. However, China has taken over the project through providing additional funding and in turn taking a 70% stake in the joint venture with the Sri Lankan Port Authority which holds the remaining shares.

In 2016, Sri Lanka Ports Authority had to repay Rs. 9 billion as construction charges for the Hambantota port,<sup>104</sup> which, by the end of the year, accumulated a loss of Rs 46.7 billion.<sup>105</sup> After that then Prime Minister Ranil Wickremesinghe visited China to discuss this problem. Then, Sri Lankan ports authority rescinded the agreement with the Chinese operators of the port and replaced it with a concession agreement signed in 2017.<sup>106</sup> Under the 2017 agreement, the Ports Authority created Hambantota International Port Group (HIPG), which then became a joint venture after China Merchant Ports bought an 85% stake in HIPG as part of the Chinese company's US\$1.12 billion investment into the port.<sup>107</sup> The agreement will expire 99 years after its effective date and allows HIPG to develop and operate the Hambantota port exclusively.<sup>108</sup> The agreement also stipulated the creation of a 15,000-acre special economic zone.<sup>109</sup>

## E.III. Colombo Port Expansion

Another BRI project in Sri Lanka is the expansion and modernization of the Colombo port - the Colombo International Container Terminal, a Sino-Lanka joint venture. The port, which serves as Sri Lanka's primary hub for freight has faced capacity concerns and as part of a joint venture with Chinese investors, construction of a new South Container Terminal was started in 2011.<sup>110</sup>

Merchants Port Holdings and Sri Lankan conglomerate Aitken Spence PLC signed a US\$500 million deal with the Sri Lankan Government to build and operate the Colombo South Container Terminal on September 23, 2011.

Colombo International Container Terminal was awarded 35-year build, operate, and transfer (BOT) agreement from SLPA as part of the larger Colombo South Harbour Expansion project. The Colombo South Container Terminal Project was reportedly financed according to a debt-to-equity ratio of 60:40. China Development Bank (CDB) provided a US\$350 million loan to CICT for the debt portion of the project on May 9, 2012.<sup>111</sup>

102. Supra note 123

103. Nikkei, G.Y., Palma, S., (2018), "Development and Change", Development Studies Association Conference UK

104. "Rs. 9b loan repayment biggest challenge to SLPA in 2016". Daily FT. 5 January 2016. Retrieved 11 July 2021.

105. Malik" (2017)

106. Erie, Matthew S. (2021). "Chinese Law and Development", Harvard International Law Journal.

107. Supra note 128

108. "Potential Discloseable Transaction: Concession Agreement in Relation to Hambantota Port, Sri Lanka" (PDF) (Press release). Hong Kong: Hong Kong Stock Exchange. (2017)

109. "Sri Lanka to Sell 80 Percent of Hambantota Port To China" Asian Mirror. (2016)

110. Bloomberg, 2013.

111. Supra note 117

By the end of 2015, US\$330 million had been disbursed through this loan. China Merchants Port Holdings, Aitken Spence PLC and Sri Lanka Port Authority initially provided 40% equity funding for the joint venture, CICT. The breakdown of their equity share was as follows as 55% for China Merchants Port Holdings, 30% for Aitken Spence PLC, and 15% for Sri Lanka Port Authority (SLPA).<sup>112</sup>

However, in January 2012, China Merchants Port Holdings acquired Aitken Spence's entire 30% interest, bringing its total equity interest to 85%. SLPA still holds a 15% ownership stake in the joint venture. The total quay length is 1200 meters, with a designed throughput of 2.4 million TEUs. Upon completion, it was expected to accommodate the world's largest container vessels at 18,000 twenty-foot equivalent units (TEUs). The construction work of the South Container Terminal commenced on December 1, 2011 and the terminal was ceremonially opened for traffic on August 5, 2013. The entire terminal was completed on April 23, 2014.<sup>113</sup>

#### **E.IV. Mattala Rajapaksa International Airport (MRIA)**

The Mattala Rajapaksa International Airport is the second international airport in Sri Lanka. The airport is located in the deep down south Town of Mattala, 18km from Hambantota. Construction of phase one began on November 27, 2009. US\$209 million were spent on the project and from it, US\$190 million provided by the Chinese government via the Exim Bank of China.<sup>114</sup> MRJA was opened in March 2013. Mattala International Airport project has proved to be white elephant. Due to the low number of flights, it has been proposed to offer long-term aircraft parking services as well as creating flying schools and maintenance services to be offered from the airport. In 2016, since the Airport was not generating enough revenue to pay back the loans, the Sri Lankan government called for Expressions of Interest to run commercial activities. It was dubbed "The World's Emptiest International Airport" by Forbes due to its low number of flights despite the larger extent of the airport.<sup>115</sup> However in 2020, Sri Lankan Government scrapped the negotiations with India to run the airport as a joint venture.<sup>116</sup>

#### **E.V. Other Infrastructure Developments**

China has also invested heavily in the development of other infrastructure projects in Sri Lanka. China has invested billions of dollars in an overhaul of infrastructure in the island nation. One such project is the over-200-km long Southern Expressway. And another major project is Norochcholai power plant. The US\$460 million worth Norochcholai coal power plant<sup>117</sup> to provide about 40% of the nation's electricity supply.<sup>118</sup>

Colombo-Katunayake expressway between the country's main airport and city facilitating travel and tourism industry is a US\$250 million project. (Ministry of Higher Education and Highways, 2017), Moragahakanda Project was the biggest reservoir in Sri Lanka; Southern Railway and Expressway

112. Supra note 117

113. [Online Web] available at URL: <https://www.reuters.com/article/srilanka-port-spence-idUSL4E8CN4PO20120123> (Last visited November 15<sup>th</sup> 2022)

114. Supra note 117

115. [Online Web] available at URL: <https://www.forbes.com/sites/wadeshepard/2016/05/28/the-story-behind-the-worlds-emptiest-international-airport-sri-lankas-mattala-rajapaksa/?sh=8582bc67cea2> (Last visited November 20<sup>th</sup> 2022)

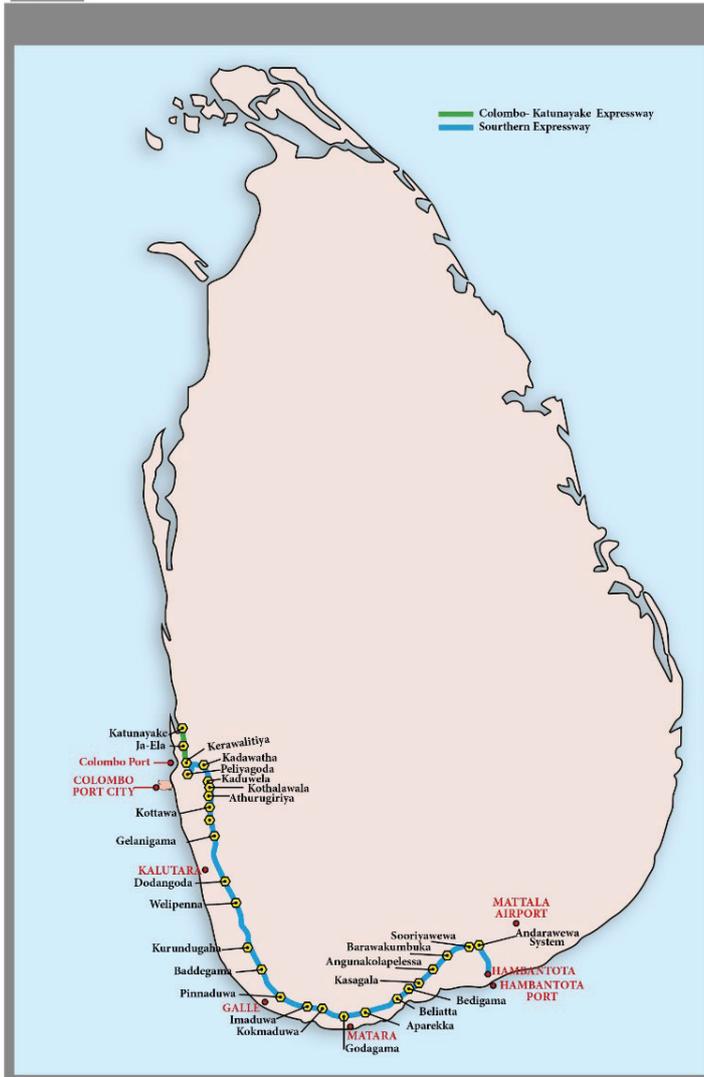
116. [Online Web] available at URL: <https://centreforaviation.com/analysis/reports/sri-lanka-suspends-joint-venture-at-the-worlds-emptiest-airport-531746> (Last visited November 18<sup>th</sup> 2022)

117. Ministry of Power and Renewable Energy, 2017

118. HE Cheng Xueyuan, 2018 (Ambassador H.E. Cheng Xueyuan's Opening Remarks on BRI Seminar. 2018-11-19 14:13. Dr. Rong Ying, Vice President of China Institute of International Studies)

linking Colombo and Hambantota by the end of 2018.<sup>119</sup> More recently, China has approved US\$1 billion for the funding of the phase one of the Central Expressway through a loan. There are positive impacts and neactive impacts for Sri Lanka through this project.<sup>120</sup>

Figure 8



Overall, China's BRI's impact can be framed in broad terms like trade, investment, tourism, and other flows between China and Sri Lanka. China has emerged to become Sri Lanka's second largest trading partner, after India in terms of Sri Lanka's total trade with the world. BRI enhance trade routes between Sri Lanka and India involved and facilitate trade bilaterally and beyond. Hambantota Industrial zone will attract Chinese and foreign investment, boost jobs, tax revenues and the local economic base, contributing to expansion of bilateral and regional trade. Because of the Civil war, Sri Lanka has limited investor interest. But the BRI is a significant Chinese investment in Sri Lanka. Existing investments in Sri Lanka as part of the BRI amount to approximately US\$8 billion, while China has offered up to an additional US\$24 billion in financing.<sup>121</sup>

Another advantage of the BRI is development of infrastructure in Sri Lanka. China mostly engaged with infrastructure projects in Sri Lanka such as transportation, water, electricity, ports and etc. Is has also made important contributions to the socio-economic development of the country.

119. Ministry of Higher Education and Highways, (2017), "Annual Performance Report 2017"

120. Supra note 117

121. Supra note 117

Introduction of the Southern Expressway connecting Southern province and Capital city Colombo can be considered as an instance. Also, Katunayake Expressway connecting the city of Colombo to the airport has facilitated the faster transport. BRI ensure trade flow more freely and local enterprises can leverage it to ensure domestic market access. BRI also aims to develop 'soft infrastructure'. BRI is focusing mainly facilitating the movement of people, goods and services across borders. It enhances economic relations, education, science, technology, sport and health. As an example, China offered scholarships, training programmes and internships for Sri Lanka.<sup>122</sup>

BRI introduced Sri Lanka as an economic hub within the BRI and wish transform Sri Lanka into a logistics and trading hub. Mainly, the Colombo Financial City aims to provide the support services including banking, brokerage, insurance, logistics and technology.<sup>123</sup> Tourism is one of the major revenue-generating industries of the island nation. Since 2010, Chinese nationals have made up a significant distribute of the overall tourist population visiting Sri Lanka. The number of Chinese tourists visiting Sri Lanka between 2010 and 2016 has grown by over 70%.<sup>124</sup> And also BRI will boost employment within Sri Lanka. Colombo port city is forecast to provide 80,000 new jobs when it is completed.<sup>125</sup>

Conversely, China is currently Sri Lanka's largest creditor. Sri Lanka has inherited a significant chunk of debt to China and rest of the world because the as part of BRI and due to the increased funding and loans made available by China. Sri Lanka's debt equals 81.6% of its gross domestic product, which the International Monetary Fund says is the third-highest ratio among emerging economies.<sup>126</sup> The Sri Lankan government has had difficulty making repayments on these China's debt obligations and has had to restructure the debt agreements with the Chinese government. Due to the inability to repay the \$1.4 billion loan from China, the Sri Lankan government has granted the Chinese government an exclusive 99-year lease on the Hambantota port in exchange of US\$1.1 billion of debt write off.<sup>127</sup>

At present, this situation is aggravated by the current economic crisis in Sri Lanka. The country's total public and publicly-guaranteed debt was US\$37.6 billion at the end of 2022.<sup>128</sup> According to data, of that amount lent by China accounted for US\$7.4 billion, or 20%, compared with less than 1% in 2001.<sup>129</sup> However these projects have yet to yield adequate revenues for debt servicing. Accordingly, Sri Lanka is caught in the Chinese debt trap by unsustainable large-scale projects. Analysts say Sri Lanka's borrowing from China, while significant, is not the main cause of the debt crisis, which saw the country default on its foreign debt for the first time in May. The country's largest foreign lending source is international sovereign bonds, accounting for 37.6% at the end of 2022.<sup>130</sup> However China has a critical role to play in helping Sri Lanka extricate itself from the crisis.

With a significant portion of investment in BRI coming from Chinese public entities, there is concern of Sri Lanka's growing debt burden and loss of sovereignty. There is concern that due to the ownership of key central infrastructure being tied to such entities, Sri Lanka sacrifices a level of autonomy around how to manage these infrastructures. In Sri Lanka, China's takeover of a troubled Hambantota port raised questions about a loss of sovereignty. Currently, Sri Lanka has become a punching bag of the Indian Ocean. Under the BRI project, Sri Lanka has a close relationship with

122. Xianliang, Y. (2017)

123. Supra note 123

124. Deyshappriya, N. P. R. (2017). "Impact of Macroeconomic Factors on Income Inequality and Income Distribution in Asian Countries". ADBI Working Paper 696. Tokyo: Asian Development Bank Institute

125. Xinhua State News Agency, 2017. Official state news agency of the People's Republic of China.

126. Legrand, (2018), "Annual Report and Registration Document"

127. Supra note 117

128. [Online Web] available at URL: <https://www.reuters.com/world/asia-pacific/sri-lankas-debt-china-close-20-public-external-debt-study-2022-11-30/> (Last visited November 29<sup>th</sup> 2022)

129. Supra note 148

130. Supra note 148

China. But, as biggest country in South Asia, India has flagged serious security concerns over the increased presence of Chinese activity in Sri Lanka. BRI has raised concern of China's intentions in the Indian Ocean.<sup>131</sup>

The strategic location of Sri Lanka at the Centre of the Indian Ocean has trapped Sri Lanka in the power rivalry involving major economic powers such as the USA, China, India and Japan. Mainly China and India's competition and power struggle in the Indian Ocean is the new geopolitical reality.<sup>132</sup> The arrival of an extra-regional power and India's concern of a Chinese presence has given Sri Lanka leverage in realizing its domestic and foreign policy goals, and relative bargaining power in convincing India to realize its interests.

The Chinese Spy ship Yuan Wang 5 that recently arrived at the Hambantota port caused this crisis to escalate. Despite security concerns voiced by Sri Lanka's neighbour India and the United States, the Chinese survey vessel Yuan Wang 5 arrived at Chinese-managed Hambantota Port on August 16. Foreign security analysts says Yuan Wang 5 is one of China's newest generation space tracking ships, designed to track satellites, spacecraft and intercontinental ballistic missile launches.<sup>133</sup> Indian focus the present state of affairs with great concern that Sri Lanka would melt under China's pressure and allow China to establish a military base at the Hambantota port. Passage of a foreign ship shall be considered to be prejudicial to peace, good order or security of the coastal State. Moreover, it caused for geopolitical problems in Indian Ocean.

Another issue that comes with China's BRI projects is transparency and corruption. There has been international criticism of BRI's potential to generate huge levels of corruption. Given the limited oversight on these infrastructure projects can face bribe demands. According to the 2017 TRACE Bribery Risk Matrix, which measures business bribery risks in 200 countries, BRI countries show comparable patterns of bribery risk. China and Sri Lanka rank at 158th and 159th out of 200 countries.<sup>134</sup> 30% of bribery cases are in the construction and transportation sectors, and some estimate that between 10%. The Hambantota project failed to account sufficiently for local feelings about the development, concerns about political corruption and security worries.<sup>135</sup>

Another special point is BRI always connected to the pollution of environment. There have been limited studies to evaluate the long-term environmental impact of these infrastructure projects. While the Environmental Impact Assessment (EIA) of the Colombo Port City shows that there is negligible impact from the construction, some have raised concerns around negative impacts due to the mining required for landfill and for marine life due to the reclamation of land. And also, there is concern that some of the other investment through BRI has been towards rapidly scaling out energy production heavily dependent on fossil fuels. Examples in Sri Lanka include funding of the Chinese built Norochcholi Coal Power Project. Concerns have been raised that these long-term projects could breed a culture of fossil fuel dependence and dissuade investment in greener and more sustainable alternatives.<sup>136</sup>

Accordingly, it can be observed that Sri Lanka has to deal with several issues rather than positive impacts from BRI.

131. Supra note 117

132. Chulanee Attanayake, (2021), "Power Struggle in the Indian Ocean: Perspective from Sri Lanka"

133. Kathirtharsini Parameswaran, (2022), "Why Yuan Wang 5 Ship's port of call so significant"

134. [Online Web] available at URL: <https://www.traceinternational.org/trace-matrix> (Last visited November 29<sup>th</sup> 2022)

135. Deloitte, (2018), "Deloitte Millennial Survey 2018 Young talents' confidence in business is declining and loyalty to companies is declining"

136. Pike, L, (2017)

## 3. Positive and Negative impacts of BRI

According to above mentioned all facts it is crystal clear that BRI make both positive and negative impacts to its partner countries. Therefore, analyzing both versions of impacts is highly important to identify the real impressions of BRI.

### 03.01 Positive impacts

#### I. Contribution to increase income of partner countries

Where BRI contributes to increase GDP of some partner countries. For instances, Zambia has maintained relatively high growth rate between 2005 and 2014 and Pakistan has reported significant increase of GDP from 2013 to 2018 with support of BRI.<sup>137</sup>

Moreover, real income of some East Asian economies reported great gains. They are Thailand (8.2%), Malaysia (7.7%), Cambodia (5.0%), and Lao PDR (3.1%). Furthermore, some other countries with large gains in real income are Bangladesh (6.9%), Turkey (3.6%), the Islamic Republic of Iran (3.0%), and Tanzania (2.5%).

#### II. Increasing volume of foreign trade

With the help of BRI some partner countries have expanded their foreign trade volume in substantial manner. For instances, past two decades Zambia-China trade has surged.<sup>138</sup> In 2018, bilateral trade reached US\$5 billion for the first time, with Zambia enjoying a trade surplus of more than US\$3 billion.<sup>139</sup> More than 90% of Zambia's exports to China are intense on a few commodity products like copper.<sup>140</sup>

Moreover, China has emerged to become Sri Lanka's second largest trading partner, after India in terms of Sri Lanka's total trade with the world. BRI enhance trade routes between Sri Lanka and India involved and facilitate trade bilaterally and beyond.

#### III. Increasing flow of foreign investment of partner countries

There are numerous examples that BRI has contributed to increase the foreign investments of partner countries. China continues to be the largest investor in Laos, with cumulative investment of about US\$16.4 billion in 833 projects. Areas of Chinese investment are diverse, with the country ploughing money into small, medium and large enterprises.<sup>141</sup>

Moreover, by 2021, Chinese state-owned corporations had financed Angola to the tune of US\$60bn, according to diplomatic sources. BRI is a significant China investment in Sri Lanka. Existing investments in Sri Lanka as part of the BRI amount to approximately US\$8 billion, while China has offered up to an additional US\$24 billion in financing.<sup>142</sup>

137. [Online Web] available at URL: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=PK>, (Last visited December 29th 2022)

138. Supra Note 39

139. Supra Note 40

140. Supra Note 41

141. Supra Note 76

142. Supra Note 143

#### **IV. Contribution to develop infrastructure sector**

It is crystal clear that, BRI has contributed massively to develop infrastructure sector of partner countries. China-Pakistan Economic Corridor has created a 3,000km network of roads, railways and pipelines intended to transport oil and gas from southern Pakistan's port of Gwadar to the city of Kashgar in northwest China's Xinjiang Uygur autonomous region. Moreover, BRI power and energy projects help Pakistan to get rid of the energy crises. These projects mainly based on wind, solar, coal and hydropower generation of 16,400 MW as well as the transmission system.

Under the BRI, several infrastructure projects have built in Sri Lanka. Some of those are Colombo International Financial City (CIFC), Hambantota Port, Colombo Port Expansion, Mattala Rajapaksa International Airport, Southern Expressway, Norochcholai Coal Power Plant, Colombo-Katunayake Expressway, Moragahakanda Project and Central Expressway. China has built several infrastructures in Laos mainly dams and railways. Around 55% of all Chinese overseas dams are in Asia, and Laos is home to 81% of them.

#### **V. Creating new job opportunities**

BRI has created new job opportunities in partner countries. For instances, in an industrial zone in Zambia over 40 companies had pledged investments and created around 1,000 jobs for the locals. Moreover, in Sri Lanka Colombo port city is forecasted to provide 80,000 new jobs when it is completed though it has been struck.

#### **VI. Technical, social, education and cultural benefits**

Under the BRI partner countries have received technical assistance mainly for constructing massive infrastructure projects. Moreover, they offered scholarships, training programmes, internships and such more opportunities for partner countries in the field of economic, education, science, technology, sport, health etc. According the reports, BRI wishes to transform Sri Lanka into a logistics and trading hub. Mainly, Colombo Financial (Port) City aims to provide the support services including banking, brokerage, insurance, logistics and technology.

## **03.02. Negative impacts**

### **I. Rapid increase of public debt (Debt trap) and becoming victims of economic crisis**

There are several examples for BRI partners become victims of public debt issues. In November 2020, Zambia became the first African country to default on one of its foreign loans, and it has been involved in negotiations with China over debt relief. Although, Zambia reached an agreement with the China Development Bank to defer debt repayments in 2021 details are unclear on the size of the loan in question, or the debt repayments due.<sup>143</sup>

According to Pakistan's Economic Survey for 2021-2022, the country owes China US\$87 billion in outstanding debt and it paid China an interest of US\$150 million on a US\$

143. Mfula, (2020), "China invites Zambia's private creditors for debt restructuring talks"

4.5 billion loan in the years 2021–2022.<sup>144</sup> In this backdrop, Pakistan spiraled into a dire situation where in 2022 Pakistani Rupee (PKR) hit a record low in the month of June when it touched 224 against the US dollar a steep fall from 150 in April 2021.<sup>145</sup> Moreover, Pakistan's net reserves decreased from US\$17.2 billion in 2021 to US\$8 billion in 2022.<sup>146</sup> In the case of Laos, it has been estimated US\$1.5 billion in external debt to China. It is a considerable amount for a country with a nominal GDP of around US\$20 billion and official foreign exchange reserves of around US\$1.1 billion.<sup>147</sup> According to an IMF report, almost 65% of the total external debt in Laos is owed to bilateral lenders, particularly China. Due to debts inflation of the country reaches sky high it has been reported as 36.75% in October as sharp increase since the beginning of 2022.

Angola has borrowed US\$42.6 billion from Chinese lenders – around a third of China's total lending to African countries between 2000 and 2020.<sup>148</sup> After paying off loans totaling US\$1.32 billion this year, Angola owes China US\$18 billion, or almost 40% of its entire external debt.<sup>149</sup>

China is currently Sri Lanka's largest bilateral creditor. However, the island nation has been waging an uphill struggle to make repayments on these China's debt obligations and has had to restructure the debt agreements with the Chinese government. Due to the inability to repay the US\$1.4 billion loan from China, the Sri Lankan government has granted the Chinese government an exclusive 99-year lease on the Hambantota port in exchange of US\$1.1 billion of debt write off.<sup>150</sup>

According to data, China accounted for US\$7.4 billion, or 20%, debt to Sri Lanka compared with less than 1% in 2001.<sup>151</sup> Accordingly, Sri Lanka is caught in a debt trap by unsustainable large-scale projects. However, some say Sri Lanka's borrowing from China, while significant, is not the main cause of the debt crisis, which saw the country default on its foreign debt for the first time in May.

## II. Issues related to transparency and corruption

There are several allegations over the transparency and corruption in partner countries over the BRI projects.

In Zambia, other international lenders have been reluctant to extend relief for debt and citing concerns regarding Zambia's unsustainable borrowing practices and lack of transparency on its debts, particularly to Chinese lenders.<sup>152</sup> Moreover, Zambia is estimated to be losing between 713 and 1,426 billion kwacha (ZMK) (US\$143–285 million), or 10–20% of the value of construction contracts, to corruption and related corrupt

144. Supra note 68

145. Supra note 68

146. Supra note 68

147. [Online Web] Available at URL: <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-99-bri-projects-in-cambodia-and-laos-roll-on-despite-covid-19-by-vannarith-chheang/> (Last visited 10<sup>th</sup> November 2022)

148. Online Web Available at URL: <https://english.news.cn/20221107/8a4bd60cac8d4924b729d9258f6c6e03/c.html>, (Last visited on 4<sup>th</sup> December 2022)

149. Online Web Available at URL: <https://macaonews.org/portuguese-speaking-countries/angola-accelerates-plan-to-repay-us18-billion-debt-to-china/>, (Last visited 5<sup>th</sup> December 2022)

150. Supra note 117

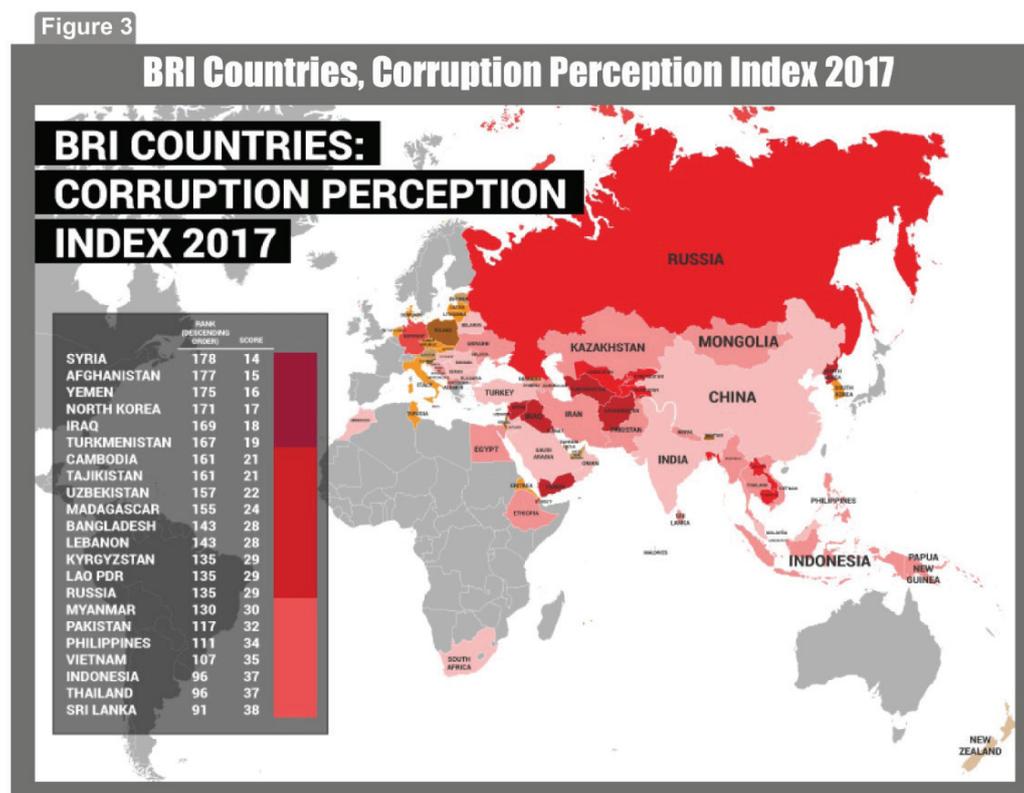
151. Supra note 117

152. Olander, (2020), "The report Debt Relief for a Green and Inclusive Recovery" Heinrich Böll. Foundation, SOAS Centre for Sustainable.

practices in the construction industry and significant number of them of them are related to China or BRI.<sup>153</sup>

Moreover, there is an interesting fact that most of BRI-linked countries rank high on the global corruption perception index. This increases the likelihood of corruption when massive funds come to counties. As an example, in Kyrgyzstan, government officials were accused of colluding with Chinese contractors to embezzle BRI funds by grossly overpricing project costs. Also, two former prime ministers were arrested on corruption charges. Allegations of corruption in BRI-related projects have even caused the downfall of several governments in the world.

For instance, the former President of Sri Lanka Mahinda Rajapaksa was defeated in 2015 elections.<sup>154</sup> Similarly, Malaysia's the National Front coalition was ended because of the allegations made relating to BRI related projects. Further, the Maldives' authoritarian President Abdulla Yameen lost in the country's presidential election.<sup>155</sup> Recently Pakistan PM Imran Khan was ousted after losing a no-confidence vote in Parliament and Sri Lankan President Gotabaya Rajapaksa resigned after months of island wide protests.<sup>156</sup> Mahinda Rajapaksa approached China for loans when he could not get the international funding he needed after the Civilian war. International media reported that large amounts of money allegedly channeled from the Hambantota port construction fund to Rajapaksa's election campaign. Analysts have pointed out that China "insidiously" inflated the values for the projects to get its victims in deep debt in order to extract resources and territories.<sup>157</sup>



153. Koyi, (2018), "Framing Analysis of Belt and Road Initiative Coverage in Major Nigerian, Malaysian, and Vietnamese Newspapers".

154. The ASEAN Post Team, (2018), "Is The BRI A Corruption Magnet?" Published on October 10<sup>th</sup>, [Online Web] Available at URL <https://theaseanpost.com/article/bri-corruption-magnet> (Last visited 25<sup>th</sup> September 2022)

155. [Online Web] available at URL: <https://theaseanpost.com/article/bri-corruption-magnet> (Last visited 25<sup>th</sup> September 2022)

156. [Online Web] available at URL: <https://www.nytimes.com/2022/07/14/world/asia/sri-lanka-president-rajapaksa-resigns-protests.html> (Last visited 25<sup>th</sup> September 2022)

157. [Online Web] Available at URL: <https://theaseanpost.com/article/bri-corruption-magnet> (Last visited on 25<sup>th</sup> September 2022)

Although, China has a low tolerance for corruption domestically and imposes severe penalties on those found guilty of corruption, it is surprisingly sanguine when it comes to corruption in foreign countries it associates with. In Kyrgyzstan, on its corruption case, China's ambassador stated that "The investigation is an internal affair of Kyrgyzstan, and we do not interfere".<sup>158</sup> Sri Lanka's Rajapaksa regime willingly borrowed increasing amounts of money from China in exchange for whatever the latter requested. Many international media have pointed out that Chinese projects are mainly responsible for the economic recession that Sri Lanka is currently facing. The Chinese President is keen to remove the negative image of fraud and corruption associated with the BRI project.<sup>159</sup> At the June 2017 Belt and Road Forum, he called on countries to "strengthen international counter-corruption coordination" so that the BRI will be a "road with high ethical standards."<sup>160</sup> It is observed that China prefers to invest in countries with weak rule of law compared to other foreign donors.<sup>161</sup> The World Bank also pointed that more understanding is needed of the terms of China's loans.<sup>162</sup> While most Chinese loans are concessional, they come with terms that may not be the most favorable for low-income countries. Projects backed by concessional loans must be executed by Chinese contractors, which are often selected without tender process. One of the main conditions is that significant share of the goods and services in a project must come from China. Thus, Chinese construction firms have benefited from access to low-cost government lines of credit, as well as the 'tied' financing of China's overseas concessional loans.<sup>163</sup> The concessional nature of a loan is diluted when it is 'tied' to procurement from contractors in the lending country. Strings-attached loans are more likely to result in cost escalations, further undermining the concessional nature.

### III. Social, political, legal and security unrests

BRI-related debt, corruption and transparency issues have led the partner countries in huge social, political, legal and security unrests both internationally and domestically. For instances, over the last few years, anti-Chinese incidents in Zambia have become increasingly common. In 2018 there were two anti-Chinese riots in Zambia's second city Kitwe.<sup>164</sup> Moreover, Chinese companies generally pay low attention towards the governance, social and environmental risks posed by their investment. It creates issues on local tax, immigration, labour and environmental laws. In this backdrop, Zambia was critical of the lack of transparency in MoUs and contracts signed between Chinese companies and Zambian national and local governments.<sup>165</sup>

In Pakistan, as mentioned earlier in this article, a suicide attack, triggered by Baloch militants, took the lives of three Chinese teachers in the University of Karachi.<sup>166</sup>

158. [Online Web] Available at URL: [https://24.kg/english/78763\\_Ambassador\\_of\\_China\\_to\\_Kyrgyzstan\\_TBBA\\_has\\_good\\_reputation/](https://24.kg/english/78763_Ambassador_of_China_to_Kyrgyzstan_TBBA_has_good_reputation/) (Last visited November 15<sup>th</sup> 2022)

159. [Online Web] Available at URL: <https://www.outlookindia.com/international/rebranding-the-bri-after-a-spate-of-criticism-against-xi-jinping-s-pet-project-news-232851> (Last visited November 15<sup>th</sup> 2022).

160. The ASEAN Post Team, (2022)

161. Supra note 64

162. World Bank Group (2019)

163. Supra note 64

164. Interview with a District Commissioner, Kitwe, Zambia, April 2019; Rosen (2018); Jalloh and Wan (2019).

165. Ofstad and Tjonneland (2019)

166. Supra note 64

Furthermore, there are number of reports that BRI is not only an economic development project but also a geopolitical project of China. Subsequently, partner countries have become victims of two world political fronts led by China and West led by USA. Moreover, it has been more complicated with regionally. The best example is Sri Lanka which has to deal with China and the closest neighbour India.<sup>167</sup>

#### **IV. Environmental issues**

One of the biggest objections against BRI is not standing with environmental protection. According to the prepared environmental report in Colombo Port City under the National Environment Protection Act had only looked into the aspect of the landfill area. It had not been sufficiently considered the facts related to sea mining and related issues like sea erosion. Although, it looked over the economic development some aspects like impacts on traditional fishing industry has not been much considered. Overall, concept of sustainable development had been forgotten.<sup>168</sup>

Moreover, BRI always connected to the pollution of environment. There have been limited studies to evaluate the long-term environmental impact of these infrastructure projects. While the Environmental Impact Assessment (EIA) of the Colombo Port City shows that there is negligible impact from the construction, some have raised concerns around negative impacts due to the mining required for landfill and for marine life due to the reclamation of land. And also, there is concern that some of the other investment through BRI has been towards rapidly scaling out energy production heavily dependent on fossil fuels. Examples in Sri Lanka include funding of the Chinese built Norochcholi Coal Power Project.<sup>169</sup>

Not only in Sri Lanka but also in other subjective countries Zambia, Pakistan, Laos, and Angola also reported several environmental and pollution related issues with BRI mainly related to mining, massive constructing projects.

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167. Supra note 117

168. Supra note 117

169. Supra note 117

## 4. Conclusion

There is no dispute that BRI is one of the biggest living projects in the existing world which covers 146 countries and 32 international organizations. However, the utmost question is that is it a real development project that contains with sustainable aspects and a balanced instrument that treated same manner in both the main driver and partners.

According to the above discussions, there are several positive and negative impacts of BRI on partner countries. However, it should be discussed that are positive impacts of BRI offering sustainable development for the partner countries?

In the case of increasing income of the partner countries by BRI some of contradictions have been raised. First issue is that sustainability of the said economic growth. For instances, it is crystal clear that BRI projects have contributed to increase GDP of Sri Lanka and Pakistan. However, the both are now dealing with severe economic collapses with high inflation, low or minus economic growth, lack of foreign reserves, massive amount of debt. Furthermore, the both countries have to make requests to China for debt restructuring. There would be counter arguments that Covid-19 pandemic, mismanagement are the main reasons for such crisis in Pakistan and Sri Lanka. However, contribution of debt issues mainly with high interest, non-productive projects related to BRI cannot be underestimated in this economic disaster.

Although, BRI helps to increase volume of foreign trade of the partner countries the reality of the surge is ambiguous. With BRI trade volume of Pakistan, Sri Lanka and Laos have been increased but it is mostly one sided. More precisely, imports from China to all three countries are very high comparatively with exports from those countries to China. In the case of Zambia, export of copper mainly as raw material is the main reason behind the trade growth with China. Angola is one of the largest oil suppliers of China. Accordingly, it is very clear that, increasing trade volume of China and BRI partner countries hasn't occurred with a balance approach.

Investing in partner countries under the BRI also subjected to some criticisms as those have not been aimed to develop those countries. More, precisely Chinese investments have their own goals than interest of partner countries. For instances, rail tracks and dams of Laos aim Chinese commercial gains than development of Laos. Investments in Zambia and Angola respectively in copper and oil mines are also subject to criticisms as more concerns over the benefit of China than owners of the resources.

Massive infrastructure projects of BRI partner countries also create several issues. The main concern is productivity of such projects. Massive stadiums and convention centers which have been built under the BRI in Zambia and Sri Lanka have been blamed as creations for corrupt regimes rather than people of those countries. Those are become white elephants that wasting public money for maintaining and paying the loans.

Creating new job opportunities by BRI is considered as a positive aspect but it is also subject to criticism as providing jobs for Chinese people than locals. This criticism can be observed from all selected countries, Zambia, Pakistan, Laos, Angola and Sri Lanka. In this regard another loophole is that not created jobs as expected. For instances, in Sri Lanka Colombo port city was forecast to provide 80,000 new jobs but it becomes nightmare.

Accordingly, it is evident that positive impacts of BRI on partner countries have also number of loopholes. While analyzing such loopholes together with negative impacts of BRI, rapid increase of public debt (Debt trap) and becoming victims of economic crisis, issues related to transparency

and corruption, social, political, legal and security unrest, matters related to Chinese labour force, public dissatisfaction, overemphasized China's own advantages, and environmental issues, it is crystal clear that there is no balance in BRI towards partner countries. More precisely, BRI creates risks and negative impacts on partner countries.

Accordingly, after nine years of BRI's inception, it is possible to give a clearer definition of it by focusing on its course and its projects. Earlier, the BRI has been described by some critics as "debt-trap diplomacy". The main reason behind this is ambiguity of the BRI's goals and approaches. But in the beginning, there was no basis for it. However, it has been proved to considerable extend since the beginning.

In this backdrop BRI has to be identified as a kind of threat on sovereignty of partner countries. More precisely, once countries agree to BRI projects, the Chinese government offers loans that, in several instances, exceed the nation's ability to pay. This significant increase in debt subsequently forces other concessions, such as the trading of valuable resources in return for fiscal relief, ultimately increasing their overall dependence on China. BRI has exacerbated debt distress, and China's approach to lending and debt restructurings often compounds these issues.

Although BRI countries often do encounter trouble financing projects and seek to renegotiate loan terms, renegotiations often cut in favor of the host country. Some BRI countries accommodate China's strategic interests while amassing increased Chinese investment is numerous. The study of Zambia, Pakistan, Laos, Angola and Sri Lanka clearly observes that by increasing national debt and making these less successful developing countries a market for imports of Chinese goods, the BRI has consolidated China's economic and political dominance in Asia and Africa, thus extending its sphere of geostrategic influence. It can be called as "neo-colonialism".

Accordingly, it is important for states to pay more attention to the Belt and Road Corridor economies when investing under the BRI. Without falling into a debt trap, investment plans should be prepared using the same bargaining power as China, using strategic methods related to that state. Transparency is a very important factor there. Transparency in project planning, financial costing and budgeting and procurement will improve the effectiveness of individual infrastructure investments and national development strategies.

Moreover, greater transparency is essential to build public trust and encourage community participation in investment decisions. In order to benefit from the BRI project, moreover, the other countries involved in it should clearly identify what reforms their countries need. Many countries have trade policies and border management practices that inhibit cross border trade. Facilitating import and export of goods is essential for countries to reap the full benefits of BRI investments. And they should be considered on the risks and opportunities associated with the BRI corridor. And to obtain benefits from BRI projects, sustaining multilateral cooperation is an essential factor. For countries to fully benefit from the positive spillovers of economic corridor development, they will need to work together to improve trade facilitation, unify standards in building infrastructure, agree on legal standards and investor protections that will encourage further investment along BRI corridors, and manage environmental risks. It will also require finding a multilateral approach to deal with potential debt distress problems associated with the BRI. And sometimes, cooperation will entail deeper engagement in existing institutions, such as the WTO's Government Procurement Agreements, or regional organizations. In others, new mechanisms and institutions still need to be thought out.

However, in the countries of Zambia, Pakistan, Laos, Angola and Sri Lanka, the same bargaining power is not evident through the implementation of BRI projects. When two parties without equal bargaining power enter into an agreement, the power of the stronger is definitely revealed through the agreement. China always implements its financial plan by luring weaker states into the BRI project under minimum conditions and high interest rates. There, the BRI project is more likely to act as a debt trap than a mere investment plan.

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**ADDRESS - SOUTH-SOUTHRESEARCH INITIATIVE**

Level 26, East Tower, World Trade Center,  
Echelon Square, 00100 Colombo, Sri Lanka

**EMAIL** - [southsouthresearchinitiative@gmail.com](mailto:southsouthresearchinitiative@gmail.com)

**WEB** - [www.ssrinitiative.org](http://www.ssrinitiative.org)

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