First draft is allowed to be a blunder, even the second one, but it is the re-editing that infuses the magic.
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The debtly trap

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"There are two ways to conquer and enslave a country - one is by the sword; the other is by debt," said John Adams, an American statesman. Given how things are panning across the globe, with China in the lead, his words hold more water in the present times. The news – China is using its Belt and Road initiative as a debt trap diplomacy technique, at least that is what media and trade analysts across the world have to say. Here's treading over conjecture, facts, and analysis to find the truth that lies somewhere in the grey.

What's this about?

■ Debt-trap diplomacy is a situation where an economically powerful country lends money to a borrowing country, which increases the lender's power and leverage over the borrower.

■ Through debt-trap diplomacy, the creditor country aims to increase the loan on the debtor country, putting them in a vulnerable position, and extracting political, economical, or any other kinds of favours in return when the debtor country is unable to pay the amount back.

■ Today China is known as the world's biggest official creditor as its international loan has surpassed more than 5% of the entire world's GDP. It has even left behind other international staple lenders like the World Bank, the International Monetary Fund, and all the nations under Organisation for Economic Cooperation and Development.

■ The countries most in debt to China are Pakistan, Indonesia, Vietnam, Laos, Sri Lanka, Bangladesh, Malaysia, Myanmar, Cambodia etc. China has been lending money under its Belt and Road Initiative.

Wait, wait...what is this Belt and Road Initiative?

■ The Belt and Road Initiative (BRI), also known as One Belt One Road, is a global infrastructure development programme that was started by the People's Republic of China in 2013.

■ The plan for the programme was that the Chinese government will invest in nearly 70 countries and other international organisations for their infrastructural growth, and will create investments like ports, skyscrapers, railroads, roads, airports, dams, coal-fired power stations, and railroad tunnels in the debtor countries.

■ The initiative aims to help China to "assume a greater leadership role for global affairs in accordance with its rising power and status". It was incorporated into the Constitution of China in 2017 and has been assigned a target completion date of 2049.

■ In a study conducted by CEBR, a global economic consultant company, it was forecasted that BRI will likely boost the world's GDP by 7.1 trillion USD per annum by 2040.

If it will help the world's GDP, why is everyone calling China a loan shark?

■ AidData, a research lab, tracked over 13,000 BRI projects worth 843 billion USD across 165 countries and found out that these projects actually have 385 billion USD in "hidden" debt, which means that these debtor countries actually owe more money to China than they think.

■ The loans have been structured in a way that some parts of it are hidden from the World Bank, because rather than lending them to government institutions, a part of the amount has been given to private firms. By influencing these private firms, China can influence market dynamics in these countries.

■ This has caused the debt exposure of at least 44 countries to exceed 10% of their GDP, and there is only so much the rest of the world can do to help as the World Bank's Debtor Reporting System only tracks obligations made in the name of the public sector where the government holds 50% or more shares. If it is not by the government, the World Bank and other international organisations aren't involved in the equation, letting the creditor be free to exercise their leverage without any upper check. This ends up creating what we call a debt-trap diplomacy.

■ Several analysts claim that China is using the loan to challenge the state's sovereignty and imposes multiple unfair trade and financial deals with poor countries that are in need of the money.

■ BRI, which was supposed to deliver infrastructure to countries in Asia, Africa, and Europe, is now being considered as a massive debt trap, given that only 3% of it is pure aid and rest comprise financial loans.

How China is taking advantage of this?

■ Once the indebted economies fail to pay up, China is said to use the upper-hand to support their geostrategic interests.

■ A recent report by International Forum For Right And Security (IFFRAS) revealed that most BRI contracts entail several confidentiality clauses. One of them is that the contracts for these infrastructure projects will be given only to Chinese state-owned or state-linked companies that charge higher prices than the open market.

■ Around 80% of these contracts also contain a No Paris Club clause. The Paris Club is an informal body of donor countries that intervenes if a country has trouble paying debts. This ensures that China gets its due in the way it wants.

■ A lot of these contracts give Chinese state banks priority, and have clauses that will give China "great leeway to accelerate repayment." They also mention that any severance of the diplomatic relationship can be classified as a breach of contract, requiring the debtor government to repay China the loan immediately.

■ 30% of these BRI contracts require debtor countries to deposit collateral in special escrow accounts which are often held by Chinese banks, which can be seized in the event of bankruptcy.

■ In many contracts, future exports of raw material is being used as collateral in the event of the inability to repay.

■ Many of these clauses give the lender, in this case China, the ability to cancel loans or reschedule payment at will, increasing their control.

■ As per IFFRAS, the contracts stress on keeping the terms of credit secret from the World Bank, other international agencies, and even citizens of both the countries involved.

■ These clauses and terms of repayment will curtail the crisis management and renegotiation options for debtors. All of this put together points to a detailed strategy on China's part.

But all of this is on paper. Has any country actually suffered ?

■ The biggest shining example of repercussions of BRI contracts and confidentiality clauses that come with it is Sri Lanka. The country had to cough up the Hambantota Port and 15,000 acres of surrounding land for 99 years as payment when it failed to repay a loan in 2018. The government stated that the intelligence and strategic opportunities of the port were also a part of the deal. This implies a direct security implication for India.

■ Another example is that of Tonga, who sought a loan from China, and failed to repay it in 2013-14, and the loans ended up claiming 44% of Tonga's GDP.

■ The Maldives, too, stands at risk as 1.4 billion USD, approximately 78% of the country's external debt, is only owed to China.

■ As per the same report by IFFRAS, the Chinese BRI contract with Montenegro entails clauses where the inability to repay the money will give the Chinese government the right to access Montenegrin land as collateral. Also, the contract states that any legal dispute would be placed under an arbitration court in China. Currently, Montenegrin debt stands at 65.9% of its entire GDP, China being 25% of it.

■ India will also need to be on their toes as most of its neighbours have fallen prey, including Pakistan.

So, what will happen now?

■ A large number of the BRI loans have the period for repayment starting from 2021 onwards, meaning that the coming years will see China capitalising on other countries' fiscal mismanagement.

■ A lot of negotiations can be assessed to be on equity swaps rather than on alleviating debt and helping other countries, meaning more and more power for China.

■ A ray of hope is that the pace of lending on BRI has slowed down in the past two years. Several countries on the Chinese credit list are witnessing more pushback against the BRI.

■ The USA has also led a G7 effort to counter Beijing's dominance in international development finance in collaboration with other countries like France, Canada, Germany, Italy, Japan, and UK. Termed as the Build Back Better World (B3W) initiative, it aims at offering 40 trillion USD in investment in developing countries.

■ Australia has also backed out of its BRI contracts, with many other countries following suit. This has weakened BRI's further reach. In addition, the country has also introduced its 2 billion USD Australian Infrastructure Facility for the Pacific (AIFFP) as a counter to BRI.