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DEBT AS POWER: CHINA’S FINANCIAL DIPLOMACY AND ITS IMPACT ON RECIPIENT STATES

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Abstract: This article discusses debt-trap diplomacy in detail as one of the main tools to deal with in China's foreign policy and looks at how financial books are used to broaden the power, economic, and geostrategic regions of Beijing in developing areas that are important for the future. To be sure, debt-trap diplomacy is giving of big loans and infrastructure financing to countries with weak economies under terms that may lead to dependency for long time and restriction of domestic policy autonomy thereby giving the creditor more political leverage. This article situates China's international borrowing within larger discussions about economic statecraft and asymmetric dependency and uses the case study method to draw a comparison between Chinese financial involvement in South Asia, Southeast Asia, East Africa. Scrutiny is given to the important infrastructural developments that are linked with the Belt and Road Initiative as well as the rising influence of Chinese policy banks and state-owned enterprises in molding the economic and governance structures of the recipient countries. The evaluation implies that Chinese loans, although they have been a part of infrastructural development, have also increased the risks regarding the sustainability of debts, changed the alignments of domestic politics, and given more control to the foreign influence over the strategic assets and the decision-making process. All these have led to changes in the power dynamics of the region and to the silencing of the governance issues.

Keywords: "Debt-trap diplomacy", China’s financial diplomacy, economic statecraft, Belt and Road Initiative (BRI), asymmetric interdependence, geopolitical influence, sovereign debt sustainability, infrastructure lending, recipient states.

INTRODUCTION

In the last 20 years, China has turned into a major financial actor in the Global South that has basically changed the landscape of global economic engagement through its finance, especially in the areas of lending, infrastructure financing, and development assistance. The country has given huge amounts of money under initiatives like the Belt and Road Initiative (BRI), mainly through loans to countries in Asia, Africa, and parts of Europe, thus making finance one of the most important tools of its foreign policy. The phenomenon of overseas lending has made the question of the strategic implications of China's growing financial presence quite a controversial point among scholars and policymakers, leading sometimes to a discussion about the changing power relationships between creditor and debtor states.

This paper is significant and relevant at the moment as it goes through debt not just as an economic phenomenon but as a political power which is intertwined with the economic statecraft strategy through the length of the government's power. The term “debt as power” indicates that the financial dependence of a country can give the creditor a say in the country's internal politics, a say in its foreign policy, and even rights over its strategic resources. With developing nations having to deal with rising debt, being financially insecure, and having very few financing options left besides China, getting to know the political aftermaths of Chinese lending turns out to be of great importance for evaluating the power shifts in today's world.

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The significance of this research is also emphasized through its geographic concentration on South Asia, Southeast Asia, East Africa, which are not only geopolitically important but also a major part of China's strategy for the future. In these regions, the infrastructure projects funded by China have not only altered the economic landscape but also changed the power alliances and the focus of development. The article provides a structured case-by-case examination of these regions which is a significant contribution to the current discussions related to debt-trap diplomacy, asymmetric interdependence, and the sustainability of development finance.

METHODS

This study adopts a qualitative, comparative research design to understand the role of debt in China's financial diplomacy and power projection. The research is based on a case-oriented approach where the spotlight is on specific recipient countries in South Asia, Southeast Asia, East Africa. In these regions, Chinese lenders and infrastructure investors are mostly visible. The criteria for selecting the cases are their strategic importance, the size of the Chinese funding, and the political or economic impacts that are observable.

The data come from both primary and secondary sources. The primary sources consist of official policy documents, loan agreements if they exist, government announcements, and the respective reports of the Chinese institutions and the governments of the recipient countries. The secondary sources are the academic books and articles, the policy briefs, the datasets provided by the international financial institutions, and the reports from the think tanks and research organizations. These materials are employed to follow the patterns of lending, repayment conditions, and institutional agreements.

ANALYSIS AND RESULTS

The International Relations discipline allows us to see that the quest for national interests is the main reason states behave the way they do. National interests may have different meanings depending on countries, but all states share the same goal of power, influence, and better strategic positioning in the international system through their activities. It is no wonder then that foreign policy tools are often constructed in the lite of these objectives making use of the economic, political, and strategic resources simultaneously. In this view of things, China's Belt and Road Initiative (BRI) is the most ambitious economic engagement to be dubbed a long-term geopolitical advantage across the Asian, African, and other territories. The arguing over the Chinese lending to other countries erupted when the Indian thinker Brahma Chellaney coined the term debt-trap diplomacy in 2017 [1]. According to this theory the creditor state lures the financially weak countries by granting large loans under conditions that if not complied with could lead to the taking away of the lender's political, economic, or strategic advantages. The opponents of the loan lending declare that the practice is nothing but a deliberate creation of one-sided dependencies, whereas the proponents turn a blind eye and see it as a well-placed investment with the purpose of addressing the shortage of infrastructures in the Global South.

The BRI, which was launched in 2013, was portrayed as a global development strategy that would create and upgrade the needed connectivity through investments in the infrastructure of transport, energy, and industry. Financing for the projects, which included ports, railways, highways, power plants, and digital infrastructure mainly in developing areas, was mainly through Chinese policy banks and state-owned enterprises [2]. With bilateral arrangements

overshadowing multilateral financial institutions (like the World Bank or the IMF) Chinese lending allows for a great deal of flexibility for Beijing, yet it does so at the cost of transparency. The main difference is in the distribution of risk and not only in the opacity of contracts. The interest rates of the Chinese loans are usually higher than those of the concessional multilateral financing and the loans are, indeed, often tied to the specific projects executed by the Chinese companies. Though the recipient governments seldom admit that the terms of the loans are impossible to understand, many of them concede that their limited access to other sources of finance due to poor credit ratings or macroeconomic instability makes the terms of the loans the only option left for them. In that regard, China is not displacing the existing international financial system directly but is rather filling the gap left by it.

Sri Lanka is often mentioned as the classic example of debt-trap diplomacy, especially after the Chinese company got a 99-year lease on the Hambantota Port. Nonetheless, a detailed study exposes a more complicated situation. The economic crisis of Sri Lanka was due to a combination of factors which included long periods of fiscal mismanagement, over-reliance on the issuing of sovereign bonds, and external shocks like the COVID-19 pandemic and disruptions in the global commodity market [3]. The country's total external debt consisted only a small part of Chinese loans, with the international capital markets and multilateral creditors making up a significantly larger portion. The Hambantota situation highlights the risks of bad infrastructure planning rather than a deliberate Chinese tactic of taking over the assets [4]. Although the result certainly increased China's strategic presence, it is not enough by itself to validate the argument of a globally applied debt-trap model. Rather, it points out that the combination of the poor governance in the area and the foreign financing can lead to the worsening of the strategic situation.

China's involvement in Africa offers a more complicated picture. The financing from China starting in the early 2000s has been used to develop the transport and energy infrastructure which are the main areas for long-term development. For some African countries, these projects not only provided the promised benefits of increased connectivity and production capacity but also gave the impact of short-term gains by bringing production and capacity up to the levels of connection [5]. Nonetheless, as time went on, the falling export earnings, trade imbalances, and project underachievements intensified the debt service pressure. On the contrary, the African political elites disbelieve the debt trap stories and keep the narrative of China as a neighbor with a wise and pragmatic view rather than a colonialist. China's restructuring of loans, provision of repayment holidays, and selective debt cancellation have contributed significantly to the reception of this view. These steps imply that China, while at times forcing through collateralization or resource-backed loans, puts the protection of its financial interests first—gradually but eventually gaining political relationships of its choice.

Kenya plays a pivotal role in China's interaction with East by turning out to be a regional economic center and a significant sea port in the Indian Ocean's Belt and Road Initiative (BRI). The country has become an attractive partner for Chinese lenders in the infrastructure sector due to its geostrategic importance and relatively secure internal situation. However, poor governance and lack of fiscal discipline have, on the whole, left the country open to incurring debt and relying on outsiders for finance. In its effort to bring its economy and infrastructure up to date, Kenya has taken out loans from Chinese lenders worth around USD 6.3 billion and this has made China one of its biggest bilateral creditors. The amount of exposure to this situation has made

some analysts categorize Kenya as a possible example of debt-trap diplomacy (DTD). The Mombasa–Nairobi Standard Gauge Railway (SGR), which was mainly funded by China's Exim Bank and built by a Chinese state-run company, is the most significant instance of support for this assertion [6].

However, empirical evidence makes the DTD story more complex. The multiple feasibility studies done before and after the project was approved all raised doubts about the economic viability of the railway, with the same issues pointed out: not enough cargo volumes, low revenue projections, and high operating costs. The Kenyan government, in spite of these warnings, went ahead with the project for political reasons mainly and not for economic ones. So, the SGR has naturally gone through problems when it comes to revenue and this has led to operational losses becoming bigger and repayment taking longer. The worry that China might take over important assets like the Port of Mombasa has not come true, which is very important. Almost all legal contracts pointed out that the main borrower was Kenya's National Treasury and not the port or railway authorities, which meant that China had very limited leverage legally over the physical assets [7]. On top of that, China's actions at the time of the COVID-19 pandemic when it gave repayment deferrals and feasibility reviews suggested it was being cautious rather than coercive. Kenya is still stuck with a large debt that is linked to Chinese financing; however, the available evidence does not support the idea that China has intentionally set up a debt trap in this case.

The Maldives has often been seen as a major risk factor for being caught up in the debt-trap diplomacy due to its tiny economic base, limited budget and huge Chinese-supported infrastructure projects. Nevertheless, a deeper investigation of Maldivian debt vulnerability shows that it is not only the BRI that caused this situation but also that it is closely related to local and regional politics. The Maldives went through a decisive pro-China foreign policy during the reign of President Abdulla Yameen (2013–2018), which led to massive Chinese investments in infrastructure, primarily the China-Maldives Friendship Bridge. In this timeframe, the inflow of Chinese money was around USD 1.4 billion which greatly added to the country's external debt. What is more, the evaluation of the projects was mainly done in terms of technical feasibility, with very little consideration given to the question of debt sustainability in the long run [8].

The following political transformation with President Ibrahim Mohamed Solih's leadership was an effort to alter Maldivian foreign policy balance towards India and reconsider financial obligations under the BRI. The Solih government, who was facing a debt stock equal to around one-third of GDP, demanded the Chinese loans to be renegotiated by stating reasons like costs being inflated and governance being poor. China's unwillingness to make any substantial changes to the loan terms facilitated India to step in with a large financial support package which basically saved the situation from going into immediate repayment distress [9]. There have been constant worries about losing the country's independence, but no strong proof has been discovered to support the claim that China is trying to get hold of the Maldives' strategic locations by swapping debts for equity. Though the Maldives is still deep in Chinese debt, its situation is rather a reflection of the domestic political choice and regional power competition that is not very clear-cut case of debt-trap diplomacy.

Out of the Southeast Asian cases, Laos is the most difficult and unclear case. Being the poorest country in the region, Laos has been totally dependent on Chinese investments to fund its

ambitious projects related to infrastructure and energy, like the China-Laos railway and the hydropower project. Although these investments have dramatically enhanced Laos's potential for growth, they have also greatly contributed to the country's foreign indebtedness, with over 40% of public debt being held by China. Exclusively, the China-Laos railway amounts to almost 50% of Lau's GDP, which is a clear indicator of the magnitude of the financial risk [10]. Although the loan terms offered the government quite low interest rates and long maturities, the repayment capacity of the Laos government has raised very serious discussions over the sustainability of the project. The most controversial incident transpired in 2020 when a Chinese state-owned corporation took over a controlling share of the national electricity transmission company in Laos, EDL-T.

This change in ownership is mostly viewed as a kind of debt-for-equity swap, with the financial trouble of Laotian state-owned companies being the main reason and not an open coercion by the Chinese. The move seems to indicate that the Laotian government is reconsidering its stance on financing by way of equity and is hence concealing the default. Yet, the Chinese control of more than half of the national power grid does mean that Beijing has a very strong influence on a vital part of the Laotian economy [11]. The case of Laos, unlike the cases of Kenya and Maldives, gives only partial empirical backing to the debt-trap dynamics. Even though the deliberate predation cannot be proven with certainty, the result (the loss of control over strategically important infrastructure) bears a close relationship with the primary concerns of DTD. Poor governance, lack of transparency, and structural dependency have come together with China's practical investment strategy to create a situation of asymmetric dependence.

In the post-2018 period, Malaysia has been at the forefront of the debate over debt-trap diplomacy mainly due to the controversial remarks made by senior politicians. Nevertheless, it is prudent to connect these worries not only with the Chinese lending but also with Malaysia's domestic financial scandals and political transitions. Chinese investments in Malaysia date back to before the Belt and Road Initiative (BRI) and their character is mainly that of a diversified portfolio of non-strategic and commercial projects [12]. The debt-trap narrative began to spread mainly through the connection with the 1MDB scandal in which the East Coast Rail Link (ECRL) was also involved. The 1MDB sovereign fund collapse (the result of huge corruption and misuse of funds) led the Najib Razak government to look for Chinese financing as a way of relieving the fiscal pressure. It was in this background that the allegedly inflated infrastructure contracts were in fact aimed at getting the debt relief rather than being economically efficient.

The ECRL project became the center of political controversies after the change of government in 2018. Initially, it was suspended for cost reasons but later it was renegotiated under more favorable conditions whereby its price was cut down significantly. Importantly, the revised contract allowed Malaysia to retain 100% ownership of the railway with a joint operational structure set up which promoted the possibility of no asset transfer or long-term control of the railway by the Chinese [13]. The situation in Malaysia shows that if an economy has strong institutions and political leverage they can still limit the strategic implications of the Chinese financing. Though being economically dependent and receiving diplomatic attention were some factors in the country's decision to keep cooperating with China, the lack of asset seizure, coercion, or irreversible dependency indicates that debt-trap diplomacy was not the case.

CONCLUSION

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The paper has scrutinized China's Belt and Road Initiative from the point of view of debt-trap diplomacy and concluded that the idea, though politically potent, is not uniformly supported by empirical evidence. The data from South Asia, Southeast Asia and Africa reveal that Chinese loans are not a part of a single-approach or a centrally-directed scheme of predatory debt creation at all. The results, however, vary greatly from one country to another and are determined by various factors including the quality of governance, capacity of the institutions, political decisions made, and the presence of other sources of finance in the recipient countries. Mainland debt distress in Sri Lanka, Kenya, the Maldives, and Malaysia was mainly caused by mismanagement of public funds, infrastructure investments that were politically motivated, and global shocks rather than by Chinese coercion. In contrast, Laos is a case of being structurally more vulnerable where the economic incapacity, lack of transparency and heavy reliance on one sector have resulted in loss of strategic assets control which is similar to (but not fully demonstrating) debt-trap dynamics.

This article has examined China's Belt and Road Initiative through the analytical lens of debt-trap diplomacy and finds that the concept, while politically powerful, is empirically uneven. The evidence across South Asia, Southeast Asia, and Africa demonstrates that Chinese lending does not follow a uniform or centrally orchestrated strategy of predatory debt creation. Instead, outcomes vary significantly depending on domestic governance quality, institutional capacity, political decision-making, and the availability of alternative sources of finance in recipient states. In cases such as Sri Lanka, Kenya, the Maldives, and Malaysia, debt distress was primarily driven by domestic fiscal mismanagement, politically motivated infrastructure choices, and exposure to global shocks rather than by Chinese coercion alone. By contrast, Laos presents a more structurally vulnerable case where limited economic capacity, opacity, and heavy sectoral dependence have resulted in tangible losses of control over strategic assets, approximating (but not conclusively proving) debt-trap dynamics.

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