Why Accusations Against China for 'Debtbook Diplomacy' Are a Hoax

by Hussein Askary and Jason Ross

Askary and Ross are the authors of the 260-page Special Report, Extending the New Silk Road to West Asia and Africa*, published by the International Schiller Institute in November 2017.*

Aug. 22—Panic is spreading in certain circles in the trans-Atlantic region, dominated by the City of London and Wall Street, over two factors: (1) that their bankrupt monetary and financial system, including the Euro system, is clearly in the final phase of its disintegration process; and (2) that an alternative, new paradigm in international economic and political relations has spread over large swathes of the planet thanks to China's Belt and Road Initiative (BRI); the BRICS nations' new development policies; the Shanghai Cooperation Organization's expansion; the alliance between the China-spearheaded BRI and the Russia-led Eurasian Economic Union; and the China-Africa economic cooperation process.

Rather than doing the obvious, encouraging the United States and Europe to join the new paradigm, these forces are going to dangerous lengths to block the way for the new paradigm and prevent the United States itself from joining it. Their attempts are based on disinformation and lies.

Their anti-China slanders and fabrications all originate in the hysteria emanating from London and Wall Street over the successful efforts of President Donald Trump to build friendly and cooperative relations with both Russia and China, efforts which threaten the geopolitical designs of the British Empire and its financial elites.

The corrupt mainstream mass media, hired academic institutions, and think tanks are at work to invent new lies, sometimes packaged as academic studies, and coin new terminology that is then used by powerful political institutions in a futile attempt to stop the new paradigm. Russia is, of course, a permanent target of defamation and economic sanctions, but China is gradually beginning to receive the same treatment. The latest such lie being peddled through academic and quasi-academic institutions is that of China's "sinister plan" behind the BRI to set "debt traps" for poor and developing nations. "Debt trap" and "debtbook diplomacy" are the new catch-phrases that are now frequently used to portray China's policies.

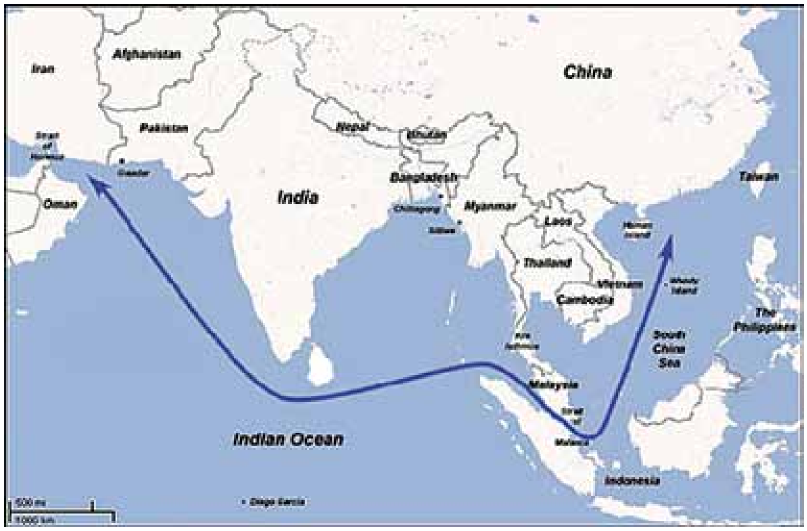
The term "debtbook diplomacy"—with the meaning that China builds influence over other nations by deliberately causing them to take on more debt than they can handle—was coined in a May 2018 report, commissioned by—and custom designed for—the U.S. State Department and written by Sam Parker of the Harvard Kennedy School's Belfer Center for Science and International Affairs.[1] This report was then used by the U.S. State Depart-

1. "Debtbook Diplomacy—China's Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy," Sam Parker, Harvard, May 2018. Before his Harvard assignment, Parker, according to his biography published in the report itself, served as the Special Assistant to the Assistant Secretary for Public Affairs at the Department of Homeland Security. And, "As an academic fellow at U.S. Pacific Command, he wrote a report on anticipating and countering Chinese efforts to displace U.S. influence in South Asia and Oceania." The report is based on old British geopolitical concepts and prejudices against China. All articles referring to the term "debtbook diplomacy" have been published since mid-May 2018.

cc/Deneth17

Cargo ships at the Hambantota Port in Sri Lanka, built by China Harbour Engineering Company and Sinohydro Corporation. It opened in 2010.

ment to ring alarm bells all over the world about the potential impact of China's Belt and Road Initiative. The report's author, Sam Parker, is not known to have any expertise in economics or to have written anything about the economies of China or other developing countries.



http://tamilnation.co

When the Hambantota Port story is taken out of its context, it sounds like China built a port in a desolate, empty beach on the shores of nowhere. In fact, Hambantota is located just 6-9 nautical miles from one of the busiest and most important commercial shipping lanes on the planet.

From the outset, Parker clearly exposes his Mackinder-inspired British geopolitical worldview,[2] writing: "Debtbook diplomacy is by itself neither an economic tool nor a strategic end. Rather, it is an increasingly valuable technique deployed by China to leverage accumulated debt to advance its existing strategic goals. Three strategic targets for China's debtbook diplomacy would be: filling out a 'String of Pearls' to project power across vital South Asian trading routes; undermining U.S.-led regional opposition to Beijing's contested South China Sea claims; and supporting the PLAN's [People's Liberation Army Navy] efforts to break out of the First Island Chain into the blue-water Pacific."

The most outrageous irony here is that Parker is (falsely) accusing China of the very crimes that the City of London, the International Monetary Fund and trans-Atlantic banks have been blatantly committing for decades—the use of usurious debt to impoverish developing nations and to coerce them into military and geopolitical concessions.

Hambantota: the Deceitful and Only Example

China's relationship to the Sri Lankan port of Hambantota is always held up as a "template," as Parker suggests, of how China intends to treat other nations. But, Hambantota is the only example that the critics of China can come up with. The three stages of the development of the project, including the building of a container terminal, cost a total of $1.1 billion. It was not a Chinese idea, however, but a Sri Lankan government plan to ease the pressure at the only major port of the country, the Colombo Harbor Port, and to build an international port and industrial zone at a safe distance from the civil war raging in the north. This plan dates to 2002, long before the BRI was conceived. Building power plants and industrial zones to foster economic activity was part of the "Regaining Sri Lanka" economic program.

The critics take the Hambantota Port out of its national and global context—another glaring case of "lying by omission." They assume, first, that Sri Lanka will always continue to be a poor country with no industries, no agriculture, and no other modern economic activities that would necessitate the existence of modern infrastructure, such as this port.

Second, most of the commercial shipping lines between East Asia and Europe pass a mere six to nine nautical miles south of the southern coast of Sri Lanka—a fact rarely mentioned, which makes clear the potential benefit from this huge volume of global trade passing through these waters, but currently without affecting the economy of Sri Lanka. This port holds a great potential for future development of shipping services, trans-shipment, and building of industrial zones benefitting from the available transport means to world markets.

Construction of the harbor began in 2008 by the China Harbour Engineering Company and Sinohydro Corporation. Eighty-five percent of the project was financed by a loan provided by the China Export-Import Bank. The port was formally opened for commercial use in 2010, but usage was below expectations. In 2016, faced with poor revenues and significant financing costs from the port's construction, the Sri Lanka Ports Authority (SLPA) signed an agreement whereby China Merchants Port Holdings Company (CMPorts), a Chinese state-run enterprise, took a 99-year lease of 70% of the

2. Sir Halford John Mackinder (1861-1947), one of the founding fathers of modern British imperial geopolitics.

cc/Adbar

Terminal building at the Mattala Rajapaksa International Airport, Sri Lanka, located near the Hambantota Port.

port, and 85% ownership of the port and industrial area, with the obligation to continue investing in upgrading the facilities there. The Chinese company would invest $700-800 million more in developing the port area. The purpose of the agreement was to relieve Sri Lanka from the burden of the debt.[3] Was Sri Lanka deliberately given loans for a project doomed to commercial failure, with the intent of then seizing the port as payments came due? Parker would have you think so.

But is this the only reasonable conclusion? To the extent this specific example exposes a general trend, it exposes the indifference of international financial institutions and their allies to the aspiration of developing countries to eliminate poverty and economic backwardness. Parker himself reports that after a devastating, decades-long civil war, "Sri Lanka reached out to Japan, India, the IMF, the World Bank, and the Asia Development Bank to fund the construction of a major port in the undeveloped backwater of Hambantota, but was denied funding amidst concerns about human rights and commercial viability." China did not turn down Sri Lanka, and in fact helped that nation achieve a goal it had already sought.

One important aspect of economics that modern day economists and journalists don't understand, is that the value of infrastructure is not primarily its ability to provide a monetary return; rather, it is infrastructure's role as a key factor in the development process of any modern economy, helping raise the productivity of the economy of the entire nation. The "return on investment" lies not in fees forced upon users of the infrastructure utilities, but from the revenues of productive industry and agriculture that uses these utilities.

Were the low port utilization simple miscalculations on the part of the Chinese, poor investments that did not work out as planned? If China has paid billions of dollars for a failed airport and a failed port project, which it now owns, should we expect China's adversaries to be laughing their heads off at that nation's clumsiness, rather than being alarmed and panicked by such failures? But it is the future that will show whether these investments were failures, not security analysts such as Parker.

Treating Developing Nations as Minors

It is quite remarkable to see—when European and American politicians, researchers and writers talk about developing nations—that they subconsciously speak on behalf of those nations as if the people of those nations were children incapable of speaking for themselves. This is a very revealing aspect of the still deeply ingrained colonial mentality, or the "white man's burden" prevalent among trans-Atlantic oligarchs.

W. Gyude Moore, Liberia's former Minister of Public Works and a Deputy Chief of Staff to that country's president, recently interviewed on a podcast, spoke to the African view of Chinese financing from his vantage point as the official who negotiated many infrastructure projects with the Chinese side, offering his response to the way China is frequently portrayed:

> When China is presented as if it is this big, bad actor, who is acting in bad faith and loading countries with debt, it almost takes away the

3. The agreement, however, does not stipulate that the debt of $1.4 billion to the China Ex-Im Bank would automatically be cancelled, rather the CMPort would deposit $973.658 million (85% of the total $1.12 billion) in the bank account of the SLPA. Whether the Sri Lankan government uses this sum to repay the original debt to China is up to the Sri Lankan government. Details of the agreement can be found here: http://www.cmport.com.hk/EN/news/Detail.aspx?id=10007328

China has given out billions of dollars in debt. And in my view, that the port in Sri Lanka is the only example that people can give, shows that this Sri Lanka example, this one instance, cannot be seen as the be-all and end-all of how China engages its partners.

W. Gyude Moore twitter account

W. Gyude Moore, Liberia's former Minister of Public Works and a Deputy Chief of Staff to President George Weah.

agency of the countries. It's almost as if African countries are naive or they don't understand what is happening to them and China is basically pulling wool over their eyes. This almost infantilizes Africans and African leaders . . . Because of the limited amount of money that's coming from international financial institutions, countries like Liberia have to look elsewhere. . . . One of the few countries that is actually available to talk to countries like Liberia that may not have the best credit record, having just had almost $5 billion of their debt waived, is China. . . . For a country like Liberia, you couldn't possibly depend only on the World Bank or the African Development Bank to be able to finance your infrastructure—that would not have happened.[4]

Expanding on the relationship between debt distress and investments in the future, he added: "To be able to repay their debt, their economies have to be in a place where they're actually generating revenue, and without infrastructure [this is not possible]. It's almost like the chicken and the egg."

Moore responded to the use of the example of the Sri Lankan port of Hambantota:

Everybody brings up the port in Sri Lanka, but

4. The China-Africa Podcast, Aug. 4, 2018, "An Insider's View of the China-Africa 'Debt-Trap' Debate."

The Real Debt Trap

Historically, the British Empire was, and still is, the debt-trap master. Its methods have been copied in the post-1971, post-Bretton Woods era by such British-controlled institutions as the International Monetary Fund and World Bank, to shackle nations with unpayable debt, in order to loot them, destroy their physical economic productive capabilities, and finally force them to give up their national sovereignty. Under the 19th-century, British-dominated imperialist world order, as in the case of the post Bretton Woods system, money is treated as a "global" commodity controlled by private interests, rather than a political tool controlled by sovereign governments, the issuance of which is intended to promote the productivity of society and the general welfare of its citizens.

One pedagogical example from the 19th Century is the way the British and their French allies shackled Egypt with massive debt, forcing it gradually to abandon its natural and labor resources to be taken over by the British, losing its sovereignty over economic and financial policies, and finally being occupied by Britain militarily.

In the early 1860s Egypt was a relatively large producer of cotton to the world markets. With the start of the U.S. Civil War in1861, the production of cotton in the Southern States drastically shrank and the price of cotton in the international markets skyrocketed. Egypt was suddenly awash with revenue from cotton sales and started borrowing from British and French banks to further develop this cash-generating crop. In 1865, when the Civil War ended and American production of cotton resumed, prices collapsed. Egypt suddenly found itself in a financial crisis. The British and French banks, however, continued to loan money to Egypt at ever higher interest rates to service and increase the debt.

In the meantime, the Suez Canal was being built (1859-1869), and controlled by the French Suez Canal Company, which had received a concession offered by Khedive Said Pasha. According to the 99-year lease agreement, the French side financed and built the canal in return for the majority of the shares in the company. The Khedive was offered 44% of the shares.

When Said Pasha's successor, Khedive Ismail Pasha,

Isma'il Pasha, Khedive (Viceroy) of Egypt and Sudan from 1863-1879.

Getty Images

Dredging equipment in use in the construction of the Suez Canal, January 1, 1859. The canal was completed in 1869.

was unable to pay the debt to the British banks in 1865, he handed over all the shares in the Suez Canal Company to them as a payment for part of the debt. But the problem did not stop there. In previous years, the Khedive had expropriated large swathes of agricultural land, especially in the Nile delta, from Egyptian farmers, forcing the latter to work as serfs in his new cotton and sugar plantations to produce more cash crops to pay the debt. When he defaulted again in 1876, he was forced to hand over the plantations to the British banks. The British and French bankers actually moved into the Egyptian government's offices (in IMF-style today) to run the financial and economic policies directly. One such British banking "adviser," officially called the "Controller-General in Egypt," was Evelyn Baring of the famous British family of that name. As best described by Rosa Luxemburg,[5] "European capital has largely swallowed up the Egyptian peasant economy," where the lands, the serfs, the government and the Khedive became the property of empire.

public domain

Evelyn Baring, c. 1895.

When a group of Egyptian military officers staged a military revolt in 1882, Britain used it as an excuse to occupy the country. In 1883, Baring (the Earl of Cromer from 1901), went from being the debt collector to becoming Consul General of Egypt, the de facto ruler of the country, with his term extending until 1907. Britain's occupation and control over the economy of Egypt continued, practically, until 1952, when republican forces led by General Gamal Abdel-Nasser overthrew the backward Khedive system, but did not nationalize the Suez Canal Company (then entirely controlled by the British) until June 1956.

There are abundant, similar examples in the post-Bretton Woods era (since the early 1970s) in which the financial interests of the trans-Atlantic system used the political and military clout of the United States, Britain and Europe to set similar traps for developing nations. The cases of Brazil and Mexico in the 1980s have been thoroughly analyzed by *EIR*.[6] After a London or Wall

5. A fascinating and detailed account of this debt trap is provided in Rosa Luxemburg's 1913 book, *The Accumulation of Capital*, in Section Three, Chapter 30, "International Loans."

6. "Bankers' Math vs. Human Math: Do You Know How To Count?" on the Brazil debt crisis 1980-90, by Dennis Small, *EIR*, March 19,

Xinhua/Rouelle Umali

Philippine President Rodrigo Duterte (center) at the groundbreaking ceremony of two China-funded bridges across the Pasig River in Manila, the Philippines, July 17, 2018.

Street speculator's initial attack on the currency or financial markets of a nation, the IMF enters the scene, prepared to "bail out" the nation by offering new loans. Accompanying these loans, however, are a set of conditions, such as the forced devaluation of the borrowing nation's currency, increasing its exports—often of primary raw materials and agricultural products, cutting government financing of infrastructure and scientific projects, healthcare and education of its people, and other austerity measures to cut costs and "balance the budget." At the end of each such round of "structural adjustment" by the IMF and the World Bank, the debt levels of the victim country have most often increased rather than decreased, forcing more borrowing with more draconian austerity measures, such as the state being forced to sell its assets, whether they are productive enterprises or natural resources, to foreign companies. Furthermore, governments that resist either the initial attack on their economy or the later intervention by the IMF/World Bank, become subject to defamation campaigns in the media, followed by political destabilization through color revolution, and, in the worst cases, by political or military coups, and even assassinations.

Returning to the China 'Debt-Trap' Narrative

One amazing aspect of the false narrative of China's "debt-trap diplomacy" is the utter lack of any evidence supporting the claims of the authors in these media and academic reports; none of them stand up to serious scrutiny.

What the facts show, is quite contrary to the "impression" intended by much of the anti-Chinese reporting. For example, well-documented research by the China Africa Research Initiative at the School of Advanced International Studies (SAIS-CARI) at Johns Hopkins University, reveals that the majority of African debt is not even held by China, but by trans-Atlantic powers and such Western-backed institutions as the IMF and World Bank.

In its white paper on the upcoming, September meeting of the Forum on China-Africa Cooperation (FOCAC) in Beijing, SAIS-CARI reports, as its first finding, that "Chinese loans are not currently a major contributor to debt distress in Africa. Yet many countries have borrowed heavily from China and others. Any new FOCAC loan pledges will likely take Africa's growing debt burden into account." The white paper reports $133 billion in Chinese loan commitments to Africa over the period 2000-2016, with a very large $30 billion in 2016 following the 2015 FOCAC meeting in Johannesburg. While many African nations have Chinese debt, there are only three nations—Djibouti, Republic of Congo, and Zambia—for which Chinese loans are the most significant contributor to their debt risk. In Cameroon, the African nation ranked fourth in Chinese debt as a portion of total debt, China holds less than one-third of its total debt.

As verified by the authors of this article in the referenced Schiller Institute Special Report, *Extending the New Silk Road to West Asia and Africa*, China's loans and total foreign direct investments (FDI) in Africa are smaller than those of other international institutions, but they are more directed towards construction of infrastructure, manufacturing and agriculture, while investments by American and European companies are directed towards mining and financial services.

China has also emerged as one of the leading sources of aid to African nations and their leading research partner in the fields of agriculture and healthcare. And China has financed many development projects in Africa and

1999 and "How the IMF's Policies Destroy the Physical Economy of Nations," covering the Mexican crisis, *EIR*, March 19, 1995.

Southeast Asia through grants, rather than loans. In one very recent case, in July of this year, the groundbreaking ceremony for two new bridges in the Philippines, the Binondo-Intramuros and Estrella-Pantaleon bridges, which are both financed and being built by China, was used by the mass media to arouse alarm and panic about China entrapping the Philippines in a debt trap. During the ceremony, which was attended by President Rodrigo Duterte himself, Chinese Ambassador to the Philippines Zhao Jianhua refuted that notion: "Let me make it quite clear: These projects, these two bridges, are going to be financed by Chinese grants. That is, we're going to build it for free." He added that "actually, there has never been a debt trap. It's all based on mutual agreement," stressing that China never asked for "even one square of real estate in this country." He added that the Philippine government "will own all those projects. So there will be no question of putting yourself in debt. I think your economic team is smart enough."

Industrialization Staircase: Whither the U.S. and Europe?

The tension arising in response to the Belt and Road Initiative and the new paradigm in international relations is not justified. It is entirely due to misconceptions about economics and power relations among nations, that the United States and many nations in the EU have allowed themselves to be herded into negative attitudes towards the BRI. The situation can be likened to a narrow staircase, representing industrialization, with China and the developing sector nations walking upwards. The United States and the EU are on their way down in the direction of deindustrialization. The two reach a point where they meet face to face in the middle of the staircase, blocking the way for each other. This is where the tension rises. It is here that one side must decide to join the other by moving in the same direction, making it easier for both sides to move freely. It would furthermore be beneficial for both sides to make the staircase wider to accommodate everyone, or as President Xi says in describing China's development policy, "making the cake [of economic growth] bigger" so everyone can have a fair share, rather than fighting over a small cake.

The only rational path for the United States and Europe to take is the one outlined most clearly, and for a long time, by Lyndon LaRouche and Helga-Zepp LaRouche, that is, to join the new paradigm of economic, industrial development, best exemplified by the BRI. In light of this, the Schiller Institute, under the leadership of Helga Zepp-LaRouche, has launched an urgent international petition drive, seeking a conference of the United States, Russia, China, and India, to establish a new fixed exchange rate system for world trade and development, modeled on Franklin Roosevelt's concept of the Bretton Woods system. This "new Bretton Woods system" would be the right context for these forces joining hands in the BRI to solve the many economic, social and political problems that have engulfed large parts of the world in the past years, including saving the very economies of the United States and the EU countries themselves.

AN ONGOING DISCUSSION

Will Pakistan Choose the Belt and Road Or Debt Slavery?

by Hussein Askary

Sept. 1—One very pressing and clear example of how a country can today be destroyed by debt, and can be saved from this trap by China, is Pakistan. In Chapter 4 of his "Debtbook Diplomacy" study attacking China for the State Department (see accompanying article), Sam Parker states, under the title "U.S. Interests at Stake," the clear imperialist tendency he subconsciously harbors. Parker's "point 1" states that "China's expanding regional influence and access to South Asian and Pacific Island ports has the long-term potential to alter the regional balance of power away from *effective U.S. naval dominance*" (emphasis added). Worse is to come in point 2: "China's loans undermine the U.S.' ability to *use its own economic assistance to promote U.S. security objectives*. This assistance has provided the U.S. a powerful means to advance its nuclear security and counterterrorism interests in Pakistan" (emphasis added).

Pakistan, for reasons too complex to be sufficiently explained in this article, became a conduit for the Anglo-American geopolitical practice of pitting so-called Islamic forces against the Soviet Union and Russia in the Afghan War that extended from 1979 to 1989, and for the emergence of so-called Islamic jihadist terrorism as a consequence. Pakistan itself became a direct victim of such terrorism.