

Is Malaysia next after Sri Lanka falls knee deep in China's debt trap?

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Sri Lanka has fallen knee deep in China's debt trap after it invested billions of dollars in huge infrastructure projects – on China's guidance and promises.

The trend was set months ago with China's push for the One Belt One Road (OBOR) which became Beijing's Belt and Road Initiative (BRI) in June this year.

Unveiling the BRI, China then called for the countries it targeted in the OBOR strategy to invest and invest billions in the project, warning that it would not materialise fully if the investments depended purely and solely on China.

That was a shocker to many as the rest of the countries that China roped in the OBOR were of the thought Beijing was cash rich and it would invest most of the money while they would just watch on the sidelines.

Now, with Sri Lanka's huge debt of US\$64 billion of which US\$8 billion is owed to China.

Its government is now diverting most of its revenue towards debt repayment.

There is cause for concern for countries like Cambodia, Malaysia and even Indonesia.

In March, Veasna Var, from the University of New South Wales (UNSW), Canberra, Australia and Sovinda Po, from the East China Normal University (ECNU), Shanghai said the influx of Chinese assistance in Sri Lanka and Cambodia had raised questions regarding the intentions behind the massive loans.

Veasna Var is a PhD candidate and Sovinda Po is a masters student.

Experts asked questions too about China's sudden interest in Malaysia with the Najib Razak regime opening its arms and everything else to Beijing's promises of massive loans.

"While China may still be considered a developing economy, its current strategy of providing soft power loans and aid to its regional neighbours is reminiscent of the tributary system that the country employed back in its empire days," said the duo.

A 2016 International Monetary Fund (IMF) report showed that Cambodia's external multilateral public debt is now at US\$1.6 billion, while its bilateral public debt with China is US\$3.9 billion — 80 per cent of this is owned by China.

China is now Cambodia's largest military benefactor and provider of development aid and foreign investment, having given about US\$3 billion in concessional loans and grants to Cambodia since 1992.

From 2010 to 2016 state-owned Chinese firms constructed and invested US\$35.6 billion (S\$50 billion) worth of projects in Malaysia, according to the World Bank and Statistics Department of Malaysia.

But with China's capital controls earlier this year, the investment inflow is likely to dip.

A few high profile failed projects (Forest City) is also cause for concern, added with the cancellation of the Bandar Malaysia deal with the Chinese railway engineering firm CREC.

And then, there is the RM55-billion railway line linking Kuala Lumpur to the east coast in Singapore.

This will be built by a Chinese firm.

The government says 30 per cent of the work would involve local contractors as part of the agreement with mega-builder China Communications Construction Company.

However, the opposition in Malaysia said they view with caution China's bountiful investments into Malaysia.

"As a simple measure of magnitude, the 14 memorandums of understanding that Prime Minister Najib Abdul Razak signed with China last November stand grandly at RM143.6 billion, equivalent to 55 percent of our 2017 federal budget," said Nurul Izzah Anwar, a vice-president of the Justice Party or PKR.

The daughter of Anwar Ibrahim, Nurul Izzah said Najib returned to China again for more in May, barely half a year after these deals were inked.

"Indeed, foreign investment remains important for economic growth. But as with any venture, we must adopt moderate and prudent approaches to cope with potential risks.

"Deals concluded too soon increases the plausibility for exploitation, collusion and corruption. Be frantic for China's good graces and greedy for its wealth, and we stand to lose leverage over Malaysia's own needs and priorities," she cautioned.

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