***Xi's China can't replace the US as a financial superpower***
***Ben Wright - The Telegraph***

*For years China has been lending money hand over fist (with very little transparency or, it would appear, due diligence) to developing countries in the "global south".*

*Chinese President Xi Jinping waits before Russia - China talks in narrow format at the Kremlin in Moscow, Russia March 21, 2023. Sputnik/Mikhail Tereshchenko/Pool via REUTERS ATTENTION EDITORS - THIS IMAGE WAS PROVIDED BY A THIRD PARTY. - SPUTNIK/REUTERS© SPUTNIK/REUTERS*

*The financing of so-called "belt and road" infrastructure projects has been viewed, at best, as a way for Beijing to extend its diplomatic soft power in developing nations and, at worst, a form of financial quasi-imperialism.*

*In total there were $838bn of Chinese-financed infrastructure projects between 2013 and the end of 2021, according to the American Enterprise Institute, a Washington-based think-tank. Some of the projects have been of dubious worth, including a $1bn "road to nowhere" in Montenegro, a $4bn "railway to nowhere" in Kenya, a cracked dam in Ecuador and various "white elephants" in Sri Lanka.*

*China has frequently pointed out that no country has been compelled to take the loans and insisted they came without strings attached.*
*But now, with global interest rates rising sharply, many of the debtor countries are getting into financial difficulty – most notably Sri Lanka, which defaulted on its sovereign debt for the first time ever last year.*

*Now Beijing is shifting from being just a creditor to also a "lender of last resort". A study published last week by researchers at AidData and the World Bank (together with other organizations) found that China granted $104bn of rescue loans to developing nations between 2019 and the end of 2021.*

*That figure is likely to have climbed since with global interest rates increasing and a sharp appreciation in the value of the US dollar making the cost of servicing debt more expensive, especially for those countries that can't borrow in their own currency.*

*But there are, regardless of what China says, at least three significant catches to these emergency loans. First, Chinese money is more expensive: a typical loan from the IMF has an interest rate of around 2pc while one from China may charge 5pc.*

*It's true that IMF loans also impose conditions designed to prevent countries from over-borrowing and encourage them to get their financial house in order. Some would call these conditions "draconian", others might label them "prudent".*

*Second, the borrowers Beijing is choosing to bailout indicate it may be more worried about protecting Chinese banks that are exposed to foreign infrastructure loans rather than the debt sustainability of other countries, according to Carmen Reinhart, a professor at the Harvard Kennedy School and a former chief executive at the World Bank.*

*And, third, China is refusing to take part in international debt renegotiations making it much harder for countries to resolve their issues and leaving them in financial limbo.*
*Last month, Ranil Wickremesinghe, Sri Lanka's relatively new president, called on China to agree to compromise on the country's debt restructuring after the IMF approved a $3bn four-year lending programme.*

*Beijing has typically refused to participate in such talks, despite being a member of the IMF, which is hugely complicating the process. China's intransigence has "made it more difficult to coordinate the activities of all emergency lenders", according to Brad Parks, the executive director of AidData.*

*Might this all lead to emerging market governments becoming more circumspect about taking loans from China? Could it even undermine Beijing's hopes that the yuan might eventually challenge the dollar as a global reserve currency?*

*China is correct in saying that local politicians entered into these deals with their eyes open. But, of course, the benefits for them of taking Chinese money to pay for projects that might boost employment and turbocharge their economies was immediate; any downsides would likely not materialize until much later – potentially when they were no longer in power.*

*There have also been clear indications that China is protesting a little too much about the terms of their loans. For one thing, they have often been shrouded in secrecy, meaning the taxpayers in the debtor countries are often ignorant of what their government has signed up to. Why all the mystery if there was nothing to hide?*

*We got a glimpse of the answer when the Kenyan railway boondoggle, which was blamed for rising unemployment and civil unrest, caused so much political controversy that it became a key issue in last year's presidential election.*

*This eventually resulted in the new administration revealing the details of the contract after taking power.*

*Sri Lanka's President Ranil Wickremesinghe looks on during an interview with Reuters at the Presidential Secretariat in Colombo, Sri Lanka August 18, 2022. REUTERS/ Dinuka Liyanawatte/File Photo - DINUKA LIYANAWATTE/REUTERS© Provided by The Telegraph*

*They showed that, not only was Kenya paying an unusually high level of interest on its Chinese loans (Kenya's transport secretary said servicing the loan was "choking" the economy), the previous government had also agreed to terms that stipulated any goods bought with the money had to be sourced from China, limiting competition for contracts.*

*Other loans have resulted in even more onerous concessions. Laos, for example, was forced to hand over majority control of its national grid to China while Tajikistan signed away mining rights in large tracts of the Pamir mountains.*

*Struggles to pay loans several years ago resulted in Sri Lanka granting China a 99-year lease on the strategically important port of Hambantota.*

*A separate report, which AidData produced last year after examining 100 contracts between Chinese entities and foreign governments, found China also often demands exclusion from collective restructuring (so-called "no Paris Club" clauses). This means it gets better terms than other creditors and can, as we are seeing with Sri Lanka, severely hamper bail-out negotiations.*

*Even more shockingly, the report concluded that the loans are structured in such a way that they "potentially allow the lenders to influence debtors' domestic and foreign policies". No strings attached? The report suggests there's a danger that accepting Chinese loans could turn developing nations into puppet states.*

*It has long been assumed that Beijing was working to undermine the International Monetary Fund, the World Bank and other western-led supranational bodies, which have helped to safeguard global financial stability since the Second World War.*

*The current crunch might end up instead demonstrating the worth of these institutions, despite their undoubted flaws. Many countries will now be increasingly wary of travelling down China's belt and road to serfdom.*