

# Sri Lanka's chaos highlights dangers of Chinese debt for Africa

By David Whitehouse  
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Chinese Foreign Minister Wang Yi arrives with Sri Lanka's President Gotabaya Rajapaksa and Sri Lanka's Sports Minister Namal Rajapaksa during his visit to Colombo Port city project, in Colombo, Sri Lanka, January 9, 2022. REUTERS/Dinuka Liyanawatte

**Sri Lanka's worst economic crisis since independence in 1948 highlights the dangers of Chinese debt diplomacy for Africa, analysts say.**

The country this month suspended repayment of its foreign debt. The government of President **Gotabaya Rajapaksa**, which has faced widespread protests, was forced to introduce fuel rationing on 15 April. The country is seeking \$2.5bn in financial support from China, including \$1bn that would allow to repay existing Chinese debt due in July.

There's little question that Sri Lanka's debt to China is "a main driver of the lack of domestic and international confidence" in the ruling elite's economic management, says Harry Broadman, managing director of the emerging markets practice at Berkeley Research Group LLC in the US. **The pattern in Sri Lanka "will be repeated elsewhere," he says.**

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China's model for sovereign lending, especially in Africa, centres on "cementing relationships with officials divorced from the majority of domestic constituencies", says Broadman. The unrest highlights that China's **Belt and Road Initiative (BRI)** is "fatally flawed due to its failure to socialise its in-country benefits," Broadman says. "This will undercut its staying power."

The international community suspects that the BRI has a military dimension.

- The US Department of Defense in 2021 said that Sri Lanka was among countries where China may try to build military bases.
- African candidate countries named in the report were **Kenya, Seychelles, Tanzania, Angola and Namibia.**

## Buy now, pay later

Sri Lanka's woes are not traceable to China alone. The country's international eurobond debt is more than twice that of Chinese combined bilateral and commercial debt and is more expensive to service due to higher interest rates, says Mark Bohlund, senior credit research analyst at REDD Intelligence in London.

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Countries in Africa which have borrowed heavily from China and which are or have undergone debt restructurings include **Chad, the Republic of Congo, Ethiopia and Zambia.** But with the exception of Angola, Chinese overseas lending to Africa has been in decline since 2013, Bohlund says. "Commercial factors have been stronger drivers of this lending than geopolitical ones."

**The takeaway for Africa** is that the political impact of China's loans can exceed their financial weight. The Colombo Port City in Sri Lanka is part of the BRI. The project has "exacerbated" the crisis because loans from China are alleged to have been contracted at excessive rates, says Steve Hanke, professor of applied economics at the Johns Hopkins University in Baltimore.

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"China, through Chinese companies, is viewed as an interloper that is attempting to establish, in effect, a Chinese enclave or colony in Sri Lanka," Hanke says.

The Chinese model is "**attractive to incumbent politicians**" because it allows them to "receive perceived benefits now, and pay later," Hanke says.

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Still, he expects that China will still push on and complete Colombo Port City and that BRI will survive. "It has died a thousand deaths before, only to be resurrected." That leaves open the danger that "all the African countries that are dealing with China are more or less in the same boat as Sri Lanka," Hanke says.

## Bottom line

Loans from China have the potential to become politically explosive in the context of an excessive overall debt burden.

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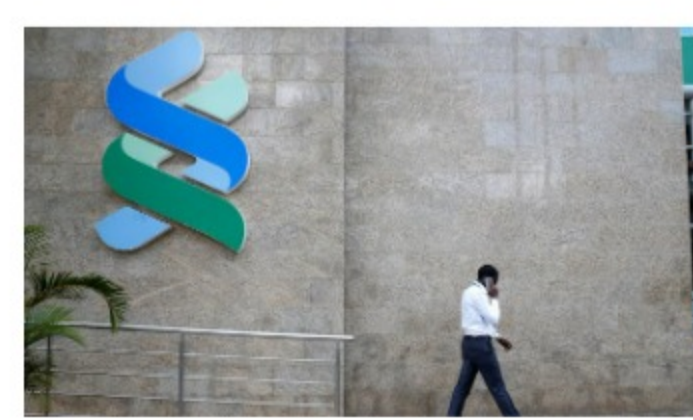
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