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Belarus-China: Avoiding the “Debt Trap”

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Abstract

Since 2005 Belarus with its developing Post-Soviet economy has been attracting loans from China. By 2019 China became among top three international lenders for Belarus. On one hand Chinese loans financed infrastructure and industrial projects and supported economic growth in Belarus, and on the other hand they increased import from China and foreign debt of Belarus. In order to overcome the phobia of Chinese “debt trap” the Government of Belarus recently decreased the number and amount of Chinese loans tied to infrastructure projects, improved credit terms, increased FDI from China, and created joint industrial park ‘Great Stone’. As a result, the case of Belarus and China outlines how to avoid “debt trap” in ‘Belt and Road’ initiative by focusing on FDI from China.

Keywords: government debt, foreign direct investments, “debt trap”, ‘Belt and Road’ initiative

1. Introduction

There is a polar attitude to the raising activity of China with its ‘Belt and Road’ initiative in providing lending to developing countries.

On the one hand, the raise of China increased concern in Western political and academic circles [1–3]. It also reveals the Trump’s Administration phobia of China global expansion using the so called “debt trap” diplomacy. The logic of the “debt trap” fear is as follows: China provides a loan tied to the implementation of a foreign project by Chinese companies, usually under the guarantee of the Government of the borrowing country. After the launch, the project becomes economically inefficient, does not accumulate the cash flow necessary to repay the loan, and the Government begins to repay the loan from the budget. This sometimes becomes the topic for discussion in the local media, blaming not the borrower with its insufficient business plan and misusing the funds, but accusing China of driving the country into a “debt trap”. International media catch up these cases to show the global trend of China’s rising role in lending the emerging markets and increasing the world debt. Recent studies prove that the scale of the problem is underrated, as 50% China’s overseas lending to developing countries is not reported to international organizations and therefore has hidden impact on global debt [4].

On the other hand, some experts on China argue that this “debt trap” is a myth [5]. Here it can be called phobia as since so far, there has not been a single case when a country has defaulted on Chinese loans. Nevertheless, there are a number of practical examples of the debt management with Chinese lending, which are useful to consider. China’s debt financed growth strategy after Global financial crises in 2008

with vivid economic results became role model for developing countries financial strategies of nation building [6].

The truth is in the middle. China is exporting its financial model of growth to developing countries not always taking into account the different political systems, public attitude to the foreign debt, and domestic authority competence which finally leads to accusing the lender (earlier international financial organizations, IMF, now China) in debt problems of some developing countries. The case of China's "debt trap" includes several parts like the choice of the project, contractor, and lender. This time it's not the issue of high interest rates which traditionally is the cause of "debt trap" in some countries like India and the Philippines [7]. Chinese lending terms including interest rates are competitive and in some cases lower than the market.

Belarus is indicative case of debt cooperation with China. This Post-Soviet country with long-term transition to democracy and market economy is trapped in state capitalism [8]. Due to Soviet heritage of the country, personal friendly attitude of the Belarus' President to China, the country has close strategic political connections with China, and it provides good environment to attract China's funds to support Belarus' economic growth. Nevertheless, facing challenges with some investment projects financed by Chinese loans, Belarus started not only voluntary debt reduction but also transition from Chinese debt to Chinese direct Investments. China-Belarus industrial park 'Great Stone' plays important role in such transition and avoiding the "debt trap".

This chapter includes several parts. The next one provides overview of China's "debt trap" demonstration cases in Sri Lanka, Pakistan, and Ecuador. Based on that, three parts of Chinese "debt trap" were analyzed. Another one describes the case of Belarus and its channels to avoid Chinese "debt trap". The last one reveals the development and role of Sino-Belarus industrial park 'Great Stone' in avoiding the "debt trap".

2. Chinese "debt trap": the cases of Sri Lanka, Pakistan, Ecuador, and parts of its mechanism

A China expert Tom Miller, in his book *The Chinese Asian Dream*, explains the distribution of Chinese growth model in Asia and also mentions some examples of the countries that have fallen into so called Chinese "debt trap" including some from Central and Southeast Asia [9]. His story can be expanded beyond 'Belt and Road' initiative as it reminds of the history of China's work in Africa from 2006 to 2010, when, in 2007, Beijing was forced to write off foreign debt to 33 African countries, due to their insolvency - totaling \$1.5bn [10]. Among rich international experience of debt cooperation with China three cases can become the description of its political economic interconnections: Sri Lanka, Pakistan, and Ecuador.

2.1 Demonstration cases of Chinese "debt trap"

2.1.1 Sri Lanka

This case was among the hottest example of Chinese "debt trap" in international media in 2010s. Between 2010 and 2015, 70% of infrastructure projects in this country were built and funded by China. China built an airport, expressways, power plants, a cricket stadium, conference centers, office buildings, residential areas and more. There were cases reported in international media when, during the construction process, Chinese contractors increased the cost of the project by

40–60% of the original, which was sometimes associated with changes that the customer made to the project. In addition, claims arose regarding compliance by Chinese contractors with construction and other national standards. To finance the construction of these facilities, Chinese commercial banks provided loans at a market rate of about 6%, sometimes it reached 8.8%. When the government changed in Sri Lanka in 2015, all these issues began to be discussed publicly. In early 2015, the country's finance minister said that to resolve debt problems with China, an agreement was reached with a Chinese bank on a large new loan at 2%, for refinancing an old loan at 6.9% [9]. Among the most publicly discussed projects were the airport and seaport. The project to build an international airport in the city of Mattala caused a public outcry when Beijing refused to take it for itself instead of paying off the loan issued for its construction [11]. According to the seaport project in the city of Hambantota, the Government of Sri Lanka, following negotiations related to difficulties in servicing the Chinese loan received for construction, announced to give the port to China for 99 years [12]. But by now Sri Lanka still keep this project under its control.

To conclude one needs to look away from popular media narratives and see the broader picture. As of 2019 China holds only 10 percent of Sri Lanka's foreign debt, Japan and the World Bank hold 11 percent each, the Asian Development Bank – 14 percent, private sector – 39 percent. As Sri Lanka did not default on China's debt, this case seems to be publicly overheated.

2.1.2 Pakistan

It is difficult to imagine a more favorable and ‘all-weather’ political relationship with China than that of Pakistan. The China-Pakistan economic corridor was positioned as a model project of the ‘Belt and Road’ initiative. For this purpose, investments of \$46bn were announced — comparable to 17% of Pakistan's GDP in 2015 [1]. Previously, a major Chinese project in Pakistan was the Gwadar port, which was under construction since 2000, having been leased to China in 2013. It seemed that the excellent political relations between Pakistan and China would create appropriate conditions for the implementation of joint economic projects. However, in July 2017, Pakistan's Prime Minister, Nawaz Sharif, was removed from power. In early 2018, Pakistan publicly rejected a \$14bn project with China to build a hydroelectric complex, due to unfavorable contract and loan terms offered by the Chinese. In September 2018, the media reported that the new government of Pakistan was discussing the possibility of reviewing the terms of construction of the China-Pakistan corridor. Debt relief was put on the bilateral agenda, but it did not stop Pakistan from attracting new loans from China. The Belt and Road initiative had found new life in Pakistan in 2020 with the signing of \$11 bln worth of projects.

Looks like the countries passed the phases of short-term debt challenges, overcame COVID-19 consequences and opened new chapter in bilateral investment cooperation.

2.1.3 Ecuador

On December 12, 2018, the President of Ecuador, Lenin Moreno, visited Beijing and met with Chinese Chairman Xi Jinping. A week before, Mr. Moreno announced that the goal of his talks in China was to reduce the \$6.5bn debt burden owed by the government of Ecuador. However, the projects built at the expense of Chinese loans (HPP, roads, bridges and hospitals) had not accumulated the necessary money to repay debts. For example, a large hydroelectric power plant built near an active volcano was operating at half capacity, and a loan from Export–Import Bank of

China for \$1.7bn (for 15 years at 7%) required maintenance of \$125 m per year [13]. At the same time, the government of Ecuador faced a drop in export revenue due to lower prices for oil - its main export product, so the country's authorities also had difficulties in repaying the loan [14]. The meeting between Moreno and Xi resulted to a new loan of \$900 m to refinance the part of existing one. In September 2020 Ecuador has reached another deal with Chinese Eximbank to delay a \$474 m loan payment due 2020 and 2021 until 2022. This case shows that even if Chinese "debt trap" exists it has its ways out.

These three cases raise the question: why some developing countries choose to attract Chinese loans and get into so called Chinese "debt trap". To answer this question, several parts of "debt trap" mechanism should be analyzed sequentially.

2.2 Parts of the "debt trap"

2.2.1 Project choice

The "debt trap" is related to project lending, so the project itself (for example, the construction of a power plant, a road, or a factory) is of primary importance, rather than being the source of its financing. China does not initially offer a loan, but participates in a tender for the construction of a project, together with a loan. The main question is who chooses the project, and how. In practice, it's the customer who proceeds from a business plan and feasibility study. The choice of an infrastructure project is often made at the request of authorities, compared with other countries, and very often is not based on an assessment of the potential demand for the object. The expectation that planes and ships fail to come to Sri Lanka just because there is no airport or seaport there is wrong. Other conditions are also important, such as security, service, price, and the so called friendly business environment. Therefore, the problem of choosing a project by the state is not only a matter of business planning and preliminary assessment, but also the overall quality of economic policy and the competence of the state apparatus.

Developed countries are less prone to the "debt trap", not because they have their own funding for projects, but because they have different decision-making procedures, checks and balances, and political responsibility. Before accusing China of undertaking projects that are ineffective, it is important to answer two questions. The first is whether there are still problematic projects in the country that were implemented by non-Chinese companies. The second is, are there any successful projects that Chinese companies have implemented in the country? If both questions are answered in the affirmative, then it should be concluded that the problem is rooted not in China, but in the customer or in the project itself.

2.2.2 Contractor choice

Accusations that the services of Chinese contractors are expensive and do not meet standards should take into account that the choice of a contractor is usually based on an international tender. An exception is the case when China provides a preferential loan, then the tender is held among Chinese companies identified by the Ministry of Commerce of the PRC. However, the main question is why a Chinese contractor wins an international tender. Does this happen because of price, technology, brand, stated deadlines, or corruption? Chinese contractors sometimes mention that "it is impossible to get a Lexus car for the price of an Opel car". However, this is often what the customer from developing country expects. Therefore, low price and high speed are often accompanied by cheaper prices, due to the Chinese contractor ignoring national norms. Forcing a Chinese contractor to comply with

national standards during the construction of a project sometimes leads to a higher cost. It is also important to take into account that the cost of the commercial offers by Chinese companies was lower than of their competitors during tenders, but was growing annually. For example, from 2005 to 2008, Chinese offers were 40–50% cheaper than those of competitors but, from 2009 to 2011, the figure dropped to 30%. Later, they were cheaper by only 5–10%, if available.

It is also important to note that choosing a contractor is a negotiation process, and the Chinese are skilled and experienced negotiators. They understand not only the technical details of the project, attracting the best engineers, and preparing contracts attracting professional international lawyers, but also the cultural issues and psychology of partners, primarily looking at the decision-making levels, subordination, and weaknesses of the other side. As a result, when choosing a contractor, Chinese companies beat not only their competitors, but also the customer. It's only possible to counter this with professionalism, which developing countries clearly lack.

2.2.3 Lender choice

Tied export lending is an international practice and is usually offered by each bidder. In the Chinese case, the tied loan is long-term, up to 15 years, and usually covers 85–95% of the commercial contract, while 30–50% of the contract must be related to the work of Chinese builders and suppliers. All these provide three advantages.

Firstly, the borrower does not need to divert significant amounts of their own funds in the current period to implement the project: but only in the future — in around five years — to repay the loan within a usual 10-year period.

Secondly, as this loan covers 85–95% of the cost of projects, so the customer only needs to find the missing amount for advance payment. The targeted nature of tied loans implies that they cannot be used in the financial market, for example, to manage the exchange rate. Therefore, the risks of tied loans are limited primarily by the microeconomics of the project, and then by the country's macroeconomics. At the same time, the Government guarantee provided for a tied loan sometimes reassured the lender, who was less concerned about the project and more about the state's solvency.

Thirdly, as 30–50% of the cost of a commercial contract would be covered by Chinese companies, the remaining currency, up to 50–70% of the contract value, was spent on the purchase, the main equipment of a Western brand, and payment to domestic designers and builders. If a Chinese tied loan is preferential (at the rate of 2–3%), then the Chinese share must exceed 50% of the contract (60% from 2019). If it is commercial (at a market rate and linked to the LIBOR, with insurance), then the share must be at least 30%.

The cost of commercial Chinese credit provided by such banks as Export–Import Bank of China, China Development Bank, ICBC, China CITIC Bank, and others depends on the country's internal rating and funding opportunities of the banks themselves, and ranges from 5–9%. This should be supplemented by an insurance of the China Export and Credit Insurance Corporation, Sinosure, with a premium of 6–9% — which is less than the insurance of Western insurance companies for developing countries with a premium of 8–12%. In the case of preferential Chinese loans provided by the Chinese Government through Eximbank of China, insurance is not required, while the interest rate ranges from 1–3%. In general, the final rates of Chinese loans are competitive, and, given cheaper insurance, the borrower is inclined to choose financing from China. To avoid the “debt trap” concern, customers can use their own resources to finance a project: i.e. attracted untied

loans from the international market (for developing countries, the rate — depending on the rating — ranges from 4–7%, which is comparable to Chinese commercial loans) or borrowed from international financial institutions (the rates of the IMF, and the World Bank can be 1%–2.5% which is comparable with the rates of concessional loans by the Chinese Government). Overall, the choice of a lender, as well as the choice of a project and a contractor, is the right of customers and depends on their competence.

Accordingly, the “debt trap” is a concern for weak borrowers who are not able to stop building up their debt in time, or are not ready to show skill in managing it. All these problems of the developing country’s government — as a customer of the project and a borrower — are actively used by the opposition in the political struggle. The latter tries to solve problems of external public debt, not by changing internal procedures and economic policies, but by accusing the current government first, and then, when it comes to power, external forces - in this case China, as a major creditor.

3. Belarus-China: the channels to avoid the “debt trap”

The first Chinese tied loans came to Belarus in 2005. It all started with the establishment of the BeST mobile operator; later, the reconstruction of Minsk TPP-2, Minsk TPP-5, the construction of three cement plants, the installation of steam-gas units at Bereza, and Lukoml regional electric power plants, the reconstruction of a section of the M5 highway, the electrification of the railways, the purchase of locomotives, and the launch of a national satellite, and others followed. The list can be continued: all data was regularly collected (often administratively) by the Government of Belarus from subordinate organizations and sent to the Chinese. As a result, the sample of tied Chinese loans provided to the Belarusian government, or under its guarantee, increased from \$35.3 m in 2005 to \$543.1 m in 2009.

From 2010 to 2012, the tied lending cooperation became better structured, due to the opening of the first large-scale credit lines by China to Belarus. In December 2009, Eximbank of China provided a commercial credit line of \$5.7bn to the Belarusian Government and, in March 2010, the China Development Bank launched an \$8.3bn commercial credit line. In June 2010, the Chinese Government approved a \$1bn preferential credit line, and, in September 2011, another \$1bn preferential credit line followed. The terms of the two Chinese banks’ commercial credit lines were market-based: a 6-month LIBOR interest rate of +3–4.5%, management fees and liabilities of 0.3–0.7%, an 8–15 loan term with a preferential period of 3–5 years, and a Sinasure insurance premium of 6–7%. Those credit lines were, in fact, quite competitive in the international financial market: in terms of rate, terms, and insurance. To compare, we’ll recall July 26, 2010 when Belarus issued \$600 m of its debut Eurobonds at 8.75% with a maturity date of August 3, 2015. At that time, Chinese tied loans were cheaper, and were provided for a longer term. In addition, an important advantage of Chinese loans was that Sinasure insurance was half as cheap as that of Western insurers: i.e. German Hermes offered it at a rate of 10–12% for Belarus. The terms of the two open preferential credit lines from China were more attractive: the interest rate of the former made 3%, of the latter — 2%, with loan terms of 15 years and a preferential period of 5 years, without insurance. All preferential, and some of the commercial, loans were taken from those credit lines. The number of projects financed by tied Chinese loans increased in Belarus from 1 in 2007 to 5 in 2011. Accordingly, the amount of tied loans began to grow. In 2011, the sample size made \$417.9 m, in 2012 — \$488.5 m, in 2013 — \$1.1bn, and in 2014 — \$699 m.

In May 2015, Chinese Chairman Xi Jinping paid a state visit to Belarus, giving new impetus to the credit cooperation between the two countries. As part of his visit, Xi Jinping announced the opening of two more credit lines to Belarus: \$4bn commercial and \$3bn preferential. The preparation for that visit, and the administrative provisioning of the open credit lines, resulted in the situation that, in 2015, the number of credit agreements between Belarus and China reached 9: the maximum signed between the countries per year.

In the new era, Belarus had to repay previously raised tied Chinese loans. Problems with cement sales resulted in the inability of the Belarusian cement plants, modernized at the expense of Chinese loans, to repay their loans independently; their obligations were assumed by the Belarusian Government. The Dobrush Paper Mill also faced problems with a Chinese loan, and the Government provided support for debt repayment. As a result, the debt guaranteed by the Belarusian state to China was growing, and it was necessary to repay it from the Belarusian budget. In this regard, Belarusian state agencies began discussing the need to move away from the path leading the country into a “debt trap”, and also to improve the project financing model. Those discussions were fueled by the concern that tied Chinese loans were leading to an increase in Chinese imports. Accordingly, the Belarusian experience of avoiding this “debt trap” developed through several channels:

1. moving away from tied loans as part of state debt management;
2. moving away from tied loans as part of import reduction;
3. transition from tied loans to untargeted credits; and
4. transition from credit cooperation to direct investment liaisons.

3.1 Moving away from tied loans as part of state debt management

The main reason for tied loans’ influencing the state debt was a gap in the financial flow of investment projects: between the cash flow from the implemented project and its external state-guaranteed obligations, which the Government eventually began to finance. Of more than 30 investment projects implemented in Belarus in 2005–2019 on account of Chinese tied loans, the Government financed external obligations from the state budget for at least five. In addition, only a few investment projects achieved the planned revenue, value added, net income and exports, arousing doubts with regard to the mechanism of project realization and their system of business planning.

Problems in investment projects began to arise due to the poor quality of business plans, pre-project marketing research, forecasts of selling prices, underestimation of sales markets, competitors, the lack of legal and audit opinions or constructive dialog between the customer and the contractor, the occurrence of additional work after the initial project stage, the implementation of complex projects involving inexperienced state organizations, and the lack of expertise and control. That practice was typical not only for Chinese projects but also for others implemented as part of the Belarusian economy’s modernization. Among the additional factors that aggravated the situation with the foreign currency state debt were the fall in export revenue in the traditional Russian market, and the chronic devaluation of the national currency.

Since 2012, the Government’s external debt portfolio saw peaks in state debt payments. They were smoothed out by refinancing old external loans with new credits - both external and - more expensive - internal. An increase in the state debt

followed. For example, in 2012, a new external loan of \$1.44bn was raised to repay \$1.5bn and, in 2013, the return of \$2.5bn was financed by \$1.82bn external loans. In 2014, a new external loan of about \$2bn was raised to pay for \$2.7bn. New loans attracted from the domestic market were more expensive: their rates were 2–3 times higher than the repayable old external loans.

Moving away from tied loans did not envisage a ban on borrowing from China. It assumed a reduction in the number of new investment projects financed by tied Chinese loans, and an improvement in the terms of borrowing: the transition from attracting loans on commercial terms to preferential, from Government-guaranteed to non-guaranteed, from tied to unrelated.

Changes began developing along those paths and, since 2015, the number of new investment projects — financed by Chinese Government-guaranteed loans - has decreased 9-fold — to a single project per year. Since 2016, the amount of annual new Government and guaranteed loans attracted from China has halved, and, starting from 2018, the Government of Belarus ceased attracting new tied loans from China on commercial terms. Projects funded directly by China without a guarantee from the Government of Belarus were registered. Previously, there was the single example of Beltelecom, a company which purchased Chinese equipment using China Development Bank loans, without a guarantee from the Government. However, the situation changed, and, on April 25, 2019, the Belarusian Railway signed an agreement to attract 65.7 m Euros from Eximbank of China, under the guarantee of Belarusbank, rather than the government. In 2018, the Belarusian Government raised a preferential loan to finance a single project, while the preferential loans previously attracted to finance two projects in 2017 were canceled. Moreover, from 2017 to 2019, Belarus attracted two loans from China that were not related to project realization, and, as a result, the share of Chinese loans in the overall external state debt, and external debt guaranteed by Belarus, decreased slightly over the year: from 26% in early 2017 to 23% at the beginning of 2018. In 2019 China was among top three lenders of Belarus with amount of \$3bn, to compare – Eurobonds \$6bn, and Russia and Eurasian fund \$11bn.

Of course, the move away from tied Chinese loans did not happen immediately. Moreover, that was politically at odds with the proposal announced in May 2015 by Xi Jinping to open new credit lines for \$7bn. In addition, in accordance with their business plans, some Belarusian state-owned enterprises, such as MAZ, Grodno Azot, and others, continued to apply to the Government for state guarantees, and to Chinese banks for loans to implement their projects.

At the same time, for various reasons, the withdrawal from tied Chinese loans in Belarus began. Firstly, it was not Chinese companies that started winning tenders. Some, such as Slavkali, then passed a part of the work as a subcontract to China. Secondly, the Government of Belarus became stricter in its examination of the issue of state guarantees. Thirdly, the attractiveness of Chinese tied commercial loans began to decline due to the gradual growth of the base LIBOR rate (by 2.47%) from 2015 to 2018, as well as the appearance of alternative loans from international organizations (EIB, IBRD) with a longer term (up to 20–25 years), and a lower rate (1.6–2.6%).

3.2 Moving away from tied loans as part of Chinese import reduction

To answer the question of whether the withdrawal from tied Chinese loans can help reduce imports from China, it's better to look at the specifics and structure of the latter in Belarus.

As regards Chinese imports, more than 60% of goods come to Belarus from third countries. At the same time, these imports have steadily remained at this level

for a long time. According to the General Customs Administration of the People's Republic of China, and the State Customs Committee of Belarus, in 2006, imports of Chinese goods from third countries to Belarus totaled \$332.9 m, or 60.7% of all imports of Chinese goods; in 2017, the figure stood at \$1,905.3 m (67%), and in 2018 — \$2,111 m (64.8%).

Imports of Chinese goods from third countries are mainly explained by logistics chains (deliveries via the Baltic ports, Russia), contracts concluded by Belarusian importers with regional representatives, dealers of Chinese companies in the EU, Russia and so on. This statistical detail is important to understand, since tied loans usually finance direct imports from China, which is no more than 40% of all Chinese imports.

The structure of Chinese imports in Belarus is highly diversified. In 2018, the country exported 884 products from China out of 1,172 supplied from around the globe (in 2008 this was 854 out of 1,149, in 2017, 871 out of 1,169). Given the absence of an official classification, Chinese imports can be divided into the three following groups.

3.2.1 Investment imports

It's been clarified that imports of goods alone from China depends on the cost of investment projects implemented through tied Chinese loans and direct investments by almost 30%. If we look only at tied Chinese loans, then we notice these have financed at least 20% of imports of Chinese goods in different years. A jump in investment imports has been observed since 2008, after the activation of major investment projects in Belarus, as confirmed by imports of such items as “communication equipment and parts”, “computers”, “parts for receiving and transmitting equipment” and “lighting equipment”. In the following years, imports of these items became annual and predominant, and, in 2018, reached \$606 m, or 18.6% of all imports of Chinese goods.

The dependence on cumulative Chinese imports of both goods and services at the level of over 20% of investment projects implemented with the support of tied Chinese loans was revealed. The correlation coefficient between imports of Chinese goods and services and the sample of Chinese loans provided to the Belarus' Government, or under its guarantee, was 0.93. The connection with services is explained by the fact that the main share of imports of Chinese services is taken by construction and architectural services (from 2010 to 2018, on average, 84.5% per year), used in the implementation of investment projects.

3.2.2 Intermediate imports

These are imports of components for machine-building and petrochemical enterprises. About 20% account for components and raw materials for industrial facilities in imports of Chinese goods. Among the largest Belarusian importers are industrial enterprises, such as Horizont, BelGee, BMZ, Yunison, MAZ, Grodno Azot, and others. For example, with an increase in the load of Belarusian production facilities and changes in the Russian market, Chinese imports of parts and accessories for cars and tractors are growing: from \$27.1 m in 2008, to \$67.8 m in 2012, \$110.5 m in 2017, and \$129 m in 2018. Further, the volume and share of imports of industrial components in the total imports of Chinese goods will grow along with the launch of production facilities created in Belarus by Chinese companies.

As regards imports of components for light industry enterprises, about 10–15% of imports of Chinese goods are made up of parts for shoes and knitwear, and other

components used in light industry. They are used in final production in Belarus and then re-exported to the CIS countries (Megatop is an example of such activity).

3.2.3 Consumer imports

Due to a great number of commodity items, it is difficult to accurately estimate consumer imports from China. However, its share is noticeable, even for certain products. For example, imports of woodworking products, such as “seat furniture and its parts” and “other furniture and its parts”, accounted for \$183.6 m in 2018, while imports of Chinese agricultural products in 2018 was \$53 m (1.7% of total). Given high and growing wages in China, which averaged \$918 per month in 2018, against, for example, the salary in Egypt at \$183, consumer imports were later redirected to other countries [15].

Accordingly, the above-mentioned issue could have a solution. Moving away from tied loans in Belarusian-Chinese cooperation may reduce imports of Chinese goods and services by about 20%. However, with the simultaneous transition to more active investment cooperation between the two countries, Chinese imports may not decrease, but even increase. In this case, the dependence of imports on the implementation of investment projects does not decrease, since only the source of financing changes. When assessing the dependence of changes in imports of goods and services from China on Chinese direct investment, the correlation coefficient was 0.8. Taking into account the further development of the territory of the ‘Great Stone’ Industrial Park, and construction of facilities through technical and economic assistance from China, imports from China related to the implementation of investment projects will grow — increasing their share in total imports.

3.3 Transition from tied loans to untargeted credits

There are five ways to switch to unrelated loans.

3.3.1 Transformation of existing tied loans into unrelated credits

Speculation about the possibility of changing the terms of tied Chinese loans by extending the repayment period, reducing the interest rate, or obtaining a new unrelated loan from an old lender to refinance a previous loan, has not yet been confirmed in the practice of Belarusian-Chinese relations. Attempts to negotiate failed. On the one hand, it is impossible to exclude the lack of reasonableness and perseverance of the Belarusian side, and, on the other, an excessively principled attitude and the threat of default on the Chinese side. In any case, the experience of other countries in improving the terms of tied loans and converting them into untargeted ones, as well as the positive experience of Belarusian banks in this matter (more details below), cannot be excluded from the Belarusian-Chinese agenda.

3.3.2 Attraction of an untargeted loan at state level

As a rule, China prefers a uniform approach when discussing this issue in order to avoid precedents and a queue of so-called exceptions consisting of other countries. Therefore, if unrelated loans are provided by China at the state level, then they are provided in a closed mode, for a short period of time, and indeed, as an exception. A potential lender of unrelated state loans from the Chinese side may be the Ministry of Finance of the PRC - as a manager of budget resources, which can provide a loan directly or, for example, through Eximbank of China. Another possible lender may be the State Administration of Foreign Exchange of the People's

Republic of China, which is subordinate to the People's Bank of China as the manager of currency resources.

3.3.3 Interbank lending

There are opportunities here to use the acting exchange agreement for 20bn Yuan signed on March 11, 2009 by the National Bank of Belarus and the People's Bank of China to provide monthly, three-monthly, and six-monthly loans in Yuan. In addition, direct interbank unrelated loans are provided by Chinese banks for short-term trade finance purposes within open limits.

There is also an option to transform part of the interbank credit line, opened under the guarantee of the Government of Belarus on May 10, 2015 by China Development Bank for the Development Bank of Belarus, to the amount of \$700 m and \$300 m for Belarusbank to finance joint investment projects, into an unrelated loan. For example, on March 1, 2017, Belarusbank transformed part of this credit line by attracting an unrelated three-year loan of \$100 m from the China Development Bank. Later, on the basis of established cooperation, Belarusbank attracted a new unrelated loan of 100 m Euros from this Chinese bank under a government guarantee on April 24, 2019.

Of course, Chinese banks are interested in providing loans to the most reliable borrower in Chinese Yuan to enhance the internationalization of the latter. In this regard, on December 16, 2019, the China Development Bank provided an unrelated five-year loan to Belarus' Finance Ministry, to the amount of 3.5bn Yuan (around \$500 m).

3.3.4 Issue ‘panda bonds’ on the mainland market of China

‘Panda bonds’ can be placed on the interbank market, which occupies 90% of the issue, as well as on the Shanghai and Shenzhen exchanges. At the same time, it is desirable that the first issue should be conducted by a sovereign borrower in order to provide guidance for other entities. For example, on December 15, 2015, the South Korean Government issued three-year “Panda bonds” worth 3bn Yuan, at a rate of 3%. On January 21, 2016, a three-year issue of 3bn Yuan was held by the province of British Columbia (Canada), at 2.95%. On August 26, 2016, the Polish Ministry of Finance issued three-year bonds worth 3bn Yuan, at a rate of 3.4%. As for corporate issuers, the experience of Russian RUSAL might be useful: in March 2017, it conducted a three-year issue worth 1bn Yuan, at a rate of 5.5%. At the same time, this Russian company received a rating from the Chinese Agency CCXC in June 2016; it turned out to be higher than the sovereign rating of the Russian Federation [16]. German Daimler, French Veolia Environment, Air Liquide, and Mongolian Bank TDBM also attracted unrelated loans from China's financial markets.

3.3.5 Issue of ‘dim sum bonds’ in Hong Kong

From 2006 to 2015, the Hong Kong financial market was more attractive to issuers than the mainland, but with the growth in the number of issues of ‘panda bonds’, the rates in the two markets began to equalize. In 2015, the SSA Korea Development Bank (with a rating similar to the sovereign) issued three-year ‘dim sum bonds’ worth 1.38bn Yuan, at 4.2%, while SSA Export Development Canada issued 0.8bn Yuan at 3.53% per annum. The long-term trend of the Chinese Yuan shifting from revaluation to devaluation in 2016 increased the attractiveness of ‘panda bonds’ in comparison with ‘dim sum bonds’. As a result, in 2016, the average rate for ‘panda bonds’ was 4.3%, and for ‘dim sum bonds’ it was 4.75% [16].

To enhance the attractiveness of its market, the Hong Kong authorities provide subsidies for the debut issue of 'dim sum bonds'.

Actually, the transition from tied to unrelated loans changes the lender's priorities from microeconomic to macroeconomic risk. To assess Belarusian macro-risks, a Chinese lender uses both the ratings of its own foreign institution in Belarus, and the sovereign credit ratings of international agencies. Interestingly, over the course of time, Belarusian macro-risks have not changed significantly. Back in 2011, according to Chinese embassies, a list of investment risks in Belarus was compiled; it is still relevant today. Among them are regulatory risks - the lack of a clear and real plan for economic development, and the presence of many pilot projects; economic (energy dependence on Russia); political (state interference in economic activities which leads to corruption and increased investment costs); and legal (the law enforcement system is complex and subject to frequent changes) [17].

What has changed in Belarusian macro-risk? What has stimulated the transition of Belarusians and Chinese to unrelated loans? Was it the improvement of the sovereign credit rating in October 2019 from B- (Stable) to B (Stable), the stabilization of the exchange rate, or the reduction of inflation to a single-digit parameter? All these are indicators that bring Belarus' macroeconomic environment closer to the global norm, rather than giving it a competitive advantage. Synchronization of the macroeconomic risks of Belarus and Russia in the context of a common environment of international sanctions, political discussion of integration, and the common correlation of commodity and currency markets, could be one of the most accurate explanations. As a result, for example, international investors began viewing Belarusian Eurobonds as Russian with an additional risk (plus 200–300 basis points). Chinese lenders also look at the possibility of providing unrelated loans to Belarus in the same way: through the prism of Russia and its risks, of which they have better knowledge.

3.4 Transition from credit cooperation to direct investment liaisons

In September 2016, Belarus' President Aleksandr Lukashenko paid a state visit to China to propose that Chinese Chairman Xi Jinping switch to bilateral cooperation from credit to direct investments. Three years later, the number of new tied credit agreements guaranteed by the government had virtually come to naught, while the volume of Chinese direct investments in Belarus increased. While talking to Aleksandr Lukashenko during a bilateral meeting in Beijing, in April 2019, Xi Jinping noted that China was supporting the transition to investment cooperation. Following the results of 2019, it's possible to conclude that the transition from credit to direct investments cooperation between Belarus and China was realized: the share of Chinese direct investments (against the total volume) to Belarus reached 83% in 2019. In 2018, this figure was 55% and in 2017, it stood at 41%. The remaining share accounted for credit instruments.

While credit and investment cooperation was being established, credit relations were in focus. Accordingly, projects with Chinese direct investments in Belarus were rare: i.e. the Midea-Horizon joint venture producing household appliances, the Volat-Sanjiang joint venture with the Minsk Wheel Truck Plant (MZKT), the Beijing hotel complex and the Lebyazhy residential complex. From 2007 to 2009, Belarus received \$2.6 m of direct investments from China. In 2010, the figure rose to \$28.3 m and, in 2011, it reached \$44.3 m. From 2012 to 2013, \$78 m were registered annually. Apart from reinvesting the existing investors' profits, new projects were registered: i.e. the BelGee Automobile Plant was established jointly by BelAZ and Geely.

Chinese direct investments were headed to Belarus, in the initial period of their accumulation, for two reasons. The first was a political factor which envisaged the construction of facilities within the framework of implementing agreements reached at top level meetings. The second reason was the Chinese companies' combined implementation of projects involving tied loans and direct investments. For example, CAMCE, which acted as the general contractor for the Svetlogorsk Pulp and Board Mill project, financed by loans from Eximbank of China and ICBC, was also a direct investor in the joint venture of the 'Great Stone' industrial park development. In turn, CUEC oversaw the electrification of the railway and supply of electric locomotives at the expense of loans from Eximbank of China, and then established a company to service its products in Belarus. Similarly, BelGee and the joint venture for the 'Great Stone' industrial park development, at the initial stage of their direct investment, attracted loans from China under the guarantee of the Government of Belarus.

In the new era, the 'Great Stone' industrial park has become the key 'magnet' for attracting Chinese direct investments to Belarus. A joint company was set up to develop the Industrial Park, and, on the launch of the infrastructure, the first residents and direct investors came from China. As a result, in 2014, FDI from China to the Republic of Belarus amounted to \$164.5 m; in 2015, \$77.7 m was registered. From 2016 to 2018, the Industrial Park's territory continued to be worked on, and a greater number of Chinese residents were registered. A shift in the annual flow of Chinese direct investments to an historic maximum of \$190 m was seen in 2018. Regarding the net figures, those investments increased almost 3-fold to \$112 m. In 2019, Chinese direct investment fell slightly to \$141 m, including \$107 m on the net basis, due to the completion of some major projects by Chinese investors, in the Industrial Park and beyond, i.e. Belkali-Migao.

As a result, from 2016 to 2019, Belarus received a total of \$545 m, or more than half (53%) of all Chinese direct investments which came to the country during the period of their accumulation, from 2007 to 2019. China ranked 6th among other countries in terms of FDI to Belarus and was 3rd in net FDI (behind neighboring Russia and offshoring Cyprus).

To the naked eye, the significance and growth of FDI from China in Belarus against other countries seems small. Chinese direct investments in Belarus accounted for only 2.23% of total FDI in 2018 (1.07% in 2015). In addition, in 2017, China directed \$0.11bn of direct investments in Belarus, against \$6.4bn to the US, \$2.7bn to Germany, and \$2bn to the UK. Looking at the relationship of Chinese direct investments to the recipient country's GDP (assuming that FDI mainly depends on the sales market), a different picture is seen. From 2013 to 2015, Chinese direct investments to GDP in Belarus, the United States, Germany, the United Kingdom, and the world as a whole, were at a comparable level: 0.05–0.07%. From 2016 to 2017, this indicator for all the countries under consideration and the world as a whole, increased to 0.09–0.1%. In 2018, Belarus experienced a significant shift, when the indicator of FDI from China to Belarus' GDP exceeded 0.2%. The relationship of Chinese direct investments to Belarus' GDP can be traced to the period from 2007 to 2015, with a correlation coefficient of 0.82. When adding another period, from 2016 to 2018, this relationship actually disappears, with a coefficient of 0.38, due to the shift in recent years of Chinese direct investments towards the 'Great Stone' industrial park. For example, even in 2017, the share of Chinese direct investments to the Park, against all those received from China, was 23%; in 2018, it reached 42% and, in 2019, 57%. In 2019, five of the ten largest direct Chinese investors in Belarus were residents of the 'Great Stone' industrial park.

The role of the 'Great Stone' industrial park in the transition from bilateral credit cooperation to direct investment cooperation is constantly enhancing and changing and deserves separate analyses.

4. China-Belarus industrial park 'Great Stone' and its role to avoid the "debt trap"

4.1 Overview of the role models

The idea of the China-Belarus industrial park was put forward following the visit of Xi Jinping, in his capacity as Vice-President of the People's Republic of China, to Belarus in March 2010. In September 2011, the Government of the Republic of Belarus and the Government of the People's Republic of China signed an agreement on the development of the China-Belarus industrial park.

The 'Great Stone' industrial park was originally established in Belarus within the framework of China's general policy of setting up its industrial parks in foreign countries. Since 2006, China has launched active efforts to establish industrial parks in Angola, Pakistan, Thailand, Venezuela, Vietnam, Cambodia, South Korea, Egypt, Zambia, Nigeria, Mauritius, and Ethiopia. Following the establishment of the ASEAN-China Free Trade Area in 2010, the plans for the construction of joint industrial parks in every ASEAN member state were made public. Despite the general policy, there was no uniform mechanism for the establishment of those parks. They varied in size, investment arrangements, specialization, and level and type of government support. And yet, during his state visit to Belarus in May 2015, President of China Xi Jinping called the China-Belarus industrial park "the Pearl on the Silk Road", thereby singling it out from the field of China's industrial parks and linking it to a different overseas strategy of China. Furthermore, it is remarkable that, as noted above, the idea of establishing the Industrial Park emerged in 2010, while the "Belt and Road" initiative followed in 2013. The 'Great Stone' industrial park has become a major project of Belarus-China cooperation and was presented at the international forum "Belt & Road" held in Beijing in May 2017.

Initially, the case of the China-Singapore industrial park in Suzhou was used as a model by the China-Belarus industrial park. The former was started in China in 1992 as a follow-up to the meeting of Deng Xiaoping with Lee Kuan Yew. The leader of Singapore stressed that it had been very difficult for the Chinese officials to adopt the best Singaporean practices during their regular business trips abroad. In this regard, Singapore, together with China, would establish an industrial park, and transfer its managerial skills in the process of its development and operation. The intergovernmental agreement on the establishment of the China-Singapore Industrial Park was signed in 1994. This park has gone through challenging establishment and development stages, including overcoming the distrust of the population, the creation of parallel parks, negative earnings, and all the rest of it. For instance, the losses faced by the joint venture managing the China-Singapore industrial park in its early years led to a situation where the Singapore side started selling its shares and exiting the project. Today this industrial park is one of the most successful in China. Its membership includes nearly a hundred Fortune-500 international corporations. The secret of its success is the application of the 'one-stop shop' principle (quick resident registration), tax incentives for producers of innovative products, manufacturers of integrated circuits and software, and small businesses. The experience of the Suzhou industrial park in the sphere of tax incentives provided an example for the 'Great Stone'. The tax benefits have been significantly expanded to the '10 + 10' format: 10 years tax-free, and half the tax

rate for the next 10 years. In addition, the Decree of 2017 covered the ‘one-stop shop’ principle by analogy with the China-Singapore industrial park.

Since the beginning of the Park’s active development, from 2013 to 2019, there has been an understanding that the ‘Great Stone’ is more of an experiment to improve Belarus’ investment climate in several areas:

- to reduce the high and complex national tax burden for investors, unprecedented privileges are applied at the Park: exemption from income tax for 10 years from the date of receipt, and then, payment of half tax until 2062, as well as abolition of real estate tax, land tax, VAT privileges, and other tariffs;
- to overcome bureaucratic barriers, reduce approval time, and cut transaction costs, the Park has introduced the ‘One Stop Shop’ for quick and simplified assessment of documents and registration of residents;
- to lessen state interference and pressure on the economy, private ownership of land, simplified construction regulations, and a ban on inspections by regulatory authorities without the permission of the Park Administration, have been introduced.

The fundamental issue for the success of the ‘Great Stone’ is who acts as the main contributor of managerial skills, technologies, and international values, that are to be fostered in the Belarusian staff of the industrial park. At this point, certain difficulties were experienced. Initially, the major shareholder (60%) of the administration company representing the Chinese side was CAMCE, sponsored by its parent corporation, SINOMACH. However, CAMCE is an engineering company and has a vested interest in Belarus, in the form of a contracting project at Svetlogorskiy Pulp and Paper Integrated Works, and no expertise in setting up industrial parks. In 2014, the shareholding structure of the Chinese side was changed following the visit of the Vice-Prime Minister of China, Zhang Gaoli, to Belarus. The share of CAMCE was reduced to 45.7%, and one new shareholder, China Merchants Group, entered the venture with a 20% share. The aim of changing shareholders was to boost technology inflow and direct investments into the ‘Great Stone’ industrial park.

4.2 The ‘Great Stone’: the potential of high-tech hub

The ‘Great Stone’ industrial park’s key focus on the high-tech industry is reflected in the fact that it was established in Belarus just for this purpose, namely, to bring in high-technology industries. Several studies conducted in Belarus show that China has surpassed Belarus by many innovation indicators [18]. This gives reason to hope for an inflow of Chinese technological investments to the industrial park. At the same time, it depends on Belarus’ industrial needs rather than on China’s technological capabilities. In this regard, the industrial park, with respect to the tax benefits granted for a period of twenty years, and its legal regime extending to a period of fifty years, must be an element of Belarus’ industrial strategy for no less than a twenty-year period. Meanwhile, such a strategy, capable of fostering new growth areas, is hardly in evidence, and the emphasis is rather on preserving the existing production facilities.

The Regulations on the China-Belarus industrial park, approved by the Resolution of the Council of Ministers of the Republic of Belarus, No. 756, dated 16 August 2012, specify the following priority activities of the industrial park: electronics, fine chemicals, biotechnology, engineering, and advanced materials. Still, according to some sources, the nature of the new world industry in the next ten

years will be determined by such sectors as robotics, genetics, and big data processing, accompanied by the codification of money and markets [19–21]. CEOs of transnational corporations in China, the US, and the EU, forecast the development of such sectors as data processing systems, the Internet of Things, etc. [22].

The new Decree of 2017 does not specify, but rather eases, technological requirements for accession to the ‘Great Stone’ industrial park. However, this is not a fundamental concern. In any case, in order to ensure its innovativeness, the ‘Great Stone’ would focus more specifically not on implementation of domestic technologies, but on the transfer of advanced foreign ones. This would call for an appropriate infrastructure for their transfer, development, and commercialization. Moreover, the ultimate goal of the Industrial Park should be the creation of an environment favorable for home-grown innovations and the emergence of competitive domestic technologies.

Alongside the hope that China would focus its high-tech investments on Belarus, there are arguments to the contrary.

Firstly, in recent years, there has been an outflow of productive assets from China to nearby countries (for instance, Vietnam, Bangladesh) that demonstrate a better balance of costs and productivity than China (and Belarus). This is especially the case for the labor force.

Secondly, there is a discussion that Western companies that came to China in the 1990s and 2000s might go back to developed countries [23]. This is due to the development of robotics there, when the price of robots declines over time as their performance improves (in accordance with Moore’s law). To remain competitive, China also prioritizes robotics: the annual growth of this sector in China in recent years has been 25% [20]. In view of the foregoing, China’s priority may shift in the long run, from offshore manufacturing towards the retention of companies inside the country in order to maintain jobs and social stability. In this regard, China and Belarus are actually competitors for technology, while the ‘Great Stone’ serves as a means of attracting primarily international, rather than just Chinese, technological investments.

For the ‘Great Stone’ to create a corresponding high-tech eco-system, it needs a university. Silicon Valley has become successful thanks to Stanford, Boston, Harvard, and MIT. Hong Kong has achieved similar success thanks to the cluster of its universities and London to its business school. The opening of a branch of a world university in the ‘Great Stone’ will make it possible to solve at least two problems. It is primarily technological, dealing with the creation of a scientific and technical research base for the development of new high technologies and their commercialization in the Park. According to a survey conducted on the basis of the UK’s experience, the growth of state investment in research universities leads to an increase in the national economy’s labor productivity by 20%, with a three-year lag. When evaluating 135 universities and colleges in 85 US districts, a correlation was established between the growth of research expenses and the level of income in the district, which persists for at least a five-year period. This dependence increases if a university is research-oriented, and if a region is aimed at the implementation of these studies [24].

Another aspect is educational. It aims to attract talent (scientists, teachers, students), and organize the training of highly qualified specialists in the ‘Great Stone’. This will generally increase exports of Belarusian educational services by attracting more students from China and the Eurasian region, while training personnel for projects along the ‘Belt and Road’ and increasing the prestige of Belarusian higher education. However, investments in education without appropriate changes to the sectoral structure of the Park and the country to create a demand for the skills being trained, will only lead to emigration [25].

4.3 The ‘Great Stone’: the potential to attract direct investments and avoid the “debt trap”

Russian Kaluga oblast, with one million inhabitants, could be an example of foreign direct investment mobilization for the ‘Great Stone’. It has succeeded in attracting over USD 1 billion owing to its industrial parks. Another example is the mentioned Suzhou industrial park, with an index of ‘investment density’ of over USD 1.7 bln per square kilometer. At the same time, care should be taken to distinguish between investments for the establishment of a park and investments into an already established park:

4.3.1 Investments in the establishment of the industrial park

The cost of modern infrastructure for a technological park is continuously increasing. For instance, 20 years ago, the average cost of one square kilometer of internal infrastructure of an industrial park in China was \$23 m, while at present, that average indicator is up to \$80 m. If take into account the territory of ‘Great Stone’ is around 100 square kilometers then the total amount of investments should be around \$8bn. Nevertheless, the expected size of Chinese investments into the ‘Great Stone’ infrastructure might prove to be overoptimistic. First of all, in many foreign industrial parks and Belarusian free trade zones, the infrastructure, together with ‘amenities’ options, is provided by the state, free of charge. Therefore, major foreign investments flow into already operating industrial parks rather than into those being established. Secondly, China’s *de facto* investments into overseas industrial parks under construction are normally lower than planned [26].

In the case of ‘Great Stone’ in 2013–2019, about \$500 m was invested in this Park on a long-term basis to develop infrastructure. Of this, 3.6% was funded by Belarus, and rest financed by China. \$113 m was part of the budgetary resources of the two countries, including the Government of Belarus (\$18 m), the Government of China (\$20 m in the form of technical assistance) and privileged loans by the Government of China to the ‘Great Stone’ Development Company under the guarantee of the Government of Belarus (\$75 m). The remaining share accounts for foreign direct investments that came to the Park through Chinese shareholders. In 2013–2015, China invested \$25.7 m in the Park, but, in 2016–2019, over \$100 m was injected or around \$25 m per year. The joint company for park development was, in fact, the key investor in the first three years of the Park’s development, directing its long-term investments to the infrastructure creation.

4.3.2 Investments into the established industrial park

In 2013–2015, seven companies were registered in the Park, including six from China, but, in 2016–2018, 34 new residents joined (with 18 from China). Over those three years, the Park’s residents became its main investors, most of whom were at the stage of design, construction, and equipment of facilities. However, even against an increase in the number of residents and the volume of investments in the Park, the so-called ‘dead investments’ - companies that registered but failed to start their operation, or worked slowly - also joined. Therefore, in early 2020, two residents were deprived of their status, and, by April 2020, the Park had a total of 59 companies, including 34 which were Chinese. The Park’s Chinese residents invested \$22.7 m in 2017, and \$70.5 m in 2018. In 2019, the figure reached \$80.4 m.

The existing minimum threshold for authorized capital in the Park (\$5 m), against a small Belarusian sales market, takes residents into a production trap. Why are large capacities needed if a big sales market is now available? There are several

ways to get away from this trap: either to lower the threshold for joining the Park (in this case large industrial companies will become small and medium-sized, assembling and creating small added value in the international production chain), or expand the sales market.

In line with the Park's business plan dated 2014, the EAEU and the EU were considered target markets for its residents. Since 2015, the external economic situation has changed: a trade war between Russia and the EU and mutual financial restrictions between Russia and the US began, import substitution intensified in Russia, similar industrial clusters competing with the Park were launched in Russia and Kazakhstan, and numerous trade barriers and contradictions remained in EAEU. All these elements push investors to look for new options for selling their products. For example, the largest and most active Chinese residents of the Park, Weichai, its Shanxi subsidiary Fast Gear, Zoomlion, and Chengdu Xinzhu, started to liaise with Belarusian MAZ and Belkommunmash, providing them with their products as components for the further sale of joint goods in the traditional markets of the Belarusian partner.

According to the business plans of the Park's residents, the EAEU, China, the EU, and the CIS, are viewed as priority sales markets. New opportunities are opened by the China-Europe-China trade route passing through Belarus; a trade war between the US and China which makes it possible to use the Park in Chinese-American trade; and the changed structure of China's economic growth from exports to imports. In this regard, the attraction of high-tech European and American residents with the orientation of their products on the Chinese market may become a new priority for the Park's development.

To assess the effect of such a scenario, it is necessary to look at which European and American goods China imports. In 2017, China's import revenue from the EU was \$245bn, accounting for 1,151 commodity items. Of these, 45 product groups, with a share of 0.5–11%, comprised equipment, machinery, apparatuses, chemical, agricultural, and woodworking Products. China's imports from the US the same year reached \$154.4bn, involving 1,122 commodity items; 44 were product groups enjoying a large share of 0.5–9%. Many products were similar to those imported from the EU. Comparing the volume of China's imports of major product groups, taking into account the priority areas of the Park's activities, and its ability to register about 500 residents, the potential for the Park's exports to China could be up to \$34bn (depending on localization and other factors). The most-favored-nations regime is applied to goods originating in, and imported into, China from Belarus. With an average tariff of 4.4%, taking into account the structure of imports, according to the Ministry of Commerce of the People's Republic of China, the creation of a free trade regime between the Park and China will annually save at least \$1.5bn.

The creation of the 'Park-China' free trade regime envisages the transformation of the 'Great Stone' into an industrial offshore site. This will require — primarily, from Belarus — the correction of national legislation, and negotiations with the WTO to obtain the right for the Park to be an independent customs territory for concluding agreement on a free trade regime with China, the EU, the US, the EAEU, and other countries and regions. The creation of a free trade zone for China and the EAEU, taking into account the structure of their trade, has now more advantages for China than for the EAEU member-states. About 70% of EAEU exports to China are mineral resources, while about half of Chinese imports comprise machinery, equipment, and mechanisms. To avoid an industrial shock due to lowered customs tariffs, the EAEU is restricting the process of creating a free trade zone and, on May 17, 2018, a non-preferential agreement on trade and economic cooperation between the EAEU and China was signed, which does not imply an automatic reduction of trade barriers, is sectoral, and contains many reference norms to the WTO agreements,

including for the Republic of Belarus, which is not a member. The prospects for creating a fully-fledged free trade zone are still very ambiguous [27]. It is important to note that the long-term scenario of China's trade rapprochement with the EAEU may lead to a dulling of external incentives in the EAEU to change the structure of the economy and exports, and, accordingly, to its long-term ‘freezing’ and maintaining China's competitive advantage over the EAEU. In case of the accelerated creation of a free trade zone, the EAEU authorities may react to an external shock, adjust regulation, and improve the structure of the economy.

The experience of the countries that created a free trade zone with China demonstrates that supplies to the Chinese market are growing, though not necessarily immediately. For example, Georgia has experienced this already. On September 10, 2015, the prime ministers of Georgia and China met in China to agree on the creation of a free trade zone. In February–September 2016, three rounds of negotiations and two working meetings took place and, on May 13, 2017, the Minister of Commerce of the PRC, Zhong Shan, signed an agreement in Beijing with his colleague on the creation of a free trade zone between the PRC and Georgia. In line with this document, 94% of goods and services are delivered duty free. The agreement entered into force on January 1, 2018 and, according to the National Statistics Service of Georgia, in 2018, Georgian exports to China dropped to \$198 m (\$201.7 m in 2017) but increased in 2019 to \$227.6 m.

In conclusion, it is important to note that with the current speed of Chinese direct investments inflow into the ‘Great Stone’ (around \$100 m per year) it could be possible to ease Chinese debt burden but hard to avoid overall “debt trap”, while the country needs to pay back its state debt of more than \$3bn average per year during 2021–2025. So in order to attract bigger FDI and increase the role of ‘Great Stone’ in avoiding not only Chinese but general external “debt trap” the Park should be opened to bigger markets for example with the free trade agreement with China.

5. Conclusions

Debt financing of nation building in developing countries hides the risk of “debt trap” due to underdeveloped local institutions, low level of domestic savings, incompetence of authorities in debt management [28, 29]. Facing the debt challenges developing countries are tempted to put the blame on the lender, this time it's China in described cases of Sri Lanka, Pakistan, and Ecuador. Nevertheless looking carefully through the parts of Chinese “debt trap” it's seen that the customer makes the choice on the project, the contractor, and the lender, while China's terms are competitive. It is usually hard for developing country voluntary start debt reduction, so they got into “debt trap” [30].

Since 2005 Belarus attracted Chinese tied loans and funded this way more than 30 investment projects. When 5 out of them constructed by Chinese contractors could not accumulate foreign exchange revenues to repay Chinese debt, the Government of Belarus implemented the policy of avoiding “debt trap”. There are 4 channels used by Belarus: 1) moving away from tied loans as part of state debt management; 2) moving away from tied loans as part of import reduction; 3) transition from tied loans to untariffed credits; and 4) transition from credit cooperation to direct investment liaisons.

Sino-Belarus industrial park ‘Great Stone’ is meant to play the key role in bilateral transition from credit to direct investments cooperation in order to ease debt burden. Using the role model of Singapore-China industrial park, ‘Great Stone’ is established to reduce the high and complex national tax burden, overcome bureaucratic barriers, lessen state interference and pressure on the business activity and

in general transfer Belarus behavioral state economy into classical market oriented [31]. As the Park is focused on new technologies the opportunity to become high-tech hub can be fulfilled through establishing University in the Park. Investment potential of the 'Great Stone' is limited by the scale of sales Belarusian and Russian market. The current speed of Chinese direct investments into the 'Great Stone' industrial park cannot solve the challenge of high annual state debt repayment during 2021–2025. So some measures need to be taken like signing free trade agreement between 'Great Stone' and China in order to attract American and European enterprises to open their production bases in the Park to export to China.

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