

United States Senate
WASHINGTON, DC 20510

August 3, 2018

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable Michael R. Pompeo
Secretary
U.S. Department of the State
2201 C Street, NW
Washington, D.C. 20520

Dear Secretary Mnuchin and Secretary Pompeo,

We write to express our concern over bailout requests to the International Monetary Fund (IMF) by countries who have accepted predatory Chinese infrastructure financing.

In 2016, the IMF agreed to a \$1.5 billion bailout loan with Sri Lanka due to unsustainable debts to China.¹ Recently, it has been reported that the incoming government of Pakistan will pursue an IMF bailout in part due to rising current-account deficit and external debt obligations caused by the China-Pakistan Economic Corridor (CPEC).² These financial crises illustrate the dangers of China's debt-trap diplomacy and its Belt and Road Initiative (BRI) to developing countries, as well as the national security threat they pose to the United States.

The Center for Global Development has estimated that of the 68 countries currently hosting BRI-funded projects, 23 countries are at risk of debt distress, and in eight of those countries, future BRI-related financing raises serious concerns about sovereign debt sustainability.³ It also found that Chinese behavior as a creditor has not been subject to the disciplines and standards that other major sovereign and multilateral creditors have adopted collectively, and in the process, debt levels and dependence on China are rising.⁴ As financially strapped countries negotiate with China to free themselves of mounting debt, Beijing has extracted onerous concessions, including equity in strategically important assets. Further, Beijing has repeatedly used economic pressure to affect foreign policy decisions.⁵

In Djibouti, for instance, China has provided more than \$1.4 billion in infrastructure funding, equivalent to 75 percent of Djibouti's GDP. Most of that capital comes in the form of loans from the Export-Import Bank of China.⁶ The most recent IMF assessment stresses the extremely risky nature of Djibouti's borrowing program, noting that in just two years, public external debt has increased from 50 to 85 percent of GDP, the highest of any low-income country.⁷ As Djibouti increases its dependence on China, there are fears that China will gain control of the Doraleh Container Terminal, further consolidating China's influence in the critically strategic region.⁸

Similarly, last year, the Sri Lankan government, unable to repay over \$1 billion of Chinese debt for construction of the Hambantota Port, granted a Chinese state company a 99-year lease on the facility.⁹ There are concerns that given Pakistan's growing Chinese debt, the same could happen at

¹ <https://www.ft.com/content/c2238d7a-0df9-11e6-b41f-0beb7e589515>

² <https://www.wsj.com/articles/chinas-global-building-sprees-runs-into-trouble-in-pakistan-1532280460>

³ <https://www.cgdev.org/article/chinas-belt-and-road-initiative-heightens-debt-risks-eight-countries-points-need-better>

⁴ <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>

⁵ <https://www.wsj.com/articles/chinas-global-building-sprees-runs-into-trouble-in-pakistan-1532280460>

⁶ <https://www.cnn.com/2018/03/09/asia/djibouti-port-china-us-intl/index.html>

⁷ <https://www.cgdev.org/article/chinas-belt-and-road-initiative-heightens-debt-risks-eight-countries-points-need-better>

⁸ <https://www.cnn.com/2018/03/09/asia/djibouti-port-china-us-intl/index.html>

⁹ <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>

Gwadar Port in Pakistan.¹⁰ In China's "String of Pearls" strategy for the Indo-Pacific, Gwadar and Hambantota are important footholds that if converted into naval bases will enable the PLA Navy to maintain a permanent presence in the Indian Ocean.¹¹

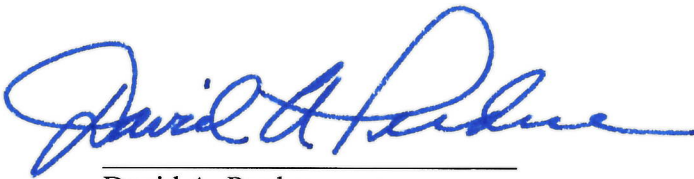
Beijing's attempt to weaponize capital is not just limited to Asia and Africa but also extends to Europe.¹² In 2014, Montenegro and China came to an agreement on the construction of a highway that links the Port of Bar and Montenegro's transport network with Serbia and other Balkan countries. The Chinese Export-Import Bank agreed to finance 85 percent of an estimated \$1 billion cost for the first phase of the project, with the second and third phases likely to lead to default if financing is not provided on highly concessional terms.¹³

In light of the IMF's potential bailout of Pakistan in the coming months, we respectfully request a response to the following questions:

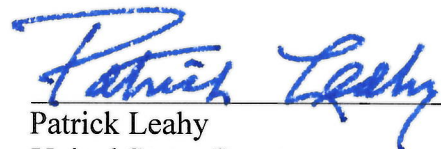
- How do you plan to raise the dangers of Chinese infrastructure financing through BRI with the IMF?
- Do you believe that additional countries will ask for a bailout from the IMF due to BRI? Which countries?
- As the largest contributor to the IMF, how can the United States use its influence to ensure that bailout terms prevent the continuation of ongoing BRI projects, or the start of new BRI projects?
- How can the United States work with allies and partners to educate countries about the risks of Chinese infrastructure loans?
- How can the United States work with allies and partners to assist countries struggling to repay debts due to BRI?
- How can the United States work with allies and partners to present an alternative to developing nations regarding investment and infrastructure funding?

In his speech to the 19th Party Congress, President Xi declared, "China's development does not pose a threat to any other country. No matter what stage of development it reaches, China will never seek hegemony or engage in expansion."¹⁴ It is apparent that this statement is fundamentally false, and that the goal for BRI is the creation of an economic world order ultimately dominated by China. It is imperative that the United States counters China's attempts to hold other countries financially hostage and force ransoms that further its geostrategic goals. We look forward to your prompt and thorough response to these inquiries, as well as any actions you plan to take. We appreciate your attention to this matter.

Sincerely,



David A. Perdue
United States Senate



Patrick Leahy
United States Senate

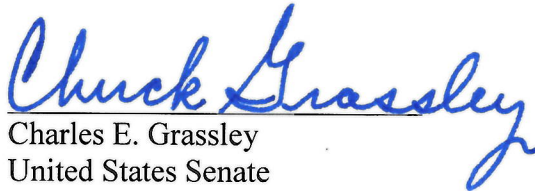
¹⁰ <https://www.wsj.com/articles/chinas-global-building-sprees-runs-into-trouble-in-pakistan-1532280460>

¹¹ <https://www.csis.org/analysis/pakistans-gwadar-port-new-naval-base-chinas-string-pearls-indo-pacific>

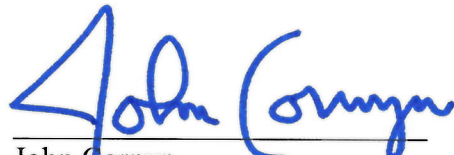
¹² <https://www.cnn.com/2018/03/09/asia/djibouti-port-china-us-intl/index.html>

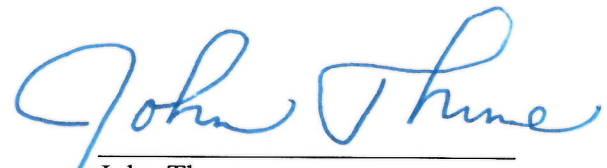
¹³ <https://www.cgdev.org/article/chinas-belt-and-road-initiative-heightens-debt-risks-eight-countries-points-need-better>

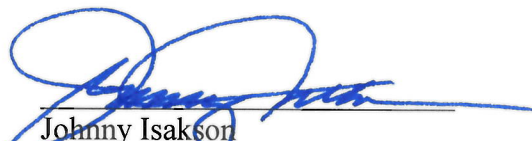
¹⁴ <https://www.aspeninstitute.org/blog-posts/china-ambitious-plan-reshape-world-power/>


Charles E. Grassley
United States Senate

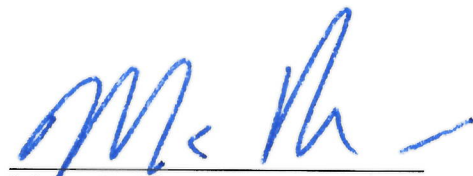

James M. Inhofe
United States Senate



John Cornyn
United States Senate

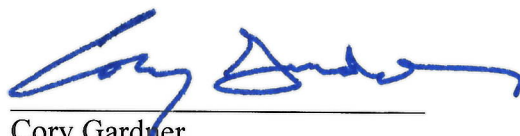

John Thune
United States Senate



Johnny Isakson
United States Senate



Roy Blunt
United States Senate

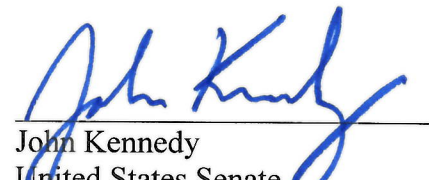

Marco Rubio
United States Senate


Ted Cruz
United States Senate


Cory Gardner
United States Senate

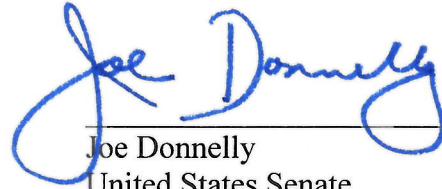

Tom Cotton
United States Senate


Steve Daines
United States Senate


John Kennedy
United States Senate



Dan Sullivan
United States Senate



Joe Donnelly
United States Senate

Cc: Secretary James N. Mattis
Department of Defense