



# China's Growing Engagement in South Asia: Challenges for the US

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## EXECUTIVE SUMMARY

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India, often considered the natural leader of South Asia, is facing stiff competition from China. The recent tilt of the “non-nuclear five” South Asian states (i.e. Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan) toward China has become quite visible as China has significantly increased its influence across the region through investment, trade, military ties, diplomatic and cultural initiatives. Meanwhile, the US envisages playing a more prominent role in South Asia by teaming up with India to challenge China and exert influence in the Indo-Pacific region. A key consideration in the US “Free and Open Indo-Pacific Strategy” hinges on India’s influence in South Asia. This paper looks closely at how Chinese bilateral trade, investment, political and military ties with the “non-nuclear five” nations have evolved and how that may affect India’s ambitions in the region. Recommendations are offered for both the US and India on how they may retain their supremacy in the region despite an ambitious and resourceful China.

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# INTRODUCTION

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South Asia is in the midst of a quiet geopolitical shift that threatens its longstanding hegemony in the region. Recently, China has sought improved relations with India's smaller neighbors in the region that for decades were in the Indian sphere of influence. With China's economic rise over the last two decades, the smaller states now find themselves at the receiving end of substantial Chinese financing for infrastructure development as part of its Belt and Road Initiative and are recalculating their relationships with India. This article analyzes why and how the "non-nuclear five" South Asian nations (Bangladesh, Sri Lanka, Nepal, the Maldives and Bhutan) are veering toward China, and identifies counterstrategies India and the United States have undertaken in response. Based on these explorations, policy recommendations are offered on how the US and India together can resist further Chinese inroads in the region.

## **South Asia's tilt to the East**

South Asia is the fastest growing region in the world.<sup>1</sup> It also remains the least integrated in terms of intraregional trade – a paltry 5% of total trade, compared to Southeast Asia, where 25% of all trade is intraregional.<sup>2</sup> Attempts to politically and economically unite the region by removing structural barriers have been futile largely due to the animosity and distrust between India and Pakistan. Indo-Pak rivalry has rendered the South Asian Association for Regional Cooperation (SAARC) almost moribund. The overwhelming size of India compared to its neighbors also makes cooperation difficult. India accounts for the majority of South Asia's land mass (68%), population (75%) and economic output (79%) making it the dominant regional power to the discomfort of its smaller neighbors.

Ruled by the British as a single region (except Nepal, Bhutan and Afghanistan), the eight countries that emerged in South Asia after the British departure share a similar administrative and judicial framework and other social and cultural characteristics inherited from the colonial era. Before the economic rise of China and its recent growing global ambitions, India, owing to its size, population, and resources, was the natural leader. India's hegemony in the region remains dependent on its smaller neighbors' reliance on aid, security and political stability. The "non-nuclear five" (Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan) have remained mostly pro-India and have more diplomatic and people-to-people connectivity with India than with China. But with China's accumulation of massive wealth and its willingness to spend that wealth on smaller nations in South Asia, India finds its long held diplomatic and strategic sway in jeopardy.

Since the inception of the Belt and Road Initiative (BRI), there has been subtle gravitation of small countries toward China across the region. As shown in the following paragraphs, the recent tilt of the "non-nuclear five" South Asian states toward China has become quite visible as China has significantly increased its influence across the region through investment, trade, military interaction, and diplomatic and cultural initiatives. China's interaction, reflected in trade volume, infrastructure investment, arms sales, increasing tourism, the spread of Confucius

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<sup>1</sup> "South Asia Economic Focus, Spring 2019: Exports Wanted," The World Bank, April 7, 2019.

<sup>2</sup> "The Potential of Intra-regional Trade for South Asia," The World Bank, May 24, 2016.

Institutes, and pledges of bilateral assistance, with each of the “non-nuclear five” countries show that Chinese influence has grown in the subcontinent over the years.

After BRI was enshrined in the Communist Party Charter in 2017 and its offshoot, “a community with a shared future for mankind,”<sup>3</sup> was included in China’s constitution in April 2018, it is harder for skeptics to continue to claim that the initiative is an empty slogan that will soon fade. BRI is a global manifestation of underlying Chinese commercial and diplomatic interests that will dominate the architecture of Chinese foreign policy for the foreseeable future, at least as long as President Xi Jinping is in power.

China’s much-noted economic progress has also fostered its cultural influence globally, including the South Asian region. The growth in this so-called “soft power” has become apparent in South Asia very recently. A decade ago, people in the region rarely thought about learning Chinese or pursuing higher education in China. Today, thanks to the increasing number of Confucius Institutes and Chinese government sponsored scholarships, learning Mandarin appears to be an attractive way among the young generation in South Asia to secure a foreign degree in China. As one of the five core components of the policy coordination agenda of the BRI, “people to people diplomacy” becomes China’s top foreign policy tool enabling it to extend its power and influence in South Asia.<sup>4</sup>

Despite India’s reservations and US warnings about debt entrapment and environmental crises surrounding Chinese infrastructure development projects, most South Asian states have joined China’s Belt and Road Initiative (BRI). Seven South Asian countries excluding India have received Chinese investment, viewing BRI as an attractive model for economic development. Some also appreciate Beijing’s emphasis on non-interference in domestic affairs and respect for sovereignty rather than the criticism of human rights violations and governance that they associate with the US and Europe. China’s trade volume with South Asia grew from \$91.3 billion in 2013 to \$126.8 billion in 2017.<sup>5</sup> China’s exports to all eight South Asian countries also increased by 18.7% in 2013 while imports rose by only 5.6%.<sup>6</sup>

**Bangladesh:** The central importance of Bangladesh in the BRI was articulated in a commentary in *China Daily* by Donald J. Lewis, director of the Center for International Economics Law, Trade and Development. “Bangladesh is centrally situated along the Bangladesh–China–India–Myanmar (BCIM) Economic Corridor,” he argued. “Bangladesh also occupies a strategic position along the 21st Century Maritime Silk Road with its bustling port of Chittagong as a major maritime hub on the Indian Ocean.”<sup>7</sup>

In the past decade, as a result of the export-led growth strategy, China has emerged as a top exporter of goods to South Asia. Bangladesh provides an example of this trend. In 2015, China

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<sup>3</sup> “Constitution of the Communist Party of China,” Revised and adopted at the 19th National Congress of the Communist Party of China on October 24, 2017.

<sup>4</sup> “Policy coordination key to belt and road initiative: official,” [www.eng.yidaiyilu.gov.cn](http://www.eng.yidaiyilu.gov.cn), June 15, 2017.

<sup>5</sup> “Trade with South Asia to Expand,” *China Daily*, June 15, 2018.

<sup>6</sup> “China’s trade intensity with South Asian countries,” Ishfaq Malikand & Ajaz Rather, Centre of Central Asian Studies, University of Kashmir, Srinagar, India. *Journal of Economics and International Finance*, April 2018.

<sup>7</sup> “President Xi advances OBOR in Bangladesh,” by Donald J. Lewis, *China Daily*, October 16, 2016.

became Bangladesh's top trading partner by overtaking India after 40 years, with imports from China being 27% of Bangladesh's total imports. China is also Bangladesh's biggest partner in energy development, which is a crucial factor for a growing economy.<sup>8</sup> In 2017, China-Bangladesh bilateral trade value reached \$16 billion, 5.8% higher than in 2016.<sup>9</sup> Under the Asia Pacific Trade Agreement, 5,074 Bangladeshi products enjoy duty-free market access to China.

Xi Jinping also made a state visit to this small country on October 2016, elevating the relationship to that of "strategic partnership of cooperation" from "comprehensive partnership of cooperation."

There is also a military dimension. Bangladesh and China hold regular military exchanges, and Beijing has provided Dhaka with five maritime patrol vessels, two submarines, 16 fighter jets, and 44 tanks, as well as anti-ship and surface-to-air missiles. From the Bangladeshi side, it has allocated two special economic zones for Chinese investors in Chittagong, a major port, and Dhaka, the capital. Now, China is playing a vital role in developing and modernizing Bangladesh's port at Chittagong. Most importantly, Bangladesh also supported China's request for observer status with the South Asian Association of Regional Cooperation (SAARC), which demonstrates that Bangladesh is willing to formalize a Chinese role in South Asia.<sup>10</sup> China gained observer status in 2006. Unlike India, Bangladeshis see China as less interested in interfering in their internal politics.

**Sri Lanka:** Chinese influence in Sri Lanka has grown exponentially since 2005 when Mahinda Rajapaksa came to power. Rajapaksa was prominently pro-China with allegations of receiving campaign funds<sup>11</sup> from China. The Sri Lanka-China relationship was upgraded to a strategic cooperative partnership in 2013. In 2016, China overtook India to become Sri Lanka's biggest trading partner.<sup>12</sup> Between 2003-2011 China's trade with Sri Lanka grew sixfold<sup>13</sup> and bilateral trade between Sri Lanka and China reached \$4.4 billion in 2017.<sup>14</sup>

Most prominent among the several Chinese financed infrastructural projects in Sri Lanka are the Hambantota Port, the Mattala International Airport, the Colombo-Katunayake Expressway, the Narocholai Coal Power Plant, the Moragahakanda Multipurpose Development Project (which deals with irrigation, drinking water, and electricity), the Matara-Kataragama Railway Line, and the Colombo International Financial City. Overall the Rajapaksa government, which lasted from 2005 to 2015, was hugely supported by Chinese military hardware during the Civil War, defense against censure from war crimes allegations in the international human rights forum and massive infrastructural and other development financing in Sri Lanka's Northern and now also the Southern province.

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<sup>8</sup> "Bangladesh's China – India Balance" by Austin Bodetti, *The Diplomat*, May 6, 2019.

<sup>9</sup> "China-BD ties elevated to a strategic Partnership" *The News Today*, June 2017.

<sup>10</sup> "Decoding China-Bangladesh Relations" by Joyeeta Bhattacharjee, Observer Research Foundation, June 27, 2018.

<sup>11</sup> "How China Got Sri Lanka to Cough Up a Port" by Maria Abi-Habib, *New York Times*, June 25, 2018.

<sup>12</sup> "China overtake India as Sri Lanka's largest trading Partner," *The Citizen*, December 14 2017.

<sup>13</sup> "China's increased trade and investment in South Asia (Spoiler alert: It's the economy)" By Emily Brunjes, Nicholas Levine, Miriam Palmer, Addison Smith, University of Wisconsin- Madison, Spring 2013.

<sup>14</sup> "China -Sri Lanka bilateral trade tops US\$4.4 bn in 2017," *Dailynews*, May 15, 2018.

Unable to pay back debt on the Hambantota Port, Sri Lanka has now gone to a 99-year lease to a Chinese company. Although Sri Lanka has pledged not to have the Chinese military enter the port or carry out any activity, Chinese submarines docked twice in Colombo harbor in 2014. The debt trap that Sri Lanka fell into has become an infamous cautionary tale for other smaller countries of South Asia.

Military cooperation between the two nations has also grown and the defenses forces of the two countries in the past years have increased joint military training. Under President Rajapaksa, China provided \$2.2 billion in defense technology and military training.<sup>15</sup>

**Nepal:** Nepal presents another aspect of China's growing influence in South Asia. China's primary interest in Nepal stems from its concern over the large Tibetan refugee community and its interest in gaining inroads into Nepali markets and to bring Nepal into its sphere of influence. For most of its history, landlocked Nepal has remained largely aligned with India and was heavily dependent on India for its trade, particularly oil imports.

In 2015, India blockaded Nepal's borders as it was upset with changes made to Nepal's constitution. The blockade created severe shortfalls in fuel, food, medical goods, and post-earthquake relief materials. This suffering irked many Nepalis and it was a turning point for the India-Nepal relationship. The major trust deficit with India stemming from the blockade created opportunities for Chinese investments.

China and Nepal signed an MOU on the BRI relationship and a Transit Transport Agreement (TTA) in 2017. The TTA allows Nepal to access China's sea and land ports for the purpose of trading with a third country. In 2018, a pre-feasibility study on a China-Nepal cross border railway was also conducted. A China-Nepal electricity feasibility study is also underway. In the first 11 months of 2018, 134,362 Chinese tourists visited Nepal, a 43% jump from 2017.<sup>16</sup>

Aiming at achieving greater leverage over its tiny neighbor, China is investing heavily in Nepal. According to the Ministry of Commerce (MOFCOM), China's foreign direct investment (FDI) in Nepal increased from \$1.81 million in 2003 to \$174 million in fiscal year 2013-14. In the fiscal year 2017-2018, Nepal received \$399 million in FDI from China.<sup>17</sup> This amount accounts for over 60% of the total FDI commitment received by Nepal in 2013-14.<sup>18</sup> China pledged \$427 million in fiscal year 2017-18.<sup>19</sup> Since 2008, China has been gradually increasing its investment in Nepal, mainly in hydropower plants, cement factories, airports, railways, and telecommunications. China is among Nepal's top five bilateral development assistance donors.<sup>20</sup> This growing engagement is manifested in eight major Chinese assistance projects being undertaken in Nepal, prominent among them the Pokhara International Regional

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<sup>15</sup> "China is giving away a warship, and it is the latest sign of the growing rivalry between Asia's 2nd most powerful militaries," *Business Insider*, July 27, 2019.

<sup>16</sup> "Yearender: Nepal-China economic ties reach new heights under Belt and Road Initiative in 2018," *Xinhua News*, January 1, 2019.

<sup>17</sup> *Ibid.*

<sup>18</sup> "The growing Chinese presence in Nepal" by Prakash Bhandari, *Asia -Dialogue*, September 25, 2018

<sup>19</sup> "China tops FDI pledges to Nepal three years in a row," *Xinhua News*, August 1, 2018.

<sup>20</sup> "China among top five bilateral donors to Nepal: Nepali finance ministry," *Xinhua News*, January 17, 2019.



Airport, the Kathmandu Ring Road Improvement project and the Upper Trishuli Hydropower project.<sup>21</sup>

Beijing has used its leverage to push Kathmandu to tighten its borders with Tibet. This has led to a significant decline in the number of Tibetans fleeing to Nepal in recent years.

**Maldives:** The Maldives was traditionally an Indian stronghold in the Indian Ocean. Under former Prime Minister Abdulla Yameen, who endorsed the BRI, China gained significant inroads into the small island nation. During his tenure, China provided \$830 million to upgrade the Maldives airport. They are also building apartment complexes, hospitals, and other infrastructure. Chinese nationals accounted for 21% of total tourists in Maldives in 2017 and three Chinese naval ships docked in the Maldives capital in 2017.

Since the 1980s, India has been a close friend of the Maldives. However, since Mohammed Nasheed's presidency, China started actively involving itself in the Maldives. During the tenure of Nasheed's successor, Mohamed Waheed, the government cancelled a \$369 million contract awarded to an Indian company to manage Male International Airport. Many saw this cancellation as a way for Waheed to punish India for supporting Nasheed, with a strong possibility that it was orchestrated by China.<sup>22</sup>

Despite being small, the Maldives is strategically important. The southern and northern part of Maldives are the only two safe maritime passages. These are the designated sea lines of communication (SLOCs) through which Middle Eastern oil transits to Asia. The US maintains a presence in Diego Garcia, a British-controlled atoll very close to Maldives and about 1,800 km from the southern tip of India. Diego Garcia is just 35 square kilometers, but enough facilities have been built on it to project substantial US power. The US military presence contests and checks China's wish to have more influence in the Indian Ocean, key to its imports of oil and other goods.

**Bhutan:** China and Bhutan do not have an easy relationship, mainly owing to the Chinese annexation of Tibet in 1951. Bhutan and China have territorial disputes and Bhutan's historic, cultural, and religious ties with Tibet do not help the matter. There were border crises in 1962 and 2014 and most recently in the bordering area of Dokhlam in 2014 where Chinese troops started building a road in a territory claimed by both China and Bhutan. This resulted in a standoff between Indian and Chinese armies in the area. After the confrontation cooled down, the two countries, despite not having any diplomatic relations, have increased mutual trade volume. Bhutan's imports from China in 2018 totaled approximately \$24 million,<sup>23</sup> up from \$19 million in 2015.<sup>24</sup> China also moved from Bhutan's fifth highest importing partner in 2015<sup>25</sup> to third highest in 2018.<sup>26</sup> China is today the third largest source of foreign products for

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<sup>21</sup> "Ministry of Foreign Affairs, Government of Nepal," February 2019.

<sup>22</sup> "Why China and India so interested in Maldives?" by Lee Jeong – Ho, *South China Morning Post*, September 25, 2018.

<sup>23</sup> "World Integrated Trade Solution," The World Bank.

<sup>24</sup> "Bhutan Trade Statistics 2015," Department of Revenue and Customs, Ministry of Finance, Royal Government of Bhutan, February 2016.

<sup>25</sup> *Ibid.*

<sup>26</sup> "Bhutan trade Statics 2018," Department of Revenue and Customs, Ministry of Finance, Royal Government of Bhutan, February 2018.

Bhutan.<sup>27</sup> According to University of British Columbia historian Tsering Shakya, “Within Bhutan, there is a growing demand to diversify and loosen its dependence on India.”<sup>28</sup>

The number of Chinese tourists visiting Bhutan surged from fewer than 20 a decade ago to 6,421 in 2017, according to official figures. Given its past dependence on India both geographically and in terms of resources, a restlessness can be noticed among Bhutanese in ensuring their country has options of making multiple friends particularly with those like China that have deep pockets and help Bhutan become more prosperous. Over the years, India’s big brotherly attitude created a narrative among Bhutanese that everything Bhutan does should have the tacit approval of India. By capitalizing on that grievance, China’s policy of mixing soft diplomacy and economic aid has reaped rich dividends in Bhutan, where India has long held sway.

### **Chinese Interest in South Asia**

President Xi’s 2015 assertion in the Pakistan Parliament that "South Asia is where the land and maritime Silk Roads meet"<sup>29</sup> was a clear indication that the subcontinent is to be the focal point of China's Belt and Road Initiative. The Maritime Silk Road, which is the sea route part of BRI, considers South Asia as the main axis for ensuring China’s access across the Indian Ocean through its southwestern provinces. For years, China has been exploring opportunities for economic growth throughout its western hinterlands. As South Asian port cities serve as gateways to the Middle East, Africa, and Europe, China sought to link these maritime hubs to its mainland.

Shipping routes across the Indian Ocean and the Strait of Malacca, which connect the Indian Ocean to the Pacific, are crucially important for China, given that 80% of its oil imports come through this corridor.<sup>30</sup> Further, given that nearly 40%<sup>31</sup> of the world’s offshore petroleum is produced in the Indian Ocean, China is interested in building ports that encircle it. Thus, China continues to finance transportation infrastructure projects in the form of ports and highways in Pakistan, Sri Lanka, Bangladesh, and Myanmar that ultimately connect mainland China to territories beyond South Asia towards its West. China’s strengths in South Asia lie primarily in its geographic proximity and its willingness and capacity to offer large-scale infrastructural financing.

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<sup>27</sup> “China woos Bhutan, at the expense of rival India” by Agence France-Presse, *South China Morning Post*, October 17, 2018.

<sup>28</sup> *Ibid.*

<sup>29</sup> “Building a China-Pakistan Community of Shared Destiny to Pursue Closer Win-Win Cooperation,” Speech by Xi Jinping, President of the People’s Republic of China, Islamabad Pakistan, Ministry of Foreign Affairs of the People's Republic of China, April 21, 2015.

<sup>30</sup> “Threat Convergence: Transnational Security Threats in the Strait of Malacca” by Felip Umana, The Fund for Peace Transnational Threat, Washington DC, USA.

<sup>31</sup> “Competition in the Indian Ocean” by Eleanor Albert, Council on Foreign Relation, May 19, 2016.

## Response from India and the US

There has not been much discussion between India and the US – both of whom have the shared goal of reining in China – on counterstrategies to cope with China’s growing influence in the region. The main strategic asset for the US in South Asia is its burgeoning relationship with India. Unlike during the Cold War, India and the US have found a wide-ranging strategic convergence while challenging the rise of China in the Indo-Pacific region.

While the US has remained proactive in protesting China’s assertiveness in the East and South China Seas, it has been less reactive to China’s activities in South Asia. It has failed to develop a comprehensive South Asian policy despite the adoption of its new terminology, “Indo-Pacific,” which appears to view South Asia as an integral part of its strategy toward the region even though it appears to privilege one South Asian country, India. There are several corrective, strategic measures that the US and India should take to counter Chinese influence in South Asia, the Indian Ocean, and beyond.

US reluctance to get involved in a future Indo/China conflict has not precluded India from forming nascent alliances with Japan, Taiwan, South Korea, and the ASEAN states, most particularly Vietnam, to counter future Chinese aggression by forming a united front of threatened Asian states.

**The Indo-Pacific Strategy:** The Free and Open Indo-Pacific (FOIP) Strategy is a US foreign policy/strategy mentioned first by US President Donald J. Trump in 2017 and later by Vice President Mike Pence in 2018.<sup>32</sup> The US State Department Briefing<sup>33</sup> shows that the strategy builds on President Barack Obama’s “Pivot to Asia” policy. According to the briefing, the modifiers “free” and “open” are the essence of this strategy. By free, the US envisions the nations of the region to be free from international coercion. By open, the US envisages the region continuing its support for open sea lines of communication and open airways. Open here also means open and transparent logistics, infrastructure, investment, and regulatory structures. Beyond being open, trade must be free, fair and reciprocal. The “free and open” modifiers are a clear counterstrategy that addresses the lack of transparency associated with Chinese investments. Chinese activities such as its island building in the South China Sea are also seen as a way to curb the freedom of open sea lines of communication and open airways.

The term Indo-Pacific is used in the strategy to acknowledge the historical and current reality that South Asia, in particular India, plays a key role in the broader region, and this will only increase as India aspires to be a world power rather than a regional hegemon. It is also in the US interest that India, a democracy invested in free and open borders, plays an increasingly weighty role in the region. These proclamations clearly demonstrate that this strategy will be pursued by the US in South and Southeast Asia in strong partnership with India, presumably to curb an ambitious China.

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<sup>32</sup> “Advancing a free and open Indo-Pacific Region,” Fact Sheet, Office of the Spokesperson, US Department of State, November 18, 2018.

<sup>33</sup> “Briefing on the Indo-Pacific Strategy,” Special Briefing, Alex N Wang, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs US Department of State, April 2, 2018.

The problem with the FOIP is the lack of coherent initiatives that the US, along with India, could undertake to help the cash-strapped, infrastructure-hungry, smaller states in South Asia. It stands for too many things but does not chart out any concrete plan of action. Smaller states in the region are confused about how joining this camp will help them with their development shortcomings. China offers a faulty yet quick-fix solution to the financing problems. Also, the US withdrawal from the Trans-Pacific Partnership does not help much to convince Asian states that the US has a genuine interest in the well-being of the Asian region. Withdrawal from the TPP and a vague and overarching FOIP make both the US and India seem like unreliable partners.

For the US, a united South Asia with Indian leadership would help manage Chinese inroads into the region and uphold a more liberal, international order. However, such thinking has minimized two significant factors. First, all of India's neighbors have had complex relationships with India. No South Asian country fully accepts India's domination and most likely never will for political, economic, and historical reasons. Some, most obviously Pakistan, see China as a strategic counterweight to India. Second, India, because of its military limitations and economic constraints, lacks the capacity to effectively influence its neighbors. The result is a cumulative surplus for China and more complications for the US.

In addition, even where there is a prospect for stronger social, economic, and trade ties, India has done poorly in making use of these. No regional or multilateral initiative taken by India, whether the BBIN (Bhutan-Bangladesh-India-Nepal) or the BIMSTEC (Bay of Bengal Initiative of Multisectoral and Economic Cooperation), has worked. India, owing to its sharp animosity with Pakistan, has also failed to exploit the possible benefits of the traditional regional organization, SAARC (South Asian Association for Regional Cooperation). It feared the grouping would empower the smaller South Asian countries at India's expense. Importantly, India's arch-enemy, Pakistan, is a member of SAARC, but with its own reservations regarding the grouping, and this rivalry has rendered the forum today almost completely ineffective.

**Quadrilateral Security Dialogue:** India, Japan, Australia, and the United States have resuscitated the Quadrilateral Security Dialogue, first established in 2007-2008. A working level meeting of the Quad in November 2017 included key issues like freedom of navigation, maritime security, and respect for international law. Chinese interference in domestic politics and China's increasing international aspirations have prompted Australia to take moves to counteract growing Chinese influence in the region by rejoining the Quad.<sup>34</sup>

India, as a standalone major emerging world power, has been observing the successes of China's checkbook diplomacy. Chinese investments in port facilities in strategic locations in the Indian Ocean (including Chittagong in Bangladesh, Gwadar in Pakistan, Colombo and Hambantota in Sri Lanka, and Marao in the Maldives) can be a concerted plan by China to develop a geopolitical "string of pearls" to contain India.

Meanwhile, India has increased its support for its smaller neighbors, primarily through cash. In the recent tiff between Bhutan and China in the disputed border territory of Dokhlam, India

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<sup>34</sup> "US-Backed 'Quad' Quietly Gains Steam as Way to Balance China," by David Tweed, Jason Koutsoukis and Jason Scott, *Bloomberg*, November 14, 2018.

jumped to Bhutan's defense to directly confront China for 72 days before the Indian and Chinese armies pulled back.

Bangladesh is an integral part of the BRI and is also an important element in India's Act East policy, and India cannot afford to lose Bangladesh, where it enjoys immense influence and a natural friendship. In the last few years, Bangladesh has received a substantial amount of Indian aid and lending in its energy and other development projects. The Modi government has extended close to \$9 billion in financing, which could be meant to counteract China's BRI pledges.

When the relationship between India and Nepal deteriorated drastically after the 2015 India-imposed trade embargo on Nepal, China gained inroads. However, delays in Chinese projects and an inability to access pledged Chinese financing have gradually helped restore the India-Nepal relationship. Nevertheless, the tone and framework of the new relationship has evolved from India being in the lead to a more equal partnership, with Nepal having a greater say in the relationship than it had before 2015. The recent visit by Nepal Prime Minister Oli to India on the invitation of Prime Minister Narendra Modi saw the signing of multiple deals. They jointly inaugurated the Integrated Check Post (ICP) between the Nepal and Indian borders.

### **Policy Recommendations:**

China's increased financing for infrastructure projects, increased military communication and trade, and increased tourism and state visits to South Asia in the last half decade could indicate that China has to a certain extent taken up some of the clout in South Asia formerly enjoyed by India. The "non-nuclear five" nations in South Asia were even a decade ago heavily dependent on India for their foreign policy and trade. The West provided the lion's share of these nations' development financing. But today financing for ports and bridges comes from China, which is also all of the "non-nuclear five" states' biggest trading partner. This could severely dent India's primacy in the region, and if India's primacy fades, it would also be difficult for the US to implement its actions and policies through FOIP. Given all this, as a South Asian interested and involved in changing geopolitical power dynamics in the sub-region, I recommend the following ideas to be considered if India and the US are to keep intact their clout.

- **Policy recommendations for the USA**

First, the US needs to display a genuine interest in the subcontinent for its own sake. If it appears the US is simply in the region to counter China rather than to sincerely support the region's development, it will not be accepted as a reliable partner. This dilemma is particularly true of infrastructure development, whether in roads, ports, or telecommunications. South Asia is acutely infrastructure starved.

Second, although it runs against the grain of the current US administration's foreign policy, the United States should embrace South Asian regional cooperation, and not look toward a single country as a sub-regional overlord. By aligning its Indo-Pacific Strategy with India, the US could alienate the smaller South Asian states, which have complex relationships with India. The most significant boost to the region's development as well as peaceful relationships will come from wider connectivity and cooperation within the region itself. The United States should show

support for this rather than overtly demonstrate its singular interest on India. The Trump administration has shown deep-seated hostility towards multilateral diplomacy and multilateral organizations. It would have to overcome this, and extend cooperation with SAARC, the principal regional counterbalance to Indian hegemony.

In particular, there is great promise for the smaller five South Asian countries – Bangladesh, Sri Lanka, Nepal, Bhutan, and the Maldives. These countries are democratic to varying degrees, more so than Americans think as changes in government occurred in Sri Lanka and Maldives as a result of elections that many outsiders did not anticipate. The five non-nuclear South Asian countries have a combined population of more than 200 million and great ethnic and religious diversity. All have developed significant relationships with China, especially in telecommunications. Thus, more than India or Pakistan, they represent the part of South Asia that continues to be flexible and pragmatically looking for partners.

The US needs to be seen in South Asia as an open, generous and reliable partner willing to support development goals. The region has significantly benefited from its access to the US educational system and its high service sector and big consumer markets. The US has also benefited from its access to South Asian talent and cost-efficient suppliers. To shrink these mutually beneficial connections can only work against the US economy as well as its competition for influence with other larger powers, notably China.

- **Policy recommendations for India**

India needs to adopt a proactive and not a reactive strategy. It cannot be that every time China pledges some new stream of financing or signs a contract, India reacts by pledging more money and other assistance. This makes it seem India is only warming up to its smaller neighbors to counter China's growing influence.

The perception that India meddles in the internal politics of the smaller nations must be dispelled through political and other diplomatic initiatives. China so far has not been accused of meddling in national domestic politics of the smaller nations in return for financial assistance. India needs to take a leadership role in making SAARC more functional and dynamic. Yet, due to its conflict with Pakistan, India cancelled the 19<sup>th</sup> SAARC Summit, making smaller nations question if India truly wants to see SAARC succeed and if it is truly committed to seeing South Asia prosper as a region. India needs to put genuine effort into creating a South Asian free trade zone, even if it means that its South Asian neighbors will have wider access to the enormous Indian market and could pose as competitors to Indian domestic firms. India now pays more attention to regional groupings like BIMSTEC and BBIN, but those groups have failed to gain much traction. Neglecting SAARC due to the presence of Pakistan in the bloc makes India look too narrow minded and self-serving to other smaller South Asian nations, all of which want SAARC to become as functional as ASEAN.

- **The pitfalls of debt-trap foreign policy**

The Belt and Road Initiative was started by China with gusto to demonstrate to cash-strapped small nations -- not just in South Asia but also in Africa and Latin America -- that building roads, bridges, ports, and pipelines can bring about development miracles like they did in China. But the world, particularly the West, has been skeptical of undertaking this quick-fix approach

to development, and remains wary of the quality of standards China's infrastructure projects would adhere to under the BRI, and if smaller countries have the capacity to burden their small and volatile economies with such massive loans.<sup>35</sup>

The debt to China that nations such as Sri Lanka and Maldives have accumulated, has alarmed their governments. The general population and politicians are expressing concern over indebtedness to China. The 99-year lease of the Hambantota Port to China has set off alarm bells in smaller countries. A debt-trap panic bell has gone off among countries receiving Chinese hard financing.<sup>36</sup> Both the US and India could point this out to governments of smaller nations and demonstrate the quality in Western and Chinese development financing where the latter often may lead to a debt trap. The inefficacy of BRI projects with financing for low return on investment projects could also be highlighted. Smart advocacy and in-depth reporting and independent assessment of failed projects undertaken under the BRI could point out to the pitfalls of accepting Chinese cash for ill-thought-out projects.

## Conclusion

China has found a pragmatic mechanism (i.e., development financing) to get a foothold in South Asia. Smaller South Asian nations are for the first time thrilled to have the option of choosing or balancing between two competing regional powers rather than relying solely on India. South Asian nations are also enjoying massive financial assistance as India and China compete for regional hegemony. Since it will not be possible for India or the US to match the hard, easy loans that China is offering, they can bide their time and sway the smaller countries away from China by demonstrating the pitfalls of Chinese investment such as corruption, debt trap, loss projects, poor regulations and little transparency.

The US must implement a continued, coherent, and robust strategy focused solely on South Asia that demonstrates no special inclination towards India. It must assert itself as an equal partner to all South Asian nations.

What must be remembered always is that these small nations, despite their limited geopolitical clout, must not be made pawns in an Indo/US-China geopolitical tussle. They must also not be confined to choosing between India or China. Only those global leaders that give these nations true ownership of their national interest will eventually win out into this complex geopolitical contretemps.

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<sup>35</sup> "One Belt, One Road, One Big Mistake," by Tanner Greer," *Foreign Policy*, December 6, 2018.

<sup>36</sup> "China to Weed Out Debt Trap Panic at BRI Forum: Big Challenge for India to Vie for Relations with Debt Laden Nations – Analysis," by Subrata Majumder, *Eurasia Review*, May 27, 2019.

## ABOUT THE AUTHOR

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