China’s Belt and Road Initiative in South Asia: An assessment and outlook

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Introduction

When China announced the Belt and Road Initiative (BRI) over seven years ago, South Asia was the region where its first large-scale plans were implemented (Yuan 2019). Through vast investments to upgrade dilapidated infrastructure, China sought to improve inter-regional and intra-regional connectivity. China’s objective was to stabilize its restive periphery through enhanced economic connectivity and trade between Western Chinese provinces and neighbouring countries (Holt 2020).

Yet it is in South Asia that BRI is confronting its most pressing challenges. China seems unprepared for the impact that regional politics and local political economies could have on national and local governments as they work to see through the implementation of projects. From India-Pakistan tensions, to the Maldives and Sri Lanka leveraging their relations with China to balance India, and local politics influencing economic decision-making, BRI is under increasing strain. Indeed, BRI projects in South Asia have emerged as another battleground in the broader US-China strategic competition, in which Washington and New Delhi are actively pushing back against Chinese investment projects (Sharma 2019).
In China’s vision, BRI spans Africa to Eurasia, but its major focus lies in South Asia, where the continental “belt” connects maritime “roads” via land and through the Indian Ocean. It is also in South Asia that BRI faces a host of challenges, including longstanding territorial conflicts and border disputes, naval competition with India and the US, and political violence, mis-governance, corruption, and evolving environmental exigencies. Despite the challenges, China remains steadfast in pursuing the Belt and Road projects in South Asia.

With this in mind, this commentary explores how local and regional dynamics affect the trajectory of China’s growing political and economic engagement in South Asia. It also highlights trends visible in China’s engagement with smaller South Asian states and charts policy interventions that international community, including Canada, can undertake to balance China’s influence and presence in South Asia.

**Why South Asia?**

When BRI was rolled out in 2013-14, researchers initially anticipated that trade linkages and infrastructure development would be developed fairly and even-handedly across the various regions. However, for a multitude of reasons, it was not to be. First, Central Asia – the vast region neighbouring Western China – is more of a transit route and source of oil and gas supplies (Wolfensohn Center for Development and Carnegie Endowment for International Peace 2007) than a market with a large population. Second, East Asia – the other key region and one where China enjoys relative advantages due to enhanced trade and investment relationships – is already well developed in terms of the state of infrastructure and regional trade. East Asian countries, however, are turning to China for economic and trade relations, which they hope will allow them to continue to grow.

Third, across Europe, Chinese companies have a difficult time finding a privileged role in infrastructure development projects (Garcia-Herrero et al. 2020). Even China’s forays into Central and Eastern European countries have proved limited due to the European Union’s public procurement regulations. Fourth, China’s large neighbour, Russia, is experiencing an economic slowdown and is therefore not an ideal location for significant investments (Korsunskaya 2020). This leaves two regions available for development: the African continent and South Asia. China is undertaking several infrastructure development projects in Africa, though the region has the drawback of not being geographically situated right next to China.

South Asia, by and large, appeared an ideal first destination for China’s Belt and Road Initiative: it has a large population, several developing countries, growing economies, weak intra-regional connectivity, and infrastructure sorely needing an upgrade. South Asia is home to nearly a quarter of the global population with an average annual growth rate of over 6 percent during the
last two decades. And a majority of this growth is composed of youth between 16 and 30 years old (UNICEF 2020).

Despite being home to over 1.7 billion people, South Asia remains one of the least integrated regions in the world (Ahmed 2020). The World Bank has estimated that South Asian intra-regional trade stands at less than 5 percent, compared to over 35 percent in East Asia and nearly 60 percent in Europe (World Bank 2016). Similarly, intra-regional investments make up less than 1 percent of all investments in the region. When China expressed interest in building ports, roads, and railways throughout South Asia, the region’s nations were receptive. In 2013, when Chinese Premier Li Keqiang undertook his first international visit, he chose South Asia to promote two economic corridors: the China-Pakistan Economic Corridor (CPEC) and the Bangladesh-China-India-Myanmar Corridor (BCIM).

In addition, China has an enduring interest in the Indian Ocean, the home of critical sea lanes of communication (SLOCs) ferrying crucial imports and exports, including vital energy supplies. Consequently, Beijing has focused on deepening economic and trade linkages with the Indian Ocean’s littoral states. Naturally, the promise of investments in the form of BRI projects along ancient and modern trading routes appear especially alluring to countries seeking foreign investments.

**BRI in South Asia: Development vs regional politics**

Since 2013, China has steadily increased its political and economic engagement in South Asia through projects that form part of the Belt and Road Initiative. Four distinct sub-initiatives of BRI in South Asia include the China-Pakistan Economic Corridor, the Bangladesh-China-India-Myanmar Economic Corridor, the Trans-Himalayan Corridor, and bilateral cooperation with Bangladesh, Sri Lanka, and the Maldives under the 21st Century Maritime Silk Road. These corridors and their sub-projects are at different stages of implementation. In pursuing the development of these corridors and associated projects, China and the South Asian nations had to balance development needs and regional politics.

From the start, China presented BRI as a development initiative. Beijing consistently argued that increased trade and expanding investments would stimulate growth, promote stability, and lead to enhanced regional integration (Wang 2019). In 2017, President Xi Jinping said that BRI was intended to “complement the development strategies of countries involved by leveraging their comparative strengths” (Xinhua 2017). This, however, requires a “peaceful and stable environment” (Xinhua 2017). Since India views South Asia as its natural sphere of influence and neighbourhood, it was skeptical of Chinese plans to increase political and economic engagement with smaller South
Asian states, particularly with its flagship BRI project, CPEC (Nceagle 2020). India neither supported CPEC nor approved of China’s growing economic footprint in Pakistan and South Asia. China’s leaders sought to reassure New Delhi that CPEC was an economic development project designed to, in the words of Premier Li Keqiang, “wean [the] populace from fundamentalism” (Gupta 2015). India, however, did not view the unfolding developments the same way. For India, China’s expanded economic and security presence in the region through its BRI projects was coming at its expense. Gradually India-China relations became more competitive and began to influence the politics of BRI projects in smaller South Asian countries.

The China-Pakistan Economic Corridor

Among the four projects in South Asia, the China-Pakistan Economic Corridor is the most advanced. Presented as BRI’s flagship and pilot project, it gained momentum during President Xi’s visit to Pakistan in April 2015. Both countries announced that the corridor’s route would begin at Kashgar in Xinjiang and end at Gwadar in Pakistan’s south-western Balochistan province. India immediately objected, citing sovereignty concerns as the route passes through the Pakistan-administered region of Kashmir, which India disputes. In a way, CPEC has revived competing claims by India and Pakistan over Kashmir after decades of dormancy.

Despite India’s objections, Pakistan and China moved ahead with cross-border projects, albeit on a limited scale. A new fibre-optic cable connecting both countries has been laid. Similarly, a highway linking Pakistan and China has been upgraded, though its utility remains limited: the high-altitude Khunjerab border crossing opens for only seven months each year, from May until the end of November. Overland travel and trade are restricted due to the harsh terrain and only limited cross-border commercial exchanges take place.

This makes CPEC more of an investment scheme than a bilateral development assistance, for which both governments have established a Joint Cooperation Committee (JCC) to keep track of the sub-projects. The focus of both countries is on sectoral cooperation in energy, infrastructure, industrialization, and the development of Gwadar port. The CPEC’s first phase addressed Pakistan’s chronic energy shortfall through the construction of new power plants and transmission lines. By 2019, more than 6000 MWs of new electricity generated by the Chinese financed and built power plants entered Pakistan’s national grid. These power plants have been built with private investment under Pakistan’s lucrative Power Policy, which offers incentives to foreign investors. In parallel, Pakistan’s road infrastructure is also being improved through concessional loans and financing from domestic sources with Chinese support. The goal of CPEC is to improve north-south connectivity and reduce travel time for general and cargo traffic.
In 2013, Pakistan transferred operational control of the Chinese financed and built Gwadar port to the China Overseas Port Holding Company (Walsh 2013). Pakistan had asked China to take over the port’s operations after the Port of Singapore Authority proved unable to run it on a commercial basis. Before that, in 2000, Pakistan asked China to finance and construct the deep-sea port, and Beijing agreed, providing 80 percent of the project’s financing. Under CPEC, Pakistan sought development of Gwadar city and operationalization of the port as a viable commercial venture with an eye towards the Indian-sponsored port of Chahbahar as a competitor. After years of bureaucratic delays and an unstable security environment, road upgrades to link Gwadar port with the city proceeded. Similarly, construction of an international standard (non-military) airport also commenced. Chinese port operators were also tasked with the construction of an industrial zone in Gwadar.

Despite these developments, CPEC has experienced a dramatic slow-down as Pakistan’s economy has entered into a balance-of-payments crisis. Islamabad indicated that it would review CPEC projects as it sought a bailout package from the International Monetary Fund. Meanwhile, the Trump administration also pushed back against CPEC and criticized China’s financial lending (Reuters 2020). Consequently, China had to adjust the pace of CPEC and scale down its ambitious plans. Nonetheless, Pakistan has pitched for CPEC’s scope to be expanded to incorporate other regional countries, such as Afghanistan, Iran, and Central Asian republics. China, though supportive, remains cautious about including third countries in the CPEC framework.

BCIM and the Trans-Himalayan Corridor

In 2013, China proposed the idea of a Bangladesh-China-India-Myanmar Corridor, a 2800-kilometre corridor to link Kunming in Yunnan province, China, to Kolkata, India, via Myanmar and Bangladesh (Aneja 2019). New Delhi, however, refused to endorse BRI (Qingdao 2018), and pulled out of technical talks on BCIM. China made adjustments and focused on enhancing cooperation with Myanmar and Bangladesh through bilateral frameworks. As part of this refocused effort, sub-projects are underway that, when completed, will align with the BCIM route. The Chinese section of the China-Myanmar railway line is under construction and slated to be completed in 2021. Moreover, work on the Dali-Ruili railway track is scheduled to be completed by 2022, thereby further enhancing Yunnan-Myanmar connectivity.

China is also engaged in infrastructure and energy projects in Bangladesh (Siddique 2019). In June 2020, Dhaka sought financial support of up to US$6.4 billion from Beijing for an array of railway, roads, ports, power, and telecom projects (Rahaman 2020). This follows earlier Chinese infrastructure building, including the financing and construction of the 160-kilometre-long Sitakunda-Cox’s Bazar Expressway, which is slated to be part of BCIM. Similarly, Chinese firms are building a multipurpose road and rail bridge 40 kilo-
metres southwest of Dhaka across Padma river (China Railway Major Bridge Engineering Group 2019). This project will also link up with the Dhaka-Jessore Railway line, another Chinese financed project.

But the port projects are where Dhaka has been forced to balance competing interests in its relationships with India and China. Initially, Dhaka pursued the idea of a new port at Sonadia, but abandoned it following concerns over Chinese credit and amidst geopolitical tensions heightened by Indian protests. In response, Bangladesh ended up with two new port projects: the first financed by Japan at Matabari in the Cox’s Bazar region; and the second, funded with nearly US$600 million in Chinese investments, at Payra (Reconnecting Asia 2021).

In China’s vision of BRI, Nepal is ideally situated to serve as a land passage, connecting China with the Indian economy. The plans for the Trans-Himalayan Corridor show it beginning in Chengdu, Sichuan, moving to Tibet and from there to Kathmandu, finally connecting with India’s railway network, thus establishing a large overland route to India across Himalayan peaks and valleys. To realize this vision, however, it is essential that China upgrade its relations with Nepal. The opportunity to do so emerged in 2015 after Kathmandu-New Delhi ties deteriorated sharply following India’s imposition of an undeclared economic blockade against Nepal over proposed changes to the latter’s constitution and its expanding cooperation with China.

As the situation worsened, Beijing stepped forward and opened new cross-border road and railway linkages to transport goods from China. Moreover, China also allowed Nepal to trade with third countries via its ports, ending Nepal’s sole dependence on India for overland trade. Of particular note is China’s support in ending Nepal’s dependence on Indian telecommunication networks through the construction of cross-border fiber-optic cables (Sharma 2018). In return, Nepal joined BRI and announced a feasibility study for the construction of railway tracks that will connect it with Tibet (Xinhua 2019).

21st Century Maritime Silk Road Cooperation with Maldives and Sri Lanka

China views Maldives as a “natural node” in its plans for the 21st Century Maritime Silk Road, given that the small archipelagic state’s strategic position in the Indian Ocean offers equal access to all regional countries (Wang 2015). China-Maldives relations improved after a visit to the country by Xi Jinping in September 2014. Since then, Chinese companies and banks have been engaged in financing and constructing several infrastructure projects, including the expansion of the international airport in Malé, an 18-kilometre Laamu Atoll Link Road (Embassy of the People’s Republic of China in the Republic of Maldives 2015), and a 1.4-kilometre cross-sea bridge connecting the airport island with Malé.
These and other BRI projects have ballooned Maldives’ external debt, leading to concerns over its fiscal stability. Yet, in 2017, Maldives concluded a free trade agreement (FTA) with China (The Wire 2017). New Delhi quickly pushed back. In the 2018 Maldives elections, India supported opposition candidate Ibrahim Mohammed Solih who led “democratic forces” (Mundy and White 2018) against strongman Muhammad Yameen. Solih won the election and is keen to rebalance diplomatic relations with enhanced cooperation with India, Japan, and the European Union. Even the United States has taken notice of increasing Chinese influence in Maldives and announced in October 2020 that it would open an embassy in the country (Ching 2020).

Meanwhile, China has undertaken several BRI projects in Sri Lanka to capitalize on the latter’s location as a cost-effective transit node for shipping and logistics and its presence in the Indian Ocean. This has resulted in China financing a number of projects, such as construction of a new port in Hambantota (which actually preceded the launch of BRI) (Hellenic Shipping News Worldwide 2019), Port City Project Colombo, and Colombo Airport Expressway.

Hambantota port, airport, and industrial park projects have invited international criticism due to concerns over Sri Lanka’s ability to service the loans it has taken from China. While Beijing was open to renegotiating the snowballing debt, it indicated that China would prefer a debt-for-equity swap that would enable Chinese firms to take over Hambantota port on a long-term lease. This generated concerns in New Delhi and other Western capitals. India, in particular, sought national security assurances from Colombo that Hambantota port infrastructure would not be used by China for naval purposes. Despite the Hambantota controversy, China and Sri Lanka have remained engaged in investment cooperation and infrastructure development with a focus on early conclusion of an FTA.

Visible trends

China has pursued BRI corridors and its subprojects in South Asia with consistency and high-level engagement. Under President Xi’s leadership, China has engaged in regular interaction with South Asian countries, with Xi visiting every capital (except for Bhutan) at least once to help push BRI projects forward. Chinese state-owned companies and banks have also opened up and accelerated their processes. Yet this does not mean that China is implementing a well thought-out plan. Rather, BRI corridors and projects are being adjusted in the face of local dynamics, regional influences, and the financial health of each recipient state. The popular idea of a grand vision behind BRI, with Chinese leaders and strategists leveraging their thousands of years of history to achieve that goal, is just a myth. As the previous section has shown, the unfolding of BRI projects has demonstrated that China has turned South Asia into a large trial-and-error experiment for its global engagement.
South Asian countries, with the exception of India and Bhutan, have sought increased economic engagement with China as they look for new avenues of foreign investment and development assistance. Under the banner of BRI, China’s annual foreign investments in Bangladesh, Nepal, Sri Lanka, and Maldives have reached US$4 billion; in some of these countries, China is the largest foreign investor. While courting China and implementing various projects in partnership with it, South Asian countries nonetheless exercise a considerable degree of agency in steering the direction of their respective bilateral relationships as domestic and regional political dynamics influence their choices. Most notably, the level of China’s interaction with each South Asian state is at a different stage, but one factor looms as a constant backdrop – the role of India, the regional heavyweight.

China has consistently pitched the message that “economic development is not linked to existing disputes” and economic cooperation has the potential to mitigate long-running conflict in South Asia. The result, however, has been opposite: BRI has revived dormant regional tensions. For instance, India and Pakistan have revived their competing sovereignty claims to the disputed region of Kashmir. In Sri Lanka and Maldives, China had to contend with external influences on the domestic politics of these countries due to people’s extensive ties with India. In some ways, India-China relations and competition are shaping the contours of China’s engagement with the rest of South Asia.

Gradually, China has emerged as the largest foreign investor in South Asia’s states.

Despite the challenges, China has shown an inclination to take risks in meeting the large appetite of South Asian states for infrastructure building and attracting foreign direct investments. Gradually, China has emerged as the largest foreign investor in South Asia’s states. For years, South Asian states had courted foreign investors with attractive policy frameworks, though their much-publicized plans often failed to materialize. In the case of Pakistan and Sri Lanka, both countries were looking for economic reconstruction and infrastructure upgrades after years of internal conflict. Then along came China. In Pakistan’s case, extensive Chinese investments in the energy sector (a separate case study) came at a time when Pakistan was struggling with a crippling economic crisis that had brought economic growth to a standstill. China funded the construction of an array of new coal-fired power plants because they could be set up and operating up in less than 24 months.

A striking constant across South Asia has been China’s inability to fully grasp the domestic and international factors influencing national governments. China has learnt the hard way the impact of local dynamics on the policy choices confronting regional states. For instance, in Pakistan, China was con-
fident that its relationship with the central government was strong enough to realize most CPEC projects. However, when the time came, it was not to be. Pakistan’s federalist and devolved governance system empowers provincial governments in economic and development policy decision-making. With different political parties running provincial governments, China had to engage with five different governments within Pakistan. This constrained China’s ability to advance CPEC in ways that it really wanted. The push-back generated by local politics led Pakistan’s central government and China to expand the CPEC portfolio to announce new projects in the provinces.

Similarly, in Maldives, China did not fully comprehend the influence of India on domestic political dynamics. Beijing believed that its engagement with the incumbent government was enough on its own to push ahead with BRI projects. When political change came through elections, the opposition party won and formed a new government that immediately put China on notice. When President Solih announced a review of BRI projects and Maldives’s fiscal engagement with China, he encountered a high degree of opacity in the dealings undertaken by his predecessor's administration. President Solih’s government raised concerns about the country being financially trapped by Beijing’s investments, wondering if new projects could produce enough revenue to pay China back. Solih had promised improved relations with India, and New Delhi boosted his government by providing nearly US$500 million in infrastructure financing. Clearly China was unprepared in its dealings with South Asian countries, which Beijing believed would be swayed by easy money.

“A pattern is thus becoming apparent across South Asia: China’s reliance on BRI expands political, economic, and defence engagement with smaller states, which then leads India to respond with its own diplomatic and economic inducements to balance China’s forays. Meanwhile, smaller South Asian states attempt to gain the maximum leverage with both regional heavyweights to advance their diplomatic, development, economic, and security interests. More competition between India and China can lead to each making greater demands of smaller states. At the same time, smaller states have considerable agency in pushing back against China, as South Asia is not China’s home turf. The domestic politics of South Asian states play out to China’s detriment, and enable India to push back against China.

This reveals that while China projects BRI as a grand scheme backed a larger vision to integrate regional states and create a “community of shared destiny”
through win-win cooperation, in practice the vision is not that well thought-out. Political risk and regional politics continue to impinge on China’s ability to expand its commercial investments and reap the benefits of those investments. The gap between China’s planning and the implementation of BRI provides considerable space for the international community to engage with South Asian states and shape the trajectory of BRI in the region.

**Policy recommendations for the international community**

In South Asia, China has expanded its political and economic footprint through the infusion of foreign direct investments in energy projects and infrastructure building – a strategic development that has caused some consternation among capitals in South Asia and beyond. To balance China’s presence, smaller South Asian states are looking outside their region for partners and are eager to deepen cooperation through major economic and development partnerships with key states and institutions. Similarly, many Western governments have indicated concern over China’s expanding Belt and Road Initiative, and a few have joined together to offer alternative infrastructure initiatives, albeit with varying success.

Against this backdrop, for Western governments looking for a policy response to China’s BRI, the first step ought to be the expansion of economic, trade, and development cooperation with every South Asian country. This can be advanced through both expanding bilateral economic and trade relations with South Asian nations and multilateral engagement by a group of Western government, including through international development finance institutions. This will directly empower every South Asian state in its economic and development decision-making. The goal for the West must be to present South Asian nations with additional choices as they pursue economic development and growth. Each Western government can encourage their own private sector to explore new opportunities in these countries.

Second, the international community can and should work multilaterally to support regional partnerships. For example, one structural impediment to regional cooperation is in the enduring India-Pakistan conflict. The international community can address this situation by initiating new, broader programs that involve international development institutions and key countries such as Canada, Japan, and the United Kingdom. Such regional programs could be used to enhance connectivity, infrastructure building, and trade among South Asian states. This would, to some extent, meet the infrastructure needs of smaller South Asian states and help advance their economic development goals.

Third, a number of states are already engaged in institutional dialogue with the South Asian Association for Regional Cooperation (SAARC). For instance,
the US, European Union, and Japan have observer status with the organization, while SAARC is engaged in dialogue with both EU and UN entities. As such, in parallel, the international community can leverage this institutional dialogue to encourage the revival of SAARC in order to enhance regional cooperation and integration. South Asia, being a less than well integrated region, remains vulnerable to Chinese attempts to help fill the gap, though Beijing’s policy focus remains fixated on enhancing bilateral cooperation instead of a region-wide approach. In that regard, an external push to move towards greater regionalization could be a very useful counter to China’s more piecemeal approach. SAARC – despite its shortcomings – remains the only regional organization in South Asia at the moment, and therefore a good place to start moving the ball forward.

Fourth, undertaking infrastructure development and enhancing connectivity requires advanced technical and support systems. Western nations are best placed to provide these tools. For instance, the first feasibility study of a port project at Hambantota was carried out by Canada’s construction company SNC-Lavalin and was financed by the Canadian International Development Agency.

Fifth, the international community should call for the implementation of international conventions and best practices in China-funded projects and the construction of special economic zones under BRI in South Asian countries. This will help build confidence among the international community, particularly private companies of leading Western nations, and open up opportunities for them to take advantage. This way, South Asia will not be left alone to deal with Beijing-backed state-owned enterprises. It is more than likely that China will not approve it for their projects. Yet even such a refusal would have some benefit, insofar as it would create a useful comparison between China-funded projects and those supported by Western governments.

Sixth and most importantly, to balance China’s increasing footprint in South Asia, the international community – particularly countries such as Canada, Japan, South Korea, Germany, and the United Kingdom – need to closely follow, assess, and understand the local dynamics of every South Asian state and their development needs. This is where Beijing has stumbled. The same mistake should not be repeated by countries that are interested in and have the capacity to cooperate practically with South Asian countries. With greater international involvement, BRI will be balanced and smaller South Asian countries will also have an opportunity to chart their own development trajectories.
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Holt, Phillip. 2020. “A Truly Friendly Neighbor? The Motivations behind China’s Belt and Road Initiative in Its Periphery.” The Institute of World Politics (June 18). Available at https://www.iwp.edu/articles/2020/06/17/a-truly-friend-


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