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China's development finance in south Asia: Geopolitical and strategic implications for India

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Abstract
China is the largest bilateral lender in the world and its financial influence has grown significantly over the recent years. In the past decade, China expanded its footprint in the South Asian countries namely Pakistan, Afghanistan, Sri Lanka, Nepal and the Maldives through substantial investments in infrastructural projects under Belt and Road Initiative (BRI), and foreign aids leading to shifts in the political and regional dynamics of the nations. In many cases, the recipient nations struggled with an increase in external debt to China, as the initial planned economic benefits were overshadowed by long-term financial instability. The paper identifies that a large section of China's foreign aid has been invested in development sectors like energy and transportation in the recipient countries. Additionally, majority of the China's funds have been extended on a loan basis to these developing nations. The paper further analyses the indirect impact of China's lending in the South Asian region on India.

Keywords: Debt trap diplomacy, foreign aid dependency, South Asia, geopolitical impact, regional dynamics, belt and road initiative

Introduction
In the last two decades, the rapid economic growth, military power, industrial developments, and technological advancements have portrayed China as an emerging global power in the international arena. According to world bank data 2024, China stands as the World's second largest economy with a GDP of $18.7 trillion. The country stands second in the world, with a military budg*et al*location of 1.78 trillion yuan in 2025. The country is also the world's second largest country with a population of 1.41 billion. China has also surpassed the United States of America in providing financial assistance in the form of aids and grants to the under developed and developing economies of the world. China has funded numerous development projects across African, Asian and Latin American countries.

China's financial aids and loans
In the past two decades, China has been extending financial aids and loans to many under-developed, developing and crisis stricken economies for their developmental projects. As on 2021, the top three recipient nations of Chinese finance are Russia ($169B), Venezuela ($113B) and Pakistan ($70B). (*China Global Development Dashboard*, n.d.)
It is essential to note that grants comprise of $43B, $18B of Debt forgiveness and $1trillion comprises of China's loans to the recipient countries. Around the world, China is a part of 17,956 development projects valued at $1.34 trillion. Out of which, Myanmar (444) tops the countries with highest number of projects funded by China, followed by Pakistan (433), Indonesia (400) and Sri Lanka (271) is in the top 10 countries with China funded projects. The development projects cover varied sectors including health (3769 projects), education (2662 projects), transportation (1357 projects) and industry (956 projects) across all the recipient countries. (*China Global Development Dashboard*, n.d.)
On the regional basis, Asia ($421B) is the largest recipient of Chinese finance, followed by the Africa ($326B). Thus, China has been increasing its influence in the South Asian countries through financing numerous developmental projects, and in turn asserting its presence in the Indian neighbourhood through its funded projects.

Review of Literature: Dussel Peters (2015) [7] examines the recent regional trends in the bilateral relationship between China and selected countries of Latin America, showing the disbursement of $141B during 2005-2018 targeting countries like Brazil and Venezuela. China emerged as largest trading partner due to its high demand for primary commodities and major investor in infrastructural, energy and mining projects, facilitating connectivity and trade. However, the rising debt, the environmental and social implications of the Chinese investments are still inevitable concerns for Latin America. Mutai *et al*., (2024) [10] reveals that during the period 2000-20, 1,188 loan agreements of value $160 billion was transacted between China and the African countries. While these loans have the potential to stimulate the growth, its commercial nature with higher interest rates raises the alarming concern of fiscal sustainability of the countries. points out that South Asian countries relying on foreign debt have been unable to develop the necessary mechanisms to manage their debt effectively, leading to rising financial vulnerabilities. While countries, like India and Bangladesh, have managed to maintain relatively stable debt levels, others like Pakistan and Sri Lanka have struggled with escalating debt, partially due to over-reliance on external loans. The author underscores that countries with weak institutional frameworks and poor fiscal management are more likely to fall into the debt trap, as they cannot efficiently mobilize resources or implement sound economic policies to manage debt. Sangkar & Huda (2023) [11] analyses the potential security risks to India through China-Pakistan Economic Corridor (CPEC), a flagship project of China's Belt and Road initiative. The author discusses the strengthening ties of Pakistan-china amidst the Kashmir conflict, possibilities of constant military tensions, shifts in regional political dynamics and threat to regional stability as direct consequences of India in the long run. In this context, the paper focuses on China's rising influence in the South Asia, its potential impact on India and the regional dynamics.

Objectives

1. To study the pattern and impact of financial assistance extended to South Asian countries
2. To examine the indirect impact of China's lending on India.

Methodology

The paper aims to explain the pattern of China's increasing footprint and its subsequent impact on India through a descriptive study based on secondary sources published in printed media, authentic government websites, international journals and magazines. The data presented in the paper is compiled from the China Global Development Finance Dataset (AidData), which currently provides project level data only up to the year 2021.

China's emerging Influence in South Asia

China has significantly increased its influence in South Asia through a variety of economic, military, diplomatic, and cultural initiatives. Belt and Road Initiative (BRI) - one of the world's largest finance programmes for developing infrastructure projects. It is made up of 'Silk Road Economic Belt', which connects China to Europe, Central Asia, South and South East Asia by land and '21st century Maritime Silk Road' which connects the China's coastal regions to the rest to the world. The projects are advocated for promoting infrastructure, trade, financial strengths of the recipient countries.

China's financial assistance to South Asian countries

- **Pakistan:** One of the largest recipients of Chinese funds in the past decade. Currently, around $70.3B is invested in 433 projects across varied sectors namely Energy ($28 billion), General Budget support ($21 billion), Transport and storage ($10B), Banking services ($7 billion), Industry ($644 million) and Communication ($534 million). Out of which, $69 billion are loans and $1 billion is grant. (*China Global Development Dashboard*, n.d.)
- **Bangladesh:** China's investments adds up to $20.7 billion invested in 138 projects across various sectors like Energy ($10 billion), Transport and storage ($6 billion), Industry ($2 billion), Communication ($1000 million), water supply ($665 million) and others ($500 million). Out of which, $20 billion comprises loans and $607 million comprises of grants.(*China Global Development Dashboard*, n.d.)
- **Sri Lanka:** China's investments amounts upto $20.5 billion invested in 271 projects across varied sectors of the country. The funded sectors are Transport and storage ($10 billion), Energy ($3 billion), General budget support ($2 billion), Banking services ($2 billion), Water supply ($1 billion) and others ($1.5 billion). Out of which, $19 billion are loans and $999 million is grant. (*China Global Development Dashboard*, n.d.)
- **Maldives:** China's investments in Maldives adds up to $2 billion, invested in 88 projects. It includes Social infrastructure ($942 million), Transport and storage ($747 million), Energy ($209 million), Trade policies and regulations ($147 million) and others ($90 million). Out of which, $2 billion is loan and $216 million is grant. (*China Global Development Dashboard*, n.d.)
- **Nepal:** China's investments worth $1.98 billion invested in 183 projects across varied sectors of the economy. The funded sectors are transport and storage ($695 million), Energy ($357 million), Health ($268 million), Industry ($210 million) and others ($300 million). Out of which, $1billion is grant and $844 million is loan(*China Global Development Dashboard*, n.d.)
- **Afghanistan:** Chinese funds worth $587.7 million invested in 141 projects across various sectors. It includes Health ($109 million), Emergency response ($108 million), Social infrastructure ($102 million), Education ($86 million) and others ($150 million**).** Out of which, $540 million comprises grants and $40 million is debt forgiven.(*China Global Development Dashboard*, n.d.)

Sector - wise analysis of China's Development Finance

As of 2021, China's development finance in South Asia amounts to approximately $111 billion in loans, $5 billion in grants, and $165 million in debt forgiveness. Sector-wise, the largest share is directed towards Energy ($42 billion), followed by Transport and Storage ($27 billion), General Budget Support ($24 billion), Banking and Financial Services ($10 billion), Industry and Mining ($4 billion), Communication ($2 billion), and Other Social Infrastructure ($2 billion). From the above data, we can infer that China has been investing more on the development sectors of the South Asian economies and the majority of their funds are in the form of loans and comparatively a minor share is in form of grants and debt forgiveness.

Impact of China's Investments on recipient countries

The momentum of BRI initiatives has slowed down in the past few years due to the rising debt burden on the recipient countries as 42 countries are indebted to China over their 10% of GDP. 47 projects funded by China in 10 have claimed to have violated laws and involved in corruption scandals (Loh, n.d.). Further, few projects are currently either non-operational after its completion or is struggling to materialise the plan due to administrative bailouts and non-cooperation. The projects supported by China in reality supports the Chinese well than the local economy. It helps China better access to natural resources, new markets, and even access to new territories. In many cases, China even supplies its own construction workers, limiting the creation of local jobs in its infrastructural projects and initiates dumping of its own products, thereby limiting the growth of local industries.

For instance, Sri Lanka's Mattala Rajapaksa International Airport, Hambantota's Magampura Mahinda Rajapaksa Port has been underperforming for its own country.(Shepard, n.d.). In case of Gwadar port of Pakistan, it is more advantageous to China than Pakistan (Baloch, n.d.). For China, the advantage is that even if the projects are not yielding, it raises the country's debt burden to China, which in turn increases China's advantage in the partnerships. In case of non - payment of debts, China either demands for the ownership of the project like the Sri Lankan case or drafting additional projects, which in turn increases the debt crisis.

Debt trap diplomacy

Indian Academician, Brahma Chellaney referred to the Chinese loan diplomacy as as Debt trap diplomacy in 2017. This form of diplomacy involves funding of development projects in developing nations with challenging pay back terms. This in turn pushes the borrowing nation to accept the terms of conditions of China in the case of non-repayment of their debt and is also forced into a debt trap crisis. (Chellaney, 2017) [4].

In the case of Sri Lanka, the economy was already in an economic turmoil and had to resort to funds from China as the other institutions denied the request. But this only increased its debt and fiscal deficit, and as a result of unpaid debt, Chinese company acquired its Hambantota port for the lease of 99 years. In this context, China cannot be solely made responsible for Sri Lankan crisis but China's strategy of stepping up at the most opportunistic moment and offering funds to selected countries does not make the government as innocent as it claims. (Himmer & Rod, 2022) [8]. China on the other hand, defends the accusation of debt trap diplomacy by emphasizing its denial in being the root cause of the crisis and blames the poor risk management, lack of proper planning, broken politics and mismanagement as the cause for increasing debts of the recipient countries (Tao, 2023) [13].

Among the China's neighbouring countries, India and Bhutan opted out of BRI initiatives due to their cautious approach to China's diplomacy. Despite high trade deficit with China, India's debt to China is comparatively low as it is intentionally focusing on reducing its financial dependence on China to protect its national interests.

Impact of China's lending to South Asian countries on India

Despite, China denying any claim of strategic diplomacy regarding its extended aids, it is inevitable to notice that its influence in these countries will be strategic during the times of military emergencies and trade. Thus, it is critical for India to be assertive and cautious of its neighbours ties with China.

- **The String of Pearls:** Indian Ocean is strategically vital to both India and China. The countries perform majority of their trade functions through this sea route. Despite China's claim of no territorial ambitions, China has obtained control of multiple facilities in the region of Indian ocean, namely Pakistan's Gwadar port, Sri Lanka's Hambantota port and Maldives's Marao island, gain a strategical advantage over India. The strategy of China in taking control of major ports in the Indian ocean is referred to as String of Pearls in geopolitics.
- **Threat to security:** Through BRI and String of pearls, China has encompassed India through Indian ocean in the south, from the West through Pakistan BRI initiatives and from the North through the Himalayan corridor. Thus, India must be vigilant throughout to tackle any military tensions from the shared borders.
- **Increased dependence on China:** The countries receiving heavy Chinese loans like Pakistan, Srilanka and Nepal may turn more dependent on Chinese trade imports, and it might affect India's trade relations with its neighbouring countries.
- **Shift in regional dynamics:** The heavy Chinese lending to India's neighbours may weaken India's status of rising giant in the South Asia. The neighbouring countries may favour China over India due to their financial dependence, thereby shifting the regional dynamics of Asia
- **Shift in global dynamics:** The rising hegemony in the international coastlines may not only affect India but the Asian countries overall, as it hinders the global trade relations, political stability and order.

Way forward

In the current global stance, India and China are rising powers with huge markets. Despite rejecting China's BRI initiatives, India shares strong trade relationship with China. China's growing financial influence in South Asia, driven by its extensive lending has significantly altered the region's political and economic landscape. While Chinese investments have improved infrastructural development in countries like Pakistan, Sri Lanka, Nepal, and the Maldives, they have also exposed these nations to financial vulnerabilities and unsustainable debt burdens.

For India, China's emerging influence in South Asia poses a strategic challenge, as it has to realign its regional share of power and alliances. However, India's response has been multi-faceted, focusing on strengthening economic partnerships, fostering regional cooperation, and enhancing its development initiatives to its neighbours. Despite these efforts, India's ability to counterbalance China's influence requires sustained strategic investments, deeper regional ties and strong development collaborations to sustain an equitable south Asian region.

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