

Event Transcript

China in South Asia: Understanding Beijing's Evolving Influence in Smaller South Asian States

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Featuring:

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Event Description

The Belt and Road Initiative, China's trillion-dollar global infrastructure project, marks a decade this year. This anniversary provides an opportune moment to reflect on the local impact of the project and how China's economic, political, and foreign policy goals have evolved to adjust to the needs of partner countries and in response to great power competition. A region where this dynamic is visible is South Asia, where Beijing has attempted to provide economic benefits to countries in a competition for influence with India and the United States. Join South Asian Voices (SAV) for the second in a two-part webinar series examining China's role in South Asia. This discussion will focus on how Nepal, Bangladesh, and Sri Lanka perceive Chinese, Indian, and American engagement in the subcontinent and the broader implications of these interactions for regional stability and prosperity. Panelists will reflect on their recent contributions for an SAV series examining local and regional perceptions of Chinese economic and strategic interests in the subcontinent and prospects for bilateral relations as well as great power rivalry.

More information and event video available at: <https://www.stimson.org/event/china-in-south-asia-understanding-beijings-evolving-influence-in-smaller-south-asian-states/>

Event Transcript

Akriti (Vasudeva)

Kalyankar:

Hello and welcome to everyone joining us from South Asia, the United States, and beyond. My name is Akriti Vasudeva Kalyankar, and I'm a Fellow here at the Stimson Center and editor-at-large of South Asian Voices, our online policy platform. And I'm very pleased today to welcome you to the second in a two-part webinar series that South Asian Voices has organized examining China's role in South Asia, particularly in the context of the 10th anniversary of the Belt and Road Initiative.

In our [webinar in August](#), which I hope some of you tuned in for, we covered China's strategic role in Pakistan and Afghanistan. Today in our discussion we will focus on Chinese, Indian and American engagement

with some of the smaller states in South Asia, specifically on Nepal, Bangladesh, and Sri Lanka.

As I mentioned, the Belt and Road Initiative, China's trillion-dollar global infrastructure project, marks a decade this year. This really is a good and opportune moment to reflect on the local impact of this project and how China's economic, political, social, and foreign policy goals have evolved in this time, both to adjust to the needs of partner countries, but also in response to great power competition in different regions around the world.

Today, we are going to be focusing on a region where this dynamic is clearly visible, which is South Asia, where Beijing has attempted to provide economic benefits to countries in a competition for influence, primarily with India and United States, but other countries as well. In our conversation today, we will focus on Nepal, Bangladesh, and Sri Lanka, but essentially on how they perceive Chinese, Indian, and American engagement in the subcontinent and the broader implications of these interactions for regional stability and prosperity. Our panelists will reflect on their recent contributions for [a South Asian Voices series](#), which looks at local regional perceptions of Chinese economic and strategic interests in the subcontinent And especially at prospects for bilateral relations, as well as great power rivalry.

I'm really excited today because we have a great lineup of speakers to talk about all of these issues and more. Let me introduce them one by one. I'm delighted to be joined first by Kithmina Hewage, who is a senior development policy advisor. He's currently working with governments, corporates, philanthropists, and nonprofit organizations across 17 Asian economies. And he has extensive experience working on international development issues with a specialization in political economy and foreign policy analysis, and a lot of his work has focused on Sri Lanka.

Next, I want to introduce Dr. Shafi Mostofa, who is an Associate Professor of World Religions and Culture at the University of Dhaka. His research interests include political Islam, authoritarianism, modern South Asian history and politics, and international relations. He contributes articles on Bangladeshi politics, religion, minority rights, human rights, and secularism.

Next, we go to Gaurab Thapa, who is an international relations analyst. He's an executive member of the Nepal Council of World Affairs and also President of the Nepal Forum of International Relations Studies. His key areas of research interest include foreign policy and diplomatic history of Nepal, Nepal's foreign policy vis-a-vis India, China, and the United States, obviously very relevant to our discussion today, and the geopolitics of South Asia.

Next, we have with us Kalpit Mankikar who is a Fellow with the Strategic Studies Program at the Observer Research Foundation in New Delhi. His research focuses primarily on China and its rise, and domestic politics within the country as well.

Last, but certainly not least, is Nilanthi Samaranayake who is a visiting expert for the South Asia program at the United States Institute of Peace and also an adjunct fellow at the East-West Center in Washington. She has 25 years of experience in the nonprofit research sector and her work focuses on regional security in the Indian Ocean, smaller South Asian countries, non-traditional security issues, and U.S. alliances and partnerships. She just returned from a trip to the region, specifically to Maldives and Sri Lanka. So, I hope you'll hear a little bit about her insights from those conversations as well.

This discussion will be a mix of a moderated discussion between the panelists and I, and plenty of audience engagement. If you have any questions for our panelists, please do submit your queries via the Q&A box at the bottom of your Zoom screen. I will be interspersing the questions from the audience throughout the session, so please do send in any queries that you have. We only have an hour and 15 minutes, and we have a lot to discuss, so I ask the speakers to please keep the responses to two to three minutes maximum so we can get to as many questions and have as much back and forth as possible.

With that context, let us start with sort of a broad overview of the state of play in the region. And let me start with a question first to Gaurab, Shafi and Kithmina. How would you characterize the nature of Nepali, Bangladeshi and Sri Lankan engagement with China's BRI since the initiation of the project? And could you maybe highlight any changes or continuities in each country's stance during this time? Gaurab, why don't we start with you and then we'll go to Shafi and then Kithmina.

Gaurab Shumsher
Thapa:

Thank you, Akriti. Thank you for providing this opportunity today.

On Nepal's engagement with China on BRI, Nepal was a signatory since 2017. Initially Nepal proposed 35 projects, but later those were trimmed down to nine projects. But even in these six years, the progress has been almost negligible and among the projects that have been earmarked for this under the BRI, some feasibility studies for certain projects have been undertaken. On the whole, most of the projects are still stagnant and there has been virtually no progress. During the visit of Prime Minister Prachanda earlier in September [to China], the broad gamut of relations were discussed and obviously BRI was a big part of that. Both China and Nepal have agreed to accelerate the finalizing of the BRI implementation plan.

They have reviewed the progress: the highlight of this BRI project with China has been the cross-border railway, which obviously is a huge project because it encompasses building connectivity via the Himalayas, which is really difficult both geologically, and also geographically and financially. So, Nepal has placed a priority on this project. But having said this, progress in all the projects that have been earmarked or that have been finalized has been very slow. Thank you.

Akriti (Vasudeva)

Kalyankar:

Thanks, Gaurab. I have a few follow up questions for you after this round. Shafi, we'll come to you on Bangladesh's engagement with China.

Shafi Mostofa:

Let me begin my talk with two statements, because these issues will come up later, but let me just give a footnote on that. Bangladesh's stated foreign policy is plain and clear, friendship to all, malice to none. The second thing is that Bangladesh's foreign minister clearly said that China has come up with the baskets of money. Why I'm saying baskets of money is because it has implications for Bangladesh's current political bond, domestic political bond. So, Bangladesh is expecting to receive nearly \$40 billion under this BRI project. Since the introduction of BRI, Bangladesh's policy is shifting a little bit towards China. There are a lot of issues. Maybe later we can discuss those issues.

So far, recently two mega projects under BRI, I would say, have been inaugurated, just this month, I think. One is the Karnaphuli River Tunnel. This is one of the mega projects in Bangladesh. The Padma Bridge Rail Link project was also inaugurated this month. These mega projects have big implications for Bangladesh's domestic politics at the moment. Bangladesh has received nearly \$10 billion under the BRI infrastructure project. Bangladesh is also expecting many more to come because of its current economic situation. That is one of the reasons why Bangladesh is tilting more towards China, not towards India, and obviously not towards the U.S. We will discuss those issues later.

Akriti (Vasudeva)

Kalyankar:

Absolutely, certainly we'll come to that and also to the linkages between domestic politics and foreign policy as well. But Kithmina, over to you on Sri Lanka's evolving stance on the BRI.

Kithmina Hewage:

Thanks, Akriti, and thank you to the Stimson Center for inviting me. Sri Lanka's relationship with the BRI began before the BRI was officially inaugurated 10 years ago. Particularly towards the end of the war in the late 2000s, Sri Lanka becomes somewhat politically ostracized from its traditional development finance partners because of alleged war crimes and other political issues. But also, and more importantly, Sri Lanka, after graduating to middle income status, does not qualify for concessionary loans as much as it did before, which means that it had to find an

alternative means of finance, particularly for its post-war development. In 2009, the war ends and then the government at the time looks for alternatives because concessionary loans were not available and that's where the BRI, or the initial version of it, starts to step in.

The BRI aligns well with the government's strategy of pursuing debt-led growth, and particularly by investing heavily into large infrastructure projects. The BRI kind of fell into that scope and as a result, it provided that sort of development finance. That is why the BRI is synonymous with some of the big infrastructure projects at the time, like the Hambantota port, the Lotus Tower, et cetera. Now I know the narrative is that Sri Lanka's economic crisis is because of China, but that is wrong. Sri Lanka's economic crisis, not because of the BRI or Chinese loans, but what has happened is that the BRI is a symptom of a lot of the domestic, economic, and political decisions that were made at the time that contributed to the economic crisis. So that is why it's synonymous with the debt issues that Sri Lanka is now facing.

In terms of the evolution of it, and I'm sure we will go into more detail later, basically with what the BRI is now, there is no small scope for large infrastructure projects in Sri Lanka because of its current economic conditions. Rather, where I think the BRI will play a role and Chinese investments will play a role is, one, in terms of the debt restructure because China will play an important role in that. But also, in terms of Chinese investment into some of the economic areas and sectors that the government is trying to privatize. So, for example, in petrol distribution, in electricity and solar energy and then other sectors as well where the government is trying to move on from state monopolies. So, there is that opening of certain sectors that I think China sees an opportunity. But also, other players, like India and the U.S., are also seeing opportunities in those sectors to invest.

As we see this evolution, BRI is going to turn from a more infrastructure focused and infrastructure finance project to more investment and private investment in other areas as we move ahead. But that is driven mainly because of Sri Lanka's current economic needs and requirements.

Akriti (Vasudeva)
Kalyankar:

Thanks, Kithmina. We will come back to that question of debt restructuring. Gaurab, let me ask you a follow-up on the comments that you made. You mentioned that Nepal signed on to the BRI in 2017, but as you mentioned, projects have not actualized in this time and differences have emerged between Kathmandu and Beijing, particularly on funding modalities where China wants to provide loans, but Nepal is looking more for grant assistance. How much leverage does Kathmandu have in pushing Beijing to accept its demands considering the trade imbalance between the two countries and the fact that Nepal does need infrastructure development

and connectivity? How much do Nepal's relations with India and the U.S. factor into this calculation?

Gaurab Shumsher
Thapa:

Thank you, Akriti, for the question. As we all know that geographically for Nepal, the ease of access to the sea is easy via India. With China we have a 1,400-kilometer-long Himalayan border. To mitigate this problem or to have another point of connectivity, both governments have tried to initiate this mega project under the Trans-Himalayan Multi-Dimensional Connectivity. This railway project is supposed to be the game changer, but as you have rightly said, the Nepali government, and at the moment Nepal's economy, is also not doing that well. Considering all the factors, Nepal has always preferred grants rather than taking loans. The model of BRI is, as we all know, not a grant-based model. It is a mutually beneficial sort of thing where China is providing soft loans.

The main concern regarding the governments, or you might say the main hindering factor, is the funding modality. Even during the Prime Minister's visit, I'm sure that this must have come up. The feasibility study is going on, but they're planning to upgrade it. With India, our connectivity is along the contiguous border. It is an open border, so we have ease of access to the sea. Even if we have the connectivity with China, our trade mostly will be through India: the Kolkata port or the Visakhapatnam Port will still be crucial, but Nepal will have another dimension of having access to the sea.

Akriti (Vasudeva)
Kalyankar:

We will come back a bit more to Nepal's interaction with India and the U.S. a little later in the conversation. Let me come to you, Shafi. You mentioned this in the piece that you wrote for South Asian Voices, but can you maybe talk a little bit about what has motivated the significant uptick in Dhaka's defense and economic relations with China over the last five years? I ask this especially because this was preceded by a period of largely positive relations between Bangladesh and India and also the U.S. and Bangladesh. We did see a lot of engagement and interaction between the two countries under the Trump administration, for example. So maybe just talk us through what has changed in the last few years and the interaction of Dhaka with the U.S. and India?

Shafi Mostofa:

The main transformation in China-Bangladesh relations happened in the last five years, especially after the visit of the Chinese Prime Minister, maybe back in 2017. We know about that. The BRI project in 2013, and then the Chinese Prime Minister's visit in 2017. After that, Bangladesh started deepening its relations with China. Having said that, historically, Bangladesh maintains very good relations with India because of India's role in Bangladesh's liberation war. Bangladesh's whole security mechanism and bilateral relations are dependent on the U.S. and India.

But Bangladesh is slowly becoming authoritarian in its governance system and our relationship with USA has started declining from that perspective. Bangladesh's current government's legitimacy depends a bit on its development strategy. It requires a lot of money, money pumped from outside. That is why it went to China, and it went to Russia, it does not matter, but they need money, immediate money.

That purpose was solved by China and Russia. That is why Bangladesh was desperately looking for money and they received soft loans from these countries. The World Bank withdrew its funding from Padma Bridge in 2012, and that was a very suffocating situation because the World Bank said there was corruption. In anticipating big corruption, they withdrew funding from that project. At that point, Bangladesh started looking for money from elsewhere, not from the World Bank. This is how the shift happened.

There is a submarine base there that cost over \$1 billion. They established a submarine base in Cox's Bazar. Geographically that region is very important for the USA and for India. It is definitely still building relationships with China. It does not mean that it does not have any connections with India. We are surrounded by India. We are in the stomach of the Indians. We are surrounded on the three sides by India. Just on the other side, one side is open, that is the Bay of Bengal. For our foreign policy, we cannot disregard India's engagement here in Bangladesh.

Akriti (Vasudeva)
Kalyankar:

Thanks, Shafi and Kalpit. Nilanthi, I will bring you in more on U.S. and Indian assessments of China's security role, particularly in the region. Kithmina, let me come to you on the follow-up that I wanted to ask. In your piece for the SAV series, you mentioned that China was reticent to support the Rajapaksa government during the economic crisis. I wanted to understand what explains this Chinese reticence to bailing out Colombo when Beijing has actually responded to financial distress in other BRI countries? If you look at the study that was conducted by AidData, the World Bank, Harvard Kennedy School, and the Kiel Institute, China actually granted rescue loans of about \$104 billion between 2019 and 2021 to BRI countries. Could you talk us through a little bit of that dynamic?

Kithmina Hewage:

It is fundamentally a calculation by China that the Sri Lankan government under Gotabaya Rajapaksa was an unreliable partner, both in terms of economics but also politics. On the economic side, continuously the government was making decisions that made it obvious that we were going to go into an economic crisis with the tax cuts followed by excessive money printing, and then Forex tightening the Forex exchange rate, et cetera. Anyone with a basic economics degree could read the tea

leaves, so to speak, and understand that Sri Lanka was heading towards crisis. It economically didn't make sense.

What is important to note is that China did offer a sort of "out" by offering foreign money exchange, on the condition that Sri Lanka improves its foreign reserves significantly more than what it was. At the time, it was around less than one month's exports, the condition was that it needed to go up to at least three months or four months of exports, which was to me code to say, "go to the IMF." There were a lot of calls at the time to say, go to the IMF, get a package, let's resolve this, and then stabilize the economy, and then figure it out. This was in late 2021.

The government was insistent that they did not want to go to the IMF. They had this local homegrown solutions rhetoric. As a result, economically it did not make sense. It is also important to recognize what the Chinese economy was like in 2021, and it was in a sensitive position, which meant that they couldn't afford a country like Sri Lanka to go bankrupt on its account and after giving money.

At the same time on the political side, there were quite a few, I would say pretty much amateur, foreign policy decisions that were made which also annoyed China and then made it clear that the Sri Lankan government was not a reliable partner. Things like when the government giving a solar power project in the north of the country and then withdrawing it when India put pressure on it. This was all playing out publicly.

Then we have the fertilizer shipment fiasco where the regulators rejected it, and it was quite a public humiliation, in fact, to China at the time. We also had the research vessel- saying yes to it, then no to it, and then yes to it again. Sri Lanka gave an oil refinery project to the U.S. government.

This was all happening around the same time, which meant that the Sri Lankan government was also sending mixed signals to China about whether it saw China as a partner or not. Underpinning all of this is that once the protests started, obviously made the political decision that they did not want to be linked to an extremely unpopular government. They did not want to be seen as propping up an unpopular government.

The combination of these economic factors with the political factors was the calculation that China made. It did not make sense to overtly go out of the way to bail out Sri Lanka, particularly because it had given that option for Sri Lanka to figure things out by improving its foreign reserves. There was a pot of money there to be taken, had the reforms kicked in a lot earlier.

Kalyankar: Thanks, Kithmina. Really interesting conversation so far. I want to encourage everyone who's joining to send us your questions to the Q&A box at the bottom of your screen. Let us bring in the discussion on U.S. and Indian involvement in the region. Let me come to Kalpit and Nilanthi and start by talking about what have been India and the United States' foreign policy objectives in South Asia in the last 10 years, particularly in the context of increasing Chinese role in the region in the security and economic space? How have these goals and actions evolved over time? What have perhaps been the lessons learned from this engagement that we will see play out in the next few years? Kalpit, I will come to you first and then Nilanthi.

Kalpit Mankikar: I am delighted to be here and thank you so much to the Stimson Center. I will try to summarize the last 10 years in three or four brief points. Firstly, post 2014, there has been a very different foreign policy outlook, particularly in Delhi. It started with outreach towards the heads of states of the countries surrounding India.

In 2014, we saw visuals of all the heads of states being invited to the swearing in of Prime Minister Modi. This interaction has been cemented by a sort of a neighborhood first policy where I think primarily a lot of visits were swapped. Prime Minister Modi, during his first three years, visited almost all the countries in the neighborhood. If I am not wrong, no prime minister had visited Nepal in about two decades. Prime Minister Modi went there and there was a very different dynamic to that relationship.

Learning from BRI, India really took these baby steps towards connectivity. You saw a motor vehicle agreement under which vehicles could travel. There was cross border connectivity of vehicles. We have to understand the dynamic economic status that has played out in the last decade. In 2013, the Indian economy was in a poor state. In the last 10 years from that nadir, it has gone to being the fifth-largest economy in the world.

This has also meant that there is greater latitude for India to be a development partner to its neighboring countries, helping out with grants, with loans, and also with technical consultancies. Though it has become a troubleshooter in the region, specifically in terms of natural disasters, in terms of maritime disasters, and also giving assistance to neighboring nations. There has been a great deal of evolution in the last few years where the Indian economy has changed, and so has India's latitude towards making developmental pledges to neighboring countries.

Akriti (Vasudeva)
Kalyankar:

Nilanthi?

Nilanthi
Samaranayake:

Thanks Akriti, for having me here today. I will share some of my personal views. I have three points on this question. First, we can understand U.S. foreign policy objectives in South Asia by looking back to 2013 versus where we are now 10 years later. In 2013, the U.S. had wartime objectives regarding Afghanistan and Pakistan, trying to withdraw from the conflict with India.

The U.S. had made significant gains in the strategic relationship with India. This was under the Manmohan Singh Congress Party leadership though. There were certainly some historic breakthroughs, but not quite the defense and security level of ties that we have since seen under the BJP leadership. For example, we hadn't yet seen the major defense foundational agreements signed like the LEMOA, the COMCASA, the BECA, and the Malabar exercise had been reduced in scope.

You contrast that to now in 2023, the U.S. has pulled out of Afghanistan, it is now providing wartime support to Ukraine in its war. It has been pulled outside the region for combat support purposes. With India, those defense foundational agreements have been signed. The Malabar exercise has been made more complex and there are more partners. U.S. naval ships are being repaired in India, the Quad has experienced significant gains, and there are a lot of more items along that vein.

Those developments have been aided by a worsened China context for India. China established its first ever military base overseas in Djibouti. In 2017, we saw the Doklam standoff where India actually sent troops to assist Bhutan as a smaller South Asian country. Also, the border conflict that we've seen between China and India since 2020. China has been more assertive generally in the waters of the Pacific, which has also been an important signal. Then it has been 10 years of BRI branded activities. There are some big structural changes that have also affected U.S. policy in South Asia.

Second, we can say that officially there is more attention to the smaller South Asian countries because there is a new deputy assistant secretary of state that is responsible for these countries. That has coincided with the establishment of a deputy assistant secretary for India.

However, there is no mention of the smaller South Asian countries in the Indo-Pacific strategy. This is a significant omission and one that actually belies U.S. policy focus that actually does exist in these countries, although they are clearly secondary to the U.S. strategic focus on India and supporting its leadership in the region. This is a gap that can be addressed in the next iteration of the Indo-Pacific strategy.

Third, we can see with regard to U.S. policy towards some of the smaller South Asian countries, certainly some differences between now and 10 years ago, but also some continuity, particularly in Bangladesh and Sri Lanka.

Akriti (Vasudeva)
Kalyankar:

Thanks, Nilanthi. We will come back to that U.S.-India cooperation or differences in the way that they approach the region. I wanted to go back to Kithmina, Gaurab and Shafi because we have a lot of conversation in D.C. for example, about the Indo-Pacific strategy, and about China's role in the region. We do not center the perspectives from the region as much, particularly from the smaller countries and the agency that they have and the decisions that they want to make, and areas that they would like to invite cooperation in.

From that angle, I wanted to ask: what are the priority areas of economy and defense for Nepal, Bangladesh, and Sri Lanka where each country is seeking foreign assistance? In which of these areas are China, India, and the U.S. most likely to plug in, succeed or fail? We will go to Kithmina first and then Shafi and then Gaurab.

Kithmina Hewage:

As I said earlier, in terms of the economy, the areas of interest and the areas requiring international assistance are pretty obvious. The main one is debt restructuring. The government has agreed with the IMF, there is a framework in place, but that heavily depends on the debt restructuring with private lenders, but also importantly with bilateral lenders.

That is where I think China plays a very important role, as does India because those are the two big bilateral lenders to Sri Lanka. The Paris Club plays a role in terms of broader debt. Navigating that relationship is going to be the most important in the immediate future along with ensuring that China agrees to a debt restructure that India will be happy with as well. And India has insisted that for any agreement of Sri Lanka that comes with China, India has to be treated as an equal partner, so it has to be the same agreement. That's going to be one of the key factors.

The second is in terms of investment, and particularly Sri Lanka is open to investment from abroad, particularly in things like utilities for insurance, et cetera. There are some sectors that the government has identified, and I think India, China, the U.S., and other European economies as well, are looking at opportunities to come in.

Sri Lanka will be most concerned when seeking defense support because it is almost a lose-lose situation if it aligns with one because the other then will see it as too much of an alignment. For example, when current President Ranil Wickremesinghe was prime minister, towards 2018 when the U.S. government was trying to push the SOFA agreement, the status of

forces agreement with Sri Lanka, there was a massive political backlash. There were also concerns from China with regards to what Sri Lanka was trying to do. Similarly, when it comes to research ships coming to Sri Lanka, there is then a pushback from India about what the causes are.

In terms of defense assistance, there will obviously be more multilateral assistance than will be seen in terms of piracy and maritime security, et cetera. Bilateral defense assistance is one of those areas that I think Sri Lanka will be sensitive to, and we will try to have a hands-off approach wherever possible so that it does not anger one party over the other.

Akriti (Vasudeva)

Kalyankar:

Thanks, Kithmina. We are already getting a lot of great questions, which we will get to in a minute. Shafi, same question to you from Bangladesh's point of view?

Shafi Mostofa:

I do not think Bangladesh is too worried or concerned about its defense security mechanism. Rather, Bangladesh considers defense cooperation as part of its development strategy as this mega project development is connected with the current regime's legitimacy. Having said this, China is likely to continue its success in areas of infrastructure, trade, technology, and defense where it has already made significant or substantial inroads. Its extensive financial resources and experience in executing large-scale projects give it an advantage.

India could have succeeded because of its historical and geographical ties with Bangladesh, but there are some issues, there are some strains that have been created over the last five to seven years, especially on issues like border killing, water sharing, as well as perceived interference in Bangladesh's politics. These issues actually have created strains in Bangladesh-India relations. The internal policies within India are also perceived as anti-Muslim policies. All these things together has created an anti-Indian sentiment in the country.

These are the reasons that have restricted India's success a bit in the country. But definitely I must say Bangladesh is still within the framework of India and the U.S. However, China is making substantial inroads in its infrastructure, especially its infrastructure, and in defense as well.

If I come back to the U.S.'s relations with Bangladesh, I think that U.S.'s policy has long been mainly looking at Pakistan and India. They are focusing more on India and Pakistan, not focusing on what other small states are doing. It is only in the last five years that the U.S. is now looking at engaging with the smaller states as well. They have realized the importance of Bangladesh in the Indo-Pacific as a littoral state of the Bay of Bengal. They invited Bangladesh to join the Quad and definitely the Indo-Pacific Strategy, but Bangladesh did not join them officially because

China has threatened Bangladesh that, if we join, it will damage Bangladesh-China relations.

We can understand that in this geopolitical situation, Bangladesh is not directly aligning with the U.S. at the moment. This silence regarding joining the U.S.'s policy means a lot because Bangladesh has been in that framework for a long period of time since its independence. This is how, from that perspective, China is likely to succeed to continue its investment in Bangladesh.

Akriti (Vasudeva)
Kalyankar:

Thanks, Shafi. Gaurab, let me come to you with the same question on Nepal. I want to bring in an audience query as well, which relates to what we are talking about, which is that in addition to talking about the priority areas that Nepal is looking for assistance on, maybe also responding to, is Nepal looking at China from the lens of overpromising and underdelivering? This is a question from Jonathan Dorsey, and he is asking, should countries trust that China is a reliable partner? Or is it more about taking advantage of infrastructure projects and not really looking into the trust factor as much?

Gaurab Shumsher
Thapa:

After the promulgation of Nepal's new constitution in 2015, the country has prioritized economic development as its number one priority. Nepal's stated foreign policy or its major guiding principles are to follow the principles of non-alignment because it is in a sensitive geopolitical environment, sandwiched between two big and competing neighbors, India, and China.

Thus, Nepal has always maintained good relations with all its neighbors. Even the U.S. has engaged with Nepal recently through the Millennium Challenge Cooperation Compact, which is a \$500 million infrastructure project, mainly for roads, transmission lines, and electrical transmission lines. 85% of our economic activity is with India. There is no denying that India will still keep that place because of the geographic proximity, cultural linkages, socioeconomic linkages, linguistic affinity, religious and even familial ties. There are more people-to-people ties with India.

With China, although we have ancient relations with them, the geographical complexity makes it difficult to have ease of access towards them. But having said that, China is also equally involved in Nepal-politically, economically, and as well as in other domains.

With the U.S., the rivalry plays out in Nepal, as I mentioned in my article, this is a trilemma. Earlier it was with India and China. Now the U.S. is also a big influential player in Nepal. Nepal always needs to keep a balancing act among all these players.

As per its stated foreign policy goal, Nepal believes in not engaging in any military pacts or military initiatives. So that's why we have not been part of any military alliance, be it with the U.S., China or even with India. However, historically, there have been bilateral military links with India, the U.S., and with China. In that sense, Nepal believes in maintaining equal relations with all the countries for its economic development.

Akriti (Vasudeva)
Kalyankar:

Thanks, Gaurab. Nilanthi, let me bring you in, keeping in mind the context of the discussion on the needs of the countries in the region. How do you feel the United States has responded to some of these needs and actions that we mentioned, especially in the context that China has struggled a bit in the region in the last few years?

We have seen that there was potentially space to utilize some of the concerns that countries were raising about cost overruns or corruption or debt traps or lack of local job creation with regard to China's Belt and Road Initiative. But as you mentioned as well, there isn't a mention of the smaller states in the Indo-Pacific Strategy. It has been criticized for not having a hefty economic component. How has the U.S. responded to some of these errors on the Chinese side?

Nilanthi
Samaranayake:

This is a great question. For the first several years of BRI there was this sense that China is throwing hundreds of millions, and billions of dollars toward these projects. These countries have an insatiable appetite for connectivity projects, they are just trying to meet their national development goals and jumping on that connectivity bandwagon.

We have seen now, 10 years later into this BRI branding, the shortfalls of that on the Chinese side. Certainly, in the case of Sri Lanka, we have seen very tangibly China's overall lack of willingness to help Sri Lanka where it has most desperately needed it over the past year.

However, in terms of a U.S. response, one example that is quite clear is the Development Finance Corporation (DFC). If you look at the Trump administration's National Security Strategy, it clearly outlined the need for the United States to modernize its development finance tools. This was a response to what the U.S. and the world had been seeing with regard to BRI.

Currently, under the Biden administration, this DFC has continued to be built out. We have certainly seen some projects by the DFC in Sri Lanka and Nepal, and as Gaurab mentioned, the Millennium Challenge Corporation Compact in Nepal, which was very controversial. However, the government was able to pursue it through ratification and certainly with a lot of U.S. diplomatic attention to that as well.

More broadly though, beyond these big projects, the U.S. is a significant enabler of trade. If you look at Bangladesh and Sri Lanka, the U.S. is the top export destination for these countries, and this is national income. This isn't money from remittances or money from loans. As such, the U.S. plays a role that does not get a lot of attention. This is in terms of enabling trade for these countries, enabling their exports, and helping to boost these countries' foreign exchange reserves, which we see regularly in the headlines coming out of Bangladesh, and also with the economic crisis in Sri Lanka over the last year, and how critical it is to have those reserves.

More generally, in terms of U.S. assistance, Bangladesh has been the largest recipient of U.S. assistance in Asia for 50 years, since independence. We have also seen U.S. crisis assistance to Sri Lanka over the past year with the economic crisis.

The U.S. also faces some challenges. For example, the Millennium Challenge Corporation Compact. While it was successful from a U.S. perspective in Nepal, it was not in Sri Lanka – it was rejected. The Development Finance Corporation cannot operate in Bangladesh because of concerns over labor rights, worker conditions and the GSP suspension for Bangladesh. That is an obstacle for the U.S. to carry out some projects through the DFC in a significant country in South Asia.

These countries are also facing broader structural challenges. Since Nepal has moved up from low-income to lower middle-income status according to the World Bank, all these smaller South Asian countries are now at least at the lower middle-income level of growth and development. However, we have seen three of these countries go to the IMF in the past year. There is a larger context of the effects of COVID and global inflation, and as Kithmina mentioned, some self-inflicted wounds by Sri Lanka's mismanagement of its economy. So, the U.S. is facing a lot of challenges.

Akriti (Vasudeva)
Kalyankar:

Thank you so much for that, Nilanthi. Kalpit, let me bring you in and ask that question from the Indian point of view. India was one of the first countries to register opposition to the Belt and Road Initiative, but there has not been much of a response or alternatives provided by India in the region.

I will take a question from Elizabeth Threlkeld, the Director of our South Asia Program at Stimson, who asked: have there been any lessons learned by India on how its perceived in the region? There is, as Shafi mentioned, concern about interference in domestic politics. India in the past, at least, has been seen as a big brother in the region. How has India tackled some of that to have a greater focus on development in its interaction and involvement in the region?

Kalpiti Mankikar: To start with, the Indian position on BRI has been a little more nuanced. India had an issue with CPEC typically because of a sovereignty issue, and there's even a parliamentary resolution that says that India needs to reacquire that land. I'm not going into that dispute.

However, the second point was about debt sustainability. Right from the time when BRI came into existence, there was an issue of debt sustainability, and many of these countries were being saddled with a lot of debt. India also worked with China in terms of AIIB where we were a part of it. Thus, India has a very nuanced approach towards development.

Having said that, where did BRI really score? I sit in a room which is well lit. I'm in this discussion because we have excellent broadband internet services. I think there is a huge population that lacks all these basic infrastructure facilities. This is where China scored. This is why India's pleas were like Cassandra's pleas. There was a lot of debt sustainability. So, I think these were the issues.

Having said that, I believe India has learned its lessons. I do not want to get into this, it is a slightly contentious issue regarding interference in each other's internal affairs. However, the point is that India has also been a first responder to disaster. I think we have learned our lessons.

Akriti (Vasudeva)
Kalyankar:

Thanks, Kalpit. I want to take a couple more audience questions as we are in our final segment here. Gaurab, let me come to you. This question from an attendee asks, "Does Nepal's foreign policy towards China change as the Maoist Communist Party heads the government in Nepal?"

Gaurab Shumsher
Thapa:

I do not think so because Nepal is a multi-party democracy, and even communist parties participate in elections. They are in power by winning a certain number of seats. The Nepali Congress Party is the largest party at the moment in the parliament. However, the Maoist Party's leader Pushpa Kamal Dahal Prachanda, with the support of the Nepali Congress, is the prime minister at the moment. Thus, Nepali Communist parties, are used to participating in the multi-party democratic process since 1990, and even earlier, such as after 1950 and during the first democratic phase. The Nepali Communist Party is used to participating in the democratic process. I do not think there is any question of a particular party being influenced by a particular party in another country to that extent that it affects the whole polity in Nepal. Thank you.

Akriti (Vasudeva)
Kalyankar:

Thanks, Gaurab. We have a couple of questions here in the chat on the String of Pearls moniker, and its way of looking at the region directed to Kalpit and Nilanthi. The String of Pearls is seen as, from the Indian point

of view, the surrounding of the subcontinent and the waters around it with Chinese maritime BRI projects in South Asia and the Indian Ocean region. Is that still a useful way to look at Chinese engagement and involvement in the region? Is that narrative more of a hyperbole? Or is it still useful to use that frame to talk about the involvement of China and different countries in the region?

Nilanthi
Samaranayake:

I think it is one lens. It is not the only lens. Certainly, when we are thinking about the String of Pearls concept, and you look at the history, and the evolution of it, it really emerges among analysts from India and analysts from the United States engaging in these conversations. At the heart of it is India and its conception of its neighborhood and the countries that surround it, where potentially their relationships with China could be threatening.

The China-Pakistan relationship is well-known and well understood. However, at the time, around the 2004 or 2005 period, people were really starting to understand what does this mean if China develops deeper relations with the smaller countries of South Asia? It also included Southeast Asia for that matter. Thus, it was not even limited to a purely South Asian conception of potential threats for India.

From the China lens, we are talking about major powers looking at the smaller South Asian countries. Whether it is India's neighborhood, an Indian lens or China's String of Pearls, there is increasingly an evolution for thinking about the region through the lenses of smaller South Asian countries and trying to provide more agency and understanding about how each of these countries are viewing these dynamics.

I would add that the India-China dynamic really points to Asia. However, countries like Maldives, where I was recently, was a reminder of the role of Saudi Arabia in Maldives. Think about other countries that have really important relationships with smaller South Asian countries, whether it's Saudi Arabia for Maldives, whether it's Japan for Sri Lanka, or Japan for Bangladesh. I think it is important to understand that particular lens of the string of pearls discussion, and to also think from the perspectives of smaller South Asian countries, and how they need a range of options. It cannot just be limited to India or China. Thinking about the potential partners out there that can help some of these countries meet their national priorities and goals.

Akriti (Vasudeva)
Kalyankar:

Thanks for that, Nilanthi. Our conversation has not focused on this so much, but of course Japan and Australia are involved in the region as well with their own aid and infrastructure development initiatives. However, Kalpit, same question, does the String of Pearls frame or lens still have

resonance in India, and what are some of the concerns or threats that this pose for Delhi?

Kalpita Mankikar: Let us try to understand one thing. China has increased its presence particularly in nations which have ports. Hambantota is an example. There are a lot of statistics on this. I think it is primarily because there is a great deal of anxiety in China that it has to bypass the Malacca Dilemma. There is a fear that its economic interests, and its fuel supplies could be throttled when ships travel through the Malacca Straits. This is what impels China to really go in for this expansion. There is some amount of fear. Look at the Ream base that China established. There is a fear that a lot of the civilian infrastructure that is being built can be used for purely military purposes. That poses a threat not just to India, but also to these host nations.

Akriti (Vasudeva)
Kalyankar:

Thanks so much, Kalpita. Let me bring in one more audience question again on the lenses that we use to look at the region. There is a question from an attendee who talks about hedging as a lens in international relations and how that applies to the region. Let me take this question to Shafi and Kithmina. How much does the concept of hedging between the U.S. and China, or between India and China, for example, apply in the instance of both Sri Lanka and Bangladesh? Additionally, another thought that has come in from our Q&A is: How much are countries in the region learning from each other's interactions with great powers? Has Bangladesh actually learned from the lessons that, for example, Sri Lanka has taken away from its engagement with China and the U.S. or vice versa? Let me come to you first, Kithmina, and then to Shafi.

Kithmina Hewage: Sure. I cannot speak for what the current Sri Lankan government is thinking or what Sri Lankan governments in general think. However, in terms of the lessons learned, hedging has generally not worked because the governments have tried to hedge between one or the other. In my first article for SAV, I said Sri Lanka was pursuing strategic promiscuity, which involves opening itself up to investments from one and then balance it out in investments in a different part of the country, et cetera. However, now the president is a forced agnostic, that is what I called it, as the room for maneuvering is severely limited because of the economic conditions in the country.

The reason for that is over time, Sri Lankan governments have realized that they cannot hedge with one over the other, particularly with the India-China dynamic. Because when you lean on, say, India for political support, you need China for economic support. If you try to lean too heavily on China for political and economic support like Mahinda Rajapaksa's government did, then you have the security dynamic and other

political factors play out at the HRC and so on with India and the economy.

Thus, hedging has generally not worked for Sri Lankan governments. Sri Lanka's stated foreign policy has been non-aligned, however, the governments haven't necessarily followed it. I think what would really work is a truly neutral foreign policy where it has proactive engagements with all these parties but remains neutral on some of these contentious issues and does not take part in the power politics between the players. Whether that is possible, however, is the big question. Right now, Sri Lanka doesn't have an option but to stay neutral because it cannot afford to sully the relationship with one party over the other. How long that will take place once the debt restructuring kicks in, and once we move beyond debt, remains to be seen.

Shafi Mostofa:

Bangladesh, as she rightly mentioned, is desperately looking for money. This is very clear from the prime minister's speeches and the foreign minister's speeches. Recently they came back from Belgium, and they managed \$1 billion, and publicized that they have managed money. Organizing money and taking money from the outside, is the only thing that the Bangladesh government is looking at because its Forex reserve is depleting every day.

However, five years before, things were different. Currently, the U.S. is closely looking at development in Bangladesh, especially at the elections that are to be held in 2024, and a series of things have already happened between Bangladesh and the U.S.

The U.S. sanctioned one of the security forces, RAB. It also implemented visa restrictions on those who are undermining the democratic process. Considering all of these things, you cannot say that hedging is not working for Bangladesh at the moment. The scenario has changed completely because of the U.S.'s direct engagement in the region now. The U.S. has taken an ideological stance for South Asia, promoting democracy and human rights.

Thus, from that perspective, Bangladesh is desperately looking for money. Bangladesh is still working within the framework of the U.S. and is depending on the U.S. because the latter is the highest export country. The amount of money Bangladesh needs in the upcoming days, especially after 2024, is not an amount cannot be sourced anywhere else apart from China. That is why Bangladesh is depending more on China rather than on other countries. That concept of hedging, in the geopolitical situation, will not work for Bangladesh.

Nilanthi

Samaranayake:

To jump in, the question speaks to international relations theory. There are some limitations when we think about hedging exclusively. I wrote an article for the Small States & Territories Journal where I argue that we cannot only think about hedging at the international system level of analysis. We need to think about the smaller South Asian countries, their domestic interests and imperatives, their preferences, and where those meet the domestic and international systemic level. This is because India is such a dominant country strategically in this region and in the minds of leaders. The article essentially tries to put forth a view of how some of the smaller South Asian countries operate. There are some limitations when we are thinking purely about hedging.

Akriti (Vasudeva)

Kalyankar:

Thanks, Nilanthi. I'm glad you mentioned domestic politics. Shafi, you mentioned the elections. I want to end our webinar on a forward-looking note and on how some of the local dynamics impact foreign policy. We are looking at elections in Bangladesh, Sri Lanka, India, and the United States in 2024. How are domestic politics likely to shape some of these geopolitical interactions in South Asia in the next few years, keeping in mind a potential change of government in any of these countries in 2024? Regarding some of the trends that we have seen or discussed here today, will they reverse or remain the same? Let me start with Shafi, then go to Kithmina, Kalpit, and then Nilanthi.

Shafi Mostofa:

While it is challenging to predict specific outcomes, the trends in South Asia's vertical dynamics definitely will be influenced by the interplay of domestic politics, regional alliances, and global power shifts. I think the 2024 elections in Bangladesh will indeed be a significant factor in shaping the country's foreign policy direction. While the U.S. is promoting democracy and human rights, China and Russia are defending, to some extent, the sitting hybrid regime in Bangladesh. Thus, the 2024 election will have implications for the direction of our foreign policy.

Akriti (Vasudeva)

Kalyankar:

Kithmina?

Kithmina Hewage:

Domestic political considerations have been the most dominant factors that have influenced Sri Lankan foreign policy and its interactions- whether it is the war or the economic crisis. However, in terms of the presidential election and the parliament election that will follow, I do not think it is going to necessarily change Sri Lanka's relationships with China and India significantly because all the main parties involved recognize that they need to have good relations with both countries and not align itself too heavily with one or the other. That lesson has been learned. Sri Lankan policy makers do not necessarily implement lessons learned, but hopefully moving forward they will. What concerns me with the upcoming elections

is how they will impact the economic reforms, or whether we will slide back to populist economic policies closer, or right after an election, which could undercut a lot of the reforms that they are trying to initiate. As a result, that would make the domestic dynamics too vulnerable and then that affect foreign policy.

However, speaking of presidential elections, the election that I will be keeping an eye on is the U.S. election. That is going to play a very important role in Sri Lanka and in other countries in the region as well. We saw this play out, for example, when Trump was president, when Mike Pompeo visited Colombo, he said: "You are either with us or against us."

Now that stance has not been the same after Biden came in. However, if for example, Trump becomes president again and continues or elevates the anti-China foreign policy that we saw, then small states like Sri Lanka will be forced to make choices that will not be in their best interests. That will then potentially affect the dynamic because then the regional politics and regional dynamics would also change from what it is right now. Thus, in terms of domestic elections, the American election is more likely to change the dynamics than the local Sri Lankan election.

Akriti (Vasudeva)
Kalyankar:

Great. Quick word to Kalpit and then we will end with Nilanthi.

Kalpita Mankikar:

Let us understand domestic politics and geopolitics. It is almost like an iterative loop. I say that because in the organization that I represent, ORF conducts a yearly poll where we speak to a lot of youngsters regarding India's foreign policy, how they perceive India's foreign policy, and what their outlook is. This is a poll that we undertake every year.

[From the poll,] 2020 Galwan is that watershed moment. Since then, all polls have found that about 85% of India's youth really look at China as India's number one challenge. All this has happened only post the violent clashes between Indian and Chinese troops in Galwan. If you speak to a broad constituency in India, you will find that there is one area where the government's policy of greater troop deployments and of building infrastructure in border regions has got a great deal of public approbation. I will leave it at that.

Nilanthi
Samaranayake:

To add another country to the mix: Maldives. On my recent trip there, it was interesting to me to hear how many people volunteered to show that the role of foreign policy was the major factor in determining the election outcome. There were certainly domestic factors at play in Maldivians choosing their president, but many offered the fact that this was a first for

Maldives, certainly with this prominent India Out campaign. This is anecdotal, but that is one thing that stood out.

Another thing was elevated nationalism, not only regarding the India-China dynamics that we have talked about today, but many people in the Maldives also brought up the Maldives' legal case against Mauritius and the demarcation of the maritime boundary in the International Tribunal on the Law of the Sea, from the ITLOS' decision earlier this year. The sense that the Maldives needs to defend its sovereignty and its territory, whether on land or on its maritime borders and resources, was palpable.

Akriti (Vasudeva)
Kalyankar:

A word on U.S. elections maybe, Nilanthi?

Nilanthi
Samaranayake:

U.S. elections? Your guess is as good as mine. It has been interesting to see both the Trump administration's national security strategy and the Biden administration's national security strategy. There is a lot of continuity with regard to the threat perceptions of China and the need to pursue alternatives to what China's offering, like with the development finance corporation. I'm really struck by some of the continuity across administrations.

Akriti (Vasudeva)
Kalyankar:

Thank you so much to everyone for staying a bit over time with us. This has been a very interesting discussion, and I would encourage everyone who's joining to please check out the [South Asian Voices series](#) that this discussion is based on. It is available on www.southasianvoices.org. The video of this discussion as well as the transcript will be available on the Stimson Center website as well as on the SAV website. I want to thank you all, especially my panelists, for joining us. See you at another one of these discussions in the future.