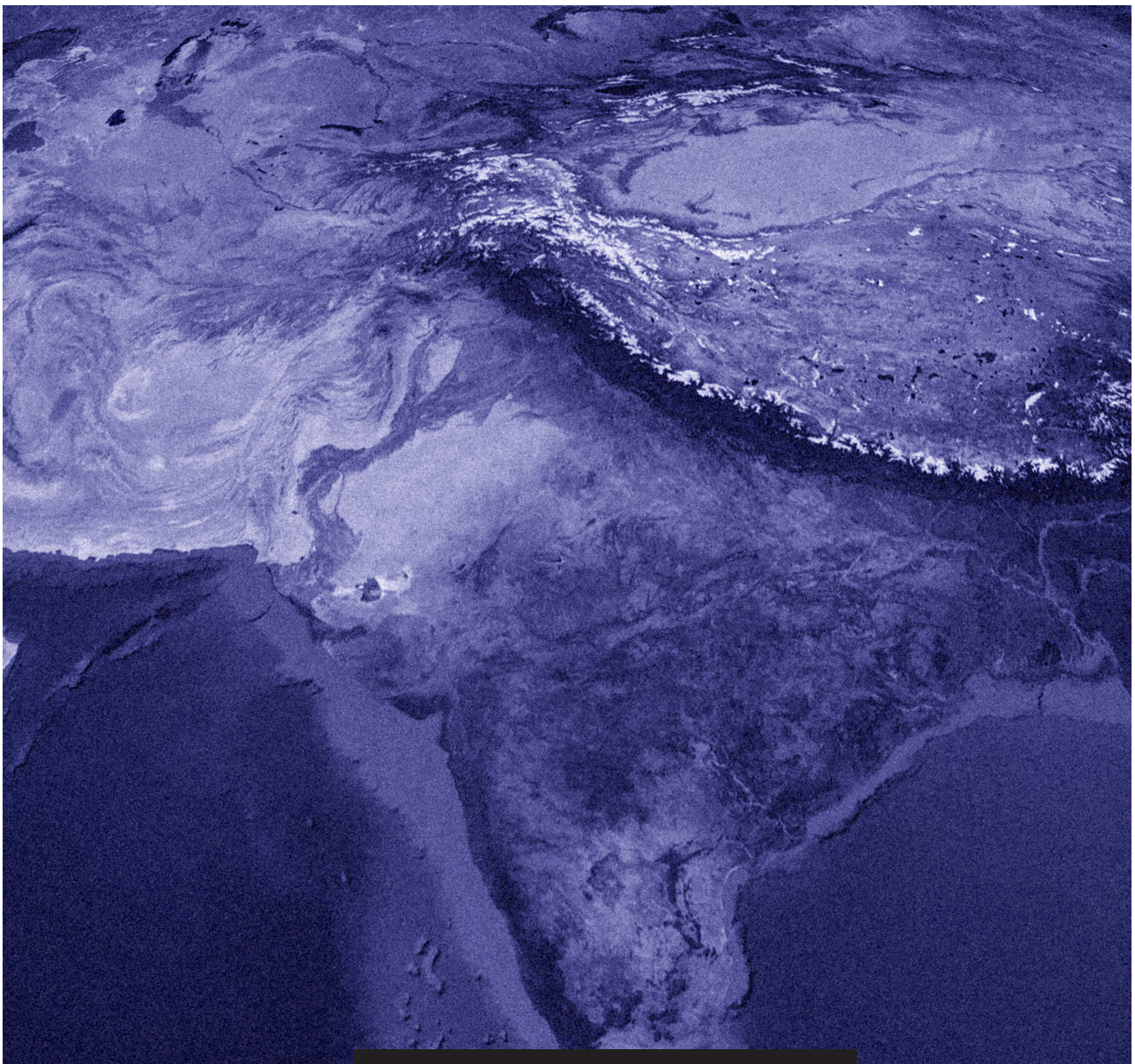


SPECIAL **REPORT** no. 197

India-China Competition: Perspectives from the Neighbourhood

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Editor



AUGUST 2022

Introduction

On 15 June 2020, Chinese troops, estimated to be more than 250, attacked a group of 50 Indian soldiers who were inspecting the progress of the Chinese withdrawal from the Indian side of the Line of Actual Control (LAC) in the Galwan Valley.¹ The encounter ended in the deaths of 20 Indian soldiers and an undeclared number of Chinese troops, and led to a prolonged standoff between the two sides along the LAC.

India and China have often competed for strategic dominance in the international and regional order, and continue to be embroiled in border disputes. Yet, despite their differences, the two have also cooperated in bilateral, regional, and multi-nation forums in the past.² It was in this spirit that Prime Minister Narendra Modi had worked

to foster bonhomie with China by meeting President Xi Jinping in Ahmedabad, Wuhan, and Mamallapuram, at different times over 2014, 2018, and 2019.³

The Galwan clashes, however, sent shockwaves across India, underlining China's expansionist intentions. India has since then moved closer to the QUAD and focused on military modernisation. Indeed, the rivalry between India and China has intensified, and the struggle for power and status has taken new precedence. With the new Cold War lines solidifying and the Indo-Pacific region becoming a pivot of geopolitical churning—the role of South Asia has become more strategic.

Both India and China continue to exert influence in the region and further their interests. For India, South Asia and the Indian Ocean are the first lines of defence against any invasion; having clout among its neighbours allows India the status of being a 'regional power'. Such thinking has for long dominated India's neighbourhood policy, albeit in different forms. At present, India is focusing on investing in various connectivity projects to counter China's diplomatic and economic influence, while creating multiple interdependencies to sustain its position in the region.⁴

For its part, China, beginning in the 2000s, has used military, political, economic, and cultural tools to expand its footprint in South Asia. It is aiming to solidify its status as an Asian power, gain access to the vast resources of the Indian Ocean, encircle India, secure important Sea Lines of Communication, and usher in economic growth especially to its volatile regions such as Xinjiang and Tibet.⁵

India sees China's proposed projects, and in particular, the flagship Belt and Road Initiative (BRI) as means to counter India's influence. For China, a South Asia where India is the unrivalled hegemon will threaten not only its status in the region, but its internal security as well, such as vis-à-vis Tibet.

As the trust deficit between these two nations runs higher following the Galwan clashes, the stakes have increased. South Asia has become a battleground. For the South Asian nations themselves, the intense competition has not only opened up new opportunities, but has also heightened their anxieties. These countries view the rivalry as a means to exercise their own agency, seek political and economic benefits, shed their overreliance on India, and mitigate the impacts caused by China's 'debt traps'.⁶ With India, China, and other countries like the US casting their eyes on this region,⁷ South Asian states are pursuing active balancing and bargaining, rather than being passive victims of the games being played by global powers. This has helped them acquire investments, grants, aids, loans, and agreements.⁸

It is likely that this competition, and its leveraging by South Asian states, will continue to be a long-term affair. After all, neither India nor China is showing any signs of retreating.

This special report attempts to provide South Asian regional perspectives on the India-China rivalry. In the first chapter, Zeba Fazli problematises the probability of India's two-front war by assessing Pakistan's current state of affairs. An economic crisis, blacklisting by the Financial Action Task Force, the limitations of the China Pakistan Economic Corridor, and lack of enthusiasm to join a military alliance, will push Pakistan to seek a balance between China and the US; this will prevent it from posing an immediate threat to India. For a country like Bangladesh, which has been experiencing economic growth in the recent years, balancing between India and China is essential. Despite some incentives that emanate from the competition, Bangladesh is advocating for harmonious relations with both states. Delwar Hossain, in his piece, attributes this policy to various factors: national interest, economic needs, and the principle of "Friendship to all and malice towards none."

China's unresolved disputes and occupation of Indian and Bhutanese territories have intensified their competition. In the third chapter, Achyut Bhandari outlines Bhutan's apprehensions of militarisation in the region and the Indian Ocean, and how friendly relations could promote Bhutan's economic growth and trade. In Nepal, meanwhile, the competition is more intense: India is countering China's presence by proposing new projects and accelerating old ones. The US is also a new stakeholder in this competition. Dinesh Bhattarai illustrates how the rapid downturn in India-China

relations has influenced Nepal's domestic politics and heightened the investment competition.

Azra Naseem, in the fifth piece in this volume, makes an assessment of how the India-China rivalry impacts the Maldives's domestic politics. Political parties and leaders in the Maldives formulate their foreign policies according to calculations of their personal benefits. This raises several important questions on the nature and intent of investments in the Maldives, and the country's role in the unfolding great game. In the final chapter, Chulanee Attanayake compares India's aid, trade, and investments in South Asia with those of China, and argues how China has acted as a catalyst to bring India closer to Sri Lanka.

This special report seeks to highlight the implications of the India-China competition for individual South Asian states. It describes their perceptions of the rivalry, and outlines their responses.

-Aditya Gowdara Shivamurthy

Pakistan

An Unwieldy Balancing Act and the Realities of a Two-Front War

Zeba Fazli

Perceptions and Reality

The spectre of great-power competition in South Asia is growing increasingly corporeal,¹ and analyses of strategic dynamics in the region² are being drawn within the frame of India as a major defence partner of the United States (US),³ acting as counterweight to China and its all-weather friend, Pakistan.⁴ More specifically, when describing India's biggest threat perceptions, the country's officials, as well as independent analysts, often point to not only China's increased aggression in the region⁵ but also its relationship with Pakistan creating a collusive threat in which Pakistan could jump into a conflict to put greater pressure on, or exact greater costs, from India.⁶ The reality, however, is more nuanced. This essay interrogates Pakistan's response—and indeed, non-response—to increasing tensions between India and China, within the context of its other foreign policy and domestic challenges.

Even as India has had to deal with an ongoing standoff with China in eastern Ladakh for the past two years, Pakistan is unable—or unwilling—to take advantage of India's difficult position because of its own political and economic crises.⁷ Moreover, with former Prime Minister Imran Khan's exit in April 2022, Pakistani stakeholders, disavowing the “camp politics” that would characterise them as being squarely in China's grip, may attempt to revitalise Pakistan's relationship with the United States without turning its back on China—in essence, to reposition themselves at the centre of this key region by playing the global powers off against each other.⁸ Its balancing act would be difficult to execute, but Pakistan's attempts to reset the narratives of power and competition in Southern Asia may yet open the door to greater cooperation and enhanced strategic stability—*if* that door remains open, and *if* anyone else is willing to walk through it.

A State of (Dis)Grace

There is no denying the strategic impetus of Pakistan's iron-clad friendship with China: The two countries find in each other useful hedges on India's power in South Asia. As former Pakistani ambassador to the United States Hussain Haqqani once described this symbiotic relationship, "For China, Pakistan is a low-cost secondary deterrent to India, and for Pakistan, China is a high-value guarantor of security against India."⁹ In the past decade or so, China and Pakistan's economic, military, and strategic cooperation has only grown in depth and breadth, building on what was already a decades-old foundation. The two countries inaugurated the Belt and Road Initiative's (BRI) flagship project, the China-Pakistan Economic Corridor (CPEC), in 2015,¹⁰ and China is Pakistan's largest export partner.¹¹ Pakistan's security establishment also continues to partner with China for joint and multinational military exercises, and to purchase key defence equipment.¹²

It is hardly a surprise that the growth of China and Pakistan's relationship is occurring parallel to the decline of its pragmatic yet difficult relationship with the United States (US).¹³ Pakistan's relationship with the US, too, has been primarily predicated on security, from the Cold War alliance networks of the

1950s to the Soviet invasion of Afghanistan in the 1980s, to the War on Terror in the 2000s. Such controversial history has led to an even more fraught present in the wake of the US withdrawal from Afghanistan¹⁴ and the Taliban's rapid takeover in August 2021.¹⁵

Indeed, Washington appears to have shed the albatross of Afghanistan from what has long been deemed a frustrating relationship. As US Deputy Secretary of State Wendy Sherman said in November 2021: "We [the United States] don't see ourselves building a broad relationship with Pakistan."¹⁶ Today, Washington is eagerly shifting its focus to the Indo-Pacific region and its great-power competition with China.¹⁷

It is in this context that India becomes a potential challenger to China's rise—a designation that India has welcomed rhetorically, and increasingly in practice, particularly since the 2020 Ladakh crisis broke out, for example in the April 2022 US-India 2+2 dialogue.¹⁸ These shifts in US priorities and outlook, based on its experience with Pakistan and its hopes for India, effectively leave Pakistan in the dark, a scenario that may well push it even further toward China.¹⁹

However, dismissing Pakistan as merely China's "lackey", and overstating its moves in response to growing India-China competition, obscures the more complicated picture that is emerging on the ground among Pakistan's many and sometimes contradictory stakeholders.

Domestic Constraints

The China-Pakistan all-weather friendship faces storms ahead, at least from Pakistan's perspective, which complicate common-sense assessments of that friendship. In 2016 when Prime Minister Nawaz Sharif and President Xi Jinping first announced CPEC,²⁰ Sharif referred to the project as a "fate-changer" for Pakistan. Since then, Pakistani officials have become more muted about CPEC projects.²¹ There are many possible reasons for this dampened enthusiasm, including the massive debt being incurred by Pakistan, the alleged corruption accompanying some of the projects, the non-viability of large-scale projects, the paucity of jobs opening up for Pakistanis,²² and the lack of transparency in the deals.²³ These concerns led to a slowdown in CPEC projects, and their subsequent downsizing²⁴ and reformulation to focus on "industrialization, agriculture, and socioeconomic development, with a particular emphasis on special economic zones."²⁵

In the defence sector, Pakistani officials, reportedly including Chief of Army Staff General Qamar Javed Bajwa himself, have expressed frustration with the artillery and air defence

equipment that the country has purchased from China.²⁶ Even as Pakistan continues to purchase significant volumes of defence equipment from China—as seen in the recent induction of advanced China-made navy frigates²⁷—the armed forces would still prefer to buy better-quality arms from the US and other Western partners like France and Germany.²⁸

Perhaps the most important element in gauging Pakistan's response to India-China competition is whether Pakistan has both the capacity and the will to capitalise on potential opportunities when they arise. If its lack of action in escalating the Pulwama-Balakot Crisis in 2019 and its reluctance to "select into" crises afterward²⁹ are any indications, Pakistan is not necessarily eager to step into the fray directly. Indeed, by any measure, the 2020 India-China clashes could have been the clearest opening for Pakistan to take advantage of India's distraction, perhaps by acting preemptively along the Line of Control (LOC). However, as political scientist and commentator Ayesha Siddiqi has noted, Pakistan showed no "aggressive intent" that summer, not even to bolster its own security in the portion of Kashmir that it administers³⁰—a fact that the Indian army later acknowledged.³¹

Pakistan's restraint is likely shaped by the impacts of its continued grey-listing by the Financial Action Task Force (FATF), which requires Pakistan to take steps to deter terrorist financing and money-laundering.³² On top of its grey-listing, Pakistan continues to experience a spiraling economic crisis³³ that has led to price hikes of staples like ghee and cooking oil,³⁴ as its government is negotiating for a deal with the International Monetary Fund (IMF).³⁵ Pakistan has already lost US\$ 38 billion in GDP over the grey-list period, and is wary of the impact of continued scrutiny and the threat of potential blacklisting on its battered economy.³⁶

This threat—of heightened economic scrutiny from FATF and other international actors—has likely prevented Pakistan from escalating its protests over, for example, India's revocation of Article 370 in Indian-administered Kashmir, just as it later constrained the threat of Pakistani adventurism on the LOC in the summer of 2020. Given Pakistan's political and economic constraints, its strategists would rather that the country keep out of the fray. This pattern does not necessarily belie the oft-invoked two-front threat,³⁷ but it raises questions about the amount of both international pressure (or indeed, Chinese pressure) *and* domestic resolve it would take for Pakistan to up the ante in the way that some fear it would.

This is not to say that India's western front has been completely quiet since June 2020. There was a rise in the incidence of ceasefire violations in the latter half of the year, and the Imran Khan government in Pakistan did a notable reversal on trade with India in February 2021, rejecting the resumption of limited trade of sugar and cotton after initially approving it.³⁸ However, the 2021 ceasefire on the LOC, negotiated via a diplomatic backchannel, has largely held over the last 17 months.³⁹ With China refusing to vacate its positions on the LAC and a new (and arguably less publicly bellicose) administration in Washington, India and Pakistan found each other willing to reach for the lowest possible bar of cooperation.⁴⁰ This much-needed pragmatic step could still have been a useful path to stabilise South Asia amidst conflict in the region and among the great powers. That they have not progressed beyond a ceasefire to any other significant dimension of cooperation, however, is a symptom of the deeper political and strategic rivalry that continues to fester between these nuclear-armed neighbours.

Murky Waters Ahead

India-Pakistan relations continue to simmer in an uneasy pause that may presage a faster-escalating crisis in the future.⁴¹ Meanwhile, Pakistan's balancing act with regard to the United States and China is about to become even more precarious. Imran Khan's relationship with the army and intelligence services that are widely acknowledged to have helped bring him to power in the first place⁴² began to crack in the last year, most egregiously during the public spat between Khan and Bajwa over the leadership of the Inter-Services Intelligence (ISI) in the fall of 2021.⁴³ Before and after that disagreement, Khan attempted to assert himself over the military and turned up his strident anti-US rhetoric and actions in several instances, among them his emphatic refusal to grant the use of Pakistani bases to the US military,⁴⁴ his reference to the Taliban victory in August 2021 as breaking the "shackles of slavery,"⁴⁵ and his determination to visit Russia and meet with President Vladimir Putin on what turned out to be the day of his invasion of Ukraine in February 2022.⁴⁶ In the midst of Khan's controversial moves, the pragmatic army became increasingly eager to restabilise relations with the US.⁴⁷ As political scientist Fahd Humayun observed, the Pakistani army does not want the country to "become a casualty in great power politics which could imperil national efforts to stabilize

the economy."⁴⁸ This, again, demonstrates that Pakistan's economic woes are a key constraint to its response, or more aptly its non-response, to regional security developments.

Khan's protracted fall from grace in March and April this year ultimately brought the PML-N's Shahbaz Sharif to the fore, but how Pakistan's balancing act between the US and China proceeds and what it can possibly achieve remains unclear.⁴⁹ Domestically, Pakistan's new government is not exactly in a stable position: the multiparty coalition that ousted Khan may not be able to hold together now that its *raison d'être* is officially out of office, especially in the context of the country's economic crisis, the prospect of fresh elections in 2023, and worsening internal security issues to tackle.⁵⁰ Even more concerning is Khan and his supporters' vehement insistence that his fall was the result of US meddling⁵¹—a narrative that, building on longstanding anti-US sentiment in Pakistan, serves as a proxy for Khan supporters to openly criticise the military.⁵² This could further poison the domestic political environment and disincentivise the Sharif government from engaging more fully with the US.⁵³

As far as external engagement is concerned, while Sharif has not been slow to signal his interest in reopening relations with the US,⁵⁴ Washington's frustration with Islamabad is not likely to dissipate to the extent to which Pakistani stakeholders hope.⁵⁵ At the same time, Sharif is not likely to step away from China; he announced his intention to revitalise the CPEC within minutes of being declared prime minister.⁵⁶

It remains to be seen what that revitalisation process will look like, and what Pakistan can realistically hope to achieve from its broader balancing act. For now, Pakistani policymakers and stakeholders have their hands full trying to solve, or at least alleviate, the country's seemingly intractable domestic problems within the larger context of greater competition in South Asia. The degree of Pakistan's compounded domestic security, economy, and foreign policy problems does not eliminate the potential danger it could pose to India in the event that tensions with China escalate. However, as long as Pakistan remains bound by these dire straits—and all signs indicate that this will continue—it may temper what exactly Pakistan can do about it.

“India has to deal with an ongoing standoff with China in eastern Ladakh, yet Pakistan is unable, or unwilling, to take advantage of it amidst its own crises.”

Bangladesh

An Enduring Policy of ‘Friendship to All and Malice Towards None’

Delwar Hossain

South Asian countries share some deep apprehensions over the consequences of heightening competition between China and India. Media reports, government policy documents, and independent analyses make it clear that the region is witnessing new diplomatic challenges emanating from the widening gap between the two Asian powers, reflected in military, economic, and diplomatic tensions: the Doklam crisis and Galwan Valley clashes; trade disputes; and a trust deficit. Amidst these tensions, Bangladesh is determined to pursue a balanced relationship with both countries and remains engaged with them based on its own considerations.

Bangladesh values its relations with both India and China. Its location is strategic: it has China to the north and India to the west and east, and it is in proximity to the Bay of Bengal and Indian Ocean region. The country has also recorded remarkable socioeconomic progress in the past decade. It has therefore become important for both India and China, as well as other regional and extra-regional powers that have massive stakes in the region. Indeed, regional initiatives have put the spotlight on Bangladesh due to its growing geopolitical significance. These include Japan’s Bay of Bengal Industrial Growth Belt (BIG-B) initiative, China’s Belt and Road Initiative (BRI), and India’s SAGAR Mala (Security and Growth for All in the Region)/Naya Disha policy and Act East policy.

Sino-Indian competition visibly influences Bangladesh's foreign policy and strategic posture, as well as the people's perceptions.¹ The country is employing a proactive approach in deepening its bilateral relations with the two powers, making sure that it deals with the rivalry in a measured manner. The leadership of Prime Minister Sheikh Hasina is a critical factor in this regard. Bangladesh, under PM Hasina, remains committed to its foreign policy principle coined by the founding Father of Bangladesh, Bangabandhu Sheikh Mujibur Rahman: "Friendship to all and malice towards none."

In 2019, the prime minister was quoted as saying:

[W]hat's the problem with it (maintaining ties with both China and India)? We have ties with all our neighbours. Bangladesh has no animosity with anyone because we are following the lesson taught by the Father of the Nation Bangabandhu Sheikh Mujibur Rahman. We are also moving forward internationally by following a policy of – 'friendship to all, malice to none'.²

India and China are both leading development partners of Bangladesh. China is the largest trade partner of Bangladesh, while India is the second. Both countries also have notable economic engagements in Bangladesh. On the political and diplomatic fronts, Bangladesh enjoys a high degree of trust and confidence with both countries. It is engaged in security cooperation with the two, including in the maritime sphere. Although historically, China has provided arms and equipment to Bangladesh under bilateral arrangements, there is extensive cooperation with India on security issues such as insurgency, cross-border terrorism, border security, and border management.

On the multilateral front, Bangladesh is engaged with India and China in a number of regional and international organisations. Bangladesh works with India in regional and subregional platforms such as the South Asian Association for Regional Cooperation (SAARC), Bay of Bengal Initiative of Multisectoral Technical and Economic Cooperation (BIMSTEC), Bangladesh, China, India and Myanmar (BCIM), Indian Ocean Rim Association (IORA), ASEAN Regional Forum (ARF), and Bangladesh, Bhutan, India and Nepal (BBIN) grouping.

To be sure, India features prominently in the growing regional strides involving Bangladesh and other South Asian and Southeast Asian partners. In the context of the Ladakh crisis between India and China, Bangladesh has expressed hope that the two will de-escalate the situation and resolve their issues through negotiations.³

For their part, both China and India recognise that Bangladesh, by its sheer geostrategic location and pragmatic foreign policy approach, can bridge China and India. However, as Bangladesh promotes its bilateral relations with India and China, certain issues emerge. These issues influence the contours of triangular relations between them.

Bangladesh-China Relations

Four issues of concern are prominent in the current context of Bangladesh-China relations. A section of civil society in Bangladesh is concerned about the future of the Belt and Road Initiative (BRI) as it is linked with geopolitical dimensions in the region and beyond. The Russia-Ukraine conflict, and the various rivalries between the global powers, add further dimensions to such concerns. Bangladeshi analysts argue that the country should not confine itself only to the BRI, but rather engage in other initiatives that could serve its national interest.

The second challenge is that China, being a friend of Bangladesh, has been shielding the Myanmar regime on the issue of the Rohingya crisis in the United Nations even as it has expressed support to finding a resolution. The third issue is related to what analysts call ‘debt trap’: Chinese financing in mega projects in countries such as Pakistan, Sri Lanka, Nepal, and the Maldives, are considered to have contributed to certain adverse economic consequences of varying degrees.⁴ Lastly, Bangladesh is experiencing a ballooning trade deficit that was pegged at US\$11.01 billion in the fiscal year 2017-18 and is rising every year.⁵ This trade imbalance is an obstacle to a mutually beneficial economic partnership between Bangladesh and China.

Bangladesh-India Relations

Despite Bangladesh and India elevating their relationship during the post-2009 period, there are some unresolved issues that need attention from both countries. First, the sharing and management of water and water resources from 54 international rivers is a concern for Bangladesh.⁶

The proposed Teesta water sharing agreement is a case in point. A second issue is that the public feels uneasy when media reports mention that some political leaders in India refer to Bangladesh as a source of threat, given the current level of mutual warmth and understanding between the two states. Third, the pursuit of building a peaceful border is a key determinant of public perception in Bangladesh. Both countries have undergone paradigm shifts in their border relations through the resolution of long-standing land and maritime boundary disputes. However, challenges remain, including drug trafficking, cross-border terrorist links, human trafficking, and border killings.

Fourth, although it has not significantly featured in formal Bangladesh-India relations over the past decade, the related issues of India's National Register of Citizens (NRC) and Citizenship Amendment Act (CAA) created concerns amongst the Bangladeshi people. The fifth challenge is the massive humanitarian crisis emanating from the influx of more than 1.1 million Rohingya people displaced from Myanmar. Given the scale of the crisis, the public in Bangladesh expect India to provide more diplomatic support to their country. And finally, the slow pace of disbursement of lines of credit (LoC) from India also upsets the people in Bangladesh. At the same time, it is creating hurdles to address the infrastructure problems in the country as connectivity is a top priority of both Bangladesh and India.

Sceptics within the Bangladeshi polity tend to exploit the concerns and challenges in maintaining bilateral ties with both India and China to argue against deeper bilateral engagements with the two. Nevertheless, Bangladesh remains equally engaged with both countries, based on development considerations and economic diplomacy. The leadership of PM Sheikh Hasina has shown a determination to pursue a balanced and peaceful approach to develop the country's bilateral partnerships. PM Hasina has not hesitated to assert—whether in Beijing or in New Delhi—that geopolitical challenges in the region must be managed through friendship and collaboration.⁷

There is no doubt that Bangladesh enjoys friendly and robust relations with both India and China. People in Bangladesh also positively view the similar stance of India and China based on neutrality regarding the Russia-Ukraine conflict. Particularly, India has demonstrated an independent stance given its relations with the Western world. Indian External Affairs Minister S. Jaishankar has been leading a new brand of diplomacy that may be termed as a “middle path” for India—one that provides wider space for cooperation and partnership in the region and beyond.

For Bangladesh's part, Foreign Minister AK Abdul Momen sums up the nature of the country's relations with India and China thus: Bangladesh has an economic relationship with China; and it shares blood ties with India. The two relationships cannot

be compared.⁸ Undeniably, the relationship between Bangladesh and India is a crucial contributing factor to maintaining regional peace and development in South Asia.

“Sceptics within the Bangladeshi polity tend to exploit the challenges in maintaining ties with both India and China to argue against deeper bilateral engagements with the two.”

Bhutan

Counting on the Gains from a Friendly Competition

Achyut Bhandari

Introduction

Competition can be healthy as it improves the efficiency of an economy; an efficient economy is a more productive economy. In turn, better productive capacity can lead to increase in trade and prosperity. For Bhutan, this is the kind of competition it hopes will prevail between its two large neighbours, China and India, with which it shares borders in the north and south, respectively. Bhutan is dependent on imports and will likely remain so in the foreseeable future given its low productive base due to scarcity of labour, skills, and technology. It stands to gain, therefore, if its two neighbours compete in an atmosphere of peace and stability as such competition brings down the cost of goods and services.

At the political level, how do the Bhutanese people feel about the rising strategic and geopolitical competition between India and China and its implications for the small landlocked country between them? The competition in this context has to be seen as each country trying to gain supremacy over the other, and therefore aiming for greater influence in the region in pursuit of its national interests.

Bhutan's Foreign Relations

Ever since becoming a member of the United Nations in 1971, Bhutan has always lived by the principles and objectives of the UN Charter on international peace and security.

To that end, the norms of national sovereignty, independence, territorial integrity, and non-interference in the internal affairs of other countries constitute its bedrock in diplomacy and international cooperation, be it in its immediate neighbourhood or beyond. These principles emanate from Bhutan's Buddhist values that seek to protect all sentient beings, promote friendship and goodwill with all other nations and peoples, and resolve any differences through dialogue and mutual accommodation. It is therefore Bhutan's constant endeavour to avoid any conflict that can undermine peace and welfare in the region.

With India, Bhutan enjoys friendly, enduring, and mutually beneficial relations dating back to the British rule. Ironically, China's annexation of Tibet in 1950 brought Bhutan and India even closer due to the need to resist Chinese expansion from the north, and to open up Bhutan that had remained in self-imposed isolation until the 1950s essentially to preserve its independence. Despite cultural and religious similarities, Bhutan's relations with independent Tibet were not always cordial as the two countries faced each other at least three times in the 17th century due to Tibetan invasions.¹ The Bhutanese also derided the Tibetans, despite their shared culture and religion, for the latter's haughtiness and exploitation in trade. Bhutan, in

fact, stationed its trade agent in Lhasa until Tibet fell into China's hands.²

The government and the people of Bhutan were outraged by the extensive destruction of religious institutions in Tibet by the Chinese forces, the systematic suppression of human rights, and the outflow of Tibetan refugees including the 14th Dalai Lama. Like India, Bhutan provided shelter to hundreds of Tibetan refugees out of compassion and goodwill despite its limitations in resources. While some of the refugees migrated to India subsequently, many of them chose to make Bhutan their home and lead law-abiding lives.

The Bhutanese are pragmatic. They feel that events in Tibet can no longer be reversed despite the lingering hope of the Tibetan community living outside China. Accordingly, Bhutan has accepted the reality across its northern border and moved on to forge friendly relations with China. The Bhutanese bear no ill-will towards the Chinese nation or its people but only wish them peace and prosperity. Today, a large number of Chinese tourists visit Bhutan each year: the figure peaked at 9,399 visitors in 2015, though it later dropped to 7,353 in 2019, before the onset of the Covid-19 pandemic.³

Similarly, Chinese imports of consumer goods and durables into Bhutan have grown steadily, reaching Nu. 2.13 billion (approx. US\$ 30.33 million) in 2020. China was the third most important source of imports in 2020, and second in 2019 after India. Due to its limited export capacity, Bhutan's exports to China have remained negligible. The highest amount earned from export to China was Nu. 8.50 million (US\$ 126,507) in 2016.⁴

Bhutan also participates in cultural cooperation with China by attending regional and international sporting events, and has welcomed a Chinese cultural troupe in the country.

Challenges

Three inter-related issues stand in the way of stronger Sino-Bhutanese cooperation. These are the state of Indo-Bhutanese relations, the establishment of diplomatic relations between Beijing and Thimphu, and the demarcation of the border between the two countries.

1. India-Bhutan relationship

The relationship between Bhutan and India is governed by the Indo-Bhutan Friendship Treaty of 2007. Article 2 of the Treaty provides that the two governments "shall cooperate closely with each other on issues relating to their national interests.

Neither Government shall allow the use of its territory for activities harmful to the national security and interest of the other."

The following points outline the primary motivations for extensive cooperation between the two countries:

- In the face of limited resources and expertise in Bhutan and following the spirit of the Friendship Treaty, India assists Bhutan in ramping up its security. Bhutan, for its part, cooperates with India in the protection of its territory. In 2003, for example, Bhutan expelled Indian militants who had been hiding in its territory.
- Bhutan's geographical orientation is naturally to the south. The high mountains and hostile terrain in the north prevent reliable transport and communications with China. It is easier for landlocked Bhutan to trade with India and transit through its territory to the rest of the world by using the ports in Kolkata.
- As a young constitutional democracy, Bhutan is at ease in dealing with a democratic India that supported Bhutan's move towards democracy in 2008. India has not only helped Bhutan

strengthen its independence and sovereignty by sponsoring Bhutan's membership in international organisations such as the United Nations, but it has also extended development assistance for modernising its economy. India remains Bhutan's largest development partner.

In addition to security, Indo-Bhutan cooperation covers various fields but collaboration in the hydropower as well as transport and communications sectors have been by far the most visible and mutually beneficial domains. The export of hydroelectricity to India is the most sustainable source of revenue yet for Bhutan. In 2020, the net amount of revenue earned from hydropower export was Nu. 27.832 billion (US\$ 375.35 million).⁵

2. China-Bhutan diplomatic relations

Because of its strategic geopolitical location, Bhutan has maintained a steadfast policy of keeping its distance from great-power rivalries. Barring India, Bhutan does not have formal diplomatic relations with other powerful nations or with any permanent member of the UN Security Council. However, the absence of diplomatic relations does not mean that Bhutan cannot have friendly relations with these countries.

Understandably, China has been wooing Bhutan for many years to open diplomatic relations. Anecdotal evidence suggests that at one point, it was

known that Beijing's presence in Thimphu would be a quid pro quo for settling the border disputes. This offer seems to have changed recently given Bhutan's firm position to the contrary given China's infrastructure build-up and human settlements along the border.

3. Demarcation of border

Bhutan and China share a 764-km-long border along the Himalaya. Despite 24 rounds of discussions and 10 technical group meetings between 1984 and 2021, progress towards a resolution has been slow. The Bhutanese government has not been transparent on the outcome of negotiations, or the lack of it, ostensibly due to the sensitive nature of the subject. Media reports point out that there are two areas of disagreement on the border: one over 269 sq. km. in the Doklam trijunction area with India in the western part, where there was a 73-day flare-up between India and China in 2017, and the other, over 495 sq. km. in Jakarlung and Passamlung in the eastern part.⁶ What is more disturbing to the Bhutanese is China's latest claim, made in June 2020,⁷ that Sakteng Wildlife Sanctuary in eastern Bhutan bordering the Indian state of Arunachal Pradesh is also disputed. Bhutan has totally rejected this claim.

Looking Ahead

In a three-point Agreement reached at their last meeting in Thimphu in 2021, Bhutan and China decided to expedite the conclusion of the border negotiations. Both recognise that it is in neither one's interest to prolong the border talks with no definite timeframe.

However, the dispute over Doklam has put Bhutan in an awkward position. It does not wish to antagonise either side, although its cooperation in security with India is well-established. China should accept Bhutan's bilateral relations with India, as it has indeed done at the time of Bhutan's admission to the UN.⁸ There are also observers in Bhutan who believe that the resolution of the Bhutan-China border issue may be linked to a similar agreement between India and China on their disputed border. India abides by the McMahon Line demarcated during the British rule in India. China, however, does not accept this position and argues according to its own historical understanding. Accordingly, China has been progressively occupying land in disputed areas on the border with India, and now with Bhutan as well, to actualise its position.

China is also known to have developed permanent infrastructure for connectivity and human settlements along the border with Bhutan and India. This has led to occasional border skirmishes between India and China, the latest one being in 2020. India maintains that unless Chinese troops are pulled back to the earlier line of control, bilateral relations cannot improve. Ironically, both Bhutan and India seem to be looking at each other to first conclude their border dispute with China.

It is also possible that China wants to obtain more concessions from India by taking a tough stance with Bhutan, and trying to push the latter for an agreement on opening diplomatic relations. From Thimphu's viewpoint, it makes little sense for such a large and powerful country like China to use Bhutan for seeking advantage from its other neighbour and squabble on 764 sq. km. of land for a country of China's size. China's international stature will not be improved by pursuing such a strategy.

Apart from the border dispute between China and India, including in Arunachal Pradesh in the east, Bhutan is concerned over the growing competition in the Indian Ocean and the larger South Asian region. As a landlocked country, Bhutan has only the Bay of Bengal as its maritime outlet for trade beyond the region. Any disruption in shipping routes will adversely affect Bhutan's economy. Bhutan, therefore, does not wish to see any great-power rivalry in the Indian Ocean; it has indeed supported the idea of Indian Ocean as a 'Zone of Peace' since the 1970s.

South Asia already suffers from historical and other tensions, and heightened competition between India and China for supremacy in the region will only aggravate the situation. Chinese investments

in Bangladesh, Myanmar, Nepal and Sri Lanka have grown in recent years through the Belt and Road Initiative (BRI) and other projects. New Delhi views this with concern as it may impinge on its sphere of influence. The rivalry could destabilise the region and undermine peace and socio-economic progress—a development that no country would like to see.

For Bhutan, the imperative is for India and China to resolve their border disputes and engage in cooperation. They can then enhance their prominence in global affairs and contribute to a more balanced power play in an increasingly uncertain and multipolar world order.

“Bhutan does not wish to see any great-power rivalry in the Indian Ocean, and has backed the idea of the region as a 'Zone of Peace' since the 1970s.”

Nepal

The Quest for Influence in the Periphery

Dinesh Bhattarai

The rapid downturn in India-China relations has created anxiety for Nepal. Some analysts are of the view that Nepal could benefit from the rivalry, as both India and China compete for investment space. However, this may not ultimately be the case. Nepal is aiming to balance its engagements with both the neighbours, while keeping a close watch on any shifts that their relationships might take.

Nepal has always been highly dependent on India for trade transit and essential commodities as well as for infrastructure and connectivity. However, the 2015 Nepal blockade over the promulgation of the Constitution—which has been called “the epitome of ugly and ineffective Indian neighbourhood diplomacy”—¹ impacted the fundamentals of the

relationship. The blockade crippled the economy, which then forced the country to turn to China for trade and transit. Beijing quickly capitalised on the public anxiety and signed a transit protocol with Nepal.

In 2017, China’s President Xi Jinping declared, “It is time for us to take center stage in the world and to make a greater contribution to humankind.”² Indeed, China’s presence, influence and power has grown in recent years, including in South Asia. From the Himalayan frontiers to the waters of South China Sea and the Indian Ocean, these territories are falling under the gaze of China and other global powers.

On 12 May 2017, Nepal's Foreign Secretary signed a Memorandum of Understanding (MoU) with the Chinese Ambassador on the framework agreement on the BRI. The MoU provides for the setting up of border economic zones, and the rebuilding of the China-Nepal transit road network agreements. Its thrust was "to strengthen cooperation in connectivity sectors including transit transport, logistics systems, transport network and infrastructure related development such as railway, road, civil aviation, power grid, and information and communication."³ The agreement aimed to bring Nepal and China closer through road connectivity and generate Chinese investment.

The signing of the MoU was labelled as "a significant achievement of Nepal's development endeavour," and "a new chapter in the area of foreign investment and trade promotion."⁴ It could bring the country the much-needed connectivity, investment, and economic growth. Subsequently, Nepal's Foreign Minister Pradeep Gyawali underlined the significance of railways, hydropower projects, cross-border transmission lines, and other connectivity infrastructures between Nepal and China.⁵ He added, "Nepal takes pride in seeing China's growing profile on the world stage, both politically and economically. China's role is very important in shaping global agenda for a just and equitable world order."⁶

During his visit to China in June 2018, then Prime Minister K.P. Oli presented the list of 35 projects to be funded under the BRI to enhance connectivity in roads, ports, and railways, as well as in aviation and communication. The Chinese side suggested to bring down the number of projects to nine.⁷ President Xi visited Nepal in 2019 after a gap of 23 years of a Chinese president's visit, taking the bilateral relationship to a new phase. Under the China-Nepal Comprehensive Partnership of Cooperation, the two countries signed 20 agreements elevating their 'Everlasting Friendship' to 'Strategic Partnership of Cooperation for Development and Prosperity'.⁸ The Chinese president also promised to help Nepal become "land-linked".

A few years since then, however, there has been little progress in the BRI projects. In March 2022, Nepal made it clear to the visiting Chinese foreign minister that it wants more grants from China, rather than loans. Nepal also underscored "the need for concerted efforts to expedite execution of ongoing projects."⁹

Regardless of their implementation, these investment proposals are viewed as a threat to New Delhi. India is keen to envelop Nepal in its larger security framework and thereby maintain its status in the region. It has accelerated investments in infrastructure facilities, connectivity, power, and energy. Throughout the decades of making investments in Nepal, New Delhi has now managed to manoeuvre bilateral projects to completion. Keeping in mind the strategic connectivity corridors in the Himalayan region, India appears keen to actively participate in Nepal's trajectory of growth as it nurtures their mutual dependence and co-existence.

In November 2020, India and Nepal launched the construction of the third integrated check post (ICP) at Nepalgunj.¹⁰ In the first week of June, the Nepal Electricity Authority began exporting additional 144W of electricity from its Kaligandaki hydropower plant to India.¹¹ During Indian PM Narendra Modi's visit to Nepal in May 2022, he signed key bilateral agreements with his counterpart, Sher Bahadur Deuba. The agreements focused on promoting soft power, cultural and educational exchanges, and most importantly, the development of the Arun 4 Project for hydroelectricity.¹² Earlier, a Joint Vision Statement on Power Sector Cooperation was issued for expanding and further strengthening mutually beneficial bilateral cooperation in the power sector, including: (a) joint development of power

generation projects in Nepal; (b) development of cross-border transmission infrastructure; (c) bi-directional power trade with appropriate access to electricity markets in both countries; (d) coordinated operation of the national grids; and (e) institutional cooperation in sharing latest operational information, technology and know-how.¹³

Located between India and China, Nepal forms "the geopolitical heartland of Asia."¹⁴ In the context of Nepal's geostrategic location and evolving competition between India and China, the United States has been added to the mix. Containing China in the Indo-Pacific has been a priority for the US. The growing tension between the US and China has reached Nepal. This was reflected in the exchange of words over the US's \$500-million development grant to Nepal, which China has referred to as "coercive diplomacy." Beijing asked if a gift "comes with the package of an ultimatum? How can anyone accept such a 'gift'? Is it a 'gift' or *Pandora's box*?"¹⁵ There were also some conspiracy theories being talked about such as "placing American troops on Nepalese soil." These were said to be "Chinese-orchestrated disinformation campaigns"¹⁶ and part of China's "fomenting propaganda."¹⁷ India appears to be closely watching the US-China tussle, as it converges with its interests to dilute China's influence in Nepal.

Great-Power Competition and Domestic Politics

These competitive investments, transit facilities, and other opportunities have helped Nepal attain some progress in terms of economic growth and investments. However, it has also had an overbearing impact on Nepal's domestic politics. For instance, there has been a growth in anti-Indian sentiments in Nepal, which becomes more visible during elections; and China has also begun to take a keen interest in Nepal's internal affairs.

K.P. Oli won the 2017 elections on an anti-Indian plank that gained a huge trajectory after the Nepal blockade in 2015. With the election of the Nepal Communist Party (NCP) to power, China felt that it has “broadened its political influence in Nepal while consolidating its presence with big investment and infrastructure projects.”¹⁸

The formation of the NCP in 2018 came through the merger of the Communist Party of Nepal (Unified Marxist-Leninist) led by former PM Oli, with the Communist Party of Nepal (Maoist Center) led by former guerrilla leader Pushpa Kamal Dahal, also a former prime minister. China welcomed “the merger of the two parties and hoped that Nepal can achieve its national development goals at an early date.”¹⁹ The spokesperson of the Chinese Ministry of Foreign Affairs added, “As a good neighbour and good friend of Nepal, China supports Nepal in independently choosing the social system and development path that suit its national conditions”

and “stands ready to deepen mutually beneficial cooperation with Nepal to deliver greater benefits to our two countries and two peoples.”

In September 2019, the Nepal Communist Party and Communist Party of China (CPC) signed a six-point bilateral agreement under which the “chief of International Department of the CPC Song Tao and other CPC officials imparted ‘training’ to around 200 NCP leaders on Xi Jinping Thought.”²⁰ However, the NCP unity did not last long. Nepal's Supreme Court ruling dealt a blow by declaring the NCP's name as invalid. This brought the situation back to that which existed before the merger of the two parties.

There were reports of renewed attempts to bring them together again for the elections scheduled in late 2022. In March, delegations from Nepal's two Communist parties—the Nepal Communist Party (NCP-UML) and NCP-Maoist Center—visited China separately for “cultural exchange, and medical treatment.”²¹ China was reported to have made it known to the visiting delegation that it wishes “to see various factions of communist parties of Nepal to come together.”²² Of late, China makes it clear that it has “a consistent policy of friendship toward Nepal, maintaining and developing friendly and cooperative relations with all political parties in Nepal.”²³

Nepal's Aim of a Healthy Balance

China-India relationship supremely matters to the future of Asia and global peace and stability. It stands “central to whether the world succeeds in building a healthy, prosperous, environmentally sustainable future for the next generation.”²⁴ The immense potentials and problems of India and China are capable of either being a constructive force for global progress, or of creating conflict, friction, and a conflagration that will have massive impacts on the rest of the world. Nepal, sitting between these huge states, has found itself in a geopolitical hotspot.

At present, the prospects of diplomatic cohesion between China and India are low, as differences remain unresolved. In March, as he toured South Asian countries, Chinese Foreign Minister Wang Yi proposed that differences on the border issue be put in a “proper position” in bilateral ties. The Minister assured India that Beijing does not pursue a “unipolar Asia,” respects India’s traditional role in the region, and both sides should participate in multilateral processes such as BRICS (Brazil, Russia, India, China and South Africa) and G20

with a “cooperative attitude.”²⁵ Indian External Affairs Minister S. Jaishankar made it clear that the relationship “cannot be normal if the situation in the border areas is abnormal. And surely the presence of a large number of troops there, in contravention of agreements is abnormality.”²⁶

Neighbours are of paramount importance in Nepal’s foreign policy. Nepal’s primary concern is the safeguarding of its sovereignty, independence, and territorial integrity, and to accelerate the process of socio-economic transformation within an overall framework of democratic pluralism. In cases where Nepal could have benefitted from more investment cooperation, however, it is witnessing investment competition instead. Similarly, this competition has begun to impact Nepal’s domestic politics. Despite some partisan and political temptations, Nepal should avoid partisanship, be respectful of neighbours’ sensitivities and legitimate concerns, and remain a truly non-aligned country. After all, a cooperative India-China relationship will be in the best interest of Nepal.

“Nepal sits between India and China, and finds itself in a geopolitical hotspot.”

The Maldives

‘India Out’: Who Gains?

Azra Naseem

India has rapidly expanded its footprint in the Maldives in the past few years, entering into bilateral defence agreements and financing infrastructure projects through loans. This is provoking anger in parts of the Maldivian population, who are mobilising themselves in a nationwide campaign which they call #IndiaOut. This piece explains what the campaign means to Maldivian politics and why it has become a central issue in the country’s current affairs. It explores why people either *hate* or *love* India with equal passion.

India in Maldivian Politics

Maldivians who view India’s growing presence in their country with suspicion are coming together in an #IndiaOut campaign. The organised protests

aim to demonstrate that the current government has “sold” the Maldives to India in crucial military and other aspects. In April this year, President Ibrahim Mohamed Solih banned the campaign, describing it as an attempt to compromise international efforts at keeping peace in the region. The ban only served to shore up greater interest in the movement, as it quickly trended on Maldivian social media.¹ Led by controversial former president and 2023 presidential hopeful, Abdulla Yameen, the campaign is regarded a “national security threat” by the country’s political leaders.

Indeed, it is a pivotal time in Maldivian politics. The current coalition government's five-year term ends in November 2023. Several candidates are jostling into position, a number of whom are former elected leaders. They include incumbent Ibrahim Mohamed Solih of the Maldivian Democratic Party (MDP) who is in a coalition with former President Maumoon Abdul Gayoom; former president Abdulla Yameen; and Majlis Speaker former President Mohamed Nasheed, also representing MDP.

Despite the internal conflicts within the MDP, the party is working hard to keep India on its good side. Any new candidates who will emerge from the party in the coming months are expected to do the same. For at the crux of the 'India Out' campaign is Maldivian party politics, and the divisions—populist, nationalistic, and religious—that produce and shape them. Each candidate and their followers have formed their perspectives on India's presence in the Maldives according to what stance best serves their interests in the upcoming elections. This becomes obvious when each potential candidate is viewed according to what they stand to gain or lose politically if the Maldives strengthens its bilateral ties with India.

What's In It for Who?

The Solih government can be characterised as a transactional coalition of a handful of politicians. It was formed in 2018 as a last resort in a desperate bid to defeat President Yameen's rule, which saw almost all key opposition figures jailed or forced into exile.

The coalition is desperate for support from India, both financially and politically. President Yameen left the state coffers empty when he was defeated in 2018. Without the Lines of Credit from India, which by September 2021 amounted to a total of US\$1.3 billion,² the Maldives is at risk of defaulting on its loans from China, valued at US\$3.6 billion.³ According to the World Bank, the total debt of the Maldives stands at US\$5.6 billion. The current government only has to take a quick glance at neighbouring Sri Lanka for it to be concerned of potential consequences of a burgeoning debt burden. It is precisely for this reason that the Solih administration is promoting itself as an antidote to the failure of the Rajapaksas in Colombo. This façade of a healthy economy is impossible to display without the loans from India, and it is why retaining Indian support is important to former President Nasheed, especially when he runs for re-election in 2023.

When it comes to the other most significant presidential candidate, however, the pull is in the opposite direction. Former President Abdulla Yameen wants India out of the Maldives. The #IndiaOut social media campaign and its off-line activities that mobilise people against Indian presence in the Maldives is seen as his vehicle to the 2023 presidential candidacy. Until it was forcibly removed by the police following the criminalisation of his campaign by presidential decree, a large banner with the words “India Out” written in the Maldivian colours of red, white, and green, draped Yameen’s residence.⁴

Yameen has recently been travelling to various parts of the country to mobilise populations in distant island communities to protest against India. The campaign is often xenophobic, purposefully generating anti-Indian feelings to an extent that there have been reports of Indian professionals in schools and hospitals being forced to leave amidst ostracisation and, sometimes, threat of violence. Also part of the campaign is the writing of anti-India graffiti, street protests calling on Indians to leave the country, and criticism of Indian culture and society online and on mainstream media. Key figures in the ultra-conservative religious movements have also attempted to make religion a part of the narrative, often highlighting anti-Muslim activity in parts of India as a reason to get India

out of the Maldives, whose population is largely Muslim. ‘India Out’ participants are demanding to know the details of the agreement which India and the Maldives have signed allowing the Indian military to increase the number of its troops on the ground, and to invest in vast infrastructure projects across the country.

India Out = Yameen In?

Relations between Yameen and India soured during his five-year term (2013-2018), which stands out in Maldivian history as a period of unabated capitalism and greed.⁵ At the end of his term, Yameen was charged with theft, money laundering, and giving false statements to the police. He was involved in the largest theft of public funds the Maldives has ever witnessed, involving over US\$1 billion worth of islands, lagoons, reefs, and other property.⁶ Yameen’s assets were seized at the end of 2018, and the criminal court sentenced him to five years in prison and slapped him a US\$5-million fine. The Supreme Court, however, ordered the release of Yameen on a technicality in January 2021;⁷ this allowed him to run in the upcoming election.

During his presidency, Yameen made various decisions that restricted the rule of law in the Maldives⁸ and alienated countries that championed democracy. Yameen's best ally was China. President Xi Jinping visited the Maldives in September 2014 and promised hundreds of millions of US dollars for large infrastructure projects in the Maldives. It built the China-Maldives Bridge which now connects Male' to Hulhumale', the artificial island purpose-dredged for social housing. On Hulhumale' itself, the China State Construction Engineering company built a large number of high-rise residential buildings under a project worth US\$434 million.

Moreover, while Jinping was visiting the Maldives, it was agreed to award the airport development project, once run by India's GMR, to a Chinese company; the deal is worth US\$800 million.⁹ In return, Yameen made the Maldives a member of the Belt and Road Initiative (BRI), and signed a Free Trade Agreement with China, with parliamentary approval.¹⁰ In 2015, Indian Prime Minister Narendra Modi dropped the Maldives from a scheduled visit to the Indian Ocean islands due to political unrest under Yameen's leadership.¹¹

Shortly after Solih was elected president in 2018, the Indian aid package to the Maldives amounting to over a billion US Dollars, was signed. Subsequent agreements and Indian assistance has allowed India to be heavily involved in key infrastructure

and development, as well as military projects that increase both the country's influence in the Maldives, and Maldivian indebtedness to it. These projects include the Greater Male' Connectivity Project, development of sports infrastructure, the setting up of a new police academy in Addu,¹² the deployment and maintenance of Coast Guard Harbour in UthuruThilafalhu (UTF), and establishment of security and training services.¹³ The UTF agreement also permits Indian army personnel to stay for a period of 15 years to train and provide logistical support for the Maldivian army.¹⁴ India is also opening a consulate general in the atoll to "augment India's diplomatic presence" in the country.¹⁵

It's the Politics, Stupid

A number of legitimate questions of public interest arise from the myriad of deals, loans, and agreements between the Maldives and India, especially the speed with which such projects are being executed with zero public consultation despite their high stakes. Are large infrastructure projects—massive given such a small population of 500,000, many of whom are still waiting for running water—really needed when the country is already in deep debt? Why are these important defence agreements classified in the name of national security?

Is the immediate shortage of housing so acute that it needs the destruction of the environment? As a small island state, with not even soft power to barter with large military powers in a world order in flux, why is the Maldives involving itself in global power play? Why are leaders, for various party political and personal reasons, taking sides in an international conflict where the side that it supports and the other that it opposes both have the power and ability to obliterate the island nation in its entirety should they so desire?

These vital questions of national interest get lost in the political mudslinging that has become so characteristic of Maldivian democratic politics. The politicians who oppose 'India Out' and its impacts on India-Maldives bilateral relations are concerned primarily with finding the money to avert a financial crisis arising from debt default. In the end, it can be argued that the spirit of 'India Out' boils down to another one of many vindictive and xenophobic campaigns that have become a hallmark of contemporary Maldivian politics.

“At the crux of the ‘India Out’ campaign is Maldivian party politics.”

Sri Lanka

India-China Rivalry As Catalyst for Stronger Bilateral Ties

Chulanee Attanayake

Located amidst the strategically and economically important sea lanes of communication (SLOCs) in the Indian Ocean, Sri Lanka is not insulated from the impacts of heightening competition in the region between India and China. This rivalry is driven to a large extent by both countries' economic rise and their rapid associated growth in, and dependence on, seaborne trade and imported energy, much of which transits the Indian Ocean.

Both India and China are rising as Asian economic powers with high GDP growth and increasing geopolitical influence. Some analysts predict that India will rank as the world's second-

largest economy in PPP (purchasing power parity) terms by 2050, behind only China and overtaking the United States (US).¹ The rapid growth of China's economic and military power has greatly augmented the country's capabilities. Beijing's encroachment into the Indian Ocean space has changed the country's dynamics with India.² Its entry is a strategic concern for India, as it regards the Indian Ocean to be 'India's Ocean'.³

Sri Lanka shares historical ties with both India and China. With India, Sri Lanka has a long legacy of cultural, linguistic, intellectual, and religious interactions. Although India's involvement in Sri Lanka's domestic politics and protracted conflict^a

a The Sri Lankan government was engaged in a separatist war with the Liberation Tigers of Tamil Eelam (LTTE) for over two decades. The war ended with the Sri Lankan military forces defeating the LTTE in 2009.

has often raised concerns in Colombo, the two have maintained close ties. Meanwhile, with China, Sri Lanka's relations date back to the era of the ancient Silk Road trade network, where the island nation was a key stopover. The relationship might have faced drawbacks during the colonial period, but it revived soon after the new nation-states were formed.

Historically, neither China nor India was hostile to the other's presence in Sri Lanka. This has changed, however, with China's increasing engagement in Sri Lanka in the past decade. As China's interest in the Indian Ocean grew in parallel to its rising engagement in Sri Lanka, and as their strategic competition in Asia heightened, New Delhi and Beijing have been in competition to gain strategic presence in the island nation. The competition is seen in the domains of trade, development aid, and investment.

India-China Competition in Sri Lanka

Trade

China has been engaged in trade and economic relations with Sri Lanka since the signing of the Rubber-Rice agreement in 1952. Yet, it was nowhere near the list of Sri Lanka's top trading partners until the early 2000s, when it became one of the largest import suppliers to Colombo, albeit behind India.⁴ Meanwhile, India has long been among Sri Lanka's largest trade partners; Sri Lanka also remains among India's most significant trade partners in the South Asian region. Their economic ties received a boost when they signed a Free Trade Agreement in 1998.⁵ The agreement, implemented in March 2000, was instrumental in Sri Lanka's breakthrough in the Indian market. Exports from Sri Lanka to India, which were valued at US\$39 million between 1995 and 2000, prior to the agreement, rose more than tenfold to US\$566.4 million by 2005.

Table 1:
Bilateral Trade Volumes with Sri Lanka

Year	China (US\$ million)	India (US\$ million)
2015	4,564	4,706
2016	4,560	4,378
2017	4,395	5,233
2018	4,578	4,935
2019	4,487	4,588
2020	4,1601	3,612

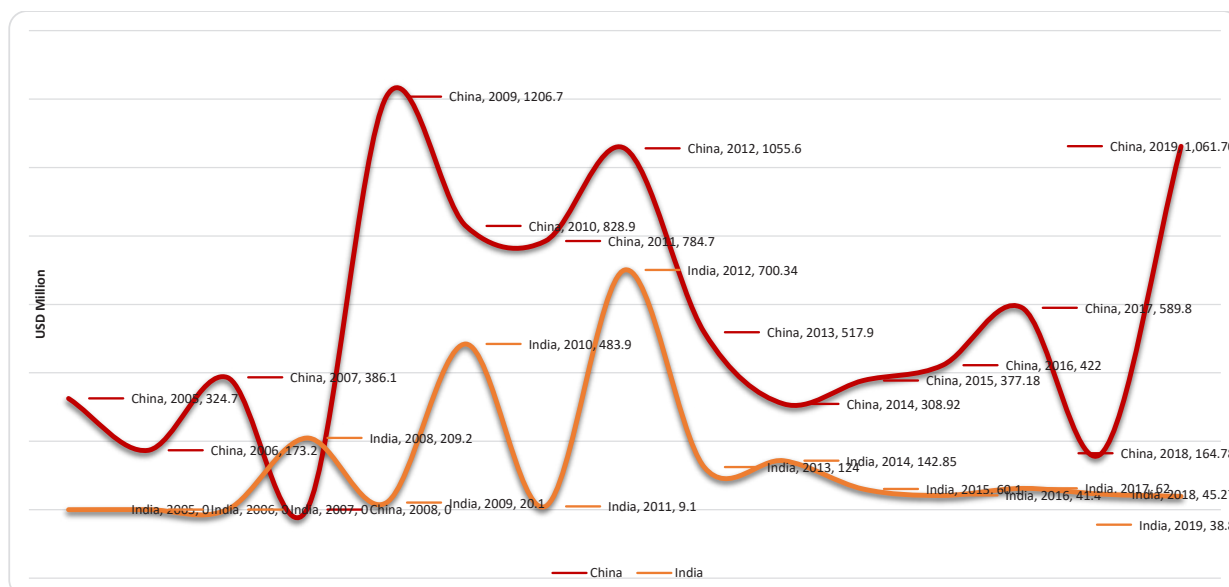
Sources: Ministry of Commerce of People's Republic of China and High Commission of India, Colombo

Development Aid

Since China entered Sri Lanka as a development partner in 2005, India's involvement in this domain has also increased—this has resulted in an upward trajectory in the loans and grants from the two neighbours. As of 2020, China remains Sri Lanka's top development partner, investing heavily in connectivity projects such as ports, airports, roads, and special economic zones. India, for its part, is engaged in housing, roads, and railways.

As shown in Figure 1, until 2004, China was not providing significant amounts of development aid to Sri Lanka. It was in 2004 that it became a more consistent donor, and today it is Sri Lanka's most significant development partner. Meanwhile, India began providing more significant amounts of aid to Sri Lanka after 2005, around the same time that China also started doing so. It could be said, therefore, that China has been a catalyst in India's increased engagement with Sri Lanka in the development sector.

Figure 1:
Sri Lanka's Development Aid from China and India



Source: Author's own, using reports from the External Resource Department, Sri Lanka

Investments

Parallel to the growing trade relationship, investments from China and India have also grown since 2005. India's investments in Sri Lanka took effect following the implementation of the bilateral trade agreement in 2000. Indian public and private companies have also established a strong

presence in Sri Lanka in terms of Foreign Direct Investment (FDI).⁶ Today, China and India have significant investments in the island nation in various sectors, including ports, real estate, and tourism.

Table 2:
Investments in Sri Lanka

Year	China (US\$ million)	India (US\$ million)
2015	772.51	NA
2016	728.91	53.02
2017	728.35	204.35
2018	468.93	117.52
2019	551.47	139.0
2020	163	87.7

Sources: Ministry of Commerce of People's Republic of China, Board of Investment, Sri Lanka and Department of Economic Affairs, India

Impacts on Sri Lanka

Competition between India and China impacts Sri Lanka's economy as both countries leverage their economic might to gain influence in the island nation. For instance, after China increased investments in Sri Lanka's port industry, India has started showing a keen interest in the same sector. Prior to China's investments in the CICT terminal in the Colombo Port (or Hambantota Port), India hardly showed interest in investing in Sri Lanka's port industry even though most of Colombo's transshipments are to or from India.

When the Hambantota port was first proposed as the second international port in Sri Lanka, India was first offered the opportunity for the construction. After India expressed no interest, the deal was offered to China, opening Beijing's opportunity to have a strong foothold in the island nation. In fact, when China Merchant Ports first invested in CICT, Indian analysts were sceptical that the deep port would make little difference since Colombo port already provided transshipment traffic to and from neighbouring countries, especially India. However, having observed how Chinese investments have constructively changed Sri Lanka's entire port industry, in 2021, India invested in the Western Terminal of the Colombo Port.

Spotlight on Sri Lanka's Current Economic Crisis

As Sri Lanka's current economic crisis began to unfold in the early months of the Covid-19 pandemic, both India and China have provided loans and lines of credit for the island nation. In March 2020, China offered Sri Lanka a concessional loan of US\$500 million and another US\$90 million in grants in September 2020. In March 2021, Beijing approved a US\$1.54-billion currency swap deal. A month later, China Development Bank extended a US\$500-million loan to Sri Lanka to improve foreign exchange.

As the economic crisis in Sri Lanka aggravated, Colombo sought China's assistance for emergency support and debt restructuring, and also a credit line and loan worth US\$2.5 billion. In response, in April 2022, China offered humanitarian aid of around US\$31 million, which included 5,000 tonnes of rice, pharmaceuticals, and other essential commodities.⁷ As of May 2022, China has extended US\$1.3 billion in syndicated loans and a US\$1.5 billion yuan-denominated swap to boost Colombo's foreign reserves.⁸

The China-backed multilateral Asia Infrastructure Investment Bank (AIIB) also plans to grant Sri Lanka US\$100 million in emergency support.⁹

In 2022, New Delhi extended a US\$400-million currency swap under the SAARC Framework and deferred an Asian Clearing Union settlement of \$515.2 million. It was followed by a line of credit of US\$500 million for importing fuel and another credit facility of US\$1 billion for the procurement of food, medicines, and other essentials.¹⁰ New Delhi's assistance has extended beyond providing credit and has been actively supporting diplomatically.¹¹ For instance, during IMF deliberations for assisting Sri Lanka, Indian Finance Minister Nirmala Sitharaman urged the international agencies to temporarily classify the island as a lower-income country — instead of its current middle-income status — to ease the process of debt restructuring and obtaining urgent financial assistance.¹² India's active support and increasing engagement with Sri Lanka can be understood within the changing geopolitics in the region.

The sudden increase in engagement appears to be a change of approach on India's part that is meant to displace China in the island nation. It is often argued that China's inroads into Sri Lanka in the past two decades is a result of India's 'Big Brother' attitude to Sri Lanka and its lukewarm response to the latter's call for assistance in times of


need, especially after the end of war in the country. India has therefore come to the realisation that continuous engagement and assistance during the crisis would ensure its foothold in the island nation.

Conclusion

There is hardly any doubt that China has become a catalyst in any region in today's context. It tends to draw attention and competition to itself and to how it conducts its engagement with a country. This is true in Sri Lanka. Indeed, China's increasing forays into Sri Lanka have brought changes in the country's relationship with India.

Beijing's enhanced involvement with Colombo has paved the way for New Delhi to rethink its approach. Having observed the growth in China and Sri Lanka's bilateral relations, India has developed a deeper understanding of Colombo's political and economic requirements and has responded effectively. Similarly, Sri Lanka has become more open and sensitive to India's strategic and security concerns. The successive governments in Sri Lanka have repeatedly reversed projects with China in response to India's sensitivities and concerns. The Mahinda Rajapaksa government, for example, scrapped

plans for Trincomalee's small Chinese aircraft repair base. The Sirisena-Wickremesinghe government also stalled Chinese investments in the country and announced investigations in 2015, and in 2021, Colombo reversed a solar energy project in the Northern province due to India's strategic concerns.

The India-China competition has provided Sri Lanka certain benefits as it works towards its economic and foreign policy goals. It has even contributed, albeit indirectly, to improving diplomatic understanding between India and Sri Lanka. 

“It is often argued that China's inroads into Sri Lanka in the past two decades is a result of India's lukewarm response to the latter's call in times of need.”

Endnotes

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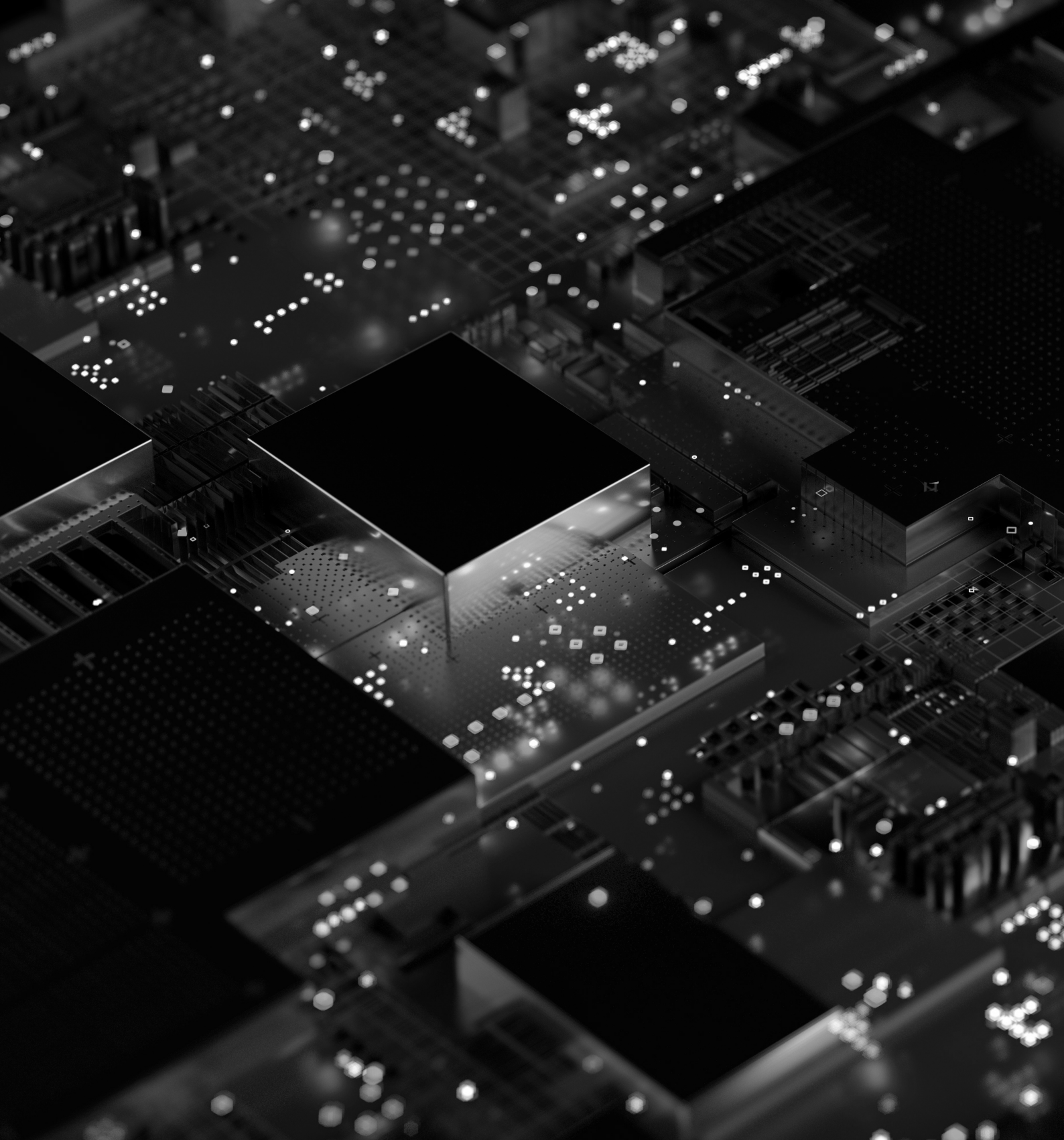
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*The authors thank **Keerthana Rajesh Nambiar**, ORF Research Intern, for her help with putting the citations in order.*

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