The Belt and Road Initiative in South Asia
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Regional Reactions and Competing Visions: South Asia

South Asia has been one of the most important focal points for the Belt and Road Initiative (BRI), with two of the initiatives' "corridors" proposed there by China even before the broader scheme took shape. Yet their contrasting fates illustrate the challenges facing the BRI in the region. The China Pakistan Economic Corridor (CPEC) has become the initiative's "flagship", with over $20 billion of projects already in motion and a rebalancing of national economic strategy to take advantage of the flows of Chinese financing. The Bangladesh China India Myanmar corridor (BCIM) has stalled and India has emerged as an open opponent of the initiative, the single major country not to have significant representation at the Belt and Road Forum in May 2017 despite intense Chinese lobbying.

Five years on, the public debate about the BRI in South Asia is still shaped more by politics than economics. This is partly because there remains more speculative extrapolation from individual cases than hard economic data. Even in the case of the most advanced part of the entire scheme, CPEC, there is not yet a settled verdict on the net financial, growth, or employment implications of the projects. Much of the discussion in the region is still absorbed with security analysis – dual-use facilities, competing routes, economic coercion, terrorist threats to projects, and sovereignty concerns. And the initiative has taken on a polarizing quality. Opponents portray a scheme that is set up to entrap countries, essentially military-strategic in nature, and doomed to fail. Boosters claim it will have a "game-changing" economic impact, help to improve security ties between neighbors, and promote stability and de-radicalization. The provisional state of the scheme has allowed for the projection of fears and fantasies in equal measure.

Most governments in the region have mixed views. On the one hand, they want to benefit from the potential influx of Chinese investment, draw on quickly-available financing that circumvents the need for detailed IFI review processes, and take advantage of China's growing role to gain leverage in their dealings with the traditionally dominant power in the region, India. The connectivity deficit in South Asia is significant: the World Bank estimates that intra-regional trade accounts for only 5% of the total, compared to 25% in South East Asia, 35% in East Asia and 60% in Europe, while intra-regional investment is below 1% of the overall sum. Although some of the Chinese projects are rightly portrayed as white elephants, others fill genuine needs in upgrading the capacity of ports, addressing inadequacies in energy supplies, and improving road and rail infrastructure. Yet at the same time, states in the region have concerns about the security implications of a deeper Chinese economic presence, the potential influx of Chinese workers and companies, the quality of the projects, the terms of the contracts, and ensuring that closer economic ties with China do not come at the expense of relations with India, the United States, and other partners.

The United States and the BRI in South Asia

For the United States, the BRI provides some obvious grounds for concern. Given China's existing track record, it would be prudent to find ways to limit Beijing's capacity to translate economic influence in the Indian Ocean into political and security outcomes that are inimical to the interests of the United States, and its friends and allies. Coordination with like-minded partners, particularly India, Japan, Australia, and the Europeans, can help provide alternative economic options for states, minimize the risk of their dependence on China, strengthen their hand in negotiations with Beijing, give them the information and intelligence they need to navigate the risks involved, and ensure that journalists and civil society have the capacity to scrutinize deals and projects effectively. While building resilience and reducing the scope for Chinese coercion are likely to be the main goals, in select instances where security sensitivities are high, targeted political pressure, economic incentives and cooperation between partners can be deployed to deter countries from agreeing certain Chinese investments altogether, as Bangladesh's decision over its deep-water port in 2015 illustrates.

Although international and regional support for South Asia's economic integration long predates the BRI, the launch of the initiative has had a helpful galvanizing effect, forcing a self-critical look on the part of many countries at the scope and effectiveness of their own efforts. As the U.S. "Free and Open Indo-Pacific" strategy moves into implementation, Japan and India have taken important early steps in improving their offer, with the Partnership for Quality Infrastructure, the Asia-Africa Growth Corridor, additional ADB financing, and a number of other smaller schemes, while the EU will launch its own Euro-Asia connectivity strategy in the coming months. At least as important, though, is the broader framework of trade and investment cooperation. Bilateral free-trade and investment agreements, and plurilateral agreements such as the Trans-Pacific Partnership (TPP), will do even more to define the rules and structures of economic relations than hard infrastructure investments. Many of these efforts were specifically conceived as a way to build a standard-setting framework beyond the WTO that addresses many China-related concerns, from IPR protection to the role of stateowned enterprises. Japan, the EU, Canada, Australia, and several states in southeast Asia have continued their attempts to stitch together a new set of complementary trade platforms stretching from Europe to the Asia Pacific. South Asia was already conspicuous by its absence from these processes, and the drawing back of the United States from its leadership role in global trade makes it even harder to push forward an economic agenda in the region that serves these broader goals. Even in the optimal circumstances, states in South Asia will, in many cases, still choose Chinese financing precisely because it is non-transparent, provides opportunities for corruption, is highly-attuned to to the political needs of the government in power, and allows states greater autonomy in their dealings with India and the West. But at present, the United States and its allies are operating in the region with fewer resources in a competition that is being played on Beijing's terms, rather than fully leveraging their strengths.

Nonetheless, U.S. and Chinese interests are not purely competitive. While China's increasing role in South Asia is an important strategic development to address, the United States and its partners have other important equities in the region too, from terrorism and conflict risks to the commercial opportunities presented by the world's fastest growing region. Some aspects of the BRI will undermine this agenda, but others can help to support it. There are countries - particularly in continental South Asia - where Chinese investments have clear potential to bolster U.S. security goals. In Afghanistan and Pakistan, the United States has for many years encouraged China to play a greater economic role for the sake of stability in both countries, whether helping to provide a sustainable revenue base for the Afghan government or addressing the energy crisis in Pakistan. This logic behind this has not changed. In these cases, U.S.-China coordination can play a constructive role in ensuring that projects are well-attuned to these states' economic and political needs, drawing on the lessons of the deep U.S. economic, financial and development role there over decades. There is also a U.S. interest in ensuring that trade and economics do not fuse with geopolitical competition in destabilizing or wasteful fashion. Given the scale of the infrastructure needs of the region, it should be possible for supposedly competitive schemes to have a complementary impact. But redundant rather than mutually reinforcing infrastructure development efforts would increase the risk of financially unviable projects and bad debts. Even more importantly, while in East Asia, rivals have been able to sustain mutually beneficial economic relationships, in South Asia, trade and investment linkages have long been stymied by security rifts. The longstanding U.S. interest in mitigating this problem rather than allowing the economics of the region to turn into an extension of military rivalry has not changed either. This makes easy generalizations difficult: any assessment of how the United States should respond to the BRI in South Asia has to be based on a close country-by-country - and even project-by-project - analysis of the role that new Chinese investments and financing will play in the regional economic and security order.

The BRI in South Asia: an overview

When evaluating BRI investments in South Asia, it is helpful to distinguish between projects that were specifically envisaged under the scheme and those that predate it. There are a number of differences in the economic model that informed the previous Chinese approach to investment, the level of diligence applied by Chinese financing institutions, the decision-making processes on the Chinese side, the strategic intentions behind the investments, and the political salience attached to them. While there will evidently be many elements of continuity in the behavior of Chinese actors, the push for natural resources in the 2000s that lay behind the Saindak and Aynak copper mines, say, is not the same as the present infrastructure-heavy approach. Equally, some seemingly-failed investments from a previous era, such as Gwadar and Hambantota ports, have received a new lease on life under BRI auspices and merit re-appraisal. It is also helpful to base assessments on projects that are actually in the process of implementation rather than those that are still under negotiation, and may never see the light of day. Some estimates of the CPEC package now run at well over $100 billion, yet Chinese officials themselves use a substantially more conservative metric, and the last few years have seen a number of major investments shelved, from Diamer Bhasha dam to several coal-fired power plants.

On this basis, a brief overview runs as follows. Despite a very disappointing history of economic relations between the two countries, **Pakistan** has attracted by far the largest package of investments. Incorporating energy projects, rail and road connections, infrastructure development, and industrial zones, CPEC is one of the few schemes that appears to match the ambitions of the overall initiative. It is also buttressed by further energy projects that do not technically fall under CPEC's ambit. After a rocky start, in which Beijing was surprised by the level of political infighting and protest in a country that has been its most reliable security partner, China has secured a level of consensus behind CPEC from Pakistani political elites and has succeeded in moving ahead with many of the first phase of projects, which are already showing tangible results in the power sector, roads, and the development of Gwadar. Nonetheless, there are still significant unresolved questions and internal debates over the impact of CPEC on Pakistan's growth rate and finances, as well as its overall strategic direction - reviving the old question of whether Chinese backing plays an emboldening or restraining role on the country in its regional behavior. **Afghanistan,** by contrast, has elicited very little Chinese interest, with the major pre-existing oil and copper investments there in stasis. While there are tentative discussions about the development of new cross-border infrastructure with Pakistan and rail links through Central Asia, progress is slow and it will likely not improve markedly until there is a major change in the security situation. **Bangladesh** has agreed a package of investments that amount to a high dollar figure ($28 billion) but developments on the ground have been more limited, governed by a level of political caution that reflects the close relationship between the Hasina government and New Delhi. China lost out on the opportunity to develop the country's first deepwater port after political pressure from India and the United States, and an attractive financial offer from Tokyo - whose development agency, JICA, issued its largest-ever loan - saw a Japanese alternative selected instead. **Sri Lanka** had a significant package of Chinese investments dating from the Rajapaksa era, surging in the immediate aftermath of the civil war, during which China had provided crucial diplomatic backing and arms supplies. This included a set of projects in and around the capital, Colombo, that were largely economically sound - including the expansion of Colombo port and the Southern Expressway - and a set of white elephant projects in the south of the country around Rajapaksa's home constituency. These added to the country's severe debt burden and, following Sirisena's election in 2015, the new government was forced to renegotiate terms with the Chinese, resulting in Chinese companies taking a 70% share in Hambantota port on a 99-year lease. While it is fair to say that Sri Lanka's debt problems are more a byproduct of the civil war than a Chinese "debt trap" ploy, and that the more egregious projects there predate the BRI, the punitive and restrictive terms of the contracts and the subsequent debt-for-equity deal were undoubtedly Beijing's own doing, and have turned the Sri Lankan case into probably the most damning critique of the BRI. The **Maldives** is now heading into similar territory: on some estimates, over 70% of the government's foreign debt is owed to China, which has taken on projects at prices that are widely seen to be inflated, made land purchases that required a constitutional amendment, initiated a free-trade agreement with minimal scrutiny, and provided political and economic support to an increasingly autocratic government. The democratic opposition has even threatened to bring a case to the Hague against Chinese "land grabs" if it takes office. In **Nepal**, conversely, the recent change of government has brought to office a left alliance that has promised to push ahead with Chinese projects - including a dam and rail link - that its predecessor had stalled, despite formally signing up to the scheme.

If the first phase of the BRI in South Asia still has relatively little economic data to analyze, the political impact has been considerable, particularly when it comes to China's dealings with the largest two countries in the region: India and Pakistan.

Case study: CPEC, a relative success

When CPEC was launched during Xi Jinping's visit in April 2015, the disappointing track record of economic cooperation between the two countries gave cause for deep skepticism about how much of the proposed investment would actually materialize. Between 2001 and 2011, while $66 billion of Chinese investments in Pakistan had been cumulatively announced, only 6% of these were ever realized. By this metric alone, CPEC has been a success. While the larger numbers thrown around are often inflated, from the initial $46 billion to triple-digit estimates, even the more conservative figures provided by the Chinese embassy in Islamabad suggest that over $20 billion is now in motion on the ground.

Political reactions in Pakistan have gone through three cycles.

The first was an optimistic public face from the government but private doubts that the initiative could be realized, after many years of a bleak investment climate and the consistently poor historical experience with Chinese economic cooperation. The Pakistani side rapidly agreed terms for many of the initial contracts that were not especially favorable and the cumulative financial impact was not very seriously assessed, partly on the assumption that only a fraction of the projects would actually happen. But it had the effect of drawing China in and ensuring that a large-dollar value could be attached to Xi Jinping's visit: $28 billion of projects agreed, $46 billion when projects that were still under negotiation were included. This gave the scheme higher political salience during a phase when Beijing was struggling to find opportunities to move the BRI forward tangibly on the ground. China did not initially expect that CPEC would be the "flagship" for the BRI but Pakistan was one of the few countries that was comfortable with offering such a wide array of projects on financially-attractive terms and allowing a such a privileged role for Chinese companies in the process.

The second cycle was characterized by internal disputes over the beneficiaries of CPEC, once it became clear that there were real resources attached to it. This was partly born out of confusion about what the scheme actually amounted to, a confusion that still affects understanding of the corridor. CPEC was initially understood to be a transit route for goods and energy to flow between Xinjiang and Gwadar port, resulting in fierce battles over where the supposedly lucrtic route would go. Yet Beijing has long been skeptical of Pakistan's value as a transit corridor. The land route between the two countries is routinely closed by landslides and was virtually impassable for several years. The cost of transporting energy via pipelines or other means is also prohibitively expensive. From a military perspective, the route is extremely vulnerable in the event of a major conflict. While there are security concerns about Balochistan and other locations on the route, topography is by far the greater challenge. Before CPEC, China was already working with Pakistan to upgrade the Karakoram Highway to a wider, all-weather surface, including tunneling to reduce the vulnerability of some of the most landslide-prone sections of the route. But the continued expectation is that, while land trade will rise from its existing low base, the most reliable and economically efficient trade route between the two sides will still be by sea. This is evident from any assessment of the plans for current and future CPEC projects through 2030, where the cross-border connectivity elements are modest, with no railways or pipelines currently envisaged. The plans instead include a diffuse array of Chinese investments across Pakistan, heavily focused on energy projects and improvements in internal infrastructure connections. If these elements are successful, China and Pakistan intend to move forward with broader-based industrial cooperation through special economic zones and other ventures, before ultimately moving into other areas that include agriculture and tourism. Although the term "corridor" is evocative, CPEC is more accurately described as an investment package and an economic cooperation platform.

The third cycle has seen a more realistic appraisal of some of the economic risks - particularly with respect to debt and balance of payments - and willingness on the Pakistani side to negotiate harder on terms as a result. Implementation has also moved out from the federal level to the provinces, while the federal government has focused on negotiations over the long-term plan and CPEC's second phase. Meanwhile, many of the early harvest projects are in advanced stages of completion: notably some of the power projects and roads. This includes the first road connection of Gwadar through Balochistan to the Pakistani interior rather than along the coastal highway to Karachi. With phase two of CPEC about to get underway, we are likely entering into another distinct phase of reactions. Where phase one was heavily focused on road and energy projects, phase two is focused on industrial cooperation and special economic zones. In practice, China had been able to build roads, ports and power plants in the past but private sector cooperation and the Pakistani export sector have always been more of a challenge. There are already tensions with Pakistani industry, which does not want to see Chinese companies operating under the sorts of incentivized conditions that China itself used to draw Western companies to locate in special economic zones in the 1980s and 1990s.

In theory, the coming years should see some demonstrable CPEC success stories – power stations coming online, the establishment of industrial zones that should generate more (and higher quality) jobs than the early harvest projects, and even a Gwadar that can start to function as a viable port. But the risks of failure and of local unhappiness are significant, whether it be regions seeing an influx of Chinese workers or further incidents that see Chinese citizens being killed and kidnapped. All of this is compounded by the fact that the next period also sees the greatest projected risks of debt and balance of payment crises across CPEC's lifetime. The first of these may come as early as this year, if Pakistan returns to the IMF, which would have the effect of making it appear, accurately or otherwise, that the international community is bailing out Chinese economic investments. It is also far from clear that CPEC can really fulfill the inflated expectations that have become attached to it - catalyzing a growth take-off, let alone the ambitious Chinese political and security goals detailed during my testimony on China and Pakistan in the 2016 hearing.

Nonetheless, even if the jury is still out over the longer-term, CPEC can already be considered to be a partial success for the BRI given the challenging circumstances, poor historical track record, and commensurately low expectations. Relatively high levels of political trust between the two governments, a degree of consensus behind CPEC across the Pakistani political spectrum and its civilian and military institutions, and alignment between Chinese and Pakistani strategic goals, have created the conditions for a very wide array of projects to move forward despite the clear obstacles. The nature of the Sino-Pakistani relationship may make it a *sui generis* case but since it is the most advanced package of economic cooperation that exists under the BRI, it will be used as a reference point for the scheme nonetheless.

In this sense, there is also the potential for developments with CPEC to counteract other elements of the emerging BRI narrative. The view that Pakistan will find itself in a similar position to say, Sri Lanka, in which China can make political demands, gain land concessions, and generally exploit Pakistan's position of growing dependence to pursue military and political ends is wide of the mark. While this might be a plausible argument for China's dealings with certain other developing countries, it is at odds with the dynamics of the Sino-Pakistani relationship. Pakistan is already highly accommodating to Chinese preferences. It has been more than open to Beijing's requests for everything from use of military facilities to access for Chinese companies. And on the rare occasions when Beijing does choose to exercise its leverage more forcefully, it has been able to do so. If anything, creating a more coercive set of conditions would risk weakening China's hand. Its leverage rests on a hard-earned reputation as the country that is most reliably aligned with Pakistan's long-term security interests, and the resulting high levels of trust among both elites and the public. CPEC has already proved more controversial in Pakistan than China would have liked, and there is little appetite for measures that would foster resentment in a relationship that Chinese leaders wish to portray as a "model to follow." While there are good grounds to believe that CPEC will run into challenges, Pakistan is a case where China is more likely to exhibit strategic generosity than squeezing one of its only friends.

Case study: India, a political mishandling

One of China's chief political concerns in the early days of the BRI was to secure Russian consent and approval for the Silk Road Economic Belt. A premium was placed not just on ensuring bilateral cooperation for investments in Russia itself but the coordination of plans between the SREB and Russia's Eurasian Union and with it, a blessing for the further expansion of China's investments in countries that Russia considers to sit within its sphere of influence. In South Asia, China would have been well advised to make a similarly comprehensive effort with India. The relationships between the two countries are evidently qualitatively different, and Moscow's back was against the wall as a result of the sanctions regime imposed after its annexation of Crimea, but the principle - that a serious attempt should be made to reach a political accord with potentially disruptive countries during the inception phase of the BRI - was not observed and has proved costly for China.

Despite its doubts, India had agreed in 2013 to move tentatively forward with plans for the BCIM corridor. It had joined the Chinese-initiated Asia Infrastructure Investment Bank (AIIB). The Modi government had also shown interest in relaxing the rules that had restricted Chinese investment in India in the past. In this sense, New Delhi was not approaching the BRI from a position of deep pre-existing hostility. Yet in the early stages, India was surprised to see a number of its ports feature on semi-official maps of the BRI, for China to place the BCIM corridor under the BRI's auspices - in neither case with any consultations - which was then rendered even more problematic by Beijing's decision to include CPEC under the BRI rather than as a separate and distinct initiative.

CPEC has provided the main focus of the formal objections that India raised with China over the BRI, since it transits territory that India disputes, and that China has long acknowledged is disputed. But in reality the cross-border transit elements of the scheme are relatively minor, the package of investments in Gilgit-Baltistan and Kashmir proper is small, and other countries - including the United States - have supported development projects in these territories without similar Indian objections. It is hard to make the case that there is a significant material change to the status quo, that CPEC is a violation of a pre-existing understanding, or that there is a consistent and principled objection to all economic development efforts in Kashmir. In this sense, CPEC is better understood as derivative of broader Indian concerns about the deepening Sino-Pakistani relationship, the security implications of China's economic influence in its neighborhood, and tensions on other issues between the two sides, from India's membership of the Nuclear Suppliers Group to worsening flare-ups at the border.

The strength of Indian antipathy to the BRI was manifest in its decision - despite considerable Chinese lobbying - to be the only major country not to send a serious delegation to the Belt and Road Forum in May 2017. India's statement on the eve of the forum summarized its concerns, from the "financial responsibility to avoid projects that would create unsustainable debt burden for communities" to demands that projects “must be pursued in a manner that respects sovereignty and territorial integrity”.

India’s response has taken three forms.

The first has been heightened attention to diplomatic and economic outreach in its neighborhood. Modi has paid visits to virtually every South Asian state since taking office and made a renewed push for various forms of bilateral and minilateral economic cooperation, as well as additional investment in structures such as BIMSTEC. While India faces various constraints of its own, from its lack of financial firepower to pressing infrastructure demands at home, it has sought to work in conjunction with deeper-pocketed partners, principally Japan, to expand beyond its bilateral agenda.

The second element has been the establishment - and enforcement - of some clear red lines regarding Chinese military presence. In 2014, Chinese submarines paid surprise port calls in Colombo. Sri Lanka and India had an agreement that the Indian side would receive prior notification of any such visits, and the failure to do so on the part of the Rajapaksa government appeared to portend a Sino-Sri Lankan security relationship that was moving in a problematic direction. These were a catalyst for Indian efforts to bolster and unify Rajapaksa’s opponents, and his subsequent fate in the 2015 elections acted as a warning to others, notably the Maldives and Bangladesh. The combination of carrot and stick was most strikingly in evidence for the Bangladeshi Matarbari port deal in 2015, where political pressure and economic incentives pushed Dhaka to opt for a Japanese package instead of the Chinese deal that was in advanced negotiations.

The third element has been the effort to shape the narrative around the BRI, both through public communication and private interaction with other governments, where India has been the only country to raise its concerns quite as consistently at the very highest political levels. This has had a telling effect: while many countries had objections of their own, India has been effective at nudging them closer to their view, including most notably the United States.

For both India and China, the question is where to go next. India has been successful in imposing practical and reputational constraints on the BRI in South Asia but now faces a protracted contest in its own region rather than having the scope to negotiate a set of terms with China under which BRI projects are conceived with better fit for India’s own economic needs. Beijing still has the means to continue to secure projects and advance its economic cooperation with many South Asian governments but in a confrontational and politicized environment that is doing damage to the broader perception of the BRI. Although competition between China and India will certainly continue, the question in the coming year will be whether the two sides are able to reach a new *modus vivendi* over the way it is conducted, where India is able to condition and leverage the BRI in South Asia in return for a degree of political acquiescence to the scheme.

Conclusion

In 2018, the BRI is at something of a crossroads in South Asia. One of the biggest questions in the coming years will be whether China learns from its early experiences and adjusts as a result or if some of the early problems become endemic. There are several areas in which course corrections on China's part would change not only how the initiative is perceived but also its likely impact on the region. These include: the closed nature of aspects of the scheme to third countries; its bilateral rather than regionally-focused character; its lack of transparency; the concerning approach to the handling of debt issues; and China's failure, so far, to reach an accommodation with India over strategic economic issues in the region. Some analysis holds that this is simply a function of the way Beijing operates, and that these issues are - as a result - hardwired into the BRI. That may prove to be accurate. Yet the controversies around the early days of the initiative are a sharp contrast with the successful Chinese diplomacy that characterized the inception stages of the AIIB. Despite similar levels of international skepticism, China showed political deftness there in getting so many countries on board - including India - as well as demonstrating willingness to pursue infrastructure initiatives that appear to adhere to international standards and complement existing connectivity efforts. It would be unrealistic to expect China to turn the entirety of the BRI into an enlarged version of the AIIB: the opportunity to provide bilateral, politically directed investments is a prerogative that Beijing shows little inclination to forego. But with the BRI emerging from its teething phase, China faces a choice: to develop the initiative in the direction of a closed, Sino-centric "hub-and-spokes" model, which is liable to exacerbate geopolitical competition in the region and provoke further resistance from other powers, or something closer to an open "platform" model, which - while still serving many of China's bilateral interests - would also be more closely attuned to South Asia's considerable needs for economic integration.