



Rule of Law Collaborative
UNIVERSITY OF SOUTH CAROLINA



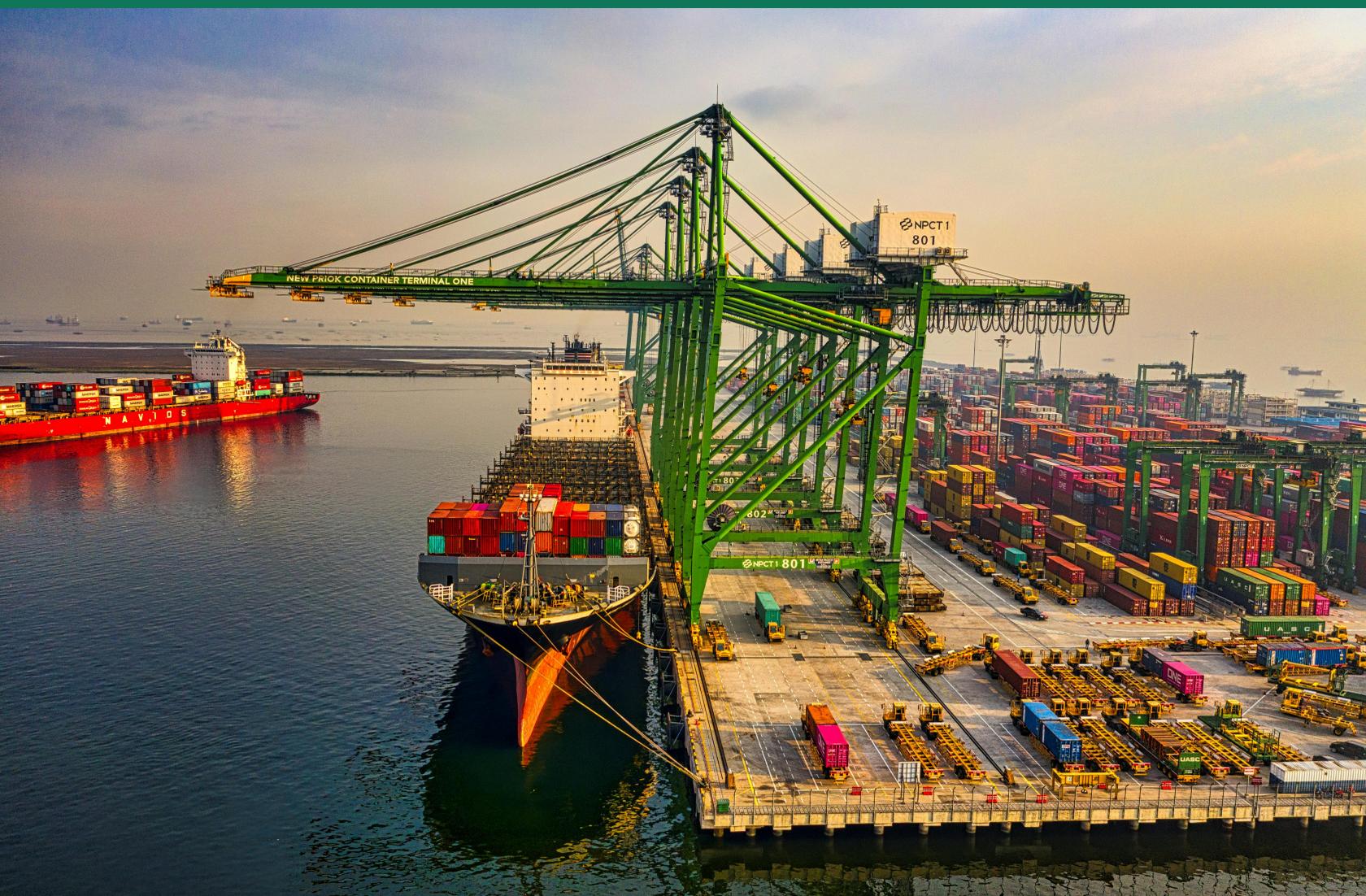
Walker Institute
McCausland College of Arts and Sciences
UNIVERSITY OF SOUTH CAROLINA



March 2026

China's Engagement in South Asia and Implications for US Policy

Steven Austermiller and Jerome Hansen



ACKNOWLEDGEMENTS

This report was prepared by Steven Austermiller (Co-Executive Director, Rule of Law Collaborative, University of South Carolina) and Jerome Hansen (Senior Fellow, Rule of Law Collaborative, University of South Carolina). The findings, conclusions, and recommendations of this report are those of the authors alone and do not necessarily reflect the views of the funders and partners. We are grateful for their support.

This report is related to a larger project implemented by the Rule of Law Collaborative entitled Understanding Chinese Engagement in South Asia (UCESA), which was funded by the United States Department of State. That project ended in July 2025, and this report is based on that research, along with additional research after project completion.

ROLC's regional network, the South Asia Consortium for Regional Responsibility, was managed by Atif Choudhury and Kiel Downey, and their substantial contributions to the success of that project cannot be overstated, including coordinating the critical relationships with our regional partners on the project.

The authors are grateful to Murad Khan, who provided important guidance and assistance from the funder side. The authors also thank their five UCESA partners in South Asia who each provided an invaluable and insightful research report on conditions in their respective countries: the National Institute of Advanced Studies (India), Bangladesh Enterprise Institute (Bangladesh), Regional Centre for Strategic Studies (Sri Lanka), Centre for South Asian Studies (Nepal), and Baani Center for International Policy (Maldives).

The authors also owe a debt of gratitude to the broader team at the Rule of Law Collaborative, who supported the authors and the UCESA project in countless ways: Karen Hall, Tsuneko Terry, Joe Davis, Carol Young, Maddie Alberse Jones, Scott Ciment, and Joel Samuels. We thank the United States Department of State for its longstanding support of the UCESA project. We also thank Carl Dahlman and the Walker Institute of International and Area Studies for their generous support of this research. Finally, we thank the University of South Carolina President Michael Amiridis and Provost Mary Anne Fitzpatrick for their crucial assistance and support in these uncertain times.

THE RULE OF LAW COLLABORATIVE

The Rule of Law Collaborative at the University of South Carolina (ROLC) is widely recognized as one of the nation's leading centers for the study of the rule of law. Founded in 2010, ROLC is committed to the development of the rule of law as a discipline, the advancement of research-based applications in the field, and the refinement of policies relating to rule of law development.

ROLC works globally with donor governments, private foundations, local and international civil society organizations, recipient governments, and multilateral organizations. It designs and delivers innovative, interdisciplinary, world-class training to rule of law practitioners, including synchronous and asynchronous virtual training and gamified training for professionals. It implements development projects that apply lessons learned and best practices from international contexts to crucial rule of law issues globally.

THE WALKER INSTITUTE

The Walker Institute of International and Area Studies (Walker Institute) is the center for global research and outreach on the University of South Carolina's Columbia campus. Founded in 1961, the Walker Institute is dedicated to fostering cross-cultural understanding on campus, in South Carolina, and around the world. As the university's portal to the world, the Walker Institute helps students, faculty, and the public view the world through a global lens. The Walker Institute directs two interdisciplinary majors and six area minors.

© 2026 University of South Carolina. All rights reserved.

The University of South Carolina, the Rule of Law Collaborative, and the Walker Institute of International and Area Studies do not take institutional positions on public policy issues. The views represented herein are those of the authors and do not necessarily reflect the views of the university, its staff, its trustees, or any contributors to this report.

CONTENTS

Executive Summary

| | |
|--|-----------|
| I. Introduction | 1 |
| II. Methodology & Sources | 4 |
| III. Patterns of Influence Across Five Domains | 5 |
| IV. India: A Distinct Analytical Context | 18 |
| V. Implications | 20 |
| VI. Consequences for U.S. Interests | 25 |
| VII. Policy Recommendations | 28 |
| VIII. Conclusion | 31 |
| Endnotes | 32 |

EXECUTIVE SUMMARY

This report stems from a University of South Carolina Rule of Law Collaborative program, which created a South Asia research consortium to produce the first locally led study of China's engagement in that region.

FINDINGS:

China's engagement in the case study countries involved five interconnected domains: infrastructure finance, elite engagement, opaque contracting, economic interdependence, and strategic positioning. This created asymmetric interdependence between the PRC and host countries, despite some popular projects promoting economic growth. Unlike debt-trap diplomacy, these dynamics stemmed from wide-ranging interactions rather than a deliberate scheme to seize assets. Over time, these dynamics can develop into structural dependence on the PRC, thereby constraining host country policy choices.



The case studies reveal a common trajectory: quick, visible, executive-led projects lead to increasing fiscal and trade pressures, resulting in elite capture and institutional erosion, along with strategic footholds in key industries, such as transportation and energy. Sri Lanka and the Maldives exhibit advanced levels of dependency and fiscal stress; Bangladesh and Nepal illustrate growing trade and contractual imbalances; and India remains the regional power but faces a trade imbalance and challenges at the local level.

IMPLICATIONS

These dependencies constrain regional autonomy, complicate maritime access and crisis response, entrench commercial standards favoring PRC firms, erode the rule of law, and compromise South Asian state sovereignty. This poses strategic and economic risks to nations of the Indo-Pacific region and to key U.S. partnerships.

RECOMMENDATIONS

- U.S. government: Scale and streamline DFC/EXIM/MCC financing and political-risk tools; fund debt-management and contract-negotiation capacity building; expand scholarships and research partnerships to counter PRC influence pipelines. Proactive support for regional economic integration and infrastructure planning.
- Host governments: Establish transparent public loan and procurement processes to restore accountability and level the playing field for all international investors. Reduce individual exposure through regional economic integration and infrastructure planning and promote common standards for transparency and debt sustainability.
- Multilateral partners: Coordinate faster and more reasonable infrastructure financing packages that match the attractiveness of PRC offers while preserving safeguards and building local governance and procurement capacity.

I. INTRODUCTION

This research is a product of the UCESA Project (Understanding Chinese Engagement in South Asia), funded by the United States Department of State and implemented by the Rule of Law Collaborative at the University of South Carolina (ROLC). The project's purpose was to support a regional network of local think tanks, researchers, and established academics from Nepal, India, Sri Lanka, Bangladesh, and Maldives and bring these experts to one platform where they could share their lessons learned and publish collaborative research on the People's Republic of China's (PRC) influence in the region, with an aim to diversify the information space.



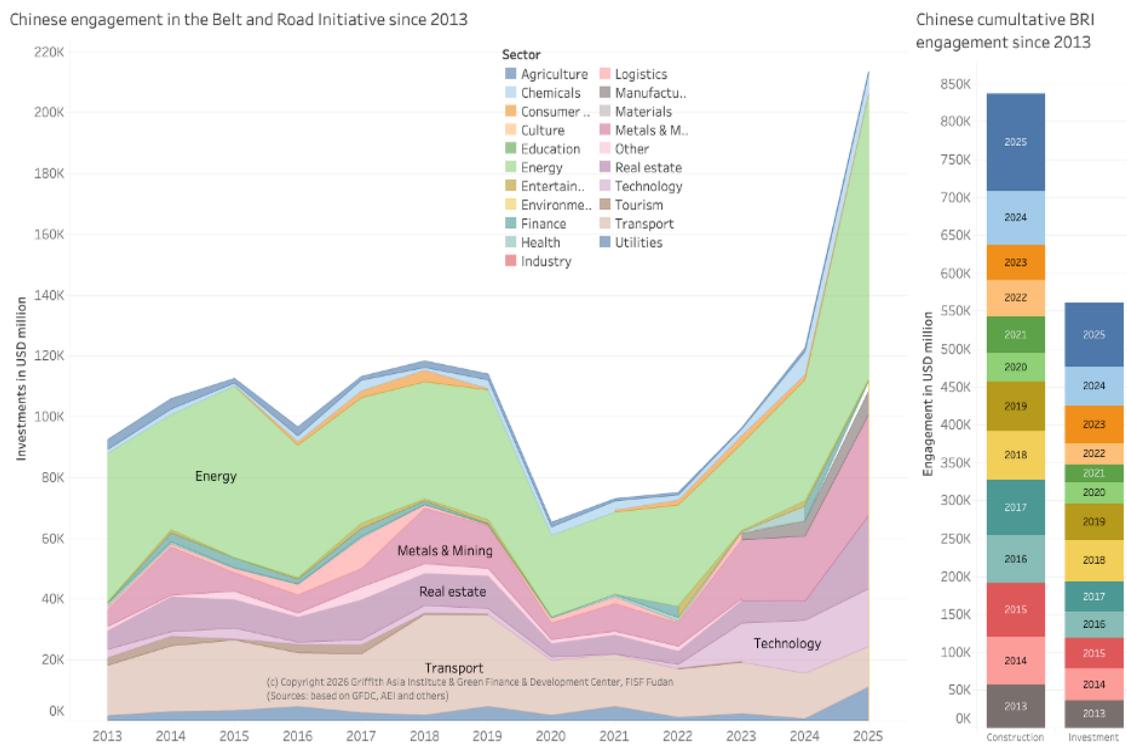
Over the past five decades, the PRC has transformed from a capital-scarce developing nation into a sophisticated global actor wielding economic statecraft as a central foreign policy instrument. This evolution reflects a “whole-of-government” approach that integrates economic leverage, political cultivation, information control, security positioning, and cultural outreach into a coherent influence strategy. Despite growing scholarship on China’s global development finance, systematic, locally led research on PRC influence dynamics within South Asia remains critically limited. This gap is particularly concerning given the scale and sophistication of China’s engagement in the region, as China intensifies operations through the Belt and Road Initiative (BRI), which has reached \$1.3 trillion in global commitments since 2013.¹

To support locally led research, the project established the South Asian Consortium for Regional Responsibility (SACRR), linking five research institutions: the National Institute of

Advanced Studies (India), Bangladesh Enterprise Institute, Regional Centre for Strategic Studies (Sri Lanka), Centre for South Asian Studies (Nepal), and Baani Center for International Policy (Maldives).² This network is dedicated to conducting high-quality collaborative research to understand the nature, methods, and effects of the PRC's influence in these five countries. The initiative aims to identify problematic PRC development financing, lending, and influence by analyzing these practices and promoting localized research collaborations. It also seeks to generate policy insights, bolster regional cooperation, and encourage constructive U.S. engagement with South Asian countries.

South Asia is one of the world's most important crossroads. It is home to almost two billion people, including several fast-growing economies, and is adjacent to some of the busiest shipping routes on Earth. What happens in this region shapes the future of the Indo-Pacific, affects global trade, and influences the balance of power between major countries. For the United States, a stable and independent South Asia is central to keeping the Indo-Pacific open, prosperous, and resistant to authoritarian pressure.

Recognizing that PRC influence in South Asia operates differently than in other regions, the SACRR network conducted in-depth case studies in each of the five countries, examining how Chinese engagement has evolved, what mechanisms Beijing employs, and how local actors have responded. These collaborative efforts aim to generate policy insights, bolster regional cooperation, and guide constructive U.S. engagement with South Asian countries.



Source: China Belt and Road Initiative Investment Report 2025, Griffith Asia Institute (GAI) at Griffith University, Brisbane, Australia

Over the past two decades, the PRC has dramatically expanded its role across the region. What began as a series of one-off infrastructure deals has grown into a wide-reaching strategy formalized as the BRI in 2013, which includes large-scale construction projects, close relationships with political elites, deeper trade ties, media outreach, and increased security engagement. Across Bangladesh, Sri Lanka, Nepal, the Maldives, and India, China's presence is now visible not only in bridges and ports but also in political decision-making, economic choices, and foreign-policy alignment.

This influence extends beyond development. The UCESA case studies show that Chinese financing often comes quickly and with fewer conditions than Western loans. That can be appealing for leaders looking to deliver visible results. In some cases, China was the only viable source of funds for a particular project. Many of these projects provide economic returns that benefit local leaders and citizens. In many of the countries, deeper engagement with China can provide a subtle counterweight to potential domination from neighboring India. However, this engagement also creates risks. Countries can find themselves facing rising debt, weakened transparency, and growing pressure to accommodate Beijing's political interests. In several cases, governments have softened their stance on sensitive issues involving China due to this economic dependence.

For Washington, understanding these dynamics is essential. China's activities in South Asia directly shape the strategic environment of the Indo-Pacific, influence the future of democratic institutions, and affect the ability of countries in the region to make independent decisions. They also reveal why building stronger local research networks is important. This project demonstrated that locally grounded analysis, shared across borders, can help governments and civil society better understand the nature of PRC engagement and craft policies that protect sovereignty and long-term stability. ROLC's rule-of-law framework, centered on accountable institutions, transparent governance, rights protection, and democratic participation, provides the analytical lens through which this report examines the governance consequences of PRC engagement in the region.

The analysis that follows examines these dynamics through five interconnected domains: infrastructure finance, elite engagement, opaque contracting, economic interdependence, and strategic use of projects and partnerships through which PRC influence consistently operates across the region.

II. METHODOLOGY & SOURCES

Research Question: *How does China exert influence across South Asia, and what does this mean for governance, sovereignty, and U.S. interests in the region?*

The analysis presented in this report employs a comparative case study methodology grounded in five country chapters produced by partner research institutions in Bangladesh, India, Maldives, Nepal, and Sri Lanka. Each case study draws on original fieldwork, including key informant interviews, focus group discussions, site visits, media and document analysis, and review of Chinese- and English-language sources. The consortium structure enabled iterative feedback, peer review, and methodological harmonization across cases.

This study integrates multiple types of evidence:

- *UCESA Case Studies:* The core empirical foundation, each offering country-specific data on PRC infrastructure projects, political engagement patterns, economic relationships, and governance impacts. Across the region, local partners varied their methods and focus to examine the most relevant issues in their country.
- *Economic and Trade Data:* National statistical datasets, sector-specific reports, cost-benefit assessments, and debt sustainability indicators that allow for cross-case comparisons.
- *Policy Documents and Government Records:* Parliamentary proceedings, bilateral agreements, and regulatory documents that illuminate decision-making processes and political incentives.
- *Academic Literature and Global Comparative Research:* Works on Chinese development finance, economic statecraft, and influence mechanisms in other regions (e.g., Africa and Southeast Asia) have been used to contextualize South Asian trends.
- *Triangulation Across Qualitative and Quantitative Sources:* This study cross-checks claims from interviews, media content, economic statistics, and project documentation to mitigate bias and ensure validity.

The scope of analysis focuses on PRC influence in the domestic governance, economic, and strategic domains of the five partner states from the BRI launch in 2013 to the completion of the UCESA research project in 2025. Limitations include data scarcity in opaque sectors (specific loan terms and political financing), political sensitivities affecting researcher access, and variations in partner institutional capacity. Despite these limitations, the cross-country comparative structure and robust triangulation significantly strengthen the reliability and generalizability of the findings.

III. PATTERNS OF INFLUENCE ACROSS FIVE DOMAINS

ROLC has found that these five case studies show consistent patterns of PRC engagement over the past two decades. The case studies from the UCESA project highlight how influence often operates through five interconnected domains that mutually reinforce one another, creating compounded dependencies that may ultimately alter governance structures, economic relationships, and strategic autonomy across the region.

Infrastructure Finance: Large, visible projects, such as ports, highways, and power plants, provide real benefits but often come with problematic terms and long-term financial risks.

Elite Engagement: Close relationships with ruling parties, political leaders, business elites, and local power brokers, often cultivated through visits, training programs, and targeted diplomacy.

Opaque Contracting and Lending: Limited transparency in contracts and lending terms weakens accountability and can encourage corruption or rushed decision-making.

Economic Interdependence: Trade imbalances, technology reliance, and growing market dependence make countries more sensitive to Chinese preferences.

Strategic Use of Projects and Partnerships: Projects and partnerships that expand China's political or security footprint, including dual-use infrastructure and influence over key maritime and border areas.

These domains collaborate and compound one another: infrastructure finance generates fiscal dependencies; elite engagement establishes parallel influence channels; opacity modifies governance norms; economic interdependence limits policy autonomy; and strategic positioning ensures a lasting presence with potential coercive capabilities. Together, they can produce a condition of asymmetric interdependence, in which what began as a mutually beneficial engagement gradually tilts in China's favor. Whether that condition deepens or moderates depends on the severity of the asymmetric trends and the capacity of the host country leadership to recognize and respond to them. At its most pronounced, asymmetric interdependence hardens into structural dependence, a state in which economic, political, and institutional entanglement with China becomes sufficiently embedded that disengagement carries prohibitive costs. It is at this stage that policy choices become meaningfully constrained, with governments adjusting positions on trade, human rights, territorial disputes, and strategic partnerships not through overt coercion, but because the structural costs of acting otherwise have grown too high.³



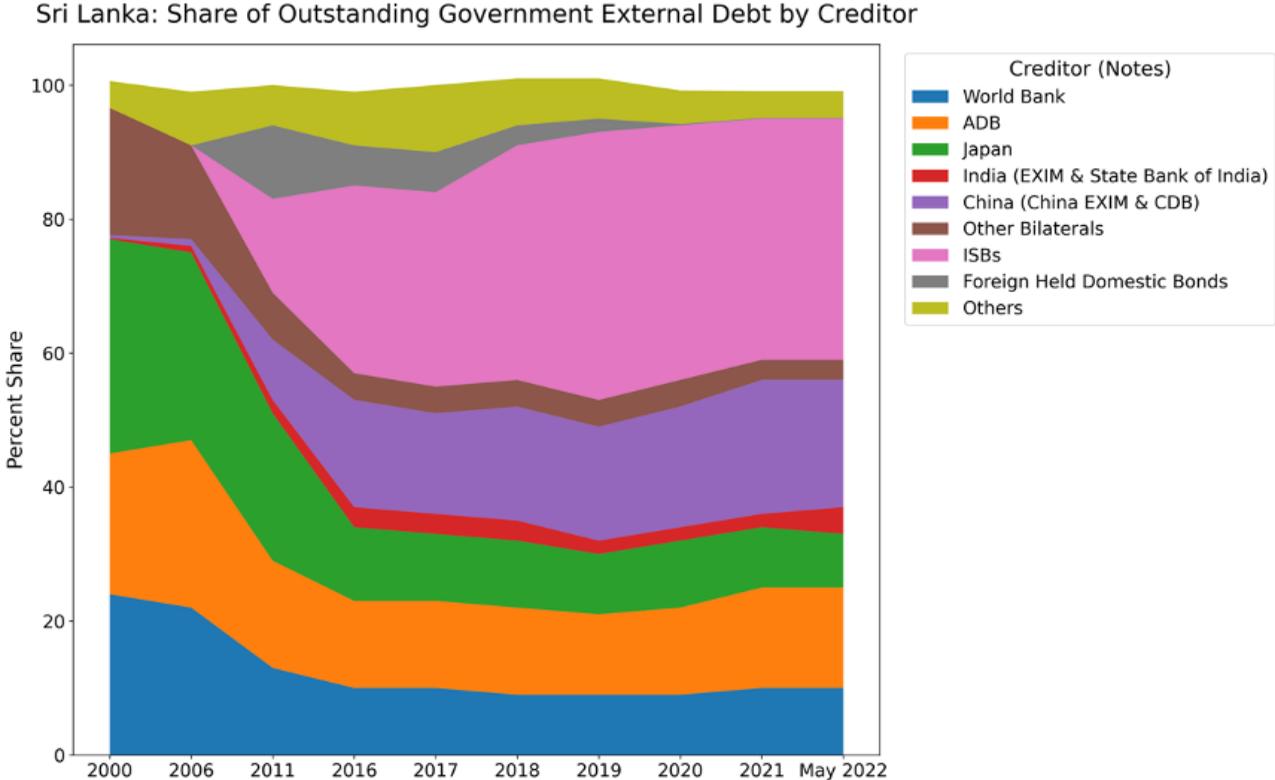
Before examining each domain, it is important to distinguish this framework from the concept of “debt-trap diplomacy.” Debt-trap diplomacy posits a malign Chinese strategy in which smaller nations are deliberately encouraged to become overly indebted to China so that the PRC can later exact concessions or seize assets.⁴ Asymmetric interdependence, in contrast, considers a broad range of interactions between China and target nations, including the five domains discussed herein. Unlike debt-trap diplomacy, this is not a national scheme or a master plan to seize assets, but rather a gradual deepening of ties between two nations in the economic, political, and social fields that can result in structural dependence and loss of sovereignty if the smaller country is not cautious.

A. INFRASTRUCTURE FINANCE

Chinese infrastructure financing fundamentally differs from traditional multilateral development finance. Unlike World Bank and Asian Development Bank (ADB) projects, which require competitive bidding, environmental assessments, parliamentary approval, and transparent contracts with repayment terms spanning 20–30 years or more, China prioritizes rapid delivery through government-to-government arrangements that bypass oversight mechanisms. Chinese loans are often structured as “supplier credits,” in which the lending country retains exclusive contractor selection authority and contractors maintain unilateral pricing power, eliminating competitive pressures while preventing independent price verification. Critically, these loans require repayment within 10–15 years, creating significantly higher annual debt service burdens despite lower stated interest rates.⁵

These structural features have produced a pattern of debt accumulation that is somewhat consistent across the region, although it is notoriously difficult to calculate national debt levels due to the variety of lending mechanisms and inconsistent access to core data. Bangladesh’s external debt escalated from \$20.85 billion in 2008–09 to \$67.9 billion in 2023–24, with China providing roughly 10% of the borrowings.⁶ President Xi’s 2016 visit resulted in commitments totaling over \$38 billion.⁷

Between 2005 and 2021, Sri Lanka accumulated over \$5 billion in infrastructure financing from China. Hambantota Port alone involved more than \$1.5 billion across multiple phases. When debt servicing became unsustainable, the government gave a 99-year lease of the Hambantota Port to China, thereby granting it operational control.⁸ The Maldives experienced similar patterns, with loans accounting for over 80% of Chinese aid.⁹ Nepal negotiated an \$8 billion BRI framework but delayed implementation owing to concerns about debt sustainability.¹⁰



Source: Evolution of Chinese Lending to Sri Lanka, Briefing Paper Nov. 2022, China Africa Research Initiative, Johns Hopkins University

Three interconnected failure patterns recur across the region. First, opaque and complex contract terms conceal obligations, interest escalation clauses, penalty provisions, currency risks, and collateral requirements, which often emerge only during implementation. Second, revenue projections often fall short of actual results. In Sri Lanka, Hambantota Port traffic never approached projections, and Mattala Airport sits nearly empty.¹¹ In Bangladesh, the Chattogram Elevated Expressway and the Karnaphuli Tunnel are similar examples of unrealistic expectations leading to sustainability issues.¹² Third, debt distress can lead to concessions during restructuring, as Sri Lanka’s Hambantota conversion included Chinese access and operational control provisions.

B. ELITE ENGAGEMENT

Infrastructure debt creates the fiscal foundation, but elite capture ensures that constraints face minimal domestic resistance. China's engagement cultivates elites whose personal interests align with continued Chinese financing, regardless of national costs, through party-to-party relationships, exchange programs, project commissions, and diplomatic shielding.

Nepal illustrates these mechanisms. The Chinese Communist Party (CCP) maintains relationships with multiple Nepali communist parties across coalition configurations. BRI projects are directed to constituencies of senior coalition leaders, including KP Oli and Sher Bahadur Deuba, creating personal and partisan stakes in maintaining Chinese engagement.¹³

The Chinese Communist Party as Kingmaker

In the post-monarchy era, China invested heavily in ideological relationships with Nepal's communist parties, favoring Nepali governments when they were in control.¹⁴ Nepal's 2008 transition to a multiparty republic opened political space that the CCP (Chinese Communist Party) quickly exploited, operating through its International Department rather than normal diplomatic channels to cultivate direct party-to-party ties. In 2017, China's ambassador personally brokered the merger of Nepal's two largest communist parties, producing a coalition that swept 174 of 275 parliamentary seats. When it fractured, Beijing dispatched a senior envoy to mediate between factions.¹⁵ Though the Supreme Court dissolved the CCP-engineered coalition in 2021 and the 2025 Gen Z Revolution swept away the Communist Party of Nepal (Unified Marxist–Leninist or “CPN-UML”), this episode stands as the region's starkest example of CCP penetration of a sovereign nation's political system.



Nepal Communist Party Chairman and three-time Prime Minister Pushpa Kamal Dahal, also known as Prachanda" Source: ILO/ Pradip Shakya

Influence in Sri Lanka Presidential Elections

"During the 2015 Sri Lankan elections, at least \$7.6 million from the Chinese port construction fund flowed directly to campaign aides and activities for Mr. Rajapaksa, who had agreed to Chinese terms at every turn and was seen as an important ally in China's efforts to tilt influence away from India in South Asia. The payments were confirmed by documents and cash checks detailed in a government investigation seen by The New York Times."

[How China Got Sri Lanka to Cough Up a Port, Maria Abi-Habib, June 25, 2018, New York Times](#)

Sri Lanka highlights cultivation across governments. Between 2005 and 2023, Beijing maintained relationships with Presidents Mahinda Rajapaksa, Gotabaya Rajapaksa, Sirisena, and Wickremesinghe, as well as prime ministers from different parties.¹⁶ When Sri Lanka's Finance Minister criticized Chinese loan costs in 2016, the Chinese Ambassador publicly questioned why Sri Lanka had accepted the loans, a direct intervention in the domestic political debate.¹⁷

The Maldives reveals how elite capture shields authoritarian practices. Beijing supported the Yameen administration despite its documented embezzlement and authoritarian rollback, enabling resistance to Western accountability pressure.¹⁸

Following a series of high-level diplomatic engagements between China and Bangladesh, the Awami League, prior to its removal from power, signed a formal MoU with the Chinese Communist Party, committing to work together at the highest political levels.¹⁹

The effect is the empowerment of executive authority at the expense of legislative and judicial oversight. Leaders who deliver visible infrastructure rapidly gain political capital, while transparency advocates are characterized as obstructionists. Personal financial interests, through commissions, consulting fees, and business partnerships, align elite incentives with continued Chinese engagement.

C. OPAQUE CONTRACTING AND LENDING

Elite capture and opaque contracting are mutually reinforcing: the executive discretion cultivated through elite engagement is precisely what allows nontransparent contracting to become normalized. Chinese projects often feature nontransparent contracting, fast-track approvals, and classified terms. Compared with Western and multilateral contracting, these represent a fundamental shift, privileging executive discretion and rapid delivery over transparency and deliberation.

The Maldives provides an extreme case. In 2017, the China–Maldives Free Trade Agreement was rushed through Parliament in under one hour without a quorum and without the full text being publicly available, demonstrating executive capture of the legislative function while maintaining constitutional forms.²⁰ Sri Lanka's major projects followed a similar pattern. Hambantota Port negotiations were conducted with minimal transparency, terms were partially classified, and the public was excluded. Cost overruns and problematic terms emerged only during implementation when modification became difficult.²¹

Procurement Policy Reshaped Under Chinese Engagement

- 2005: President Rajapaksa appointed himself Minister of Finance upon taking office
- 2008: National Procurement Agency closed and brought into the Ministry of Finance
- 2010: Public Procurement Guidelines revised to grant a cabinet-appointed committee (SCARC) authority to approve unsolicited proposals
- 2010–2015: All major Chinese-backed infrastructure projects approved through SCARC²²
- 2005–2009 vs 2010–2016: Chinese lending surged from \$1.964 billion to \$5.895 billion²³
- 2025: National Procurement Commission reinstated as part of post-default reform package

Analysis of Bangladesh's contracting indicates how supplier credits institutionalize opacity. Because Chinese loans are categorized as supplier credits, contractors cannot submit competitive bids. The lending country retains exclusive contractor selection, and Chinese contractors maintain unilateral pricing power.²⁴ This eliminates competitive procurement transparency while preventing cost verification. A Bangladesh economist captured the common thinking: Chinese loans are preferred precisely because they avoid rigorous monitoring and conditions of multilaterals, with China "placing the onus of loan oversight on recipients."²⁵ Nepal's BRI framework was signed without parliamentary approval or public consultation, with implementation details classified and civil society excluded from negotiations over \$8 billion in commitments.²⁶

This opacity is not incidental; it is often contractually mandated. An analysis at the Peterson Institute for International Economics of 100 Chinese government loan contracts across 24 BRI countries including South Asia, found that every contract issued by China Eximbank since 2014 contains confidentiality clauses forbidding borrowers from disclosing loan terms to other creditors, and "No Paris Club" clauses explicitly prohibiting the borrower from seeking debt restructuring on terms comparable to those negotiated through multilateral creditor forums. No other government lender, either bilateral or multilateral, routinely employs these provisions. The practical effect is that when a BRI borrower enters debt distress, other creditors cannot verify China's exposure or terms, coordinated relief becomes structurally difficult, and Beijing retains leverage over whether and how restructuring proceeds.²⁷

These patterns reveal a gradual, yet systematic transformation of governance. Government-to-government negotiations exclude legislatures, commercial confidentiality claims override public interest, fast-track provisions become standard, and executive discretion is rewarded. The normative shift moves from open and competitive procurement, parliamentary oversight, and transparent budgeting as best practices toward speed and executive discretion as effective leadership markers. The long-term consequence is potential institutional atrophy, with legislatures rubber-stamping decisions, audit institutions losing capacity, civil society space contracting, and the media becoming cautious about investigating strategically important projects.

From a rule of law perspective, this trajectory is particularly damaging because the core pillars of accountable governance, such as an independent judiciary, a functioning legislature, and a transparent regulatory system, are not dismantled outright. Rather, they are gradually rendered irrelevant. Once normalized, these governance shortcuts become self-reinforcing, as future leaders inherit institutions that may be too weakened to reassert meaningful oversight. The fiscal vulnerabilities created by opaque contracting are mirrored by the structural trade and technology relationships that deepen over time.

D. ECONOMIC INTERDEPENDENCE

The relationship between China and its small South Asia neighbors is marked by trade asymmetries, technology dependencies, and market dominance, which progressively narrow host country policy space.

Bangladesh exemplifies trade asymmetry. China became its largest trading partner in 2006 and the primary FDI source by 2023. However, exports to China constitute only 1% of imports, resulting in a 27:1 trade imbalance. Despite duty-free access for 97% of Bangladeshi exports, actual exports remain minimal, while Chinese imports undercut domestic manufacturing.²⁸ Bangladesh now faces debt obligations and trade deficits.

Technology dependencies compound constraints. Even India faces Chinese dominance in electronics, mobile phones, digital platforms, and telecommunications. Nepal's Chinese-dominated construction relies on imported labor and materials, resulting in minimal local job creation.²⁹ Chinese businesses in Kathmandu use AliPay and WeChat Pay outside Nepal's tax system, enabling regulatory arbitrage.³⁰ In Maldives, officials have an "acute awareness" of their vulnerability to China's control over the largest source of Maldivian tourist revenue through the PRC Approved Destination Status mechanism.³¹

These economic dependencies create self-censorship incentives. Governments facing debt pressures need Chinese goodwill for refinancing. Export-oriented economies require Chinese market access. Technology-dependent sectors rely on Chinese supply. This produces foreign policy caution in the form of avoiding human rights criticism, maintaining South China Sea neutrality, and handling Taiwan recognition delicately. After the Hasina government was overthrown, the interim Bangladesh leader, Dr. Muhammad Yunus, visited China and Beijing offered \$2.1 billion in investments, grants, and loans,³² while Yunus declared in an official statement:

*Bangladesh opposes 'Taiwan independence.' Bangladesh supports China on issues pertaining to China's core interests and China's efforts to safeguard its national sovereignty and territorial integrity.*³³

Sri Lanka's post-2022 debt crisis illustrates these dynamics. Having defaulted with approximately 20 percent of its external public debt owed to China, the government needs Chinese cooperation in debt restructuring, giving Beijing notable influence over government policy.³⁴ That influence was evident throughout the restructuring process: despite an IMF staff-level agreement in August 2022, China was the last bilateral creditor to provide financing assurances, delaying program approval by nearly seven months. They then halted disbursements again in September 2023 by insisting on separate negotiations. These delays were enabled by the confidentiality and "No Paris Club" clauses embedded in China's original loan contracts, which, as noted previously, are common in almost all Chinese lending agreements.³⁵

E. STRATEGIC USE OF PROJECT & PARTNERSHIPS

Economic dependencies and strategic positioning tend to reinforce one another; the value of strategically located infrastructure is often amplified when host governments have economic reasons to accommodate continued Chinese access. Chinese infrastructure investments follow clear geographic patterns, suggesting a coordinated regional strategy. The investment distribution creates a network of facilities that provide access, intelligence-collection capability, and potential military logistics support along the Indian Ocean littoral.³⁶



Hambantota Port
Source: Wikimedia Commons

Sri Lanka occupies the critical southern position. Hambantota Port is a deep-water facility on major shipping lanes between Malacca and the Suez, accommodating large vessels, including military ships, with bunkering and tank-farm refueling facilities. The pattern of Chinese research vessel visits reinforces strategic concerns. Documented arrivals include the Yuan Wang 5 spy ship (PLA Strategic Support Force, August 2022), the Shi Yan series of vessels (South China Sea Institute of Oceanology), and Hai CE 3301 (former Marine Surveillance), despite Indian objections.³⁷

Bangladesh provides the Bay of Bengal node. The expansion of the ports of Payra and Mongla creates deep-water access in strategically sensitive locations. The Chinese involvement in the Chittagong Port positions Bangladesh as a hub for connectivity ambitions.³⁸ The Maldives' geographic position, with its islands lying across shipping lanes south of India, makes Chinese presence particularly sensitive. China proposed establishing a "Joint Oceanic Observation Station" on a western Maldivian island; however, concerns over military applications led the Maldives to terminate the project in 2019.³⁹ Nepal's strategic significance differs but is equally important. Border infrastructure enhances Chinese access to and control over Tibet, reducing dependence on vulnerable eastern supply lines.⁴⁰

The maritime facilities form a coherent network, sometimes called the PRC's "String of Pearls."⁴¹ The spacing between Gwadar (Pakistan), Hambantota (Sri Lanka), Chittagong (Bangladesh), Kyaukpyu (Myanmar), and Maldivian facilities provides overlapping Indian Ocean coverage. Each node supports logistics and surveillance, while collectively creating the potential to monitor sea lanes that carry the majority of global trade.⁴²

India sees risk of encirclement.⁴³ Northern borders feature Chinese infrastructure in Nepal, enhancing PRC access. Eastern borders see Bangladesh ports creating a presence in the Bay of Bengal. Southern waters have facilities in Sri Lanka and the Maldives. Western borders feature Pakistan's Gwadar and the CPEC (the China Pakistan Economic Corridor). Each facility has a plausible civilian justification; nevertheless, collectively, they create the potential for Chinese surveillance and leverage over Indian strategic spaces. India's response, including increased defense spending, naval expansion, strengthening of the Andaman and Nicobar Islands, and Quad cooperation, demonstrates recognition of the strategic implications.

Beyond physical infrastructure, the PRC has established a parallel layer of digital and communications dependency across the region. Chinese telecommunications systems underpin national networks in Bangladesh, while Nepal's Trans-Himalayan connectivity architecture integrates optical fiber alongside roads and rails.⁴⁴ In Sri Lanka, the importation of Huawei surveillance systems, the gifting of computer equipment to parliamentarians, and subsequent government requests for social media monitoring technology have created long-term technical dependency on Chinese systems within state institutions, with strategic implications that extend beyond the commercial relationships through which they were established.⁴⁵

F. CROSSCUTTING: SOFT POWER & NARRATIVE INFLUENCE

Underlying all five domains is a cross-cutting dynamic that makes each of them more politically sustainable: the systematic cultivation of favorable perceptions through education, culture, media, and material assistance. Soft power normalizes engagement, dampens domestic scrutiny, and creates conditions in which debt acceptance, elite capture, and opaque contracting become easier to advance domestically.

Scholarship programs are the PRC's most consistent instrument. Through the Chinese Government Scholarship and the BRI-specific Silk Road Scholarship, China funds thousands of scholarships annually, targeting future engineers, doctors, and policymakers. Nepal's researchers caution that returnees may become a soft power asset for China rather than genuine bilateral bridges.

Cultural institutions reinforce the scholarship pipeline. Sri Lanka hosts four Confucius Institutes embedded in state universities⁴⁶, and Nepal and Bangladesh have seen Mandarin enrollment expand alongside active efforts to place Chinese language programs in schools.⁴⁷ In India, attempts to establish a Confucius Institute in Kerala were blocked due to political sensitivities.⁴⁸ The market penetration of Chinese consumer electronics across the region, including Xiaomi and Oppo in Bangladesh and India and Huawei products throughout, extends this normalization into everyday domestic life at a scale that formal cultural programs alone could not achieve.

Media engagement operates through parallel channels. China Radio International operates a dedicated Sinhala-language channel and maintains formal personnel exchange agreements with Sri Lanka's national broadcaster and television channel, thereby embedding Chinese state media framing into domestic programming.⁴⁹

The flyer is for a 'CHINESE LANGUAGE BEGINNERS COURSE FOR UNIVERSITY STAFF' at the Confucius Institute, University of Colombo. It features the Chinese characters '汉语' (Mandarin) and the institute's logo. The course is for academic staff and includes modules for Listening, Speaking, Reading, and Writing. The registration deadline is 2022.03.12. The course duration is Monday and Wednesday, 4:30pm - 5:30pm, for 15 weeks/30 hours. The course fee is free of charge. Contact information for the Confucius Institute, Faculty of Arts, University of Colombo is provided: 0112-599869 and info@ciuc.cmb.ac.lk.

Source: University of Colombo

Researchers have also identified six Facebook accounts in Sri Lanka with a combined reach of 4.3 million followers, presenting as personal profiles while functioning as state-linked pro-CCP channels, operating alongside the Sri Lanka-China Journalists' Forum, which expanded in parallel with BRI implementation.⁵⁰ While there is nothing wrong with promoting Chinese culture (witness the current "Chinamaxxing" trend on social media⁵¹), integrating these activities with economic initiatives reveals a more transactional undertone.

Material and health diplomacy extend reach beyond elites. In the Maldives, a Chinese medical team performed free cataract surgeries for 107 patients in 2016, a move publicized in a government-produced documentary.⁵² In Sri Lanka, China committed to supplying every student with school uniforms in 2025, a commitment the education minister acknowledged saves \$16 million in national funds, alongside targeted school nutrition programs.⁵³ Nepal's parliament has met for 18 years in the Birendra International Convention Centre, a building donated by China, a reminder that complicates legislative debate on BRI terms.⁵⁴

Where soft power faces limits, the case studies show adaptation: the Maldives' Muslim identity and documented Uyghur persecution constrained cultural diplomacy, pushing Beijing toward secular health branding instead. In India, formal channels froze after the 2020 Galwan clashes, yet sub-state links continued to operate below the diplomatic threshold, including Communist Party ties in Kerala, Chinese community networks in West Bengal, and Mandarin enrollment in Tamil Nadu.

Asymmetric interdependence is not simply a product of economic structure; it is sustained by an environment in which Chinese engagement has been progressively normalized. Across all five cases, soft power is the ambient context that helps promote the other domains. When citizens and elites hold positive associations with China through scholarships, cultural institutions, media, and material gifts, large-scale PRC-financed projects are easier to justify domestically, critical reporting loses institutional support, and strategic infrastructure encounters less resistance.

SPOTLIGHT: Bangladesh Soft Power Examples

Scholarship Pipeline: More than 5,000 Bangladeshi students studied in China between 2012 and 2023, funded through the Chinese Government Scholarship and Silk Road Scholarships, which target engineers, doctors, and future policymakers.⁵⁵

Official Training Programs: China offers short-term training and seminar programs for Bangladeshi government officials, professionals, and technicians outside formal scholarship channels, directly targeting serving bureaucrats.⁵⁶

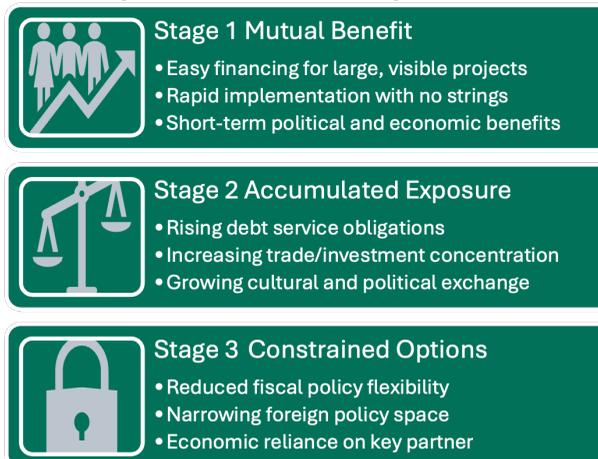
Institutional Channels: Dhaka University and other institutions have a Confucius Institute, and the Awami League, prior to being removed from power, had a formal MoU with the Chinese Communist Party.⁵⁷

Civil Society and Media: The case study documents structured engagement with journalists, think tanks, and civil society organizations as part of a public diplomacy strategy.⁵⁸

G. COMPOUND EFFECT: FROM PARTNERSHIP TO SUBORDINATION

These five domains exhibit compound dependencies in which constraints in one area correlate with tightening restrictions in others, with sovereignty progressively eroding over time. Infrastructure debt projects coincide with opportunities for elite capture through commission structures and inflated costs. Elite capture corresponds with reduced transparency as decision-makers approve fast-track processes with limited scrutiny. Opacity accompanies economic vulnerability by obscuring unfavorable terms that create future leverage points. Economic stress periods see strategic concessions emerge during restructuring negotiations.

Asymmetric interdependence



The trajectory observed across cases followed a consistent progression. In the initial stage, infrastructure gaps were filled through the rapid delivery of visible projects, host governments accrued political credit, and the partnership generated genuine development gains. Momentum was broadly positive, and the terms of engagement attracted limited scrutiny from domestic audiences and international observers.

As the relationship deepened, debt obligations increased, trade imbalances widened, and technology dependencies increased. Sustainability concerns began to surface but remained manageable, at least in official framing. Growing cultural and political exchanges have sustained the perception that the relationship is broadly reciprocal, while the opacity of the underlying terms obscures the extent to which the structural balance has already begun to shift.

By the third stage, reinforcing dependencies simultaneously constrained autonomy across multiple domains. Fiscal policy space narrowed, foreign policy self-censorship became normalized, economic structures oriented toward Chinese markets, and strategic assets came under Chinese influence. What began as freely chosen cooperation produced structural conditions that progressively limited the policy choices available to national leaders, not through any single decisive concession, but through the accumulated weight of dependencies that are difficult to reverse without significant political and economic costs.

Asymmetric interdependence is more complex than merely looking at debt levels. Nonetheless, debt can serve as a starting point to determine where South Asian countries are in this progression. Sri Lanka demonstrates the complete trajectory from 2005 projects through the 2010s debt accumulation to the 2022 crisis and asset conversion (see box). Maldives is in Stage 3, with debt exceeding 134% of GDP at the end of 2024 and heavy reliance on China.⁵⁹ Bangladesh occupies middle Stage 2, with interdependence still perceived as manageable.⁶⁰ Nepal shows early Stage 2, with caution informed by observing neighbors' experiences.⁶¹ India attempts to avoid asymmetric interdependence while facing potential encirclement from neighbors' dependencies.

These dynamics describe how initial freely chosen cooperation creates structural conditions that can progressively constrain future policy choices for South Asian leaders, an asymmetric interdependence emerging from systemic interactions rather than from any single actor's design.⁶²

Sri Lanka's infrastructure loans contribute to default and political crisis



Sri Lanka's post-war infrastructure boom evolved into the 2022 economic collapse through elite capture and weakened oversight. President Mahinda Rajapaksa made six visits to China. The government loosened procurement guidelines in 2010,⁶³ and Chinese lending surged from \$1.96 billion (2005-2009) to \$5.9 billion (2010-2016)⁶⁴ as projects were integrated into the Belt and Road Initiative from 2013. Chinese President Xi Jinping's 2014 state visit yielded over 30 agreements.⁶⁵ When debt servicing became unsustainable, the Hambantota Port was converted into a 99-year Chinese lease in 2017. In 2022, Sri Lanka defaulted, sparking the Aragalaya uprising and forcing President Gotabaya Rajapaksa to flee. Although Chinese loans represented only approximately 20% of external public debt, elite-driven borrowing with weakened safeguards had subordinated fiscal sustainability to political expediency, transforming infrastructure opportunities into a sovereignty crisis.

IV. INDIA: A DISTINCT ANALYTICAL CONTEXT

The preceding case studies acquire their full strategic significance when mapped against India's regional situation. They examine Chinese engagement with smaller South Asian countries through direct bilateral interactions. India's size, institutional capacity, and active border tensions with China produce a fundamentally different dynamic. Six regional sub-studies conducted by researchers at the National Institute of Advanced Studies, Bengaluru, covering Northeast India, New Delhi, Goa, Odisha, Tamil Nadu, West Bengal, and Kerala, consistently found minimal direct Chinese investment across all regions. Indian states do not conduct independent foreign policy toward China; formal engagement tracks closely with national policy, which remains constrained by unresolved border disputes, although, as the following subsections show, informal sub-state channels have proven more resilient than official relations alone would suggest.

China's presence in India instead manifests through trade asymmetry, the market dominance of firms like Huawei, Xiaomi, and Oppo, and, most significantly for this report, through Chinese infrastructure relationships with all of India's neighbors. Whether these effects reflect coordinated strategy or emerge from independent bilateral engagements, their cumulative impact on India's strategic environment is observable and documented across all six regional studies.

A. ASYMMETRIC TRADE

India's \$99.2 billion trade deficit with China in 2024, driven heavily by electronics, electrical machinery, and auto components, reflects imports of \$113.5 billion against exports of only \$14.3 billion, an 8:1 ratio demonstrating structural asymmetry.⁶⁶ Since Chinese imports serve both as consumer goods and crucial inputs for Indian manufacturing, any effort by India to restrict Chinese imports or exert economic pressure due to political tensions would increase costs for Indian manufacturers, reduce their competitiveness, and raise consumer prices. Meanwhile, China's limited reliance on Indian imports means India has little potential to reciprocate with similar pressure. This asymmetry constrains India's ability to use economic tools as political leverage against Beijing. Regional researchers found Chinese consumer brands deeply embedded across Indian states at all income levels, while Chinese tech firms, including Huawei and Xiaomi, dominate critical supply chains, electronics and telecommunications, extending the asymmetry beyond goods trade into the technology sector.⁶⁷ This penetration, particularly through Chinese-manufactured devices operating across India's consumer and communications infrastructure, raises data sovereignty concerns that India's existing investment restrictions were not designed to address.⁶⁸ This positions China to benefit from deep market access, while India lacks comparable reciprocal leverage, creating a structural economic relationship difficult to unwind quickly, regardless of political tensions. A Jadavpur University international relations scholar, interviewed during field research, characterized the India-China relationship as one where

*"...economic realities underscore India's reliance on Chinese manufacturing, as India mainly survives on providing services. This asymmetry of dependence makes it near-impossible to forego China's presence."*⁶⁹

B. ENCIRCLEMENT THROUGH NEIGHBOR ENGAGEMENT

Chinese infrastructure investment surrounds India: the \$1.2 billion BNS Sheikh Hasina submarine base in Bangladesh,⁷⁰ the Kyaukphyu deep-sea port and China-Myanmar Economic Corridor in Myanmar, Gwadar in Pakistan, and documented projects in Sri Lanka, Nepal, and the Maldives. Each project carries a completely plausible civilian justification; collectively, their dual-use potential alters India's strategic environment and has prompted a notable reallocation of defensive resources. India's response has been significant: deployment of S-400 air defense systems along the Siliguri Corridor, Rafale fighter jets stationed at Hashimara Airbase, and BrahMos cruise missile deployment, all focused on countering an emerging perimeter rather than advancing India's own regional agenda.⁷¹

C. WATER AS VULNERABILITY

China's upstream position on the Brahmaputra grants it influence over water flows into Northeast India. The approved \$137 billion Yarlung Tsangpo mega-dam, the world's largest planned infrastructure project, will regulate water that impacts Assam and Arunachal Pradesh, where 39.5 percent of land is already flood-prone.⁷² There is no binding water treaty between India and China, only a non-binding MoU for sharing hydrological data. In 2017, China ceased sharing data with India during the Doklam standoff but continued sharing the same data with Bangladesh, setting a precedent that access to information can be affected by political compliance.⁷³ Unlike the port and base dependencies that create visible strategic leverage, water represents an asymmetry that operates continuously, independent of diplomatic conditions.

D. SOFT INFLUENCE AT THE MARGINS

Despite national-level tensions, regional researchers documented persistent soft influence channels operating below the threshold of formal diplomacy: Chinese Communist Party links with the Communist Party of India (M), Chinese firms supplying cranes and equipment for the Vizhinjam port development, growing Mandarin language enrollment, and student flows for medical education.⁷⁴ These channels have proven resilient to bilateral tensions and have created constituencies with interests in maintaining engagement, complicating India's ability to adopt a unified national posture toward China.

E. THE CUMULATIVE REGIONAL EFFECT

India's situation illustrates, in a concentrated form, the dynamics that operate across the region as a whole. For India, the region's largest power, the cumulative effect is a persistently reactive strategic posture, allocating substantial resources to monitoring and countering developments across multiple borders rather than advancing its own regional agenda.

Compounding India's strategic challenge, the bilateral nature of Chinese engagement, deal by deal, country by country, works against the kind of South Asian economic and strategic cohesion that might otherwise mitigate Chinese influence. Sri Lanka, Bangladesh, Nepal, and Pakistan each attempt to manage their Chinese relationships largely in isolation from one another, limiting the emergence of shared negotiating positions or regional frameworks. These smaller countries tend to view engagement with China as a counterbalance to potential Indian financial and political domination.⁷⁵ The result is a regional environment where India faces economic disadvantage, a defensive strategic orientation, and neighbors whose relationships with China are individually managed and difficult to coordinate around common interests. For external partners seeking to support regional stability, this fragmentation represents a structural challenge as significant as any individual bilateral dependency.

V. IMPLICATIONS

How PRC Engagement Reshapes Governance, Sovereignty, and Regional Order

Evidence from the case studies indicates that Chinese engagement in South Asia functions not as a set of discrete development partnerships, but as a cumulative and reinforcing process that can reshape governance practices, economic structures, and the exercise of sovereignty. Across Bangladesh, India, Maldives, Nepal, and Sri Lanka, similar mechanisms appear, producing outcomes that are gradual, internally mediated, and increasingly difficult to reverse. The central conclusion is that PRC engagement narrows state autonomy over time, not through overt coercion, but through structural constraints that reshape incentives and institutional behavior.

A. Engagement Operates as an Integrated System

A core conclusion is that PRC engagement operates as a system rather than a collection of projects or sectors. Though they vary in concentration from country to country, infrastructure finance, elite engagement, opacity, economic interdependence, and strategic positioning reinforce one another.

States that assess engagement narrowly, on a project-by-project basis, tend to underestimate its cumulative impact. The most significant constraints emerge not from any single agreement but from the interaction of fiscal exposure, political alignment, weakened oversight, and strategic geography. Once embedded across several domains, these constraints can shape decisions beyond the original scope of cooperation.

B. Sovereignty Is Constrained Gradually Through Domestic Choices

The erosion of sovereignty observed in the case studies is progressive rather than abrupt. Governments initially engage China to address genuine development needs and political pressures. Early-stage cooperation often produces visible benefits and is widely perceived as voluntary and advantageous.

Over time, however, these choices can create an asymmetric interdependence. Debt obligations increase, trade and technology reliance deepens, and political elites develop personal and partisan interests in sustaining the engagement. Oversight institutions are bypassed, reducing their authority and effectiveness. Later governments inherit these constraints regardless of their preferences, limiting their ability to alter course without incurring significant political or economic costs. In this sense, sovereignty is not formally surrendered but it is functionally limited, as the range of feasible policy options narrows.

C. Influence Operates Through Structural Dependence, Not Coercion

Another key conclusion is that PRC influence in South Asia relies primarily on structural dependence rather than explicit pressure. Governments adjust behavior in anticipation of potential economic or diplomatic consequences, rather than in response to direct threats.

Debt exposure, market access, supply-chain reliance, and strategically located infrastructure create incentives for caution and accommodation. These conditions encourage self-censorship on politically sensitive issues, selective regulatory enforcement, and foreign policy restraint. Influence is therefore exercised indirectly, through constraint rather than command, making it more durable and less visible.

D. Institutional Weakening Is the Most Enduring Governance Impact

While corruption and elite capture are prominent features, the most lasting consequence of PRC engagement may be institutional weakening. Reliance on fast-track approvals, opaque contracts, and executive-led negotiations gradually erodes the authority of legislatures, audit bodies, regulators, and courts. If these institutions are sidelined, they lose capacity and legitimacy. The rule of law implications are significant. When contracting bypasses judicial oversight, when legislative approval becomes procedural, and when audit institutions lack genuine scrutiny authority, the predictability and accountability essential to legitimate governance begin to erode. Reversing this trajectory is difficult, as restoring institutional capacity requires political commitment and resources that many governments rarely have available.

E. Benefits Are Accompanied by Potential Long-Term Distortions

The economic effects of Chinese engagement are mixed. Infrastructure investment in power and transportation, for instance, delivers measurable economic gains and visible assets, but sometimes distorts long-term development paths. Capital is directed toward large, politically salient projects with limited cost-benefit analysis, rather than more productivity-enhancing investments. Without a strong cost-benefit analysis or public participation in the decision, it is impossible to assess the opportunity costs. A new bridge might improve transportation; however, what if that same amount of money could provide clean water to every rural citizen?

Some costs are clear. Local benefits concentrate among politically connected elites. However, many domestic companies often face increased competition from Chinese exporters with improved access to the domestic market. Engineering, construction, and heavy industry firms obtain an important foothold by operating on the ground. Chinese subcontractors are often favored for high-value work, while local employment is often limited to lower-level work. Technology transfer is often limited to the provision of equipment and computer hardware and software made in China.

F. Bilateral Engagement Fosters Regional Fragmentation

China's preference for bilateral engagement, combined with uneven institutional capacity across South Asia, has contributed to an environment in which fragmentation replaces coordination. As countries negotiate independently, they lose the ability to establish shared standards on debt sustainability, transparency, procurement, and strategic infrastructure. Governments compete to attract Chinese projects, often accepting weaker safeguards to avoid being bypassed. This dynamic reduces bargaining power and encourages a lowering of governance standards.

Bilateral dependence also limits regional crisis response. When one country experiences debt distress or political instability, neighbors lack coordinated mechanisms to mitigate spillover effects. Sri Lanka's 2022 crisis illustrated how national collapse can disrupt regional confidence while leaving other states exposed to similar risks without collective protections. Bangladesh's "July Revolution" in 2024 and Nepal's "Gen-Z Revolution" in 2025 passed without significant regional assistance.

G. Outcomes Are Not Inevitable, but Options Narrow Over Time

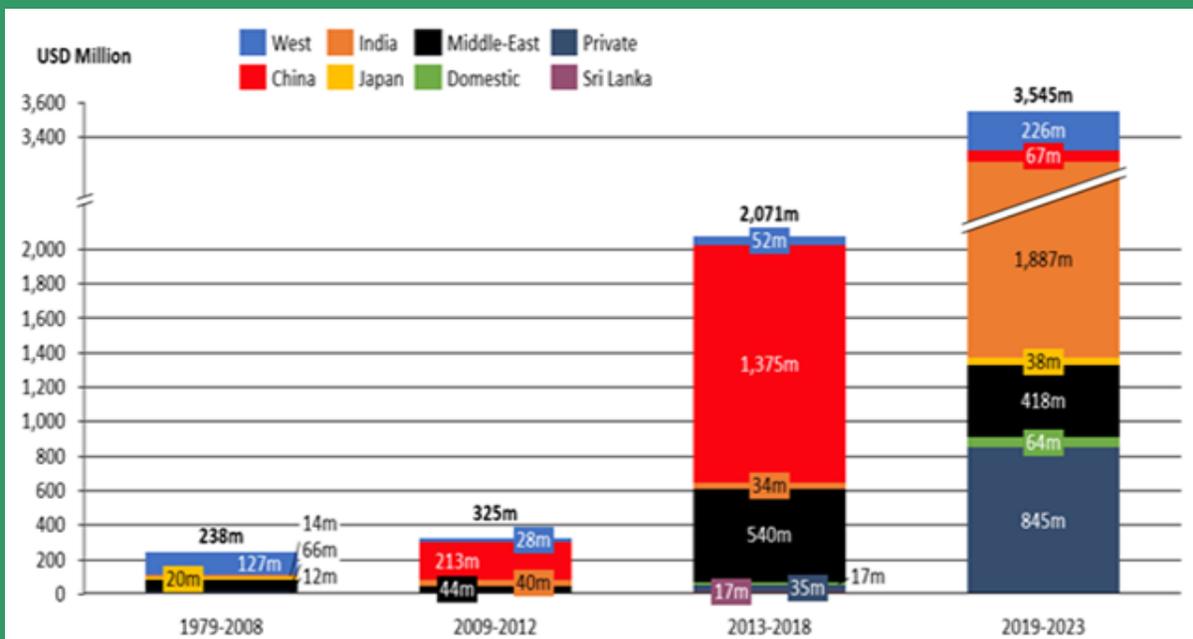
The case studies clearly demonstrate that PRC engagement is not deterministic. Outcomes vary depending on institutional strength, political incentives, access to alternatives, and strategic awareness. India's relative autonomy, Nepal's caution, Bangladesh's recognition of trade-offs,⁷⁶ and Maldives' vacillation between pro-China and India First demonstrate that agency exists, particularly in early stages of engagement. Many leaders view China's emergence as an opportunity to break free from potential Indian hegemony. However, the cases also show that policy options can narrow over time as interdependence becomes more asymmetric.

Is Maldives Following Sri Lanka into Default?

In 2011, China’s engagement with the Maldives deepened with the establishment of a Chinese Embassy in Malé.⁷⁷ Three years later, President Xi Jinping’s landmark state visit formally integrated the Maldives into China’s Maritime Silk Road Initiative.⁷⁸ China quickly became the country’s largest source of tourist revenue, and Malé pivoted toward infrastructure-led development financed by loans from China.⁷⁹

China’s proposed free trade agreement was signed and adopted by the Maldives Parliament under suspicious circumstances in 2017. The 1,000-page document was reportedly rushed through in an hour, with only 40 of 85 MPs present.⁸⁰ An opposition party leader expressed concern that the agreement was “selling the Maldives to China.”⁸¹ Public skepticism about overdependence on China intensified when corruption allegations mounted. Reports detailed opaque disbursements and alleged cash payments routed through the PRC embassy.⁸² During this period, the Maldives withdrew from the Commonwealth after criticism of democratic backsliding and threats to the rule of law.⁸³ By 2019, the IMF found that 53% of Maldives public and publicly guaranteed debt was held by China.⁸⁴

China’s investment dropped dramatically when a pro-India government took power in late 2018, and Indian investment increased (see chart). Since then, the Maldives has struggled to repay these loans. Moody’s and Fitch downgraded Maldivian debt in 2024, citing elevated default risks,⁸⁵ and in 2025 the World Bank found the Maldives at a “high risk of debt distress.”⁸⁶



Total value of loans and sovereign guarantees signed by the Government of Maldives by lender origin. Source: Ministry of Finance

Final Assessment

Taken together, the UCESA case studies show a consistent pattern: when Chinese engagement is managed through opaque, executive-centered processes in weak institutional environments, cooperation tends to evolve into asymmetric interdependence. Sovereignty is not seized; it is gradually constrained.

What makes this particularly difficult to counteract is the interconnected nature of the influence itself. Infrastructure debt, elite capture, opacity, and economic dependency do not stress rule of law systems independently; instead, they compound one another. A legislature weakened by executive bypass is less able to scrutinize loan terms; a judiciary lacking independence cannot enforce contract accountability; and regulatory bodies hollowed out by fast-track approvals cannot assess long-term fiscal risk. Each domain of influence deepens the vulnerabilities created by the others, making piecemeal responses insufficient.

Therefore, the strategic question facing South Asian governments is not whether to engage with China, as most require infrastructure investment at a scale that only China can provide, but how to engage without undermining the institutions that sustain sovereignty, accountability, and long-term development. Acting early to preserve institutional autonomy is essential to preventing partnership from becoming subordination. Ultimately, the strength of the rule of law in domestic institutions, judicial, legislative, and regulatory, determines whether countries can maintain meaningful sovereignty under these conditions.

VI. CONSEQUENCES FOR U.S. INTERESTS

The PRC's expanding role in South Asia has consequences that extend beyond the region itself. The structural dependencies identified in the UCESA case studies directly affect U.S. security, economic, and political interests in the Indo-Pacific. Although none of these developments alone constitutes an immediate crisis, together they are reshaping the regional environment in ways that could limit U.S. influence, complicate partnerships, and increase long-term instability.

A. Strategic Competition in the Indo-Pacific

South Asia's two billion people sit at the center of the Indo-Pacific, linking the Middle East, Africa, and East Asia through critical sea lanes that carry much of the world's energy and trade. As the PRC deepens its presence across the region, it is quietly altering the strategic balance in ways that matter to U.S. defense planning and alliance networks.

Chinese-funded ports, logistics hubs, and maritime infrastructure in Sri Lanka, Bangladesh, and the Maldives are technically civilian projects; however, many, such as the Hambantota Port in Sri Lanka, have features that could support military or intelligence activities. Over time, these facilities expand the PRC's ability to operate in the Indian Ocean, collect information, and project power far from its own shores. This complicates U.S. naval operations and increases uncertainty during crises.

For the United States, this shift places added importance on its partnership with India. India remains the only regional power with the scale and motivation to balance PRC influence across South Asia and the Indian Ocean. However, the PRC's growing ties with India's surrounding neighbors can limit India's room to maneuver and heighten regional tensions. As smaller states hedge between major powers, the region risks becoming more fragmented and competitive rather than cooperative.

Consequently, U.S. efforts to promote a stable, rules-based Indo-Pacific face new challenges. Maintaining freedom of navigation, supporting regional security cooperation, and preventing miscalculation become more difficult in an environment where PRC influence is normalized and institutionalized across multiple South Asian countries.

B. Economic Competition and Market Access

The PRC's growing economic footprint in South Asia has implications for U.S. economic interests. Across the region, Chinese firms benefit from financing models that bundle loans, contractors, equipment, and labor into single packages, backstopped by PRC guarantees and leverage. This approach often sidelines U.S. and allied companies, which must compete under stricter transparency, labor, and environmental standards.

As Chinese-funded infrastructure shapes trade routes, industrial zones, and energy systems, it also influences which standards prevail. Technical norms, digital platforms, and payment systems introduced by Chinese firms can become entrenched, making it harder for U.S. companies to enter these markets later. Over time, this reduces U.S. commercial opportunities and weakens American influence over the development of regional markets.

Another concern is the supply chain security. South Asia is increasingly important as a potential alternative to China-centered supply chains.⁸⁷ However, if the region becomes more deeply integrated into Chinese-led production networks, the U.S. may lose opportunities to diversify sourcing and reduce strategic vulnerabilities. This is especially relevant in sectors such as electronics, telecommunications, and critical infrastructure, where technology choices made today can lock in commitments for decades.

C. Democratic Governance and Values Promotion

The U.S. has long viewed support for democratic governance, transparency, and accountability as important to its engagement in South Asia. PRC engagement does not require governance reforms, public oversight, or safeguards against corruption. As mentioned, this is part of the appeal. In several countries, this has strengthened executive power at the expense of legislatures, courts, and civil society. While these changes are driven by domestic politics, PRC financing and diplomatic support often reinforce these tendencies by rewarding speed and loyalty over transparency and civil engagement. Civic actors may face political pressure for scrutinizing major infrastructure projects or raising concerns about the environment, debt, and corruption. Governments may be less receptive to reform initiatives if alternative funding sources allow them to bypass accountability requirements altogether.⁸⁸

Over the long term, this dynamic contributes to a form of governance competition. The PRC model, prioritizing rapid development and centralized decision-making, offers an appealing alternative for leaders under domestic pressure. If this model becomes normalized across South Asia, the U.S. risks losing influence not only with governments but also with future generations of policymakers who see transparency and institutional checks as obstacles rather than strengths. Importantly, this also represents a rule of law competition where the PRC's engagement model implicitly rejects key rule of law principles such as the fair and predictable application of laws, independent dispute resolution, and legislative accountability, favoring executive discretion and bilateral patronage. When this model becomes the regional norm, it displaces not only U.S. influence but also the governance culture that supports durable, rules-based U.S. partnerships.

D. Regional Stability and Humanitarian Considerations

PRC-fueled economic dependence and weakened governance have implications for regional stability, which directly affects U.S. interests. Sri Lanka's 2022 debt crisis is an example of how quickly financial stress can translate into massive political unrest, economic collapse, and humanitarian need, with the president ultimately fleeing the country. In 2024, rising economic stress combined with entrenched corruption and authoritarianism led to a wave of protests that culminated in the July Revolution, which brought down the Bangladesh government of Sheikh Hasina.⁸⁹ In 2025, youth protests over economic stagnation and authoritarian measures led to the Gen-Z Revolution, which toppled the Nepal government. As the PRC accelerates its engagement with South Asia, these same vulnerabilities could lead to growing unrest with unpredictable consequences.

Instability in South Asia has spillover effects. Economic crises can drive migration, strain neighboring countries, and create openings for extremist or criminal networks. They also increase demand for international humanitarian assistance, potentially requiring U.S. resources and attention at short notice.

The U.S. has a strong interest in reducing the risk of such crises by supporting democratic development, pro-American policies, and sound economic governance. When countries become trapped in cycles of debt, dependency, and suppression, the costs are rarely contained within national borders. Instead, they ripple outward, affecting regional security and global markets.

E. Summary Implications for U.S. Policy

The trends identified in this research suggest that the PRC's growing influence in South Asia is not just a regional issue; it is a strategic challenge with direct implications for U.S. interests. It impacts the security of the Indo-Pacific, the openness of regional markets to U.S. businesses, the resilience of democratic institutions, and the stability of South Asia in the face of future shocks.

The key risk for the U.S. is not that South Asia "chooses" China over the United States, but that these dependencies gradually reduce the region's ability to act independently. In such an environment, U.S. partnerships become harder to sustain, and American influence becomes more costly to maintain.

Understanding these dynamics is therefore essential for developing realistic, long-term U.S. engagement with South Asia, one that recognizes the appeal of PRC financing, aligns with local priorities, and competes effectively without forcing countries into zero-sum choices.

VII. POLICY RECOMMENDATIONS

The five country case studies reveal both opportunities and vulnerabilities in the PRC's engagement with South Asia. While PRC projects have filled critical infrastructure gaps, they have often produced challenges for local governments. To mitigate risks and strengthen resilience, the following recommendations are offered to the U.S. government, host governments and NGOs in the region, and other donors.

A. For the U.S. Government

1. Expand American Lending Tools to Create U.S. Investment Opportunities

PRC loans are attractive because they are fast and flexible. They give local leaders big, visible “wins,” even if these loans are problematic in the long term. There is often no American alternative, so the Chinese have strong leverage when negotiating these terms. The U.S. needs to “get in the game” and expand DFC, EXIM Bank, and MCC engagement with development finance, political risk insurance, and loan guarantees that could provide competitive American alternatives with governance and sustainability safeguards.

2. Strengthen Regional Capacity to Analyze and Respond to PRC Influence Partners in Nepal, Maldives, and Bangladesh reported local challenges in negotiating complex loan agreements and contracts.⁹⁰ There is an asymmetry in expertise and experience, as South Asian officials are often negotiating their first and only billion-dollar infrastructure project, while their Chinese counterparts are more experienced. U.S. support for training in debt management, contract oversight, project impact assessment, and negotiation skills can help local actors engage from a position of strength instead of weakness. Further, support for legal and regulatory expertise is also important, as it builds local capacity to scrutinize contract terms, enforce accountability provisions, and identify hidden arrangements before commitments are made.

3. Advance U.S. Interests by Supporting Regional Cooperation Platforms

As the world's largest infrastructure builder and investor, the PRC has leveraged the above-mentioned bilateral asymmetries to maximize influence. By supporting regional forums like BIMSTEC and IORA, which the US has recently backed, the U.S. can assist South Asian nations in coordinating strategies and lowering their susceptibility to PRC's divide-and-conquer approaches. When South Asian nations coordinate collectively, they can negotiate better terms with China, resist negotiation pressure, and create more stable conditions for U.S. trade, investment, and security partnerships across the region. Funding new regional forums to maximize information sharing and preparedness for investment inflows might also be helpful.

4. Advance U.S. Strategic and Economic Interests by Strengthening Rule of Law The intensive PRC engagement in South Asia has led to national vulnerability and threats to the rule of law. The U.S. can promote South Asian national sovereignty and its own Indo-Pacific interests by helping these nations support the rule of law. Examples include disrupting and prosecuting criminal networks, reducing illegal rent-seeking behavior, and professionalizing public institutions and personnel (including the judiciary) for more just, efficient, and effective policies.

5. Expand South Asian Markets for American Business

To reduce over-reliance on China and strengthen regional stability and sovereignty, the U.S. should help improve conditions for American investment in South Asia. South Asia's large and youthful population, expanding consumer markets, and growing role in global manufacturing, particularly in sectors like electronics, energy, and digital services, make it a strategically important destination for U.S. firms. The U.S. should help countries with initiatives that lower risk and increase predictability for American investors. This includes backing regulatory and legal reforms that strengthen contract enforcement, protect intellectual property, and streamline customs, tax, and licensing processes.

6. Counter PRC Education Influence with U.S. Higher Education Opportunities

PRC scholarships and Confucius Institutes create long-term influence pipelines, training tens of thousands of students annually across the region. These Mandarin-speaking graduates often become advocates for Beijing among educated elites and can serve business, political, and intelligence functions. Targeted U.S. scholarships and research partnerships would provide competitive alternatives and reduce PRC dependency. Given America's appeal as an educational destination, modest investment here would yield significant returns in cultivating future leaders aligned with American values and U.S. Indo-Pacific interests.

7. Support Regional Research Capacity on PRC Influence

South Asian research institutions are critically underfunded but can provide useful intelligence on Chinese operations. The UCESA project demonstrates that supporting local experts yields practical information on PRC engagement in the region. These researchers track PRC coercion, document infrastructure project issues, and identify emerging vulnerabilities, information that helps protect American interests in the Indo-Pacific. Supporting this research network is a cost-effective way to understand and counter PRC influence.

B. For Host Governments and Other Actors in the Region

1. Strengthen Debt Transparency and Accountability

In Bangladesh, Sri Lanka, and Maldives, opaque loan terms and non-competitive bidding processes fueled corruption risks and public distrust. Public registries of loan contracts would reduce waste and opportunities for elite capture, as well as increase public oversight.

2. Institutionalize Rigorous Project Selection

The Maldives, Sri Lanka, Bangladesh, and Nepal accepted projects (e.g., housing schemes, airports, tunnels, ports) that later proved underutilized or financially unsustainable. Independent cost-benefit assessments and non-political oversight bodies can prevent such misaligned investments.⁹¹

3. Diversify Funding Sources

Overdependence on PRC financing heightens vulnerability, as seen in Sri Lanka's recent debt crisis. Expanding ties with Japan, IMF, ADB, or World Bank, along with other bilateral donors, would help balance financial risks and reduce influence and leverage from one source.

4. Enhance Trade and Export Capacity

Despite duty-free access to China for 97% of Bangladeshi exports, trade remains imbalanced due to weak export diversification and infrastructure bottlenecks. Sri Lanka and Nepal suffer from a similar imbalance. During its period of intensive engagement with China (2010-2018), Maldives imports from China grew tenfold while exports to China remained flat.⁹² Investment in education, logistics, and regulation streamlining would enable South Asian states to benefit more fully from trade deals.

5. Safeguard Those Who Study and Respond to Chinese Influence

Experts studying PRC influence in every represented country have faced political sensitivity, especially when researching potential "economic coercion." Some UCESA partners expressed the concern that criticizing PRC engagement in their country might be viewed as criticizing their host government. Local legal protections are essential to preserve independent research and promote evidence-based policy discussions.

C. For International Donors and Multilateral Partners

1. Streamline Loan Processes with Strong Safeguards

Countries like Sri Lanka turned to PRC loans because of the slow disbursement and strict conditions imposed by multilateral lenders. By streamlining loan processes while maintaining high standards, donors can provide attractive alternatives.

2. Strategically Align Donor Efforts

Fragmented donor initiatives leave gaps that the PRC exploits, as seen in the Maldives, where Western aid retreated from infrastructure. Coordinated approaches can prevent duplication and strengthen negotiating leverage.

3. Strengthen Transparency and Accountability

Opaque loan terms and non-competitive bidding processes fueled corruption risks and public distrust. Technical assistance to promote procurement reform would reduce waste and opportunities for elite capture, as well as increase public oversight.

4. Require Rigorous Feasibility and Sustainability Standards for Major Infrastructure

Partner governments and local communities need support to establish rigorous feasibility assessments and sustainability standards for evaluating infrastructure projects. This strengthens their capacity to resist pressure for economically nonviable white elephant projects and insist on investments that serve genuine development needs.

5. Foster Cross-Regional Knowledge Sharing

South Asian research organizations lack access to comparative lessons. Facilitating exchanges with African or Southeast Asian institutions facing similar challenges would build capacity and resilience.

6. Support Regional Research Capacity on PRC Influence

South Asian research institutions are critically underfunded and lack internal resources to conduct comprehensive investigations on politically sensitive or sophisticated projects. The UCESA project demonstrates how local research capacity is strengthened when experts receive sustained funding and access to regional networks. Supporting this research infrastructure helps the region understand and avoid potentially damaging investment decisions and coordinate responses while promoting greater independence.

VIII. CONCLUSION

Evidence from across South Asia indicates that while PRC financing can help address infrastructure gaps, it also generates long-term vulnerabilities. The U.S. must offer viable alternatives and help bolster local capacity, while host governments and others must strengthen transparency, diversify partners, and create a more dynamic investment environment. Together, these measures will help the region harness the benefits of external investment while avoiding the pitfalls of dependency. South Asian needs are aligned well with U.S. Indo-Pacific interests and there is a great opportunity for mutual benefit.

Endnotes

¹ Christoph Wang, *China Belt and Road Initiative (BRI) Investment Report 2025 H1* (Brisbane: Green Finance & Development Center, Griffith Asia Institute, Griffith University, 2025), <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2025-h1/>.

² The National Institute of Advanced Studies (India), <https://www.nias.res.in/>; Bangladesh Enterprise Institute, <https://bei-bd.org/>; Regional Centre for Strategic Studies (Sri Lanka), <https://www.rcss.org/>; Centre for South Asian Studies (Nepal), <http://www.csas.org.np>; and Baani Center for International Policy (Maldives), <https://baanicentre.org>.

³ Thomas Wright, “Sifting through Interdependence,” *The Washington Quarterly* 36, no. 4 (2013): 7–23; Khanindra Das, “Economic Interdependence Since COVID-19: China and South Asia,” *China Report* 58, no. 2 (2022): 131–151, <https://doi.org/10.1177/00094455211039106>. For a discussion of asymmetric interdependence between China and Southeast Asia, see Sri Yaumul Habibie, Rudiyanto, and Budiman Djoko Said, “Navigating Asymmetric Interdependence: Neoliberal Institutional Perspective on ASEAN-China Ties,” *International Journal of Progressive Sciences and Technologies* 49, no. 1 (February 2025): 653–662.

For a general discussion of how asymmetric interdependence can be leveraged for state interests, see Robert O. Keohane and Joseph Nye, Jr., *Power and Interdependence* (Boston: Little Brown, 1977); Henry Farrell and Abraham L. Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion,” *International Security* 44, no. 1 (2019): 42–79, https://doi.org/10.1162/isec_a_00351.

⁴ Debt-trap diplomacy was first coined by Brahma Chellaney. Brahma Chellaney, “China’s Debt-Trap Diplomacy,” *Project Syndicate* (January 23, 2017), <https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01>. While the term has been used extensively in academia and the media, the concept has been largely discredited. There is no hard evidence that Beijing has engaged in predatory lending to extract later concessions or seize assets. A 2021 Carnegie study concluded that China had not engaged in debt-trap diplomacy in Nepal, Maldives, Bangladesh, and Sri Lanka. Deep Pal, *China’s Influence in South Asia: Vulnerabilities and Resilience in Four Countries* (Carnegie Endowment for International Peace, October 2021), 48–49, <https://carnegieendowment.org/research/2021/10/chinas-influence-in-south-asia-vulnerabilities-and-resilience-in-four-countries>.

⁵ Pal, *China’s Influence*, 21–22.

⁶ Bangladesh Enterprise Institute (BEI), *Debt, Diplomacy and Development: Understanding the Strategic Landscape of the PRC in Bangladesh’s Development Trajectory* (Dhaka: Bangladesh Enterprise Institute, 2025), 3.

⁷ *Ibid.*, 6.

⁸ Regional Centre for Strategic Studies (RCSS), *Understanding Chinese Engagement in South Asia: Decade of Sri Lanka in the Belt and Road Initiative (BRI)* (Colombo: Regional Centre for Strategic Studies, 2025), 8, 20–21, 23.

⁹ BAANI Centre for International Policy (BAANI), *Maldives Entanglements in PRC Development Practices* (Malé: BAANI Centre for International Policy, 2025), 11 (citing Axel Dreher, et al., “Aid, China, and Growth: Evidence From a New Global Development Finance Dataset,” *Subhashini* 13(2) (2021): 135–174, <https://doi.org/10.1257/pol.20180631>).

¹⁰ Centre for South Asian Studies (CSAS), *China’s Rising Influence in Nepal*, (Kathmandu: Centre for South Asian Studies, 2025), Kabita Poudyal chapter, 1–3.

¹¹ RCSS, *Chinese Engagement*, 23–25.

¹² BEI, *Debt, Diplomacy*, 25–26.

¹³ CSAS, *Rising Influence*, Jagdishor Panday chapter, 2–6.

¹⁴ CSAS, *Rising Influence*, Jagdishor Panday chapter, 2.

¹⁵ *Ibid.*, 2.

-
- ¹⁶ The volume of high-level diplomatic engagement between China and Sri Lanka increased substantially from 2009 to 2017. RCSS, *Chinese Engagement*, Annex 7. Interestingly, 92% of the leadership visits were from Sri Lanka leaders travelling to China, only 8% of the visits were PRC leadership visiting Sri Lanka. *Ibid.*, Annex 9.
- ¹⁷ RCSS, *Chinese Engagement*, 11–19.
- ¹⁸ BAANI, *Maldives Entanglements*, 19–23.
- ¹⁹ Fazlur Raju, “Awami League, Communist Party of China Ink MoU,” *Dhaka Tribune*, March 22, 2019, www.dhakatribune.com/bangladesh/foreign-affairs/2019/03/22/awami-league-communist-party-of-china-ink-mou.
- ²⁰ *Ibid.*, 8.
- ²¹ RCSS, *Chinese Engagement*, 6, 23.
- ²² Subhashini Abeysinghe et al., *The Lure of Chinese Loans: Sri Lanka's Experiment with a Special Framework to Finance Its Infrastructure Investments* (Colombo: Verité Research, 2022), cited in RCSS, *Chinese Engagement*, 5–6.
- ²³ *Ibid.*, 5–6.
- ²⁴ BEI, *Debt, Diplomacy*, 3.
- ²⁵ BEI, *Debt, Diplomacy*, 3, 30.
- ²⁶ CSAS, *Rising Influence*, Jagdishor Panday chapter, 4–6.
- ²⁷ Anna Gelper et al., *How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments* (Washington, DC: Peterson Institute for International Economics; Williamsburg, VA: AidData at William & Mary; Washington, DC: Center for Global Development; Kiel, Germany: Kiel Institute for the World Economy, 2021), 6–7.
- ²⁸ BEI, *Debt, Diplomacy*, 14–16.
- ²⁹ CSAS, *Rising Influence*, Ashna Pathak et al., chapter, 6–8.
- ³⁰ CSAS, *Rising Influence*, Kabita Poudyal chapter, 4–5.
- ³¹ BAANI, *Maldives Entanglements*, 15.
- ³² “Bangladesh Secures \$2.1b in Investment, Loan and Grant from China,” *The Business Standard*, March 28, 2025, <https://www.tbsnews.net/foreign-policy/bangladesh-secures-commitment-21-billion-investments-loans-and-grants-china-1104136>, cited in *China's Investments and Influences in India (Bengaluru: National Institute of Advanced Studies, 2025)*, 11.
- ³³ Xinhua, “Joint Press Release between the People's Republic of China and the People's Republic of Bangladesh,” March 28, 2025, *English translation available at* https://en.chinadiplomacy.org.cn/2025-03/29/content_117794399.shtml.
- ³⁴ RCSS, *Chinese Engagement*, 20–21.
- ³⁵ Peter Breuer et al., *Sri Lanka's Sovereign Debt Restructuring: Lessons from Complex Processes*, IMF Working Paper WP/25/175 (Washington, DC: International Monetary Fund, 2025), 16–17.
- ³⁶ Joshua T. White, “China’s Indian Ocean Ambitions: Investment, Influence, and Military Advantage,” June 2020, *Brookings Institution*, <https://www.brookings.edu/articles/chinas-indian-ocean-ambitions/>.
- ³⁷ RCSS, *Chinese Engagement*, 30–31; Annexure 6, 67–68.
- ³⁸ Charles Davis, “China’s Expanding Influence in Bangladesh: Strategic Debt and Naval Ambitions,” *Small Wars Journal*, May 20, 2025, <https://smallwarsjournal.com/2025/05/20/china-bangladesh-bay-of-bengal-strategy/>.
- ³⁹ *Ibid.*, 28.
- ⁴⁰ CSAS, *Rising Influence*, Jagdishor Panday chapter, 3–4; Foreword, 1.
- ⁴¹ The term is prominent in South Asia. For a recent example see Habib Badawi, “China’s String of Pearls Strategy,” *International Journal of Politics and Security*, 7, no. 1 (2025): 1–19. DOI:10.53451/ijps.1527457.
- ⁴² White, “China’s Indian Ocean Ambitions.”

-
- ⁴³ Aayush Gandhi, “The Failing ‘Spice Routes’: Why India’s Escape From China’s Encirclement Seems Unlikely,” *Eurasia Review*, September 4, 2025, <https://www.eurasiareview.com/04092025-the-failing-spice-routes-why-indias-escape-from-chinas-encirclement-seems-unlikely-analysis/>.
- ⁴⁴ Centre for South Asian Studies, *China's Rising Influence in Nepal* (Kathmandu: Centre for South Asian Studies, 2025), Aashiyana chapter, 3–5; Kabita Poudyal chapter, 2–3.
- ⁴⁵ RCSS, *Chinese Engagement*, 35.
- ⁴⁶ RCSS, *Chinese Engagement*, 32–33.
- ⁴⁷ CSAS, *Rising Influence*, Ashna Pathak et al. chapter, 8–9; Aashiyana chapter, 2.
- ⁴⁸ Anu Maria Joseph and Neha Tresa George, “China’s Footprints in Kerala,” in *China's Investments and Influences in India*, ed. Femy Francis et al. (Bengaluru: National Institute of Advanced Studies, 2025), 39.
- ⁴⁹ RCSS, *Chinese Engagement*, 34.
- ⁵⁰ *Ibid.*, 35.
- ⁵¹ Kok Ewe, “Is This a ‘Very Chinese Time in Your Life’? The Trend Boosting China's Soft Power,” *BBC News*, February 14, 2026, <https://www.bbc.com/news/articles/cz6eljqvyp1o>.
- ⁵² BAANI, *Maldives Entanglements*, 24.
- ⁵³ RCSS, *Chinese Engagement*, 32.
- ⁵⁴ Amish Raj Mulmi, *All Roads Lead North: China, Nepal and the Contest for the Himalayas* (Oxford University Press, 2021).
- ⁵⁵ “PRC Now a Destination for Bangladeshi Students,” *Jagonews24*, May 11, 2025, <https://www.jagonews24.com/en/education/news/82604>, cited in BEI, *Debt, Diplomacy*, 12.
- ⁵⁶ BEI, *Debt, Diplomacy*, 13.
- ⁵⁷ Fazlur Raju, “Awami League, Communist Party of China Ink MoU,” *Dhaka Tribune*, March 22, 2019, www.dhakatribune.com/bangladesh/foreign-affairs/2019/03/22/awami-league-communist-party-of-china-ink-mou.
- ⁵⁸ BEI, *Debt, Diplomacy*, 12. In recent years, the PRC has reportedly provided year-long fully funded fellowships in China to Bangladeshi journalists. Pal, *China's Influence*.
- ⁵⁹ World Bank, *Maldives Development Update 2025* (Washington, DC: World Bank, April 2025), 10, https://www.worldbank.org/en/country/maldives/publication/maldives-development-update-2025?utm_source
- ⁶⁰ BEI, *Debt, Diplomacy*, 35-36.
- ⁶¹ A 2021 Carnegie study assessed these same four countries for vulnerability to state capture. The study assessed Sri Lanka at “High Risk,” Nepal and Maldives at “Medium Risk,” and Bangladesh at “Low Risk.” Pal, *China's Influence*, 24.
- ⁶² In contrast to the simple Debt Trap Diplomacy claims, this paper argues that asymmetric interdependence develops over time and across a broad range of fields (not just debt) and can result in structural dependence.
- ⁶³ Abeyasinghe et al., *The Lure of Chinese Loans* cited in RCSS, *Chinese Engagement*, 5-6.
- ⁶⁴ *Ibid.*, 5-6.
- ⁶⁵ RCSS, *Chinese Engagement*, 9.
- ⁶⁶ National Institute of Advanced Studies (NIAS), *China's Investments and Influences in India: Case Studies from Northeast, New Delhi, Goa, Odisha, West Bengal, Tamil Nadu & Kerala* (Bengaluru: National Institute of Advanced Studies, 2025), 29.
- ⁶⁷ NIAS, *China's Investments*, 4, 28–29.
- ⁶⁸ *Ibid.*, 4.
- ⁶⁹ NIAS, *China's Investments*, 73.
- ⁷⁰ Matthew Funairole et al., *Submarine Diplomacy: A Snapshot of China's Influence along the Bay of Bengal* (Washington, D.C.: Center for Strategic and International Studies, November 17, 2023), <https://features.csis.org/snapshots/china-submarine-diplomacy/>. China now supplies 70% of Bangladesh military imports. Dacca Institute of Research and Analytics (DAIRA), *Exploring New Possibilities: Strengthening Sino–Bangladesh Strategic Relations in a Post Uprising Era*, (Dhaka:

Dacca Institute of Research and Analytics, March 24, 2025), <https://dairabd.org/exploring-new-possibilitiesstrengthening-sino-bangladesh-strategic-relations-in-a-postuprising-era/>.

⁷¹ NIAS, *China's Investments*, 14

⁷² *Ibid.*, 12.

⁷³ *Ibid.*, 13.

⁷⁴ *Ibid.*, 39-40.

⁷⁵ The classic behavior of small states seeking engagement with distant powers to reduce domination from a hegemonic neighbor is known as “external balancing.” Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979). In the South Asian context, the term “hedging” or “strategic hedging” is common. Darren J. Lim, and Rohan Mukherjee, “Hedging in South Asia: Balancing Economic and Security Interests amid Sino-Indian Competition,” *International Relations of the Asia-Pacific* 19, no. 3 (2019): 493–522. Nepal’s hedging is discussed here: Eby Johnny, “Foreign Policy Strategies of Nepal between China and India: Bandwagon or Hedging,” *International Politics* (2024). Bangladesh’s hedging is discussed here: Al Amin, “Sino-Indian Rivalry in Indo-Pacific and Bangladesh’s Geo-Strategic Hedging in Response to its Security Threats,” *Discover Global Society* (2025): 3 15, <https://doi.org/10.1007/s44282-025-00144-1>. Sri Lanka’s hedging is discussed here: Amanda Herath, “Sri Lanka’s Foreign Policy Response to a Rising China in the Indian Ocean Region,” Paper Presented at Sixth International Conference on Indo-Pacific Studies, International University of Japan (2019).

⁷⁶ Bangladesh experts sometimes view engagement with the PRC as a necessary counterbalance to potential Indian domination. BEI, *Debt, Diplomacy*, 33. Bangladesh experts use the term “hedging strategy.” Al Amin, “Sino-Indian Rivalry.” See also Md. Ifran Kader Chowdhury, “Between Opportunity and Dependency: Rethinking Bangladesh’s Strategic and Economic Alignment with China,” *EPRA International Journal of Multidisciplinary Research*, 11(8) (August 2025), <https://eprajournals.com/IJMR/article/17410>.

⁷⁷ “China Opens Embassy in Maldives Ahead of Key Summit,” *Daily FT*, November 10, 2011, https://www.ft.lk/News/china-opens-embassy-in-maldives-ahead-of-key-summit/56-55682?utm_source#

⁷⁸ “Chinese, Maldivian Presidents Meet on Ties,” *China Daily*, September 15, 2014, https://www.chinadaily.com.cn/world/2014xisco/2014-09/15/content_18600729.htm?utm_source

⁷⁹ BAANI, *Maldives Entanglements*, 13-14

⁸⁰ *Ibid.*, 8.

⁸¹ *Ibid.*, 9.

⁸² *Ibid.*, 20.

⁸³ Ministry of Foreign Affairs Republic of Maldives, “The Maldives Decides to Leave the Commonwealth; Commits to Continue with its International Engagement,” Press Release (October 13, 2016), <https://web.archive.org/web/20161014060506/http://www.foreign.gov.mv/v2/en/media-center/news/article/1999>.

⁸⁴ International Monetary Fund, *Maldives: Staff Report For Rapid Credit Facility Request— Debt Sustainability Analysis*, IMF Country Report No. 20/133 (Washington, DC: International Monetary Fund, 2020).

⁸⁵ Fitch Ratings, “Fitch Downgrades Maldives to ‘CC,’” August 29, 2024, https://www.fitchratings.com/research/sovereigns/fitch-downgrades-maldives-to-cc-29-08-2024?utm_source; Ministry of Finance, Republic of Maldives, “Credit Rating Action of the Maldives by Moody’s,” Ministry of Finance Press Release, September 11, 2024, <https://www.finance.gov.mv/media/press-releases/press-release-credit-rating-action-of-the-maldives-by-moodys>.

⁸⁶ World Bank, *Maldives Development Update 2025*, April, 2025, 18, https://www.worldbank.org/en/country/maldives/publication/maldives-development-update-2025?utm_source.

⁸⁷ For example, Apple has been shifting production from China to India and in 2025 exported roughly \$50 billion in India-produced iPhones. Keerthi Ramesh, “From India to America: Apple’s Record \$50 billion iPhone Exports Signal Global Strategy,” *The American Bazaar*, January 5, 2026, <https://americanbazaaronline.com/2026/01/05/apples-record-50-billion-iphone-exports-signal-global-strategy-472594/>.

⁸⁸ Maldivian officials admitted that China seemed “more interested in promoting a particular model of state governance—authoritarianism—rather than supporting individual leaders.” BAANI, *Maldives Entanglements*, 20.

⁸⁹ Joshua Kurlantzick, “How Protests Ousted Sheikh Hasina,” *Council on Foreign Relations*, Aug. 5, 2024, <https://www.cfr.org/articles/how-protests-ousted-sheikh-hasina> (“protests focused on the rising authoritarianism [and] weak economy”). While student access to government jobs served as the catalyst for protests in June 2024, Bangladesh was also struggling with a “dollar crisis” brought on by a massive drop in foreign exchange reserves from \$48 billion in 2021 to less than \$13 billion by May 19, 2024. “Dollar Crisis Bites: Price Hikes Squeeze Bangladeshi Consumers,” *Dhaka Tribune*, May 19, 2024, <https://www.dhakatribune.com/business/346920/dollar-crisis-bites-price-hikes-squeeze>.

⁹⁰ BEI, *Debt, Diplomacy*, 23-24, 29, 37. The Maldives clearly lacked sophisticated domestic safeguards to prevent corruption and poor contract terms. BAANI, *Maldives Entanglements*, 20-22; Pal, *China’s Influence*, 28.

⁹¹ The Maldives’ focus on “capital-intensive projects without rigorous cost-benefit analysis has placed significant strain on public finances.” BAANI, *Maldives Entanglements*, 29.

⁹² Jeff M. Smith, “China and the Maldives: Lessons from the Indian Ocean’s New Battleground,” *Heritage Foundation*, No. 3546, October 28, 2020, 11-12.