

Impact Assessment of China-India Strategic Competition on Security Dynamics of South Asia

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Abstract

The politics of South Asia predominantly revolves around two major players in the region: China and India. The emergence of China as a global power in the realm of geopolitics and geo-economics has directly impacted the power dynamics of South Asia. China and India have become competitive states, primarily due to the overarching interdependent linkages that integrate various world regions. This competition is further intensified by focused economic and regional connectivity projects, particularly under China's Belt and Road Initiative (BRI). China is influencing intraregional dynamics by expanding its political, financial, and security ties with smaller South Asian states. China's increased engagement in the region has provoked pushback from India, which has traditionally viewed South Asia as its natural sphere of influence. This intensifying competition between the two Asian powers has significant implications for South Asia's security and economic development, as their geostrategic interests increasingly overlap. Meanwhile, the smaller South Asian states are carefully maneuvering between these competing powers to maximize their political and financial benefits. This study examines the emerging trends in South Asia, driven by the strategic maneuvering of China and India, and the shifting regional dynamics impacting peace and stability in the region. The central question explored in this paper is how the smaller states of South Asia are navigating their national interests while being caught between the two regional giants i.e., China and India. The paper finds that despite China's economic rise and India's great power state status ambitions, South Asia is unlikely to engage in a theater of bloc politics.

Keywords: China, India, South Asia, Strategic Competition, Smaller South Asian States.

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Introduction

The dynamics of cooperation and competition between China and India are constantly changing, introducing new factors that are redefining regional relationships. Historically, smaller South Asian states have relied on India for support in political, economic, and security matters. This dependence originated from India's geographic centrality in South Asia, with its land and maritime borders connecting it to five neighboring countries in the region: Bhutan, Bangladesh, Nepal, Pakistan and Sri Lanka. Because of its geographical position and size, India viewed South Asia as its natural zone of influence and often asserted itself as a hegemon there. However, this trend has shifted in the past few years with the advent of China's expansive economic initiatives, most notably the transnational BRI.

In South Asia, India maintains distinct geographic, political, economic, and cultural linkages with its neighboring states. Significantly, India shares borders with the majority of South Asian countries, creating a strong dependence on India for intra-regional connectivity. At the same time, China serves as the other common neighbor for many South Asian countries. Except for Bangladesh and the island nations of Maldives and Sri Lanka, the remaining continental South Asian states share land borders with China. Strategically, South Asian countries are positioned between a growing India and a rising China—two regional powers with contrasting approaches to connectivity, peace, and security.

Across South Asia, China, now a global power, has emerged as a key player in reshaping the region's balance of power. Before emerging as a global economic powerhouse, China adopted a low-profile strategy in South Asia, maintaining diplomatic and political ties with most regional countries, except for Bhutan. During this period, Beijing concentrated on ensuring stability along its frontiers by formalizing boundary agreements and pursuing limited economic ties, while its extensive political as well as strategic partnership with Pakistan stood out as a significant exception. Over time, China's remarkable economic growth, regional trade expansion, and development have made it an indispensable player in South Asia. In this region, as in others, China is showcasing its growing influence by implementing a grand economic connectivity initiative, most notably thro-

ugh the BRI. This initiative is reshaping regional dynamics and is set to have a profound influence on the patterns of peace and stability across South Asian region. Relations between China and India have grown increasingly strained over the last decade, particularly after a 2020 border clash between their troops in the Galwan Valley.¹ While there are serious concerns that the ties between these nuclear powers are deteriorating—particularly as both sides continue engaging in provocative actions—neither Beijing nor New Delhi appears willing to escalate the situation into a more serious conflict. However, the United States (US), as a superpower, has sought to counter China by deepening its security and economic relationship with India, declaring it an important player in the US Indo-Pacific strategy.

Meanwhile, the smaller South Asian states are strengthening their economic, political as well as security linkages with both China and India. As Beijing and New Delhi compete for access, influence, and networks across the region, the smaller South Asian states are demonstrating significant agency in carefully navigating this competition. Against the above backdrop, this paper seeks to assess the evolving nature of China-India engagement in South Asia and its impact on regional security dynamics. Specifically, it critically examines the engagement of China and India with smaller South Asian states and the responses of these nations to the two competing powers. Based on this analysis, the paper identifies key trends in the regional environment and their implications for peace and stability in South Asia.

The study draws primarily on official documents and statements from government officials of South Asian states and China. Additionally, it incorporates insights from emerging literature, including peer-reviewed academic works and reports published by think tanks in China and South Asian countries. In recent years, China's growing influence in South Asia has taken center stage in the emerging literature on South Asian security. However, less attention has been given to how smaller South Asian states are responding to the growing China-India rivalry and its impact on regional security dynamics. This study will contribute to the expanding bo-

1. "What was the India-China Military Clash in 2020 about?," *Reuters*, October 25, 2024. <https://www.reuters.com/world/asia-pacific/what-was-india-china-military-clash-2020-about-2024-10-5/#:~:text=THE%20CONFRONTATION,India%20but%20controlled%20by%20China>

-dy of literature on China's influence in South Asia.

China's Engagement with the South Asian States

South Asia has become increasingly important in China's foreign policy priorities. China's foreign policy strategies, including 'periphery diplomacy,' 'major-country diplomacy,' and 'South-South diplomacy,' directly and indirectly involve South Asia.² Similarly, South Asia has naturally aligned with China's external strategies pursued since the 2000s. For instance, the 'Go West'³ strategy focused on developing China's western region, which borders South Asia. Later, the 'March West' initiative was introduced to counter Washington's strategic shift toward Asia, identifying South Asia as a natural avenue for China to enhance its presence. By pursuing these strategic initiatives, China has aimed to establish itself as a regional competitor to India, safeguarding its periphery while simultaneously counterbalance its key adversary, the US.

China is aware of India's expanding influence in South Asia, especially through its participation in US-led international security frameworks. Notably, China has avoided active military confrontations with its neighboring countries for nearly three decades. It has successfully resolved around 17 boundary disputes with neighboring countries, with the key exceptions being its disputes with India and Bhutan. In recent years, however, China and India have faced repeated standoffs along different sectors of their shared border.⁴ The Doklam standoff in 2017 represented a major crisis, though it stopped short of military confrontation. In contrast, the Eastern Ladakh crisis of June 2020 escalated into violent clashes, as both armies engaged in conflict over border intrusions. and infrastructure development in the disputed areas.⁵

2. Jacob Stokes, "China's Periphery Diplomacy: Implications for Peace and Security in Asia," *Special Report, United States Institute of Peace (USIP)*, Washington D.C (2020). <https://www.usip.org/publications/2020/05/chinas-periphery-diplomacy-implications-peace-and-security-asia>

3. Jacky Zhu, "'Go West' and China's Inland Gateway Cities," *JLL Philippines*, June 26, 2020. <https://www.jll.com.ph/en/trends-and-insights/research/go-west-and-china-inland-gateway-cities>

4. Praveen Donthi, "India's Perilous Border Standoff with China: Modi's Tough Stance Could Invite, Not Deter-Chinese Aggression," *Foreign Affairs Journal* (2024). <https://www.foreignaffairs.com/india/modi-perilous-border-standoff-china>.

5. Shibani Mehta, "Impasse at the LAC: An Examination of the 2013, 2014, and 2015 Standoffs," *Carnegie Endowment*. (2023). <https://carnegieendowment.org/research/2023/08/impasse-at-the-lac-an-examination-of-the-2013-2014-and-2015-standoffs/?lang=en>

This confrontation has profoundly impacted China-India ties, intensifying regional competition in the short to mid-term. Beijing's primary objective is to maintain the status quo in the border regions while pursuing a resolution to the boundary dispute that serves its strategic interests. Simultaneously, Beijing remains engaged with New Delhi while expanding its political as well as economic influence through enhanced collaboration with smaller South Asian nations. The youthful population and vast economic growth potential of South Asia make it a compelling area of interest for China. China saw remarkable growth in trade and investment within the region, with its exports to South Asia soaring from \$8 billion to \$52 billion—a staggering increase of more than 500%.⁶

Over the past decade, China-India bilateral trade has maintained positive momentum despite ongoing geopolitical tensions. Reports indicate that the trade partnership between the two nations hit an all-time high of US\$136.2 billion in 2023, marking a 1.5% rise compared to the previous year.⁷ In South Asia, China has strengthened its economic relations with Pakistan by forming a free trade agreement, and is actively negotiating a similar arrangement with Sri Lanka.

Over time, China has forged new connections with South Asian states through trade, investment, and infrastructure initiatives, positioning itself as the principal force behind the BRI. South Asia has become an ideal starting point for these efforts due to its geographic proximity, large population, the developing nature of its smaller nations, their expanding economies, limited intra-regional connectivity, and immense potential for infrastructure development. These factors have made smaller South Asian states particularly receptive to China's infrastructure projects, including the development of ports, highways, and railway networks, under the framework of BRI. In 2013, on his first international visit as Chinese Premier, Li Keqiang prioritized South Asia to advocate for two significant economic corridors: the China-Pakistan Economic Corridor (CPEC)⁸ and

6. Riya Sinha and Niara Sareen, "India's Limited Trade Connectivity with South Asia," Brookings Institution India Center, (May 2020), www.brookings.edu/wp-content/uploads/2020/05/Trade-Policy-Brief.pdf, p.4

7. Qian Zhou and Giulia Interesse, "China-India Economic Ties: Trade, Investment, and Opportunities," China Briefing, October 11, 2024. <https://www.china-briefing.com/news/china-india-economic-ties-trade-investment-and-opportunities/>

8. Shi Zhiqin and Lu Yang, 'The Benefits and Risks of the China-Pakistan Economic Corridor,' *CarnegieEndowment*. (2016). <https://carnegieendowment.org/research/2016/12/the-benefits-and-risks-of-the-china-pakistan-economic-corridor?lang=en>

the Bangladesh-China-India-Myanmar (BCIM) Corridor.⁹ Since then, China has steadily enhanced its political as well as economic ties with South Asian nations under the framework of the BRI.¹⁰ Additionally, in South Asia, the BRI includes sub-projects like the Trans-Himalayan Corridor, along with bilateral partnerships with Bangladesh, Sri Lanka, and the Maldives under the Twenty-first Century Maritime Silk Road framework.¹¹ China's expanding interests in the Indian Ocean region (IOR) are impacting coastal states, particularly those in South Asia. The IOR plays a pivotal role as a hub for Sea Lanes of Communication (SLOCs), facilitating the transport of essential imports and exports, particularly energy supplies. The Maritime Silk Road, a key initiative under the BRI, seeks to connect newly developed deep-sea ports with China through the Indian Ocean. In line with this vision, Chinese state-owned enterprises have made substantial investments in constructing and developing deep-sea ports such as Gwadar port in Pakistan and Hambantota port in Sri Lanka. Notably, however, India remains excluded from Chinese maritime strategy for the IOR.

India's Growing Influence in South Asia

India has historically regarded South Asia as its inherent zone of influence, a perspective that has shaped its efforts to assert significant regional dominance. It has extended its presence as well as influence beyond the smaller South Asian states, with the notable exception of its arch-rival, Pakistan, a middle power in the region. India has implemented this strategy through political engagement, defense collaborations, economic and trade partnerships, and the promotion of cultural ties. This strategy took a new turn after the BJP government, led by Narendra Modi, came into power in 2014, introducing the 'Neighborhood First' foreign policy to emphasize stronger relationships with India's regional neighbors.¹² The goal of India's 'Neighborhood First' policy was to enhance its influence across South Asia. To advance this objective, Prime Minister Modi extended invitations to South Asian leaders to attend his inauguration in May 2014. In the following two years, he paid official visits to all of India's South Asian nei-

9. Ashok Sajjanhar, "Understanding the BCIM Economic Corridor and India's Response," Issue Brief: Observer Research Foundation (ORF), (2016). <https://www.orfonline.org/research/understanding-the-bcim-economic-corridor-and-indias-response>.

10. Government Document; The State Council Information Office of the People's Republic of China, "What are six economic corridors under Belt and Road Initiative?," (2020). http://english.scio.gov.cn/beltandroad/2020-08/04/content_76345602.htm

11. "What are six economic corridors under Belt and Road Initiative?."

12. Document Ministry of External Affairs India. https://fsi.mea.gov.in/Images/CPV/LS97_00.pdf and Roy,

-hbors. During its first tenure, the BJP government emphasized gestures of engagement and cooperation with all neighboring states. To balance China, India has adopted dual strategies: (a) cooperating with China where feasible and (b) proposing alternative connectivity initiatives to obstruct China's increasing influence. The year 2014 saw India emerge as a founding member of the Asian Infrastructure Investment Bank (AIIB), initiated by China,¹³ and became a member of the New Development Bank. Moreover, India became a full member of the Shanghai Cooperation Organization (SCO) in 2017, a China-led regional security forum.¹⁴ Meanwhile, to leverage its expanding economic strength and strategic location, New Delhi introduced five major initiatives: the Neighborhood First policy (2014), the Act East policy (2014), Project Mausam (2014), Security and Growth for All in the Region (SAGAR-2015), and a collaboration with Japan on the Asia-Africa Growth Corridor (2017).¹⁵

The abrogation of Articles 370 and 35(a) and the revocation of the special status of Indian-Occupied Jammu and Kashmir by India is also a continuation of its policy of obstruction toward Pakistan and China, aimed at creating instability and imbalance in the region. Simultaneously, China's enhanced engagement with smaller South Asian states was regarded by India as a considerable threat to its regional influence. India remains wary of China's expanding political as well as economic engagement with smaller South Asian states, specifically in the context of the BRI and its flagship project, the CPEC.¹⁶ India neither endorsed nor supported the CPEC, opting to withhold its backing. In response, Chinese leadership attempted to reaffirm India, emphasizing that CPEC was solely a developmental init-

Pradipta. "Decoding India's Neighborhood First' Policy," *The Indian Journal of Political Science* 76, no. 4 (2015): 1024–29. <https://www.jstor.org/stable/26575650>.

13. Press Release: India signs Articles of Agreement for Establishment of Asian Infrastructure Investment Bank (AIIB). Embassy of India in Beijing-China. https://www.eoibeijing.gov.in/eoibeijing_listview/NjY4

14. Government Document, "The Shanghai Cooperation Organization (SCO) And India," Reference Note; No.28/RN/Ref./July/2017.

https://loksabhadocs.nic.in/Refinput/New_Reference_Notes/English/The_Shanghai_Cooperation_Organization.pdf

15. Sanjay Pulipaka Antara Ghosal Singh Saranya Sircar, "India and Connectivity Frameworks," Delhi Policy Group. (November 2017). https://www.delhipolicygroup.org/uploads_dpg/publication_file/india-and-connectivity-frameworks-1074.pdf.

16. Kai Neagle, "Why Is China's Belt and Road Initiative Being Questioned by Japan and India?," *E-International Relations (blog)*, May 2, 2020. <https://www.e-ir.info/2020/05/02/why-is-chinas-belt-and-road-initiative-being-questioned-by-japan-and-india/>.

-iative. Premier Li Keqiang described its purpose as an effort to “wean the populace from fundamentalism.”¹⁷ However, India viewed these developments through a different lens. As the CPEC route runs through the Gilgit-Baltistan region, a Pakistan-administered part of Kashmir, New Delhi remains highly cautious of China’s presence in Kashmir. During a China-India strategic dialogue meeting, S. Jaishankar, Indian Foreign Secretary, explicitly stated, “The fact [is] that the China-Pakistan Economic Corridor... violates Indian sovereignty because it runs through Pakistan-occupied Kashmir (PoK)... the issue for us is a sovereignty issue.”¹⁸ In 2017, building on its concerns, India refrained from taking part in the high-profile Belt and Road Forum (BRF),¹⁹ despite receiving an invitation from China to attend the summit. Significantly, a day before the BRF meeting, India publicly outlined its core objections to the BRI, including issues of territorial integrity and the “unsustainable debt burden” associated with BRI projects. New Delhi asserted that it could not participate in the BRI because it disregarded India’s sovereignty; the Indian view was that “connectivity projects must be pursued in a manner that respects sovereignty and territorial integrity.”²⁰

In 2019, India once again chose to stay away from the BRF meeting.²¹ New Delhi argued that Beijing had failed to consult or take it into confidence before planning the BRI, particularly regarding its enhanced engagement across South Asia. For New Delhi, Beijing’s increasing economic as well as security footprints in the region through BRI projects was perceived as undermining India’s longstanding presence in South Asia. This development, in New Delhi’s view, has further complicated the balance of power in South Asia.

17. Shishir Gupta, “Govt Makes It Clear: India Has Not Forgotten Pakistan-Occupied Kashmir,” *Hindustan Times*, May 24, 2015. <https://www.hindustantimes.com/india/govt-makes-it-clear-india-has-not-forgotten-pakistan-occupied-kashmir/story-uYgfYuruxj4eYBfpGV0H7L.html>.

18. K.J.M. Varma, “CPEC Violates Sovereignty: India Tells China,” *Press Trust of India*, February 22, 2017. https://www.ptinews.com/news/8435073_CPEC-violates-sovereignty.

19. “India skips China’s Silk Road Summit, Warns of ‘Unsustainable’ Debt,” *Dawn*, May 14, 2017. <https://www.dawn.com/news/1333087>

20. ‘Official Spokesperson’s Response to a Query on Participation of India in OBOR/BRI Forum,’ *Ministry of External Affairs*, May 13, 2017.

21. Bansari Kamdar, “What to Make of India’s Absence from the Second Belt and Road Forum?” *The Diplomat* (2019). <https://thediplomat.com/2019/05/what-to-make-of-indias-absence-from-the-second-belt-and-road-forum/>.

Regional States' Balancing China and India

The China-India geo-economic and geo-strategic competition in South Asia revolves around two distinct categories of states. The first and most prominent is Pakistan, a South Asian middle power and a strategic partner of China. The second category includes smaller states including Bangladesh, Maldives, Nepal, and Sri Lanka. Bhutan, however, is excluded from this competition as China lacks diplomatic ties with the country, while India maintains a disproportionately strong political and economic relationship with Bhutan, effectively keeping it out of the strategic rivalry. The section below discusses the above states' balancing towards China and India.

Pakistan

Given the Pakistan-India enduring rivalry, bilateral economic and trade linkages remain minimal, while diplomatic relations are shaped by divergent political and security interests. This dynamic has led Islamabad and New Delhi to prioritize competition over cooperation in a zero-sum manner. This rivalry is particularly evident in India's perception of the CPEC, a joint venture between Pakistan and China. In April 2015, the leadership of China and Pakistan announced plans to significantly enhance Chinese investments in Pakistan's energy and infrastructure sectors. These plans also included the eventual establishment of Special Economic Zones (SEZs) to promote industrial manufacturing in Pakistan.²² The CPEC includes an overland connectivity route beginning from Kashgar in Xinjiang region of China and ending at Gwadar in Pakistan's province of Balochistan. India immediately raised objections to this route, stating sovereignty concerns, as it runs through Pakistan-administered Kashmir which is a region India claims as its own. This development effectively reignited the historical territorial dispute between Pakistan and India over Kashmir, which had been relatively dormant for decades. Despite India's protests, Pakistan and China moved forward with limited scale cross-border projects. Notable developments include laying of a new fiber-optic cable connecting the two countries and the upgrading of the Karakoram Highway, which links them.²³

22. Mustafa Hyder Sayed, "The China-Pakistan Economic Corridor: A Case Study," *IDS Bulletin* 50, no. 4 (2019): 4. <https://bulletin.ids.ac.uk/index.php/idsbo/article/view/3066/3047>.

23. Khaleeq Kiani, "CDWP Clears Rs567bn Karakoram Road Project," *Dawn*, May 31, 2024. <https://www.dawn.com/news/1836760>

Chinese investments under CPEC have played a significant role in alleviating Pakistan's persistent energy crisis by constructing transmission infrastructure and new power plants. By 2019, more than 6,000 MW of electricity from China-financed national grid.²⁴ Alongside, Pakistan's road infrastructure saw an upgradation with a mix of concessional loans and domestic financing supported by China. The key objective is to not only increase north-south connectivity but to also shorten travel times for both passenger and cargo transport.²⁵ Recently, the Chinese Prime Minister paid an official visit to Pakistan at the 25th SCO Summit, reaffirming the significance of economic cooperation and consolidation between China and Pakistan despite ongoing security challenges. While the 2007 free trade agreement (FTA) between the two countries marked a significant step forward,²⁶ Pakistan still needs to develop a robust trade policy vis-à-vis China to maximize benefits. Such a policy could help strengthen Pakistan's indigenous industries and diversify its exports. Currently, bilateral trade is on a positive trajectory, with a trade balance of \$1.45 billion,²⁷ reflecting not only economic progress but also the deepening of strategic cooperation between China and Pakistan.

Bangladesh

Dhaka has been engaged in a cautious balancing act between China and India, the two regional heavyweights. Bangladesh has expressed interest in participating in both China's BRI and the India-Japan connectivity projects aimed at linking Southeast Asia with Northeast India. In October 2016, Bangladesh signed nearly 34 agreements with China to attract investment and bilateral assistance amounting to USD 24.5 billion.²⁸

24. Muhammad Faisal, "China's Belt and Road Initiative in South Asia: An Assessment and Outlook," *Mac DonaldLaurier.ca/files/pdf/20210518_China_BRI_in_South_Asia_Faisal_COMMENTARY_F* Web.pdf

25. Rasheed, H. Kanwal, K., and Abbas, N. CPEC and the Challenges for the Energy Sector of Pakistan. *Bulletin of Business and Economics*, 11(1), 222-227. (2022). <https://doi.org/10.5281/zenodo.7327008>

26. "Joint Statement between the Islamic Republic of Pakistan and the People's Republic of China," *Ministry of Foreign Affairs, Government of Pakistan*. <https://mofa.gov.pk/press-releases/joint-statement-between-the-islamic-republic-of-pakistan-and-the-peoples-republic-of-china-2>

27. Observatory of Economic Complexity (OEC), an Online platform of data visualization and distribution platform focused on the geography and dynamics of economic activities. <https://oec.world/en/profile/bilateral-country/chn/partner/pak>

28. "Bangladesh, China Firms Ink \$13.6 Billion Deals as Xi Ends Tour," *Business Recorder*,

This was in addition to an ongoing joint venture with Beijing valued at over USD 13.5 billion. Earlier, however, New Delhi had pledged a credit line of up to USD 2 billion for socio-economic development projects across Bangladesh.²⁹ While Chinese assistance and investments are larger in scale and cover broader sectoral cooperation, Bangladesh has made it clear that it intends to avoid aligning with any geopolitical bloc, opting instead to “maintain good relations with everyone.”³⁰ To demonstrate this policy of neutrality, Bangladesh joined the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) in 2017.³¹ This sub-regional group, formed by India, serves as a parallel to the South Asian Association for Regional Cooperation (SAARC).

In June 2020, Dhaka sought financial support of up to USD 6.4 billion from Beijing for projects spanning railways, roads, ports, power, and telecommunications in order to enhance its economic prospects.³² Earlier, China had focused primarily on infrastructure development in Bangladesh, including financing and constructing the 160 km-long Sitakunda-Cox's Bazar Expressway.³³ While this was one of the proposed port projects under the BCIM Economic Corridor, Dhaka has had to adopt a careful balancing strategy between China and India. Initially, Bangladesh showed interest in developing a new port at Sonadia. However, concerns over the terms of Chinese credit, coupled with geopolitical tensions and Indian protests, led to the project being abandoned. Bangladesh pursued two new port projects: Matarbari in Cox's Bazar, financed by Japan, and Payra, supported by nearly USD 600 million in Chinese investments.³⁴

October 16, 2016. <https://www.brecorder.com/news/4443621/bangladesh-china-firms-ink-136-billion-deals-as-xi-ends-tour-2016101693858>

29. Syful Islam, “Has Bangladesh Lost Its Footing in the China-India Balancing Act?” *The Diplomat* (2024). <https://thediplomat.com/2024/07/has-bangladesh-lost-its-footing-in-the-china-india-balancing-act/>

30. Mohammad Hosain, “How huge China investment in Bangladesh affects region,” *Anadolu Agency*, November 10, 2016. <http://aa.com.tr/en/analysis-news/opinion-how-huge-china-investment-in-bangladesh-affects-region/683065>

31. “Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC),” Asia Regional Integration Center. <https://aric.adb.org/initiative/bay-of-bengal-initiative-for-multi-sectoral-technical-and-economic-cooperation>

32. Mir Mostafizur Rahaman, “BD Seeks \$6.4b Chinese Fund for New Projects,” *The Financial Express*, June 29, 2020. <https://thefinancialexpress.com.bd/economy/bd-seeks-64b-chinese-fund-for-new-projects-1593400758>.

33. Asif Showkat Kallol, “Sitakunda-Cox's Bazar Marine Drive to be Linked with Asian Highway,” *Dhaka Tribune*, September 22, 2016. <https://www.dhakatribune.com/business/5708/sitakunda-cox%E2%80%99s-bazar-marine-drive-to-be-linked>

34. “Payra Deep Sea Port (Construction),” *Reconnecting Asia*, March 2021.

Meanwhile, China's perceived reluctance to proceed with some of Dhaka's loan requests has been attributed by experts and political analysts to Prime Minister Sheikh Hasina's strong alignment with India. Before she visited China, Hasina traveled to India, where she signed several bilateral cooperation agreements, including the establishment of a train route connecting Bangladesh and India. Furthermore, Bangladesh's decision to collaborate with India on the Teesta River Comprehensive Management and Restoration Project has been perceived as undermining China's regional interests.³⁵

The recent political transition in Bangladesh, characterized by the ousting of Sheikh Hasina's government, has introduced a significant shift in the geopolitical landscape of South Asia. This change has weakened India's longstanding influence in Bangladesh, which was fostered during Sheikh Hasina's tenure through close bilateral cooperation and strategic alignment. In the ensuing strategic vacuum, China has actively sought to expand its influence in Bangladesh by leveraging economic, political, and strategic initiatives.

Maldives

Despite being a small island nation, the Maldives has attracted significant attention from both China and India. In response, Malé has carefully maintained a degree of neutrality on security issues while securing substantial financial investments from both sides. China considers the Maldives a "natural node" in its Maritime Silk Road initiative, owing to its strategic position in the IOR, which provides equal access to all regional countries.³⁶ In September 2014, Xi Jinping visited Maldives after which China-Maldives relations saw significant progress.³⁷ In its aftermath, Chinese companies and banks actively financed and built several critical projects

<https://reconnectingasia.csis.org/database/projects/payra-deep-sea-port-construction/29017d80-6361-42de-80b8-a279982dc4fc/>.

35. "Has Bangladesh Lost Its Footing in the China-India Balancing Act?"

36. Wang Fu Wang Fukang, "China and Maldives: Partners in Building 21st Century Maritime Silk Road Together," *Embassy of the People's Republic of China in the Republic of Maldives*, January 16, 2015. <http://mv.chineseembassy.org/eng/mytz/t1228934.html>.

37. Joint Press Communique between the People's Republic of China and the Republic of Maldives. https://www.mfa.gov.cn/eng/zy/gb/202405/t20240531_11367357.html

in the Maldives. These include the expansion of Malé International Airport, the 18-km-long Laamu Atoll Link Road,³⁸ and a 1.4-km-long cross-sea bridge connecting the airport island with Malé. Additionally, Beijing has proposed constructing a new port in the Maldives, further deepening its economic engagement with the island nation.

India has maintained a naval presence in the Maldives for years to retain influence and conduct joint patrols within the island nation's exclusive economic zones.³⁹ However, in 2018, the Maldives signaled its discomfort by pressing India to scale back its naval presence, even as it assured New Delhi that it would not allow China to develop military facilities on its territory.⁴⁰ In December 2017, the Maldives concluded a Free Trade Agreement (FTA) with China,⁴¹ a move New Delhi perceived as giving Beijing a significant economic edge in the region. To assuage Indian concerns, Maldivian leaders reassured India that their country would not grant security concessions to China.⁴² Nevertheless, India pushed back, and in the 2018 presidential elections, strongman Muhammad Yameen, perceived as pro-China, lost the presidency to Ibrahim Mohamed Solih. Under Solih's leadership, the Maldives sought to rebalance its foreign policy, prioritizing increased cooperation with Japan, India, and the European Union (EU).

The US responded to China's increasing influence in the Maldives by opening its embassy in Malé in October 2020.⁴³ However, the 2023 victory of Mohamed Muizzu brought a significant shift in the Maldives' foreign policy.

38. "The Chinese Ambassador to Maldives H.E. Mr. Wang Fukang and the President of Maldives H.E. Mr. Abdulla Yameen Abdul Gayoom Jointly Lay the Foundation of Laamu Atoll Link Road Project under Chinese Assistance," *Embassy of the People's Republic of China in the Republic of Maldives*, January 3, 2015. <http://mv.chineseembassy.org/eng/mytz/t1225323.html>

39. Sanjeev Miglani, "Maldives seeks scaling back of Indian presence as it woos China," *Reuters*, August 10, 2018. <https://www.reuters.com/article/us-india-maldives-idUSKBN1KV13S>

40. Miglani, "Maldives seeks scaling back of Indian presence as it woos China."

41. "Maldives Parliament Approves FTA With China – But With No Opposition Present," *The Wire*, November 30, 2017. <https://thewire.in/diplomacy/maldives-parliament-approves-fta-china-amidst-opposition-boycott>.

42. Ramachandran S, 'The China-Maldives connection', *The Diplomat*, January 25, 2018. <https://thediplomat.com/2018/01/the-china-maldives-connection/>

43. Nike Ching, "US to Open Embassy in Maldives Amid Geopolitics Competition with China," *Voice of America*, October 28, 2020. <https://www.voanews.com/usa/us-open-embassy-maldives-amid-geopolitics-competition-china>.

However, the 2023 victory of Mohamed Muizzu brought a significant shift in the Maldives' foreign policy. Relations with India became strained, and the island nation's diplomatic alignment began tilting decisively toward China. Under Muizzu's administration, the Maldives is pursuing closer ties with Beijing, marking a notable departure from Solih's balanced approach.

Nepal

In Nepal, China has steadily increased its economic and developmental support, especially as India scaled back its engagement with the country. For China, Nepal was strategically located as a land route to connect with the Indian economy. However, events took China's involvement in a different direction. In 2015, India-Nepal relations sharply deteriorated after India imposed an undeclared economic blockade due to Nepal's proposed constitutional changes and its expanding cooperation with China. In response, Beijing stepped in to fill the gap, opening new cross-border road and railway links to streamline the transportation of goods from China. Furthermore, China permitted Nepal to trade with third countries through its ports, effectively ending Nepal's exclusive reliance on India for overland trade. A particularly significant development was China's construction of cross-border fiber optic cables, which ended Nepal's reliance on Indian telecommunication networks.⁴⁴

In return for China's economic support, Nepal joined the BRI and initiated a feasibility study for the construction of a railway. In return for China's economic support, Nepal joined the BRI and initiated a feasibility study for the construction of a railway line linking Tibet.⁴⁵ China has pledged over US\$8 billion for infrastructure development, including the ambitious Kathmandu-Lhasa railway line.⁴⁶ In contrast, Indian bilateral assistance to Nepal stood at approximately US\$315 million in 2015.⁴⁷

44. Gopal Sharma, "With New Chinese Link, Nepal Ends India's Internet Monopoly," *Reuters*, January 12, 2018. <https://www.reuters.com/article/us-nepal-china-internet-idUSKBN1F11JP>.

45. "Xi's South Asia Trip Boosts Ties with India and Nepal, Promotes Regional Cooperation," *Xinhua*, October 14, 2019. http://www.xinhuanet.com/english/2019-10/14/c_138469068.htm.

46. Ramesh Bhushal, "Nepal and China take step towards one of 'world's toughest railways,'" *Dialogue Earth*. (2022). <https://dialogue.earth/en/business/nepal-china-take-step-towards-one-of-worlds-toughest-railways/>

47. Ministry of Foreign Affairs India, "India-Nepal Bilateral Relations Brief." (2024). <https://www.mea.gov.in/Portal/ForeignRelation/Open-bilateral-brief-20-June-2024.pdf>

Nepal also benefited from India's support in fuel supply and remittances during that period. However, with China's significant financial backing, India now faces challenges in employing economic coercion as it did in the past. In response to China's expanding influence in Nepal, India has sought to recalibrate its relationship with Kathmandu by promising increased economic assistance and enhancing leader-level visits. Despite China's enhanced presence, Nepal has avoided engaging in security cooperation with Beijing that might alarm India, signaling a deliberate and balanced approach to its foreign relations.

Sri Lanka

Sri Lanka has attracted renewed interest from both India and China in recent years. For China, Sri Lanka's strategic location in the IOR presents an opportunity to establish a cost-effective transit hub for shipping and logistics, as well as a foothold in the region. To this end, China has financed several major infrastructure projects, including the construction of the Hambantota Port (predating the launch of the BRI),⁴⁸ the Port City Project in Colombo, and the Colombo Airport Expressway. In July 2017, China acquired Hambantota Port on a 99-year lease, a move that drew strong pushback from India and Western governments.⁴⁹ In response to Indian concerns, Sri Lanka clarified that the port would be restricted to civilian use and that the docking of Chinese naval vessels would be prohibited.⁵⁰ Earlier, in May 2017, Colombo had already denied a request from Beijing to host a submarine at the port,⁵¹ signaling to New Delhi that it remained mindful of Indian sensitivities.

Extensive Chinese investments in Hambantota Port, the airport, and various industrial projects have raised international concerns about Sri Lanka's ability to service its growing debt to China. have raised international concerns about Sri Lanka's ability to service its growing debt

48. "A Long Voyage to Success: China's Investment in Hambantota Port Faces Several Challenges," *Hellenic Shipping News Worldwide*, January 17, 2019. <https://www.hellenicshippingnews.com/a-long-voyage-to-success-chinas-investment-in-hambantota-port-faces-several-challenges/>.

49. Rabi Sankar Bosu, "Hambantota Port deal opens up a new era for China- Sri Lanka cooperation," *China Daily*, 2017. https://europe.chinadaily.com.cn/opinion/2017-08/10/content_30420421.htm

50. "Sri Lanka signs Hambantota port deal with China", *Al Jazeera*, July 29, 2017. <https://www.aljazeera.com/news/2017/7/29/sri-lanka-signs-hambantota-port-deal-with-china>

51. "China defends military ties with Sri Lanka after submarine visit blocked", *Reuters*, May 12, 2017. <https://www.reuters.com/article/us-china-sri-lanka-defence-idUSKBN1881QM>

have raised international concerns about Sri Lanka's ability to service its growing debt to China. In response to Colombo's mounting external debt, Beijing signaled its openness to renegotiate terms. One preferred option for China was a debt-for-equity swap, allowing Chinese firms to manage Hambantota Port on a long-term basis. This approach, however, triggered regional and international pushback. Despite the criticism, Sri Lanka opted to maintain its engagement with China, focusing on expanding economic and infrastructure development cooperation. High on Colombo's agenda was the early conclusion of a free trade agreement with Beijing.

Meanwhile, Colombo has actively incentivized New Delhi to increase its investments in connectivity and infrastructure projects within the island nation. Sri Lanka offered India the opportunity to take over and revive the Hambantota airport, a project abandoned by China. Additionally, India remains the largest supplier of railway coaches, trucks, and other transportation equipment to Sri Lanka.

Despite growing Chinese investments, India continues to be Sri Lanka's largest trading partner. In 2017, New Delhi pledged over US\$2.5 billion for various development projects in Sri Lanka.⁵² This ability of Sri Lanka to attract significant foreign investments from both China and India—while managing to avoid considerable opposition from either—stands out as a case study in strategic economic diplomacy.

The current regime, led by President Dissanayake, is grappling with immense challenges, including macroeconomic instability and pressure from the International Monetary Fund (IMF).⁵³ As a result, the government cannot afford to sideline either China or India, as both are essential to keeping the country's economy afloat. On the diplomatic front, Sri Lanka has adopted a policy of hedging, carefully balancing between China and India.

52. Thilina Panduwawala, "India's Extraordinary Support during Sri Lanka's Crisis: Motivations and Impacts," *Journal of Indo-Pacific Affairs*, (2024). <https://www.airuniversity.af.edu/JIPA/Display/Article/3859529/indias-extraordinary-support-during-sri-lankas-crisis-motivations-and-impacts/>

53. Andrew Fidel Fernando, "Real Winners of Sri Lanka's Election: A People Emboldened to Force Change," *Al Jazeera*, September 30, 2024. <https://www.aljazeera.com/features/2024/9/30/real-winners-of-sri-lankas-election-a-people-emboldened-to-force-change>

Impact on Regional Security Dynamics

The China-India competition, coupled with the strategic maneuvering by smaller South Asian countries, has direct implications for regional security dynamics. At the core of this competition is the uneasy bilateral relationship between Asia's two giants. Their unsettled boundary has been a recurring source of tensions and military stand-offs in recent years.⁵⁴ Despite these tensions, economic and trade relations between the two countries have grown significantly since the post-Cold War era. However, their divergent foreign policy goals and strategic outlooks have fueled competition for influence, connectivity, and security across South Asia. China's remarkable economic growth has been a driving force in this competition, positioning it as a major commercial partner for South Asian states, including India. As geopolitical competition between Beijing and New Delhi intensifies across the region, several emerging trends are becoming increasingly evident.

First, China and India have strived to maintain a delicate balance of managed competition in South Asia. However, the current trajectory of their relationship has the potential to escalate into outright rivalry. While both sides publicly advocate for a bilateral relationship based on mutual respect and managing differences through cooperation, the confrontational approach India has adopted following the Ladakh crisis has placed the China-India relationship at a critical crossroads.

Second, China has made notable progress in expanding its strategic influence in South Asia by strengthening ties with smaller states that traditionally maintained close relations with India due to geographic and cultural linkages. Beijing's growing engagement has primarily focused on economic and infrastructure development projects, rather than establishing a deeper political or security footprint.

Third, India faces resource constraints, including limited financial reserves and advanced technologies, which hinder its ability to serve as the primary provider of public goods in South Asia, especially when compared to China. This has created an opening for Beijing to step in and fill the gap in

54. Dr. Sidharth Raimedhi, A Report: "The Road to Galwan: Crisis at the Line of Actual Control & China's Motivations," Council for Strategic and Defense Research (CSDR).

public goods provision. Smaller South Asian states have recognized this dynamic and have increasingly focused on maximizing their economic gains by exercising greater agency in their dealings with India.

Fourth, China's rapid rise has created significant balancing opportunities for India's neighbors. This is largely due to the relative absence of an intense balance of power competition between India and China in South Asia. Instead, both Beijing and New Delhi have so far pursued soft-balancing strategies and diplomatic engagement. Consequently, India has remained focused on addressing the needs and concerns of smaller states, even as those states deepen their cooperation with China.

Fifth, India harbors concerns over the potential deepening of China's ties with smaller South Asian states in the political and security domains, particularly regarding the possibility of a Chinese naval presence at strategic ports. Such a development, especially in Sri Lanka or the Maldives, would escalate regional competition in South Asia. Furthermore, it could destabilize smaller states by complicating their ability to maintain balanced relations with both India and China, potentially undermining their capacity to attract economic support and investments from both powers.

These trends are bound to have significant implications for regional security and stability in South Asia. Among the South Asian countries, Pakistan stands out as a key strategic player in the balance of power between China and India. Given its close political, economic, and security ties with China, Islamabad has been able to counterbalance India while pursuing stability in the region. Even as India deepened its strategic cooperation with the US, Pakistan relied on China to address the resulting imbalance in South Asia. This dynamic has given rise to two informal dyads in the region: India-US and Pakistan-China.

Against this backdrop, China has actively endorsed Pakistan's role in maintaining a balance of power in the South Asian region, while Islamabad remains equally mindful of the trajectory of China-India relations. Beijing has consistently called on both Islamabad and New Delhi to improve their bilateral relationship, urging greater dialogue to reduce tensions. Meanwhile, for other smaller states in South Asia, their strategies of seeking enhanced economic benefits from both India and China come with limitat-

-ions. Unlike Pakistan, these states are unable to engage in active balancing behavior. Instead, their most viable course of action is to avoid entanglement in the security competition between China and India while focusing on securing greater economic assistance from both powers.

In terms of the regional order, it is evident that despite Beijing's growing presence in South Asia, smaller nations continue to regard New Delhi as the dominant player in the region. This perception limits China's ability to fully capitalize on its economic leverage to achieve greater political and security gains. While India has a long history of intervening in the domestic politics of smaller nations and influencing their foreign policies, China has largely refrained from deeper involvement in the internal affairs of other countries. However, this adherence to non-interference constrains China's ability to secure meaningful strategic advantages in the region.

At a limited scale, smaller South Asian countries will continue to navigate between India and China to maximize their economic gains and expand their political space. This maneuvering, however, must be carefully managed to avoid infringing on the core strategic interests of either Beijing or New Delhi. To achieve this balance, these countries will increasingly learn from one another's experiences, as they are at different stages of engagement with both China and India.

Conclusion

The China-India strategic competition has fundamentally reshaped the security dynamics of South Asia, with profound implications for economic development and regional stability. This paper has highlighted the growing contest between the two powers as they vie for influence across South Asia, focusing on their engagement with smaller states and the impact of this competition on regional order. While China has made significant inroads through economic investments, infrastructure projects, and trade initiatives—primarily under its BRI—India continues to leverage its geographic proximity, historical ties, and regional dominance to maintain its influence. Smaller South Asian states have emerged as critical players in this competition, exercising agency in balancing their relationships with Beijing and New Delhi to maximize economic and political benefits. These states have demonstrated strategic acumen by employing hedging and balancing

strategies, carefully navigating the dual pressures of maintaining sovereignty while securing external support for their development agendas. However, their positioning also underscores the challenges of avoiding deeper entanglement in the security dimensions of China-India competition, particularly as tensions between the two regional giants intensify.

Despite these challenges, South Asia is unlikely to devolve into a theater of bloc politics. The regional environment, characterized by soft-balancing strategies and overlapping economic interests, has allowed smaller states to maintain a degree of neutrality. Pakistan, as a middle power with close ties to China, remains an exception and a pivotal actor in the regional balance of power, further complicating India's strategic calculations.

Looking ahead, the trajectory of China-India relations will be instrumental in shaping the future of South Asia's security dynamics. The region's stability will depend on the ability of smaller states to maintain a delicate balance, avoiding alignment with one power at the expense of alienating the other. Meanwhile, the sustained economic engagement of both Beijing and New Delhi in the region offers opportunities for growth and connectivity but also risks exacerbating tensions if not managed prudently.

Ultimately, nurturing a stable and cooperative regional environment in South Asia requires all actors—China, India, and the smaller states—to prioritize dialogue, mutual respect, and the pursuit of shared economic and security goals. While the competition between China and India shows no signs of abating, the pragmatic engagement of smaller South Asian states provides hope for a balanced and peaceful regional order.